



Strategy of the Survivor Benefit Plan



Strategy of the Survivor Benefit Plan

Welcome

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- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
- » Recorded – how to get the replay
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Strategy of the Survivor Benefit Plan

Your ProFeds Presenter



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- » ProFeds Founder
- » Developer of the FedImpact Retirement Workshop
- » Host of the FedImpact Podcast



Support Team

- » Standing by for your questions

Strategy of the Survivor Benefit Plan

The Strategy of the Survivor Benefit Plan

The art of protecting income
for your spouse

Agenda

- » **ELIGIBILITY:** Who can be protected under this program
- » **AMOUNT:** The maximum protection available to a spouse
- » **CONNECTION:** The effect on other benefits
- » **DECISIONS:** When/how this irrevocable decision is made
- » **CHANGES:** How divorce and remarriage before/after retirement affect this benefit
- » **BONUS:** If you don't love this benefit, what's the alternative?

What this webinar will NOT cover



Overview of SBP in Retirement

Overview of SBP in Retirement

- » In retirement, it protects a portion of the monthly retirement pension for a spouse (retiree passes first)
 - CSRS & FERS: must be married for at least 9 months (the 9 month rule is waived if the death was accidental or there was a child born of the marriage)
- » A retiree must elect (and pay) to keep this protection in place on the retirement application
- » This is the government's solution to your spouse's income problem when you die

Strategy of the Survivor Benefit Plan

The Maximum Survivor Benefit

Retirement System	Maximum % of Pension Protected*	Cost to Retiree (while living)*
CSRS	Up to 55% of pension	< 10% of pension
FERS	Up to 50% of pension	10% of pension

*When COLAs are received each year, the coverage and cost increase. SBP premiums are paid with pre-tax dollars.

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Eligibility

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Eligibility

» A current spouse

- ENTITLED to a full survivor benefit
- If they choose a lesser amount, your current spouse must provide their notarized consent (when you complete your retirement application)

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Eligibility

» A former spouse

- A qualifying court order must explicitly grant them any or all of the Survivor Benefit Plan (if no language exists, no benefit is provided); a voluntary election for a former spouse is permitted
- Unless married to one another for at least 30 years, if a former spouse remarries prior to the age of 55, benefits are forfeited and revert to a current spouse (if applicable)
- If the entire benefit is awarded to (and is being paid) a former spouse, the current spouse is entitled to nothing



Example

Example

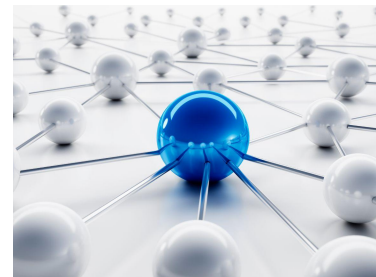
» FERS Employee

- Retiring at age 60
- Starting pension: \$30,000/year
- Assume COLAs being applied each year

Example of FERS Survivor Benefits (for 2022)

Scenario	1st year of retirement (age 60)	20th year* of retirement (age 60)
The retiree would receive a pension of...	\$30,000/year	\$41,326/year
<u>While living</u> , the retiree would pay...	\$3,000/year	\$4,133/year
<u>Upon retiree's death</u> , the spouse receives...	\$15,000/year	\$20,663/year
		\$73,754 paid-to-date

*Assumes 10-year COLA average increase



Connection

Connection

- » Connection between Survivor Benefits & FEHB
 - Is your spouse reliant on your FEHB?
 - If you decline survivor benefits, your spouse is no longer eligible for FEHB coverage once you die
 - To retain FEHB coverage for your spouse (after you die), you must select at least the minimum coverage
 - CSRS Minimum: 55% of \$22 (cost: < \$1/year)
 - FERS Minimum: 25% of the pension (cost: 5%)



The “What-Ifs”

What if... Your Spouse Dies First

- » If your spouse predeceases you:
 - You no longer to pay the premium
 - The premiums already paid are lost
- » What next?
 - No refunds are issued, and nobody else can be named
 - Unless...

What if... You Marry (or Remarry) in Retirement

- » You may add a new spouse to be covered under Survivor Benefits, but
 - You must pay the back premiums from the date of marriage back to either the date of retirement, or the death of a previous spouse (whichever is shorter)
 - This is the only way to ensure your new spouse continues to have access to FEHB coverage after you die



What if... You Are Married to Another Federal Employee

- » Both spouses maintain their own right to FEHB coverage if both spouses:
 - Will retire from federal service (with an immediate pension), AND
 - Will be enrolled in FEHB at least 5 years prior to retiring (it does not matter whose coverage they use)
- » If both were to select Survivor Benefits to protect income, one of them is paying for a benefit that will never pay out anything (because we don't know who will die first)



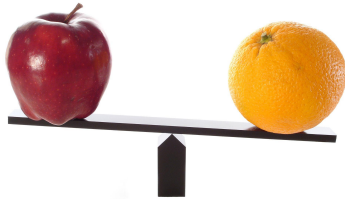
Decisions & Changes

Decisions

- » At the time of retirement, this decision will be made when you complete your retirement application
 - For CSRS:
 -  Spousal Consent to Survivor Election **SF-2801-1 (CSRS)**
 - Elect: "55% of \$_____"; (between \$1 and full pension amount)
 - For FERS:
 -  Spousal Consent to Survivor Election **SF-3107-1 (FERS)**
 - Elect: Either 50% of pension or 25% of pension

Decisions

- » There is a small window to change your election (based on when OPM finalizes your pension):
 - Within 30 days of your first regular annuity payment, you may file a new election in writing and make any change you wish (enroll, cancel, increase, decrease)
 - Between 31 days and 18 months after your first regular annuity payment, you may **ONLY** enroll or increase



The Alternative

The Alternative

- » Before we look to OTHER solutions or alternatives, we must first appreciate how this plan behaves
- » What do we call a program that you pay for each month while you are living so that when you die your family receives money?

The Alternative

- » Next, we must understand the conditions of this plan
- » The timeline of this benefit
 - You start paying for this benefit when you retire
 - You stop paying for this benefit when you die
 - And your spouse receives a benefit for the rest of their life
- » From a purely economic standpoint, what is the best way to get your money's worth out of this program?

Considerations	Government SBP	Private Life Insurance
How to qualify?	automatic	must be healthy enough to qualify
Coverage available?	maximum for CSRS is 55% and FERS is 50% of pension	unlimited
How is it paid for?	paid monthly from pension; cost increases	typically paid monthly; typically cost is level
Who can be the beneficiary?	a spouse or former spouse by court order	any person or entity you wish
How is it paid out (upon death)?	monthly payments for your spouse's lifetime	lump-sum at time of death
How is it taxed?	Premiums: paid with pre-tax \$ Payout: fully-taxable to spouse	Premiums: paid with after-tax \$ Payout: tax-free to beneficiary

The Alternative

- » Your health and age are huge factors
- » Remember, there are likely PARTS of the Survivor Benefit Plan that are advantageous to keep
- » Most often, it is ideal to have a MIXTURE of the government solution and a private sector solution (get the best of both worlds!)
- » This balanced strategy requires skillful execution from a competent professional who specializes in helping feds



Wrap-Up

Wrap-Up

- » Get clear and get help to weigh advantages and disadvantages
- » Do not make rash decisions that leave you with fewer options (the more options, the better)
- » Make the decision to set up the SBP strategy LONG BEFORE you retire from federal service (in other words, don't wait until you need to make the decision to figure out what to do!)

Get the Rest of the Story

CSRS & FERS Pensions • FLT/CP • TSP
Survivor Benefit Plan • Social Security
FERS Supplement • FEGLI • FEHB

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