

FACT SHEET

Military Survivor Benefits

One of the biggest benefits is the Survivor Benefit Plan (SBP), created by Congress to take care of surviving spouses and children when retired pay stops upon a retiree's death. The plan has undergone some fairly significant changes. Launched in 1972, the goal of SBP was to ensure survivors of military retirees would have reasonable and continuous income replacement, which Social Security alone does not provide. Congress intended that the value of Social Security and other entitlements would be considered when determining whether reasonable income replacement was achieved. When a military retiree dies, military pay stops on the date of death. Today, more than 250,000 survivors of military retirees continue to receive payments because their sponsor participated in SBP. The program has a cost-of-living adjustment, is government-subsidized, and offers tax-free features to the retiree. Recently, Congress allowed an open enrollment season for SBP under a provision of the 2005 Defense Authorization Act. Basically, it was an opportunity for military retirees to enroll in SBP who had not done so when they first were eligible. This was only the fourth time that an open season was held in which retirees could get into the SBP after the fact. Each time, the open season coincided with major changes to the program.

The latest enrollment season began 1 Oct.05, and ended 30 Sep 06. The reason the program was opened up again to those who did not get in when they were first eligible is that Congress ordered a phasing out of the Social Security offset that reduced benefits for survivors at age 62, when they became eligible for Social Security. Instead of the 55% of a member's retirement pay, SBP payments were reduced to 35% of retired pay, on the theory that Social Security would substitute for the other 20 percentage points. The offset began to be phased out in OCT 05, when the percentage of retired pay for survivors age 62 and older increased to 40%. Then in April, it increased again to 45%. This April, it is due to go to 50%, and in APR 08, the last phase kicks in when the percentage is restored to 55% for all SBP beneficiaries age 62 and older. Under current law, a retiree cannot reduce or decline spouse coverage without the spouse's written consent. You may voluntarily elect to discontinue participation in the SBP only during the 25th through the 36th month after you begin drawing retired pay. If you qualify to discontinue participation in the plan, you must complete DD Form 2656-2. Again, spousal concurrence is required, except in limited circumstances when your spouse is unavailable.

The cost of SBP is 6.5% of the base amount of coverage. You can choose as your base amount anything from your maximum monthly retirement pay to as little as \$300 per month. For example, with a base amount of \$1,000 per month, the monthly cost for spouse coverage is \$65. Upon the retiree's death, the annuity would be 55% of \$1,000, or \$550 after 2008 before taxes. Since the retiree pays no tax on the premiums the tax is collected from the payments. Non-U.S. citizen spouses in most countries outside the U.S. are taxed at a flat rate of 30%. These same spouses cannot collect social security benefits on their deceased spouse's account if they have not spent an aggregate of five years in the United States. For those who can receive SS benefits the benefits are also taxed at 30%. A consideration for retirees with non-U.S. citizen spouses residing overseas who do not meet the 5 year US. residency criteria to collect social security is to weigh the SBP benefit against the VA Death Pension non-taxable benefit paid to a veteran's survivors. For 2007 this amounted to \$610 monthly. To get the equivalent net payment from SBP the retiree would have to have a base retirement pay of \$1583 assuming the survivor would have no other income. The retiree should also consider that under the VA Death Pension benefit any income (i.e. interest, dividends, social security, wages of any type, tax refunds, etc.) will reduce the amount of monthly pension payment from VA dollar for dollar. In the case of social security the reduction will be the gross amount earned before taxes are automatically deducted vice the net amount received by the survivor.

[Source: NavyTimes Alex Keenan article 19 Feb 07]