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Overview

Survivor Benefit Plan Overview

Military retired pay stops upon death of the retiree!

The Survivor Benefit Plan (SBP) allows a retiree to ensure, after death, a continuous lifetime annuity for their dependents. The annuity which is based on a percentage of retired pay is called SBP and is paid to an eligible beneficiary. It pays your eligible survivors an inflation-adjusted monthly income.

A military retiree pays premiums for SBP coverage upon retiring. Premiums are paid from gross retired pay, so they don't count as income. This means less tax and less out-of-pocket costs for SBP. The premiums are partially funded by the government and the costs of operating the program are absorbed by the government, so the average premiums are well below the cost for a conventional insurance policy. For most retirees, SBP is a good choice, but the government contribution is based on assumptions in average cases and may not apply equally to every situation.

The maximum SBP annuity for a spouse is based on 55 percent of the member's retired pay (or in the case of a member who retires under REDUX, the retired pay the member would have received if under the high-three retirement system). However, a smaller amount may be elected.

Eligible children may also be SBP beneficiaries, either alone or added to spouse coverage. In the latter case, the children receive benefits only if the spouse dies or otherwise becomes ineligible to receive the annuity. Eligible children equally divide a benefit that is 55 percent of the member's elected base amount. Child coverage is relatively inexpensive because children get benefits only while they are considered eligible dependents.

Coverage is also available for a former spouse or, if the retiree has no spouse or children, for an "insurable interest" (such as a business partner or parent).

SBP and Other Estate Planning Information

We buy insurance as a way to cope with major financial risks. We buy it to protect ourselves from the financial hardships of events we can't foresee, like car accidents and house fires. It protects our valuable assets.

Retired pay is a valuable asset. Since it stops when a retiree dies and no one can foresee when that will be, it may be useful to protect it.

SBP is a way to do this; it is similar to life insurance. However, SBP premiums and benefits differ from those of most insurance plans.

Similar to life insurance, SBP protects survivors against a loss of financial security upon the death of a retired member. But, SBP does more! It also protects the survivor against the possibility of outliving the benefit. Many insurance plans pay a fixed benefit that may run out years before the survivor dies.

In addition to long life, another unpredictable reason a survivor may outlive the benefits is inflation! SBP protects against this risk through Cost of Living Adjustments (COLAs). Inflation may be the biggest financial uncertainty of all. It erodes the value of fixed incomes, making them worth less and less as time goes by. Few, if any, private insurance plans will fully insure a survivor against inflation.

In fact, no known insurance company has guaranteed to match SBP benefits at equal cost or less. One reason is that SBP premiums have a built-in discount (in the form of the government paying a significant portion of the premiums and all program operating costs), making the Plan a good buy for most people. Another consideration is that SBP premiums reduce the retiree's taxable income and reduce out-of-pocket costs for coverage. SBP benefits are taxed as income to the survivor however the tax rate upon receipt of the annuity will generally be less than the member's current tax rate. Most insurance plans are the reverse; premiums are paid from after-tax income, while survivors are not taxed on the proceeds.

In effect, SBP protects part of the member's retired pay against the risks of:

- Early death;
- The survivor outliving the benefits; and
- Inflation

Still, SBP alone is not a complete estate plan. Other insurance and investments are important in meeting needs outside the scope of SBP. For example, SBP does not have a lump sum benefit that some survivors may need to meet immediate expenses upon a member's death.

On the other hand, insurance and investments without SBP may be less than adequate. Even if they could duplicate SBP, investments may be volatile and rely on a degree of financial expertise many don't have. Consider everything carefully. Don't expect SBP to do it all, but give it full credit for what it does.

Is SBP a Good Buy?

Given the current government contribution towards a portion of the premium, the answer for most retirees is yes! Whether SBP is a good buy for an individual depends on personal preferences, the member's age, sex, and health compared to their beneficiary's. Beyond this, the answer lies in three questions that should be asked.

First, is SBP a product I can use? Personal preferences may control the answer, but a subsidized lifetime inflation-protected income for the surviving family is very attractive to most people.

Second, how much SBP is needed? If you know when you'll die, how long your survivor will outlive you and the rate of inflation you have the answer. The unknown future is the problem, but SBP meets the need! Even if you die shortly after retirement and your spouse lives for 50 more years and inflation is higher than expected, SBP still pays. It will probably be paying a lot more than anyone ever expected because inflation has such a strong impact over a long period of time. In fact, survivors who began to get SBP benefits in the early 1970s have seen their benefits more than quadrupled through annual COLAs!

Third, how much SBP can I afford? The benefits do carry a price tag, but due to the government contribution, the plan should be attractive for most members. And remember: The tax advantage on premiums reduce the out-of-pocket costs.

Caution! If you are married and decline SBP at retirement, you will not be eligible to later cover that spouse, or cover a new spouse should this marriage end in death or divorce and you later remarry. To be eligible to provide SBP coverage for a later acquired spouse, you must elect coverage for your spouse at retirement.

Caution! Some people think they can join SBP years after they retire, during a so-called "open season." In the 38 year history of SBP, there have been a handful of times that retirees had a second chance at SBP. Each time was after major plan improvements. The second time, premiums were raised for new joiners to help make up for the missed premiums. The third and fourth times, new joiners were required to pay all missed premiums with interest, plus an additional amount to account for actuarially determined shortfalls in the Plan. Additionally, open enrollment elections have typically required that the member live for at least two years after the election to prevent adverse selections (people joining with short life expectations).

Don't count on an open season. Although an open season may be enacted by special law, they are not part of the regular SBP program.