



A Guiding Light to the Reserve Component Survivor Benefit Plan

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The Big Question

Do you want to preserve a portion of your hard-earned Reserve retirement for your survivors? If the answer is yes, you have two basic avenues:

#1 Enroll in the Reserve Component Survivor Benefit Plan that provides a monthly annuity to your survivor.

or

#2 Self-insure against the loss of Reserve retirement income, upon your death, through whole or term life insurance or some other financial plan to protect survivor. Self-insuring will not be discussed in this article.

A Bit of History

In 1972, Congress thought it necessary to protect survivors of active-duty military retirees from the loss of income upon the death of the retiree. As a result, the Survivor Benefit Plan (SBP) was enacted. Congress, in 1978, thought it necessary to protect the survivors of Reserve Component retirees who achieved retirement eligibility (20 years satisfactory service), but died before reaching age 60. The result was called the Reserve Component Survivor Benefit Plan (RCSBP). RCSBP is a part of the overall SBP program.

Defining RCSBP

The RCSBP part of SBP protects a portion of your retirement income from Notice of Eligibility for Retired Pay (NOE) up to age 60. Beyond age 60, retirement income is protected by the

normal SBP. The relationship of RCSBP and SBP only becomes important when discussing premiums. For simplicity, the use of the term RCSBP will be used throughout when discussing the life cycle of the survivor benefit plan since the vast majority of Reservists first enter the program upon receiving their NOE.

RCSBP – What it is; What it is not

RCSBP is one of your benefits; but you, as the retiree, will never benefit from RCSBP. RCSBP is intended to ensure that your surviving spouse receives a portion (55 percent maximum) of your monthly retirement for life, adjusted for annual cost-of-living raises. RCSBP does not create a nest egg for your surviving children. Don't confuse RCSBP with the SGLI/VGLI insurance programs. Additionally, the election of RCSBP has no effect on other retirement benefits and entitlements. Why is it called a benefit? RCSBP is a benefit because the program is subsidized by the federal government to make the program attractive and affordable. By design, Congress provides 40 percent of program costs while the other 60 percent is generated from participant premiums.

Who Elects RCSBP?

Statistics show that 93 percent of eligible Reservists elect RCSBP. In comparison, 74 percent of active-duty retirees elect SBP at time of retirement. Why the difference? Many factors come into the decision-making process for RCSBP and SBP; but many think Reserve participation is larger because premiums are deferred until age 60, the automatic election provision, and Reserve retirements are a lower dollar value making premiums lower when they are paid.

RCSBP Election Options at Time of NOE

There are four basic choices that can be made during the election period. The election period starts upon notification of eligibility for retired pay at age 60 (NOE) and runs for a 90-day period. No election may be made through a Power of Attorney. Summary of options:

Decline to Participate. If a Reservist has an eligible beneficiary at time of election and declines to participate, that decision is IRREVOCABLE. If the Reservist has no eligible beneficiary at time of election and declines to participate, the Reservist will be allowed to elect participation at a later date based upon marriage, children, or gained insurable interest.

Option A. Coverage under RCSBP is declined until reaching retired pay eligibility at age 60. At that time, survivor coverage will become automatic under the Survivor Benefit Plan (SBP) unless specifically declined by the Reservist, or a lesser dollar amount of coverage is elected with spouse concurrence. If Option A is elected and the member dies prior to reaching age 60, the survivor **is not** covered; and the retirement is forever lost.

Option B. Commonly called the Deferred Annuity. Coverage commences immediately; but if the member dies prior to reaching age 60, the survivor would not be entitled to a monthly annuity until the member would have reached age 60. Base amount for the annuity to be calculated must be specified at election. An amount equal to full monthly retirement all the way to a minimum of \$300 may be specified. Example, if your full retirement per month is \$2000, you may elect \$2,000 as the base amount or some other amount less than \$2,000. Specification of base amount is done at time of election and is irrevocable. Nearly all Reservists elect the full monthly retirement as the base amount. The base amount is used to calculate the monthly annuity in the following manner:

** If the beneficiary is a *spouse or former spouse under age 62*, the monthly base amount specified is multiplied by 55 percent. The resultant amount is the monthly annuity.

** If the beneficiary is a *spouse or former spouse age 62 or more*, the monthly base amount specified is multiplied by 35

percent. This decrease of 20 percent is called the social security off-set and will be discussed further on in the article.

** If the beneficiary is a *child*, monthly base amount is multiplied by 55 percent and paid monthly until the child is 18, or age 22 if enrolled in full time education. *Incapacitated child* receives an annuity while unmarried and incapacitation exists.

** If beneficiary is an *insurable interest person*, monthly base amount is multiplied by 55 percent and paid for natural life.

Option C. Commonly called the Immediate Annuity. Coverage commences immediately. Upon death of member, regardless of age, the beneficiary is entitled to an annuity starting the day after the death. Specification of base amount and calculation of annuity is the same as Option B. If the surviving spouse (annuitant) remarries before age 55, the RCSBP annuity payment stops. Remarriage after age 55 has no effect on the RCSBP annuity payment.

Eligible Beneficiaries

An annuity under the RCSBP may be elected for the following beneficiaries:

- Spouse – An annuity would be paid to the eligible spouse for life, unless the spouse remarries prior to age 55.
- Spouse and Children – The spouse would be the primary beneficiary; and the children, contingent beneficiaries.
- Children Only – Children would receive an annuity until age 18, or age 22 if continuing education on a full-time basis.
- Incapacitated Children – Incapacitated children would receive an annuity as long as they remain unmarried and incapacitation exists.
- Former Spouse – An annuity would be paid to the former spouse elected.
- Former Spouse and Children – The former spouse would be the primary beneficiary; and the children, contingent beneficiaries.
- Insurable Interest Person – a person who depends on your income for support, i.e. parent, dependent or nondependent child, relative, business associate, etc. Electing Insurable Interest provides an annuity during the life of the beneficiary.

What Happens If No Election Was Made During the Election Period?

If no election is made during the 90-day election period, an AUTOMATIC election will be made for the Reservist based on dependency status. This dependency status comes from the DEERS system. If you have an eligible beneficiary, as described previously, and you fail to make an election, Option C will automatically be selected for the maximum base amount. If you have no eligible beneficiary at time of election, Option A will be selected. In the latter case, if the Reservist later marries, Option B or C may be elected within one year of marriage. Why an automatic election? Simple: the whole basis behind SBP/RCSBP is to protect survivors. So, if you don't elect, the survivor benefit plan will elect for you.

Changes to RCSBP – What Happens If?

* *A covered spouse dies.* RCSBP coverage is suspended. If remarriage occurs, the new spouse may be added within one year.

* *A newly acquired spouse or child.* Coverage may be gained for spouse and/or child provided that the member had no eligible beneficiaries at time of initial eligibility for RCSBP. If the member declined to participate in RCSBP during initial eligibility period and had an eligible beneficiary, coverage is lost for newly acquired spouse or child.

* *A divorce occurs.* If the former spouse becomes an ineligible beneficiary through divorce, then spouse coverage may resume upon remarriage.

RCSBP Premiums

RCSBP premiums commence the first of the month after reaching age 60 and will be deducted monthly from retirement pay. The option previously selected (Option A, B, or C) and age of beneficiary predominantly determine the monthly premiums. If you enrolled in RCSBP prior to age 60, you will pay two premiums – the basic Survivor Benefit Plan (SBP) and the RCSBP portion. Why two premiums? The RCSBP premium is for the coverage afforded your retirement from initial election (issuance of NOE) until reaching age 60. The SBP premium is for coverage commencing at age 60 until your death. The SBP premium ceases upon the member's death; however, the RCSBP premium is continued to be paid by the annuitant.

Cost-of-Living Adjustment. An annual cost of living adjustment (COLA) is made to both the annuity and the premiums.

RCSBP Offset

Offsets have been a key provision of the survivor benefit program since its inception in 1972. Since the U.S. government pays benefits received in excess of the cost to the member, Congress decided the annuitant could not receive the full entitlement for both social security benefits and RCSBP. As discussed previously, if the surviving spouse is under age 62, the annuity is 55 percent of the base amount. Upon reaching age 62, the surviving spouse's annuity is reduced to 35 percent of the base amount since the annuitant can receive the member's social security.

Sample Premiums (2004 Pay Scale)

	O-5	E-6
Monthly Retired Pay	\$1,500.00	\$625.00
Base Amount	\$1,500.00	\$625.00
Premiums		
OPTION A (SBP only)	\$ 97.63	\$ 17.77
OPTION B		
SBP	\$ 97.63	\$ 17.77
RCSBP	\$ 42.06	\$ 17.47
OPTION C		
SBP	\$ 97.63	\$ 17.77
RCSBP	\$ 63.38	\$ 26.33
Approximate Annuity		
Until Age 62	\$ 800.00	\$330.00
After Age 62	\$ 505.00	\$210.00

Counteracting the Offset. To counteract the offset, a Supplemental Survivor Benefit Plan (SSBP) is available in five percent segments to a maximum of 20 percent. There is an additional premium for this coverage and is normally considered expensive. SSBP is selected at time of initial RCSBP option selection and can only be dropped by opting out of the entire program.

RCSBP Open Season

Only a Congressionally enacted open season (open enrollment period) will allow new elections or changes regarding the RCSBP. Normally, electing RCSBP in an open season requires a one-time, nontaxable buy-in premium. The last open enrollment period was 1 Mar. 1999 through 29 Feb. 2000. Previous open seasons occurred 1 Oct. 1981 through 30 Sept. 1982, and 1 Apr. 1992 through 31 Mar. 1993. If an open season is enacted by Congress, the Defense Finance and Accounting Service (DFAS) will inform all those eligible members by mail.

RCSBP Opt Out



Should you deem your participation in RCSBP program financially unnecessary, you may “opt out” between the second and third anniversary of receiving retired pay. For most retired Reservists, that is between age 62 and 63. Keep in mind, during this special one-year period, this is your only opportunity to disenroll

from RCSBP. Once disenrolled, you are barred forever from the plan. Who disenrolls from the RCSBP program? Those who no longer need to protect the amount they receive for retired pay or the return on costs warrants disenrollment. Spouse concurrence is required. To terminate, you will need to submit DD Form 2656-2, Survivor Benefit Plan (SBP) Termination Request. The form is available from the Association.

Planning Ahead

Calculating SBP Program Premiums and Estimated Retired Pay

As a member service, the Association will calculate SBP/RCSBP premiums and estimated retired pay based upon current military pay tables. If you complete the worksheet found on our Web site and submit it (or call CAPT McAtee on our toll free number 1-866-672-4968), we will provide you the estimates for option election and financial planning purposes.

Legislative Initiative to Remove the Social Security Offset

Your Association and The Military Coalition, which consists of 39 military and veteran service organizations, have placed the removal of the 20 percent offset currently in the Survivor Benefit Plan program as number one on the legislative priority list. This same initiative was also pushed during the last legislative session but fell short. Again this year, a coordinated information push and lobbying effort is being mounted. As of June 2004, the Association feels there will be positive legislative action taken by Congress to eliminate the 20 percent offset and revert to the 55 percent via some sort of “phase-in” mechanism. Updated information on this issue will be in the Association’s legislative update e-mail.

Summary

- The RCSBP decision is critical.
- RCSBP is a benefit, so carefully evaluate its usefulness to your family.
- RCSBP only preserves a portion of your retirement.
- Certain decisions you make now are irrevocable in the future. ⚠