Defense Report from AUSA's Institute of Land Warfare

The Survivor Benefit Plan: Getting What Was Promised—and Paid For

What is the Survivor Benefit Plan?

The Survivor Benefit Plan (SBP) was established by Congress in 1972 to provide a monthly income to survivors of retired military personnel upon the servicemember's death. The plan replaced earlier programs that were far too costly for the average servicemember. SBP was originally intended to provide an annuity to the surviving spouse equal to 55 percent of the deceased servicemember's covered military retired pay.

Congress set the premium formula in law intending that retirees' monthly premium payments would cover 60 percent of the long-term costs of the survivor benefit and the government would pay the remaining 40 percent. The formula was based on program cost assumptions prepared by Department of Defense actuaries who took into account indicators such as future inflation rates, pay raises, and the longevity of retirees and survivors.

What is the problem?

There are three main issues with SBP:

1. **Military retirees numbering in the thousands who bought SBP coverage were never advised that most survivors' SBP annuities would be reduced substantially after age 62.**

   Servicemembers who signed up for the SBP years ago were told that, following the death of the servicemember, SBP would pay their surviving spouse 55 percent of their retired pay for the remainder of the spouse's life.

   Only later, years after they signed up, did retirees and spouses learn there would be an **offset**, based on the servicemember's Social Security-covered military earnings, that would drastically reduce the benefit. In some cases, it was not until after the servicemember's death that the surviving spouse learned of the Social Security offset.

   Although many retirees and surviving spouses believed that Congress enacted the age-62 reduction or "widow's tax" after the fact, the reduction was part of the initial SBP law enacted in 1972. However, as incredible as it sounds, this critical piece of information was not included in most military retirement briefings. In fact, it was not included on the actual form used in 1982—not even in the fine print. In two different places, the form specified that SBP would pay the survivor 55 percent of the military member's retired pay.

2. **The 40 percent government subsidy envisioned by Congress and touted by the services to encourage retiree participation has dropped to 19 percent.**

   The plan's original cost estimates were far too conservative, as actual experience in later years would prove. Inflation was lower than predicted and retirees lived (and paid premiums) longer than anticipated. Retiree premiums were locked in law and covered a greater portion of program costs than had been projected. Accordingly, the government found that its share of the burden was much lower than expected and thus reaped an economic windfall.

DEFENSE REPORT is published by the Association of the United States Army's Institute of Land Warfare (ILW). The series is designed to provide information on topics that will stimulate professional discussion and further public understanding of the Army's role in national defense. Questions regarding the ***DEFENSE REPORT*** should be directed to: AUSA's Institute of Land Warfare (Attn: ***DEFENSE REPORT***), 2425 Wilson Boulevard, Arlington VA 22201. For more information about AUSA and ILW, visit our website at www.ausa.org.

April 2004/DR 04-1

In 1988, retiree premiums covered 77 percent of SBP costs and the government's share had dropped to 23 percent. In 1990, Congress passed legislation that restored the intended 60/40 balance by reducing retiree premiums to 6.5 percent of retired pay. Even with that legislation, by 2003 the government's share had dropped to 19 percent, leaving retirees paying much more than was intended.

3. **The government provides federal civilian survivors a substantially higher share of retired pay for life, with no benefit reduction at any age.**

   What military retirees find even more stunning is the disparity in benefits and subsidy levels the government offers the military versus federal civilian survivors.

   The SBP for federal civilian employees under the Federal Employees Retirement System (FERS) provides a 33 percent subsidy with FERS survivors receiving 50 percent of retired pay. For federal civilian employees under the Civil Service Retirement Systems (CSRS), the subsidy is 48 percent, nearly three times as high as the military's. Neither FERS nor CSRS has a benefit reduction at age 62.

   It is recognized that federal civilian employees pay higher premiums (10 percent) than military members; however, military retirees pay SBP premiums far longer than most civilians because they are required to retire at a younger age.

The Solution

Congress must take action during this legislative session to raise the age-62 SBP coverage to 55 percent of the military member's retired pay and to end the "widow's tax."

AUSA supports two bills, H.R.3763 and S.1916, introduced by Representative Jeff Miller (R-Florida) and Senator Mary Landrieu (D-Louisiana), respectively. This legislation would balance equity and cost considerations by phasing out the age-62 benefit reduction over 10 years.

Recently, the Senate adopted an amendment offered by Senator Landrieu that would correct the SBP inequity; however, a similar measure, offered by Representative Chet Edwards (D-Texas) during the House Budget Committee's markup of its fiscal 2005 resolution, failed to pass. Budget Committee Chairman Representative Jim Nussle (R-Iowa) promised that he would work with the Armed Services Committee to "arrive at a financial fix" to the SBP "problem."

Retirees and surviving spouses deserve the SBP deal they were promised. They have waited long enough for equity in SBP.

AUSA's 2004 Resolution 04-04, Point 1, urges the administration and Congress to enact legislation to reduce the SBP offset for surviving spouses who are at least 62 years of age and to restore parity in the basic annuity provided under the SBP.

(This Defense Report was prepared by AUSA's Government Affairs Directorate.)