

## Elimination of the Dependency and Indemnity Compensation (DIC) Offset



**Update:** In February of 2023, the final phase of the Widow's Tax repeal will be complete. This repeal can have a variety of implications for affected survivors. To assist survivors in understanding what this repeal will mean for them, DFAS has created two quick reference sheets.

The [Phased Elimination sheet](#) addresses the majority of affected survivors who will see their monthly SBP benefit restored fully. A portion of these survivors whose SBP was fully offset by their DIC benefit will also see their SSIA eliminated.

The [Optional Dependent Annuity Elimination sheet](#) addresses those surviving spouses of an Active Duty/Line of Duty member who requested to have the Survivor Benefit Plan (SBP) annuity paid directly to an eligible dependent child or children. These survivors may need to take steps to ensure that DFAS is up to date on their eligibility and their contact information.

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In December of 2019, Congress passed an appropriations bill repealing the DIC offset, also known as the "Widow's Tax." The Widow's Tax prevented eligible surviving spouses from receiving the full monthly entitlements of both [SBP](#) and the [DIC benefit](#).

In the past, SBP payments were reduced by the amount of DIC received by the spouse, referred to as an offset. Survivors subjected to this offset were also granted Special Survivor's Indemnity Allowance (SSIA), a separate taxable benefit intended to restore part of the monthly payment that was not paid due to the offset. Survivors of active duty deaths may have made the choice to transfer their entitlement to eligible children to avoid the offset and retain some benefit for the family.

The phase out started in January 2021 and was reflected in the February 2021 payment. The first phase restored one-third of the offset amount. In January, two-thirds of the offset amount will be restored. The phase out will be complete in January 2023, when the final third of the offset amount is restored. Once the phase out is complete, the separate SSIA benefit will be discontinued.



These increases in payment amount are taxable. Survivors' tax burdens could change significantly for the tax year of 2021.

**Key Points:**

- This is not an increase in SBP payment amounts but rather a restoration of payments that were previously legally offset.
- These payments are not retroactive, so survivors will not be repaid any amounts that were previously offset by their DIC benefit. Survivors who received a refund of premiums paid, however, will not be required to repay it.
- This phase out will apply to new applications for benefits and entitlements as well. SBP spouse survivors who are eligible for DIC and apply to start their SBP annuity in 2021 onward will also see the phased restoration of their SBP entitlements.

Those survivors of active duty deaths who took advantage of the Optional Child Annuity should expect to be contacted by DFAS to complete a claim form before the benefit reverts back to them. This form is not to apply for the reversion of the benefit back to the spouse beneficiary; the transfer of the benefit back to the spouse annuitant in 2023 is automatic. The form is necessary to confirm several pieces of information: current marital status, banking information, and tax information.

**How can you find out how your benefit is changing?**

In December, spouse SBP annuitants who are also receiving DIC payments from the U.S. Department of Veterans Affairs should receive a letter from Defense Finance and Accounting Service (DFAS) that lists estimates for their individual payments in the coming year. This letter can be a useful budgeting tool as it will include information regarding the types and amount of payment the survivor may be receiving in 2022 (between SBP, DIC, and SSIA).

It is important to note that DIC amounts have not and will not be affected as a result of this offset elimination. Any changes to that tax-free benefit from VA, such as COLA increases, are separate from the offset repeal.

**Letters include the following estimates for 2022** (including any cost-of-living adjustments):

- Gross SBP annuity estimate
- DIC offset amount, or the amount of DIC that will be deducted from the gross SBP annuity estimate
- Pre-tax estimate of the SBP annuity payment after DIC offset
- Estimate of the SSIA payment

For more information on this offset reduction phase out, DFAS has provided a page on their website that will host [updates](#). DFAS also provides an FAQ section to provide more in-depth information. You may also contact the Navy Mutual education team via email at [education@navymutual.org](mailto:education@navymutual.org) or by calling **888-298-4442**.