

SURVIVOR BENEFIT PLAN: BASIC QUESTIONS ANSWERED

What is SBP and why was it created? The Uniformed Services Survivor Benefit Plan (SBP) was created by Congress in 1972 to put an end to the category of destitute survivors. SBP is the sole means by which survivors can receive a portion of military retired pay. Without it, retired pay stops on the date of death of the retiree!

How Does SBP Work?

All active-duty military members are covered by SBP at no cost, because the government bears the total cost of coverage. Should you die in the line of duty, your retired pay entitlement is calculated as of that date, and the SBP annuity flows to your surviving spouse.

At retirement, members must decide whether they want to continue providing the same benefit to their survivors. If so, they share SBP's cost with the government by electing to receive reduced retired pay during their lifetime. The cost, or premium, for this coverage is deducted from the retired pay pre-tax.

What are SBP's advantages?

1. Government-subsidized premium
2. Pre-tax premium payment
3. Annual cost-of-living adjustments

Who can be a beneficiary in SBP?

The six election categories are: spouse; spouse and child; child only; former spouse; former spouse and child; and insurable interest. Details of each category:

- 1) **Spouse:** A spouse is the person you are married to when you die; if you marry after retirement, the marriage must last at least one year or you must have had children born of that spouse. Benefits are paid until the spouse dies but stop upon remarriage before age 55 (and can be resumed if the remarriage ends).
- 2) **Spouse and child(ren):** The spouse is the primary beneficiary, with eligible children (to age 18, 22 if full-time, unmarried college students) receiving the annuity only if the spouse dies or remarries before age 55. The 55 percent annuity is divided equally among eligible children.

- 3) **Child(ren) only:** Eligible children are the primary beneficiaries. If the retiree dies while a child is eligible, the 55 percent annuity continues until the child exceeds the age of eligibility. Eligible children are defined as adopted children, stepchildren, foster children and recognized natural children who live with the retiree in a regular parent-child relationship. Children of all marriages are eligible beneficiaries under this section.

Child coverage offers excellent protection for incapacitated children, since the 55 percent annuity is payable to them for life. The mental or physical incapacity must have occurred while in the age eligibility range.

- 4) **Former spouse:** This option can be elected voluntarily or be required by a state court. Former spouse costs and benefits are identical to those for spouses. The same remarriage limitations apply.
- 5) **Former spouse and child(ren):** This is identical to the "spouse and children" option in costs and benefits, except that only children of the marriage to the former spouse are eligible beneficiaries.
- 6) **Insurable interest:** If a retiree is unmarried with no children or one dependent child, this option may be selected. The "natural person" must be someone with a financial interest in your life. Examples are a close relative or a business partner. What is a "base amount"? This is the dollar amount of retired pay you select to base participation on. It can be any amount between \$300 per month and full retired pay.

What are the costs and benefits of SBP?

- 1) **Spouse (or former spouse):** The cost is 6.5 percent of the base amount. For example, with a base amount of \$1,000 per month, the cost for spouse coverage is \$65. The annuity is 55 percent of \$1,000 (or \$550) regardless of age.
- 2) **Spouse (or former spouse) and child:** The spouse portion of this election costs 6.5 percent of the base amount. The child cost portion is based on the ages of the retiree, the spouse and the youngest child. This cost is very low, given typical ages.

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3) **Child only:** The cost is based on the ages of the retiree and youngest child. Using a \$1,000 base amount as an example, with a 42-year-old retiree and the youngest child 10, the child cost is \$3.80. Children are primary beneficiaries in this option. Eligible children equally divide the 55 percent benefit.

4) **Insurable interest:** The base amount must be full retired pay in this option. Costs are 10 percent of retired pay, plus 5 percent for each full five years younger the beneficiary is than the retiree, and cannot exceed 40 percent of retired pay.

The annuity is 55 percent of the remainder of retired pay minus the SBP premium, and continues for life.

Note: This option may be canceled at any time. Should you gain a spouse or child in the future, the insurable interest coverage may be changed to spouse or child or both, within one year of the change.

Can an election be changed?

Elections are generally permanent and irrevocable. A retiree can disenroll during the one-year period between the 25th and 36th month following start of retired pay. Spouse concurrence is required; no costs are refunded; no future enrollment is allowed. Premiums continue as long as there is an eligible beneficiary; costs are suspended if a spouse is lost to death or divorce. Then, if you remarry, coverage resumes automatically at the first anniversary unless the retiree makes a written request to decline resumption before that date. Child costs stop when the youngest child exceeds age 18 (or 22).

Note: SBP elections are made by category, so the choice you make for your eligible beneficiaries at retirement is critical. For example, if you are married at retirement and decline coverage for your spouse, then later remarry, you may not enroll your new spouse. Likewise, if you have eligible children you decline to enroll, you may not enroll future children.

Does my spouse have to agree with me?

Yes. If you cover less than full retired pay, cover children only or decline coverage, then the spouse's written concurrence is required prior to retirement or the election becomes full, automatic coverage. This is rooted in assumption of benefits a spouse has during your active service.

What happens to my spouse coverage if we divorce after retirement?

Spouse coverage will be suspended when the retired pay center is notified of your divorce. (Notify them immediately).

You then have one year from the date of divorce to make a written request to change your election from spouse to former spouse, voluntarily or in compliance with a court order or written agreement. The former spouse has the same one-year period to request a former spouse election.

I'm unmarried – what are my options? You can elect “insurable interest” coverage or decline coverage. If you gain a spouse or child in the future, you may enroll them within one year.

Finally, is SBP for me?

Is your continued retired pay important to your family's financial health? If yes, consider SBP's cost-of-living adjusted, government-subsidized, tax-free features, which make it a good buy for most retirees.

<http://www.dfas.mil/rapay/annuities/sbp.html> (DFAS SBP)

<http://actuary.defense.gov> (Department of Defense Office of the Actuary)

<http://militarypay.defense.gov/survivor/sbp/> (Office of the Secretary of Defense)

<http://www.navy.mutual.org/Military-Benefits/Active-Duty/> (Navy Mutual Aid Association)

<http://www.armyg1.army.mil/rso/sbp.asp#maincontent> (Army Retirement Services Office)

<http://www.retirees.af.mil/sbp/> (Air Force Retiree Services)