

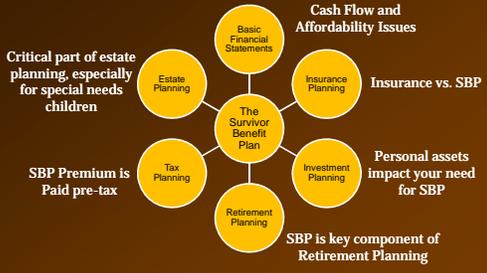


# The Survivor Benefit Plan

PERSONAL FINANCIAL MANAGEMENT PROGRAM 1



## The Survivor Benefit Plan and Financial Planning



Critical part of estate planning, especially for special needs children

SBP Premium is Paid pre-tax

Cash Flow and Affordability Issues

Insurance vs. SBP

Personal assets impact your need for SBP

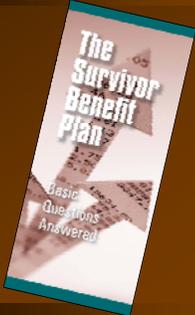
SBP is key component of Retirement Planning

THE SURVIVOR BENEFIT PLAN 2



## Cost and Coverage

- Retired Members
  - Choose to receive reduced retired pay during their lifetime in order to continue a portion of their pay after their death.



THE SURVIVOR BENEFIT PLAN 3



## Benefit Amount

- SBP Benefit, aka "Annuity"
- A continuing monthly payment of a portion of retired pay
- 55% of the Base Amount chosen
- Base Amount = any amount from \$300 to full retired pay

THE SURVIVOR BENEFIT PLAN 4



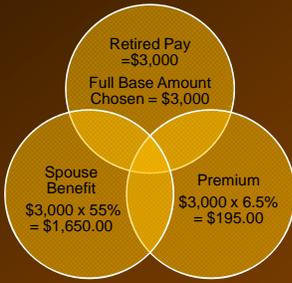
## Cost

- A monthly amount, or "Premium" deducted from Retired Pay
- Cost depends on election category
- For Spouse coverage, 6.5% of base amount chosen
- Comes out of retired pay BEFORE taxes are calculated

THE SURVIVOR BENEFIT PLAN 5



## Example



Retired Pay = \$3,000  
Full Base Amount Chosen = \$3,000

Spouse Benefit  
 $\$3,000 \times 55\% = \$1,650.00$

Premium  
 $\$3,000 \times 6.5\% = \$195.00$

THE SURVIVOR BENEFIT PLAN 6



## Active Duty Coverage

- Automatically covered at no charge to member
- Covered if Death in Line of Duty
- If Death is Not in Line of Duty
  - only covered if retirement eligible
- Beneficiaries
  - Former Spouse based on court order
  - Current Spouse
  - Children

THE SURVIVOR BENEFIT PLAN 7



## Election Options

- Spouse only
- Spouse and Child
- Child(ren) only
- Insurable Interest
- Former Spouse
- No Beneficiary at Retirement

**Your Decision is Binding!**

THE SURVIVOR BENEFIT PLAN 8



## Important Features and Considerations

- Social Security Offset
- Paid Up Status
- One-Year Termination Option

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## The Pre-Tax Benefit

**\$3,000 Retirement Check**  
 $\$3,000 \times 28\%$  Tax Rate  
 \$840 paid in taxes

With SBP Premium  
 $\$3,000$  Retirement Check  
 Minus \$195 Premium  
 $\$2,805 \times 28\%$  Tax Rate  
 \$785 paid in taxes

\$55.00 less in taxes each month!

\$195 premium

➔

\$140 actual cost

\$55 Tax Savings

THE SURVIVOR BENEFIT PLAN 10



## SBP and the CSB/Redux Plan

- Base Level
  - Uses High-3 for full coverage amount
- SBP Costs
  - Base amount higher than what you are actually paid
- COLA under CSB/Redux
  - CPI – 1%

*Consider the impact on SBP when choosing between High-3 and CSB/Redux*

THE SURVIVOR BENEFIT PLAN 11



## Important Features and Considerations (Continued)

- Premiums stop when you lose your spouse
- Open Season
- Annuities vs. Premiums
  - Premiums paid for five years, equivalent paid out in eight months
  - Premiums paid for 15 years, equivalent paid out in 18 months
  - Premiums paid for 30 years, equivalent paid out in 29 months

THE SURVIVOR BENEFIT PLAN 12



## The Decision

- Consider
  - Spouse's need for long-term income
  - Personal Assets
  - Life Insurance
  - Advantages and Disadvantages

THE SURVIVOR BENEFIT PLAN 13



## Personal Assets

- Will assets be enough to provide income without needing SBP?
- Use reasonable rates of return when projecting
- For a \$1,650 monthly annuity, a lump sum of \$476,273 is needed (invested at 6%, 3% inflation rate)

THE SURVIVOR BENEFIT PLAN 14



## SBP vs. Life Insurance

- Use calculators to compare
- SBP cannot be outlived, insurance proceeds can
- SBP includes an inflation fighter, insurance does not
- Think long-term when comparing
- Consider the government-subsidized, pre-tax nature of the SBP premium

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## Advantages of SBP

Government Subsidy	Pre-tax Benefit	Inflation Protection
Termination Feature	Annuity lasts as long as needed	Cost factors in only retired pay
No extra fees, commissions or risks	Level Benefit	Only Congress can make changes

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## Disadvantages

All income is eventually taxed	Only protects retired pay
Reduces retired pay	Because of COLA, the premium increases, too
No 'inheritance' feature	Doesn't have other insurance features

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## Sources of Help

- Financial Planners, Counselors and Accountants
- FFSC Financial Counselors, Command Financial Specialists, and Navy Career Counselors
- Websites included on the Handout

THE SURVIVOR BENEFIT PLAN 18