



Leaving Your Federal Pension to Your Children (or Others)



Leaving Your Pension to a Non-Spouse

Welcome

- » Our audience today
- » Q&A – the ProFeds Support Team standing by
- » Handouts – available for download
- » Recorded – how to get the replay
- » Stay until the end!

Leaving Your Pension to a Non-Spouse

Your ProFeds Presenter



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



Support Team

- » Standing by for your questions

Leaving Your Pension to a Non-Spouse

Leaving Your Federal Pension to Your Children (or Others)

How to protect your CSRS or FERS pension for someone other than your spouse – and what to know before you do

Agenda

- » **ELIGIBILITY:** The types of people eligible to receive your federal pension after you die
- » **BENEFIT:** The amount this benefit would provide upon your death
- » **COST:** The cost to you while you're living in retirement
- » **RULES:** The timeline and strict qualifications for electing this benefit

What this webinar will NOT cover

We are going to explore the
options of leaving your pension to...

A
spouse vs. Someone
else

Fair Warning

- » It is entirely possible that you won't like either of the government options you see today

ProFeds Planning Principle #5:

It's okay not to like the government's
solution to your problem.

(But you still have a problem that needs a solution!)

- » Don't confuse not liking how they plan to solve your problem, with believing you don't have one

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How the Survivor Benefit Plan Works

- » In retirement, this program allows a federal employee to protect a portion of their monthly retirement pension for another person (if the retiree passes first)
- » An employee makes the decision on whether to have this protection in place at the time they retire
- » Once an election is made, there is a limited window to make changes
- » All payments received are taxable



You will make the election for Survivor Benefits on the retirement application.

*SF-2801 (CSRS)
SF-3107 (FERS)*



Survivor Benefit Plan (SBP)

Spousal Benefit

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Eligibility to Leave Your FERS Pension to a Spouse

- » Your CURRENT or FORMER Spouse
 - You have an option to protect 0%, 25% or 50% of your pension to be paid when you die
 - No health screening is required



For a former spouse, only elect this if you are VOLUNTARILY naming your former spouse to receive a survivor benefit. DO NOT use this option if you have a Court Order!

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Survivor Benefits to a Current or Former Spouse

- » Maximum Survivor Benefit to a spouse
 - 50% of the FERS pension (when you die)
- » Cost
 - 10% of the FERS pension (while you are living)
- » Example: If John has a FERS pension of \$30,000/yr, he would pay \$3,000/yr, and his wife would get \$15,000/yr when he dies
 - NOTE: These figures adjust each year with COLAs

Entitlement for a Current Spouse

- » Your CURRENT spouse is entitled to receive the maximum benefit allowable (50% of your pension)
 - If they agree to get LESS than 50% of your pension, they must provide notarized consent
 - If they wish to keep FEHB after you die, you must have either 25% or 50% survivor benefit elected
 - NOTE: If there is a FORMER spouse with a Court Order granting them a survivor benefit, this may lower or eliminate the benefit your current spouse was supposed to receive

Special Notes & Highlights (Spousal SBP)

- » If we were to ask your spouse what percentage of your pension they want to keep getting when you die, what do you think they'd say?
- » If you are not married (and have no former spouse), you will not be able to participate in the "spousal" SBP elections, but you MAY be eligible for another form of SBP called the "insurable interest" option



Survivor Benefit Plan (SBP)

Insurable Interest

Eligibility to Leave Your FERS Pension to a Non-Spouse

- » You may leave a portion of your pension to someone other than your spouse if they are considered an "insurable interest" such as:
 - a spouse (including common-law, if state recognizes)
 - a former spouse
 - a blood or adopted relative closer than first cousins (parent, child, sibling, niece, nephew, etc.)
 - a person to whom you are engaged to be married
- » Only ONE person can be named as an "insurable interest"

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Survivor Benefits to an Insurable Interest

- » Only allowable benefit to an insurable interest
 - 55% of the CSRS/FERS pension after it has been decreased by the cost of the benefit
- » Cost
 - Dependent on the age difference between the retiree and the person named as the insurable interest

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Age difference between the retiree and the person named as insurable interest	Cost of providing this benefit
Older, same age, or less than 5 years younger	10% of the retiree's pension
5 – 9 years younger	15% of the retiree's pension
10 – 14 years younger	20% of the retiree's pension
15 – 19 years younger	25% of the retiree's pension
20 – 24 years younger	30% of the retiree's pension
25 – 29 years younger	35% of the retiree's pension
30 or more years younger	40% of the retiree's pension

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Example of FERS employee retiring with a pension of \$30,000		
For an insurable interest who is...	Coverage Provided*	Cost to Retiree**
The same age as the retiree	55% x (\$30,000 – \$3,000) = \$14,850/yr	10% x \$30,000 = \$3,000/yr
10 years younger than the retiree	55% x (\$30,000 – \$6,000) = \$13,200/yr	20% x \$30,000 = \$6,000/yr
30 years younger than the retiree	55% x (\$30,000 – \$12,000) = \$9,900/yr	40% x \$30,000 = \$12,000/yr

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Comparing Survivor Benefit Options (FERS pension \$30,000)				
	Spousal Benefit	Insurable Interest (<5 yrs younger)	Insurable Interest (10 yrs younger)	Insurable Interest (30 yrs younger)
Benefit they will receive	\$15,000/yr	\$14,850/yr	\$13,200/yr	\$9,900/yr
What it costs the retiree	\$3,000/yr	\$3,000/yr	\$6,000/yr	\$12,000/yr

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Special Notes & Highlights (Insurable Interest SBP)

- » On the surface, this may sound like a good option
- » The insurable interest option:
 - Requires insurability (full underwriting)
 - It provides less than the normal spousal survivor benefit
 - Providing this to someone considerably younger is unaffordable
- » Private sector options (through life insurance plans) are far more flexible with more controls

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Factors	Spousal SBP	Insurable Interest SBP	Private Life Insurance
Need to be healthy	Automatic	Must qualify (health)	Must qualify (health)
Amount payable	Max for CSRS is 55% & FERS is 50% of pension	Max is 55% of pension after it is reduced by cost	Unlimited
How to pay premiums	Paid monthly from pension; cost increases	Paid monthly from pension & based on age difference; cost increases	Typically paid monthly; typically cost is level
Who receives payment	A current or former spouse by court order	A person who qualifies as an "insurable interest"	Any person or entity you wish
How paid out when you die	Monthly payments for your spouse's lifetime	Monthly payments for the person's lifetime	Lump-sum at time of death
How premium & payout taxed	Premium: paid with pre-tax \$ Payout: taxable	Premium: paid with pre-tax \$ Payout: taxable	Premium: paid with after-tax \$ Payout: tax-free



Survivor Benefit Plan (SBP)

SBP for Children

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Children's Survivor Benefits

- » This benefit has NOTHING to do with your pension
- » Children receive survivor benefits at no cost
 - unmarried, dependent child
 - under age 18, or 22 if full-time student
 - beyond age 22 if disabled prior to age 18
- » Children receive the same survivor benefits regardless if the federal parent is still employed or retired, or if the parent is under CSRS or FERS

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Children's Survivor Benefits

Children's Survivor Benefits (for 2024)

If one living parent (who is married to the deceased)	If no living parent (or a living parent never married to the deceased)
» \$658 per month (up to 3 children), or » \$1,975 per month (3+ children)	» \$787 per month (up to 3 children), or » \$2,362 per month (3+ children)

- » Coordination with Social Security
 - this benefit will be reduced (\$1 for \$1) by any Social Security benefits that the child receives

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Special Notes & Highlights (Children's SBP)

- » Children's SBP was designed to provide benefits while they are young
- » This isn't a lifetime payout (like the other two SBPs)
- » Most often, this benefit is completely wiped out by an Social Security benefits the child is receiving

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Some Final Thoughts

- » Making a Survivor Benefit decision is important and deserves your sincere thought (and planning!)
- » You may have a genuine concern for how your loved ones will receive money after you die
- » It's okay not to love the government's solution, but you still need to solve your problem
- » Consider ALL of your options well in advance of your retirement

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IN YOUR OWN RETIREMENT STORY**

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D.S., Office of Personnel Management



"The most information I have ever received and heard in my DTRC military and Federal area."
L.B., Department of Defense



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Next Webinar



- » Next webinar topic!
 - **3 Ways a Court Order Wrecks Your Federal Pension**
What you (and your current spouse) should know before you retire – and how to mitigate the impact moving forward
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