

ACTIVE DUTY **SBP**

**STRAIGHT
FACTS**
about the
**Survivor
Benefit Plan**



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Your decision regarding participation in the Survivor Benefit Plan (SBP) is a significant one. It will affect your net disposable income and that of your family for the rest of your lives. Rumors and myths about this program abound. This paper has been prepared to provide you with important facts and considerations about SBP so that you can make an informed decision for your family.

SBP is similar to term insurance, with a few significant differences. Unlike term insurance, SBP coverage never terminates and premiums stop after paying them for 30 years and attaining age 70. Additionally, the benefit to your family is Cost of Living Adjustment (COLA)-protected. Let's review some important facts about the plan:

- 1. Your Premiums are not taxed. Your SBP premiums are paid with tax-exempt dollars.** The premium rate for Spouse Coverage is 6.5% of the Base Amount of your retirement or retainer pay that you elect to protect (Base Amount can be any amount from \$300 to full retired pay). In a 28% tax bracket, the net cost of SBP drops to approximately 4.7% of the Base Amount you select. When shopping for alternatives, it's always wise to compare costs to the Net SBP Premium.
- 2. The payments to your family are secure, subsidized and COLA-protected.** The payments to your spouse are contractual obligations of the U.S. Government. In addition to the tax advantage, the government currently pays 25%– 40% of the cost of this program for non-disability retirees. Your premiums reflect your costs after this subsidy. SBP annuity payments are indexed to retiree COLA. A spouse who was receiving a \$500/month SBP annuity payment in 1972, could receive over \$2100 today.
- 3. SBP is not affected by Social Security.** Your spouse will receive SBP in addition to any Social Security survivor benefits to which he or she is entitled.
- 4. If you sign up for SBP at retirement, you are not committed for life.** You may terminate your participation in SBP between your 24th and 36th month of retirement. In the past, many service members were reluctant to make a life-long commitment to SBP at the time of retirement because their future was uncertain. The next job, where they wanted to live, their cash flow, etc. were all unknown. You are now allowed to sign up for SBP and then, two years down the road when you are comfortable with your retirement situation, you can opt out of the plan during the one year window, if you feel SBP is no longer needed to protect your family.
- 5. You do not pay for SBP forever.** Once you have paid into SBP for 30 years and have attained age 70, you are fully paid up. This is usually a significant value for the younger retiree.
- 6. You stop paying for SBP when you no longer have beneficiaries.** If you should lose your spouse through either death or divorce, your SBP premiums will stop once you submit the death certificate or divorce decree to DFAS. Please note that if your divorce decree requires continuation of SBP then you will be required to continue paying premiums. If you elect Child Coverage, your child premiums will stop once your youngest child reaches age 18 (or 22 if your child is a continuing student).
- 7. Your surviving spouse may not lose SBP upon remarriage.** If a surviving spouse remarries prior to age 55, SBP payments will stop. However, if your spouse remarries after age 55, SBP will continue for the rest of his or her life.
- 8. SBP will be there to protect your spouse if you remarry.** If you lose your spouse and your SBP premiums stop, you will be able to elect SBP to cover a new spouse if you remarry. In fact, SBP coverage will be automatically effective for a new spouse unless you request not to continue coverage within one year of your remarriage. Your premiums will simply start up again and you will not be required to make up the premiums for the time you were unmarried. No proof of insurability is required for SBP.

9. **SBP income is taxed. SBP payment to your beneficiary is subject to income tax as ordinary income just like your retired pay.** Note that if life insurance is used as a substitute for SBP, your beneficiary will not be taxed on the death benefit, but your beneficiary will need to invest the death benefit in order to provide a life-income stream and the earnings on that investment will be taxed.
10. **If your death is service connected, your family will receive a refund of a portion of your SBP premiums.** If you die in a retired status and your death is determined to be service connected by the Department of Veterans Affairs (VA), then your family will be eligible for Dependency and Indemnity Compensation (DIC) from the VA. DIC is tax exempt and offsets any SBP payments dollar for dollar. If DIC is awarded, all SBP premiums paid will be refunded to your spouse in proportion to the amount that your spouse's SBP annuity is offset by DIC.
11. **You choose what coverage to provide and how much to pay.** You can elect to cover any amount of your retirement from \$300 up to your full retired pay. The premium rate for Spouse Coverage is 6.5% of the base amount of your retirement or retainer pay that you elect to protect. (Premiums for coverage on base amounts less than the "threshold" base amount may be charged a lesser percentage.) The premiums you pay remain a constant percent of the base amount. As the base amount rises over time reflecting COLA adjustments, your premiums will increase at the same rate.
12. **Your spouse must concur in your decision.** If you intend to choose anything less than your full retired pay as your base amount and any option other than "Spouse Only" or "Spouse and Child" then your spouse must sign the SBP election form before your actual retirement date concurring that he or she will be less than fully covered under SBP. If your spouse has relocated ahead of you and is not available to sign in person, contact your personnel office to find out what they will require to fulfill this signature requirement. If there is no spouse signature, the service member is automatically enrolled in SBP for full spouse coverage.

SHOPPING AROUND: COMPARING ALTERNATIVES

When comparing costs, risks, and benefits, it's helpful to compare costs with the **Net Premium** for SBP.

- How risky is the alternative?
- Could your spouse outlive the benefits?
- Are the benefits protected against inflation?
- How long are you committed to pay for the alternative?
- Can the alternative provide living benefits such as tax-deferred savings or long-term care benefits if you should outlive the need for protection?

Do not procrastinate. Cost and insurability issues should be determined before you retire, because once you decline SBP you cannot sign up again unless there is an open enrollment period and then it may be too costly to pay the penalty to enroll. There have only been four open enrollment periods since 1972 when SBP was instituted.

When Assessing SBP Costs and Comparing Insurance Alternatives Be Sure To Visit These Websites for SBP Plan Details and Cost Calculators

POINTS TO CONSIDER

- 1. Your spouse cannot outlive SBP.** If you choose life insurance as an alternative to SBP, then you will need to invest the death benefit in order to provide a steady stream of COLA protected income for your spouse for the rest of his/her life. That may be fine if your spouse lives to a normal life expectancy, but what if they live well beyond that? Will there be enough funds? SBP will continue to be paid out as long as your spouse is alive.
- 2. There are no investment decisions required by your family.** If you provide life insurance as an alternative to SBP, your beneficiary will be required to invest the death benefit in an appropriate investment, if he or she desires a steady stream of income for a particular length of time. There will no doubt be plenty of financial experts willing to help your family for a fee but they may not be aware of military benefits or have your family's best interests at heart. There are no investment decisions required for SBP and no investment risks to worry about. SBP is guaranteed, inflation-protected, monthly, lifetime income for your spouse regardless of how interest rates or the stock market perform.
- 3. No proof of insurability is required for SBP coverage.** If you are thinking of using life insurance as an alternative to SBP, then ensure it is in place before you retire. There is always a possibility that the insurance company will find a medical condition which makes you ineligible for insurance coverage or find that you are not insurable at its standard rates. You cannot be denied SBP coverage at retirement. Additionally, to fully replace SBP, you may need a considerable amount of coverage that could be more costly than the SBP annuity. Comparing cost alternatives is usually an important step in your decision making process.
- 4. Beneficiaries are limited.** Generally under SBP, your spouse is the only beneficiary unless child coverage is also elected. Additionally, unless children are handicapped and require a guardian, their beneficiary status terminates at age 18 (or 22 if a full-time student). Life insurance would be the alternative if this is an important issue for you in estate planning.
- 5. SBP is protection only.** SBP can provide significant benefits for your surviving spouse and children. However, if your beneficiaries should predecease you, there are no additional benefits for the premiums you have paid. If this is a significant issue for you, then one good alternative would be permanent life insurance, which can provide both protection and tax-deferred savings.
- 6. SBP is a firm commitment to providing protection for your family.** Service members who decline to enroll in SBP are no less concerned about providing protection for their families. Most look to a combination of life insurance and systematic investing to provide for their survivors. All are well intentioned. However, there are a variety of challenges to this plan. Car accidents, large home or auto repair needs, college costs, and weddings are just some of the costs that can compete with "the plan" and often funds are diverted to meet "more urgent" needs. SBP premiums are automatically deducted from your retired pay by DFAS and, unless you disenroll between your 2nd and 3rd year of retirement, you are firmly committed to SBP.
- 7. Comparing SBP with life insurance plans.** It's usually wise for your comparison to take into account all the features of SBP. The inflation protection, the lifelong coverage, and the tax benefit of pre-tax premium payments for SBP are not included in most life insurance plans.

- www.navy mutual.org
Survivor Benefits Analysis
Calculator Baseline Program

- www.afpc.randolph.af.mil
SBP cost benefit analysis

- www.dod.mil/actuary
SBP subsidy, cost, and insurance
comparison calculators

- www.dod.mil/dfas
Retired Pay section provides SBP
plan details

YOUR SBP DECISION: WEIGHING THE ISSUES

Navy Mutual Aid Association's conclusion is that, for *most* retirees, selection of full coverage under the Survivor Benefit Plan is a good choice. Alternatives usually require the assumption of significantly greater risk or cost, often both. However, SBP is not the right choice for everyone.

- 1. Life Expectancy.** Consider the life expectancy of both you and your spouse. In general women live 5-6 years longer than their husbands. Your states of health and family histories will also impact your relative life expectancies. If your spouse is reasonably expected to outlive you, then that would usually tip the scale toward SBP.
- 2. Savings and Investments.** Most retirees do not leave the service with large investment portfolios. However, if you have a sizeable estate that would provide a stream of income for your family, then that might tip the scale away from SBP. How much they would need to have available will depend on the particular income needs of your survivors. Remember though, that estate would likely be consumed in support of your spouse, with little left over to pass to your heirs.
- 3. Life Insurance.** Life insurance can be an alternative to SBP. Key points you may want to consider are:
 - The amount of coverage necessary to replace SBP can be sizeable. If you do not have a large amount of life insurance already in place before you retiree, you may find that the cost to provide life insurance protection is significant depending on your age at retirement.
 - There are two basic types of life insurance - Term and Permanent.
 - Term life insurance will be less expensive initially, but the policy will terminate at the end of the specified time period. This can either be for a set number of years or at some specified age. Most insurers will limit you to either a guaranteed period such as 20 years or a maximum age such as 75. If you outlive the term, there will be no protection unless you are medically insurable to purchase a new term policy at significantly greater cost.
 - Permanent insurance will be there when you die and it may have tax-deferred cash value growth inside the policy. This can be an excellent alternative to SBP, but it will normally cost you much more than SBP. As most retirees experience an increase in income, there may be more funds available to purchase permanent life insurance.

If you are leaving the service with little life insurance in place, that would tip the scale towards SBP.

- 4. Spouse Self Support Capability.** Your spouse may have a job and be able to continue working after your death, so your spouse's need for additional income may not be as great. Your spouse may already be vested in a retirement plan that would be able to provide for retirement needs. This factor plus adequate life insurance and/or savings and investments may tip the scale away from SBP.
- 5. Providing for Other People.** If you want to provide an estate for your adult children, your siblings, or other individuals, you will have to use some other means than SBP to achieve that goal.
- 6. Inheritance.** You may be confident that you will receive a large inheritance. Be cautious however, as long-term care needs for aging parents can often deplete their estate, leaving your long-term plan in disarray and survivors short of needed income.
- 7. Dual Service Couples.** Each service member has the right to participate in SBP. As each of you will always have your own retirement pay, your spouse may not need the SBP income. This may tip the scale away from Spouse SBP. However, if you have children of any age, participation at the Child Only level will provide additional income while children are living at home for *very* little cost.

In most scenarios, even if you pay into SBP for the full 30 years, your spouse will recoup the total premiums paid for SBP through the monthly income they receive if they outlive you by only 2 years!