

This fact sheet provides information to help you understand the provisions of the Survivor Benefit Plan (SBP), but is not a contract document. The basic statutory provisions of the SBP law are in [Chapter 73, Title 10, United States Code](#).

## **SBP Decision Considerations**

Before retiring, each member must decide whether or not to participate in the SBP and pay monthly SBP premiums. Naturally, any decision involving money deserves serious consideration. Below are some important factors to consider when making an SBP decision.

### **Male or Female**

Many of the same reasons that make SBP participation a good decision for male retirees make participation (with spouse coverage at the maximum level) a questionable decision for female retirees. That is because females' life expectancies are approximately four to six years longer than male life expectancies. This difference in life expectancies, combined with the fact that most females are approximately two years younger than their husbands, result in most females outliving their husbands by several years. According to the U.S. Census Bureau's 1990 Statistical Abstract of the United States, there are approximately 13 million surviving spouses in the United States. Of those, only 2 million are males.

Because of the above statistics, participation in the SBP at the maximum level with spouse coverage for female retirees is generally not as actuarially sound as for male retirees; however, if a female retiree's husband is several years younger than she is, SBP participation is just as valuable for her as it is for a typical male retiree. Additionally this does not take into consideration the possibility of a female retiree's accidental death which can happen even at a very young age. Female retirees declining spouse coverage may want to consider participation in SBP for their children as this coverage is usually available at a minimal cost. Child-only coverage is normally an excellent value, especially if the child has a disability that would extend their eligibility to receive benefits for life.

### **Health**

Both your and your spouse's health is very important considerations in your SBP decision. If you have a health problem when you retire, the odds are that it will get worse as you get older rather than better. Unlike life insurance, which may be extremely expensive for people in poor health, if available at all, SBP coverage is available regardless of your health. If you are in poor health and your spouse is in excellent health, there is a great possibility that your spouse will outlive you by a considerable number of years. Even if your spouse has a potentially life-shortening health problem, you may still want to enroll in SBP. This would not only provide an income if you get hit by a truck, but it would also

allow you to cover a future spouse.

### **Family Mortality History**

Unfortunately, or fortunately in many cases, people tend to live about as long, or a little longer, than their parents and grandparents. Do you come from a long line of ancestors who lived much longer than "normal" life expectancies, or did your parents and grandparents die at relatively young ages? What about your spouse's family history? The importance of these factors on your SBP participation should be a consideration. Keep in mind, though, that you could get killed in an accident on the way home from your retirement ceremony!

### **Spouse's Employment/Income**

Is your spouse employed? If so, would he/she be able to support himself/herself without your retired pay check? Is your spouse's employment covered by a pension plan sufficient to cover living expenses? If your spouse is not employed, would he/she be able to earn an income sufficient to live a comfortable lifestyle if you were to die? Would your spouse have income other than Social Security after age 60? Would your spouse have an adequate income if he/she were to become totally disabled? If the answer to any of these questions is no, your spouse is at considerable financial risk if you were to die. SBP can be the foundation of an estate which will provide for those needs. Your spouse can never outlive the SBP!

### **Costs (Premiums)**

SBP premiums are paid with pre-taxed dollars and are not included in your taxable income. That means that a member with a base amount of \$1,500 whose premiums are \$97.50 ( $\$1,500 \times .065$ ) a month has a taxable income of only \$1,402.50 a month. Once you retire, if you go on to a second career, you may have a substantial amount of income over and above your Air Force retired pay. If your total income places you in the 28 percent marginal income tax bracket, the SBP cost (what you actually pay out of your pocket) would only be \$70.20 ( $\$97.50 \times .28 = \$27.30$ ;  $\$97.50 - \$27.30 = \$70.20$ ). In other words, if you decline SBP coverage, your gross retired pay would be \$97.50 higher, but you would only get to keep \$70.20 of it after you pay taxes. This tax break is even greater for retirees with greater amounts of retired pay or retirees whose combined retired pay and post-retirement civilian income place them in the 31 percent marginal income tax bracket. In fact, retirees sometimes realize additional income tax savings because the premium reductions in their retired pay cause them to fall into lower tax brackets.

### **Benefits**

What makes SBP so valuable compared to most civilian pension survivorship

plans is that SBP benefits increase automatically with the same Cost-of-Living Adjustments, or COLAs, applied to military retired pay. Since 1972, when the SBP program was enacted, military retired pay -- and SBP benefits -- have increased an average of more than 5 percent per year with COLAs. This means that a benefit that was \$500 in 1972 was \$1,200 in 2000 -- more than double! A benefit that keeps pace with inflation the way SBP has cannot be purchased in the financial marketplace. No insurance company can assume the risk of inflation over someone's entire lifetime. Only the federal government can do that.

## **Needs**

To make a properly informed decision regarding participation in SBP, you should start by first examining your needs -- or, rather, the needs of your survivor. Take the time to sit down with your spouse and figure out how much income he/she would need to live the lifestyle you both want him/her to be able to live. What expenses will your survivors face? Will there be costs for a final illness, a funeral, and taxes that must be immediately paid? What about other debts? How will your family handle mortgage or rent payments, educational expenses, and ordinary living expenses? What is available immediately to meet those needs if you die?

The answers to these questions will tell you how much immediate cash your family might require after you die and what they will need in the form of continuing, long-term income. SBP does not provide large sums of immediate cash to pay bills that may exist upon your death, but it will enhance the lump sum assets you have provided by removing the need to rely on those funds for day-to-day expenditures. For that reason, you may need some type of savings or life insurance; however, SBP can be an invaluable help in the long term by providing a guaranteed continuing source of income that is regularly adjusted for inflation.

Estimate both near-term and long-term income needs. Keep in mind that eligibility to receive Social Security benefits as a widow(er) starts at age 60 at a reduced level (50, if disabled). Call the Social Security Administration toll free at (800) 772-1213 and get an estimate of both your and your spouse's Social Security benefits entitlements. Review any assets you already have to see if they are sufficient to meet your spouse's income needs. If not, participation in SBP at whatever the appropriate level to make up the shortfall, is usually the best course of action. If participation in SBP at the maximum level still does not provide the income needed, you may still want to look to life insurance to supplement the income.

## **Alternatives to SBP (Be Very Cautious)**

Knowledgeable consumers (including prospective military retirees), quite wisely, shop around in order to compare the costs and the differences in quality between

the SBP and alternatives looking to provide the greatest benefit for the least cost. They frequently end up in front of life insurance agents. Too often, unfortunately, agents tell them they have a program which can beat SBP. They don't. Many life insurance agents are trained in the sale of life insurance as alternatives to pension survivorship plans under a sales concept known as pension maximization. The idea is simply to sell a life insurance policy to a prospective retiree in lieu of the retiree accepting reduced retired pay to provide an SBP annuity to his/her surviving spouse and/or children. Life insurance is a viable alternative to many civilian pension survivorship plans in which annuities do not increase with COLAs like the SBP does. Additionally, the reduced pension a retiree receives in practically all civilian plans is permanent, regardless of whether the retiree's spouse dies first unless an additional premium amount is paid. (Remember, with SBP you only pay premiums while you have an eligible beneficiary, so if your spouse dies first or if you become divorced, premium reductions in your retired pay can be suspended).

Some retiring members mistakenly feel that the benefits provided by SBP are not worth the premiums. They may feel that they can provide greater benefits for their survivors through life insurance or investments. While it is certainly possible to provide the same benefits as SBP through these means, experts find that it is equally certain that it cannot be done for the same low cost. Insurance agents who say otherwise simply do not understand or are misrepresenting the SBP. If you have not noticed already, SBP is a complicated program. It is made even more complicated because of all the changes the program has undergone since its inception (see History of SBP from 1953 to 1979, History of SBP from 1980 to 1989, History of SBP from 1990 to 1999, and History of SBP from 2000 to 2010), each of which has been an improvement. A truly professional agent, who understands the SBP and who cares more for the financial well-being of his client than his commission, will recommend that the client elect maximum SBP coverage.

This is not to say that life insurance is unnecessary if you enroll in SBP. On the contrary, even though SBP is an unbeatable program, it has no cash-value features to borrow against in times of emergency. Remember, however, that the cash value of insurance is based upon the premiums you have paid, less the profit and commissions required to keep the company solvent. You cannot cancel SBP to get a cash refund, and it will not provide large sums of immediate cash to pay bills that may exist upon your death. Although SBP can certainly help in the long term, some type of savings or life insurance may be needed for emergencies or immediate expenses after your death. That is why many retirees supplement SBP with other programs. Life insurance is a valuable and necessary complement to SBP in building your estate, but life insurance cannot replace SBP!

Projections of life insurance cash values 20 or 30 years into the future are awfully appealing compared to SBP, which resembles term-life insurance. Such comparisons are extremely complicated because of inflation and the time value

of money. For example, \$200,000 is a lot of money today, just like \$20,000 was 25 years ago. Do you know how much \$200,000 will be worth in 20 years from now if we experience the same rates of inflation we experienced during the last 25 years? Do not let yourself be misled by life insurance agents. Understand just what you are buying. Remember, the SBP annuity will never run out and is adjusted by COLAs.

If you are an expert investor, you might be able to put together a package of life insurance, savings, and other investments to adequately protect your survivors without SBP. It is possible, but hard to do. You and your survivors must decide all the investments to make and when to make them. That takes a skill few people possess and because there are always risks involved in the financial market, even experts sometimes fail. In addition, those investments can be eroded by legitimate demands such as medical, educational, and other unexpected expenditures. With SBP, your family is guaranteed a steady source of future income.

### **Summary**

Each retiring member's situation is different. Each factor discussed in this fact sheet cannot, by itself, determine whether a member should enroll in SBP or not; however, if the net effect of all of these factors is properly considered, SBP participation at some level, with some category of coverage, is advisable for just about everybody.

The SBP decision is a decision each retiring member has to make. Remember: Retired pay stops when the member dies. SBP was designed to give you a way to provide a monthly income to your eligible survivor(s) following your death. SBP is a very unique government program. There are no true civilian alternatives to the SBP because:

- The SBP is subsidized by the U.S. Government
- COLAs ensure the benefit keeps pace with future inflation
- Premiums paid for the coverage are deducted before taxes
- The spouse can never outlive the benefit

### **Bottom Line**

SBP provides a solid, risk-free foundation on which to build a strong estate package.