SBP Made Easy: Active Duty Guide to the Survivor Benefit Plan
SBP Made Easy

While you probably devote a lot of time to your active career, it’s just as important to plan ahead to ensure your loved ones are taken care of in the event of your death. Unless you take the right steps now, your family could be left without sufficient resources to meet expenses.
The Survivor Benefit Plan (SBP) was created as a voluntary contribution program to provide protection for military retirees’ survivors. Because your military retirement pay ends when you die—and statistics show that a large majority of military retirees are survived by their spouses—SBP provides a way for you to pass on a portion of your projected military retirement pay to your survivors.
Did You Know?

1. SBP addresses the statistical probability that your spouse will survive for years after you die.

2. SBP guards against the risk that inflation will erode the purchasing power of a lump sum or flat-rate annuity by incorporating cost-of-living increases.

3. SBP is not intended to provide income for your old age or to create a nest egg for your surviving children.
SBP Basics

**SBP WHILE ON ACTIVE DUTY**

Retroactive to Sept. 10, 2001, SBP was amended to benefit survivors of servicemembers who die while serving on active duty. *If you die on active duty, your survivors will be eligible for SBP.* The SBP annuity will be calculated as though you had retired on total disability. Total disability means your retired pay would be 75 percent of basic pay with your SBP beneficiary drawing 55 percent of that amount.

If you have dependent children, the service secretaries, in consultation with your surviving spouse, may opt to have any dependent children receive the SBP annuity. Dependent children are also eligible to receive the SBP annuity when there is no eligible surviving spouse.

**SBP AND INSURANCE**

In some ways, SBP is comparable to term life insurance because it has no cash value. Unlike life insurance, the SBP annuity is not a lump sum payment but a lifetime benefit to your eligible beneficiaries, providing a regular, reliable income that can’t be maxed out.

SBP holds several key advantages over alternative plans:

- Benefit amount increases regularly to keep pace with inflation.
- Premiums are tax-deductible.
- Premiums are subsidized by the federal government.

Life insurance is a valuable and necessary complement to SBP in building your estate, but life insurance can’t replace SBP. You won’t find any insurance policies promising inflation-adjusted income for life.
Providing for Your Survivors

SBP Benefits are eligible to your beneficiaries as follows:

- Spouse/former spouse – for life, unless your survivor remarries before age 55.
- Dependent children – until age 18 or age 22 if enrolled as full-time students.
- Children must remain unmarried to receive benefit.
- Disabled/incapacitated children – no age limit, but must remain unmarried.
- Parties with insurable interest – for life.

**INSURABLE INTEREST**

An insurable interest election can be made by the unmarried retiree who might want to provide for a relative (including dependent children) or other person who could be hurt financially if the retiree dies.

An insurable interest election also can be canceled at any time except for an insurable interest election that covers a former spouse. No refunds of payments are made at any time if an insurable interest election is canceled.

**SUMMARY**

In general, the annuity paid under SBP begins at the time of your death. The amount of the benefit is equal to 55% of the base amount you selected at retirement (your base amount is between $300 and the maximum amount of your gross retired pay). If you die while serving on active duty, your survivors will be eligible for SBP as though you had retired on total disability.
ELIGIBILITY FOR SBP COVERAGE

Asking the Right Questions

Q: If I elect not to participate in SBP with my spouse’s consent, can I participate at a future date after I retire?

A: No. The election you make prior to retirement is irrevocable after you retire.

Q: Can I terminate SBP spouse coverage at any time after I retire?

A: Yes, between the end of the second year of retirement and the end of the third year of retirement, with your spouse’s consent. Should your spouse predecease you or divorce you and you remarry, you can terminate coverage at the time of remarriage without consent of the new spouse (although the new spouse must be notified), but you can never again participate in the plan.

Q: I’m married with children and getting ready to elect child-only SBP coverage. May I elect spouse coverage in the future or, should my spouse predecease me, for a new spouse acquired in the future?

A: No. If you were married with children and elected (with the spouse’s consent) children-only coverage, the current spouse or a new spouse can never be covered under the plan.

Q: If I am married with children at the time of retirement, and with my spouse’s consent choose spouse-only coverage, may I elect child(ren) coverage in the future?

A: No. Once this election is made, it cannot be changed.

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ELIGIBILITY FOR SBP COVERAGE (cont.)

Asking the Right Questions

Q: My military spouse is deceased and I receive an SBP annuity. If I remarry, is the SBP annuity lost forever?

A: No. If you remarry before age 55, the annuity is suspended but can be reinstated if the new marriage ends by death or divorce. If the remarriage occurs when you are age 55 or older, the lifetime annuity continues uninterrupted.

Q: I do not have a spouse and will elect child-only coverage. If I die while my three children are young, how long will they be eligible to receive my SBP annuity?

A: Children are paid the annuity in equal shares until they reach age 18 (or 22 if unmarried, full-time students). As each child reaches the age when entitlements no longer exist, the annuity is divided equally between the remaining eligible children.
SBP Costs and Payments

The cost (i.e., the premium taken out of your retired pay) for spouse-only coverage is 6.5% of gross military retired pay if the maximum election is made. Other factors you also should consider when evaluating the cost:

- SBP premiums are paid with pretaxed dollars and are not included in your taxable income. That means the real cost to you each month is actually less because the premium reduces your taxable income.

- Premiums are subsidized by the federal government. The formula is set so that the government covers 40% of the cost of premiums, with SBP participants paying the remainder.

The minimum amount of retired pay you can choose to have your spouse’s annuity based on can be any amount between $300 a month and full military retired pay. If you elect SBP coverage of less than gross military retired pay, monthly costs are calculated as follows:

- If you first became a member of the uniformed services before March 1, 1990 and your base annuity amount is less than $1,320, you have the option of having SBP costs calculated under the original costing formula. In 2005, that means your first $616 is paid at the rate of 2.5%. Any amount above $616, up to $1,320, is paid at the rate of 10%. This threshold amount increases each year by the same percentage that basic pay increases.

- For base amounts more than $1,320, the cost is 6.5% of the total base amount.

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SBP Costs and Payments (cont.)

SBP costs, as well as the value of the SBP annuity, are affected by cost-of-living increases to military retired pay.

What makes SBP so valuable is that your benefits increase automatically with the same cost-of-living adjustments (COLAs) applied to military retired pay. COLAs are based on increases in the Consumer Price Index. These adjustments are one of the biggest advantages of the SBP program because they boost the projected size of the annuity while you’re alive—and your survivors will continue to see increases after you die even though you’ve stopped paying premiums.

The chart below shows what can happen after retirement when inflation is a modest 3% per year.

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Important Changes to SBP

The National Defense Authorization Act (NDAA) of 2005 contains some of the most important changes to SBP in years.

ENDING THE “WIDOW’S TAX”

The most significant change is the phasing out of the inequitable and benefit-reducing SBP “Widow’s Tax.”

Many military retirees signed up for SBP assuming that benefits would stay fixed at 55% of retired pay. But benefits for many widows were cut drastically—under a provision called the Social Security Offset—when they reached age 62. NDAA eliminates this offset over the next three years, raising the benefit level from the current 35% of retired pay to 55% (the maximum under SBP) by April 1, 2008.

The schedule for increases is as follows:
- 40% of the base annuity amount as of Oct. 1, 2005
- 45% of the base annuity amount on April 1, 2006
- 50% of the base annuity amount on April 1, 2007
- 55% of the base annuity amount on April 1, 2008

OPEN ENROLLMENT STARTS OCTOBER 1

NDAA also creates a one-year “Open Enrollment Season” starting Oct. 1, 2005 through Oct. 1, 2006 that allows retirees not enrolled in SBP to participate—provided they make a lump sum payment covering all back premiums since date of first eligibility, plus interest.

SUPPLEMENTAL SBP COVERAGE

Retirees with the Supplemental Survivor Benefit Plan (SSBP)—a separate voluntary program designed to close the gap between regular benefits and the smaller benefits received by Social Security recipients after age 62—will retain their coverage levels but no longer will have to pay the extra premium.
Spousal Concurrence

Because your decision on SBP is of vital importance to both you and your spouse, the law requires you obtain your spouse’s concurrence in writing if you do not elect spousal SBP or elect less than full SBP coverage for your spouse at the time of retirement.

If all requirements for an election needing the spouse’s concurrence have not been satisfied before retirement, for whatever reason, full spouse coverage will be implemented, regardless of any request by the servicemember to do otherwise. In such cases, even when the servicemember has requested child-only coverage, full spouse and child coverage will be implemented. If spousal concurrence is not obtained as a result of some administrative error, the servicemember should request an administrative correction of records.

Spousal concurrence is not required if you elect to provide coverage for a former spouse or former spouse and children. Spousal concurrence is also not required if you establish that you cannot determine your spouse’s whereabouts or that, because of exceptional circumstances, seeking the spouse’s concurrence would be otherwise inappropriate. Such exceptional circumstances are evaluated on a case-by-case basis. When you claim your spouse’s whereabouts are unknown, you must sign a statement to that effect.
Commonly Asked Questions

**Q:** How are premiums for an insurable interest election calculated?

**A:** The premiums for an insurable interest election are considerably more expensive — 10% of gross retired pay plus an additional 5% for each five full years the beneficiary is younger than the retiree, up to a maximum of 40% of your gross retired pay.

**Q:** How is the monthly cost calculated for child(ren) coverage?

**A:** An additional cost for children is based on the age of the youngest child and the ages of both spouses, and therefore varies. DoD provides actuarial charts to calculate this amount.

**Q:** Are SBP monthly premiums suspended when there is no longer an eligible spouse?

**A:** Yes. But if you remarry, the payments will start again on the one-year anniversary date of the new marriage, provided you do not withdraw from the program.

**Q:** Can SBP coverage be terminated because of a service-connected disability rated as total by the Department of Veterans Affairs (VA)?

**A:** Yes, retirees who are rated totally disabled by the Department of Veterans Affairs (VA) and hold the total disability rating for a period of at least five continuous years, if the disability rating was awarded at retirement, or hold the disability rating for at least 10 continuous years, can, with the consent of their spouse, terminate SBP. If a member withdraws from SBP under this 100 percent VA disability provision, any Supplemental SBP (SSBP)

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coverage (if applicable) also is terminated and NO annuity will be payable. A request for withdrawal requires the written consent of the member’s spouse. There is no immediate refund of premiums, but upon the death of a member who has withdrawn under this provision, a refund of SBP (and SSBP, if applicable) premiums deducted from the member’s retired pay, without interest, will be paid to the surviving spouse by DFAS. When a retiree sends a request to withdraw to DFAS, a written statement outlining the advantages and disadvantages of withdrawing will be furnished to the retiree by DFAS. The change will not take effect until the member confirms receipt of the information and acknowledges that he/she still wishes to withdraw. If the total VA disability rating is withdrawn or reduced, SBP (and SSBP, if applicable) coverage may be resumed.

Q: If my spouse has SBP coverage and is awarded DIC by the VA, is there an offset?

A: Yes, in cases where DIC is involved (DIC reduces the SBP annuity dollar for dollar), if the DIC amount is more than the SBP annuity, the surviving spouse is entitled to a refund of all the SBP premiums paid in over a lifetime. If SBP exceeds the DIC amount, the surviving spouse will receive the difference between the SBP annuity and DIC, plus a refund of SBP payments for that portion of the SBP annuity not received.
Prepared by the Benefits Information Department of the Military Officers Association of America (MOAA)

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