Attachment 3

SURVIVOR BENEFIT PLAN (SBP)
FACT SHEET FOR SPOUSES OF RETIRING AIR FORCE PERSONNEL

Plan Summary.

Your spouse's military retirement pay will stop when he/she dies. SBP was designed to give him/her a way to ensure that part of that pay can be paid to you after his/her death.

All members with a spouse or dependent children are automatically covered by the SBP at the maximum level while they remain on active duty. If your spouse dies in the line of duty while on active duty, you would currently be eligible for a monthly annuity valued at 55 percent of the retired pay he/she would be entitled to receive if retired on the date of death. This coverage is provided at no cost while he/she remains on active duty. Prior to retiring, the member must decide whether to continue that SBP coverage for you into retirement. The retired pay of members who elect to participate is reduced by monthly premiums. If he/she chooses not to participate in the SBP, an annuity cannot be paid to you.

Spouse Concurrence.

The law requires your written concurrence if your husband/wife declines coverage, elects to provide reduced coverage, or to provide an annuity to a child, but not to you. Your concurrence is not required if he/she elects former spouse coverage.

Base Amount.

SBP premiums and the amount of the annuity depend on the level of coverage or "base amount" the retiring member elects. The base amount is not the amount of the annuity - it is the amount used to compute the cost and the annuity. The base amount can be equal to the member's gross monthly retired pay or just a portion, down to as little as $300. When retired pay increases because of cost-of-living adjustments (COLAs), so does the base amount, and as a result, so do premiums and the annuity payable.

Beneficiary Categories Available When Retiring Member Is Married.

Coverage is elected for a category of beneficiary, not a specifically named person. For example, spouse coverage covers not only the retiring member's present spouse, but any future spouse if the current marriage ends in death or divorce. A married member can elect one of the following categories of beneficiary:

Spouse Coverage - An annuity will be payable for the lifetime of the spouse, and is not interrupted if remarriage occurs after age 55. The annuity, however, is suspended if you remarry before age 55 and resumes if that remarriage ends by death or divorce.

A spouse married to a member at retirement is eligible for SBP regardless of the length of marriage. However, divorce terminates the spouse's eligibility to receive the annuity. In order to maintain coverage following a divorce, the beneficiary category has to be changed from spouse to former spouse.

Former Spouse Coverage - This option may be taken voluntarily by a retiring member, or mandated by a divorce agreement. Because the provisions of the SBP do not allow a member to elect coverage for both a former spouse and a spouse, election of this coverage precludes coverage for a spouse.

Child Coverage - Eligible children may also be SBP beneficiaries. The member may elect child only coverage or add child coverage to spouse or former spouse coverage. Only one annuity is payable. In an election for spouse and child, or former spouse and child, eligible children are paid the annuity only if the spouse or former spouse dies or remarries before age 55. When child coverage is included with former spouse coverage, only children of the marriage to that former spouse are covered. Any other children will not be paid benefits under this option. In a child only option or when children are included with spouse coverage, all eligible children are covered.

Eligible children include dependent adopted children, stepchildren, foster children, grandchildren, and recognized natural children who live with the retiree in a regular parent-child relationship. To qualify as a dependent child, a grandchild must be in the care and custody of the retiree grandparent by court order and meet dependency requirements. To qualify as a dependent child, a foster child must receive over one-half support from the member and such support must not have been provided under a social agency contract. Children qualify for payments only during the time they are unmarried and:

Under age 18; or
Over age 18, but under age 22 and still in school full time; or
Suffer a mental or physical incapacity incurred while still eligible as defined above.

SBP Costs.

To maintain SBP coverage, SBP premiums must be paid after the member retires. See the attached SBP cost and annuity estimate for costs specific to you and your family.

Premiums are paid by reducing retired pay, and they are not counted in taxable income. This means less tax and less out-of-pocket cost for SBP. Also, the overall plan is funded (subsidized) by the government, so the average premiums are well below cost. Child coverage is relatively inexpensive because children are normally eligible for benefits for a short time. Premiums are suspended when there is no longer an eligible beneficiary in a premium category, such as:

A spouse is lost through death or divorce, or
All eligible children marry or become too old for benefits

Annuity Payable to Beneficiary(ies).

The annuity payable to a spouse beneficiary is 55 percent of the selected base amount.

Eligible children equally divide the annuity which is 55 percent of the base amount. ***EXAMPLE***: If five children are eligible, each is paid one-fifth of the annuity. When the first child reaches age 18 with no incapacity and if no longer in school, each of the remaining four children are paid one-fourth of the annuity. This process continues until the youngest child is no longer eligible to receive benefits.

Estate Planning Information.

SBP protects part of the retired pay against the risks of:

The member's early death - SBP is designed to protect against the complete loss of military retired pay when the member dies; and

The widow(er) outliving the benefits; and

The ravages of inflation - Inflation erodes the value of fixed incomes, making them worth less and less as time goes by. SBP protects against this risk because of COLAs.

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. Investments may be risky and rely on a degree of financial expertise many people 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 government subsidy, the answer to this question is yes! Whether SBP is a good buy for your family depends on personal preferences and the age, sex, and health of the member and spouse. Beyond this, the answer lies in such questions you should ask yourself.

First, is a subsidized, lifetime, inflation-protected income something that could help my family?

Second, how much SBP can I use? If you know when your spouse will die, how long you will outlive your spouse, and how much inflation will occur, you have the answer. The unknown future is the problem, but SBP meets the need! Even if the member dies shortly after retiring and you live for 50 more years and if inflation is higher than expected, SBP will still be paying. It will probably be paying a lot more than anyone ever expected because inflation has 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 tripled through COLAs!

Third, is SBP affordable? Due to the subsidy and lack of administrative costs and profit, the Plan is very reasonable. And remember: the tax advantage on premiums reduces the out-of-pocket cost.

Recent Plan Improvements.

Age 62 Annuity Reduction Eliminated. Public Law 108-375 was signed into law 28 October 2004. It authorized the phased elimination of the age-62 reduction to a spouse's SBP annuity. Effective 1 April 2008. every surviving spouse, regardless of age, will receive 55 percent of the base amount elected.

Disenrollment Provision. A survey of non-participating retirees indicated the main reason they did not elect SBP at retirement was uncertainty regarding post-service employment and fear of making a decision that could not be changed. This led to one of the latest improvements in the Plan - making it more flexible. Retirees are now authorized a one-year window between their second and third anniversary of receiving retired pay in which they can disenroll. That allows members who may have a financial crisis or simply decide they no longer need the SBP protection for their survivors to permanently get out of the Plan. This requires the concurrence of the spouse, there is no refund of premiums, and they will be forever barred from reentering. Once the window closes, the election is irrevocable as long as the beneficiary remains eligible.

Paid-Up Provision. Public Law 105-261 was signed into law 17 October 1998. It stipulates that effective 1 October 2008, retired members age 70 or older, who have paid premiums for a level of coverage for at least 30 years, will be considered "Paid-Up." No further premiums will be deducted from their retired pay for that level of coverage, but their eligible beneficiary will still receive an SBP annuity when they die.

Affects of receiving VA Disability Compensation.

If the member dies of service-connected causes, a spouse may qualify for Dependency and Indemnity Compensation (DIC) from the VA. This tax-free benefit for a spouse.

Can my spouse enroll in the SBP after he/she retires?

Some people think a retired member can join SBP years after retiring, during a so-called "open season." In the 30-plus-year history of SBP, only four times have retirees had a second chance at SBP. Each time was after major plan improvements. The second time, premiums were raised for new enrollees to help make up for the missed premiums. The last two times, new enrollees were required to pay <u>all</u> missed premiums <u>with interest</u>, <u>plus</u> an additional amount to protect the solvency of the Plan. Open enrollment elections have typically required a two-year waiting period before the election went into effect. This was to prevent new enrollees from having an adverse effect on the Plan (people joining with short life expectations). Although an open season may be enacted by special law, they are not part of the regular Plan. There may not be another.

Note: This is not a contract document. The statutory provisions of SBP law are in Section 1447, Chapter 73, Title 10, United States Code. This fact sheet explains only the very basics of the SBP. More details can be obtained by contacting an SBP counselor at an Air Force installation or by accessing the "Survivor Benefit Plan" webpage on the Air Force Personnel Center (AFPC) website at http://www.afpc.randolph.af.mil/sbp/.