



DEFENSE FINANCE AND ACCOUNTING SERVICE
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MAY 23 2006

DFAS-NP

MEMORANDUM FOR DIRECTOR, ACCOUNTING AND FINANCE POLICY AND
ANALYSIS, OFFICE OF THE UNDER SECRETARY OF
DEFENSE (COMPTROLLER)
DIRECTOR, FINANCE, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Interim Change to the Department of Defense Financial Management Regulation
("DoDFMR"), Volume 7B, Regarding Elimination of the Supplemental Survivor
Benefit Plan (SBP) and Allows the Phased Elimination of the Two-tier SBP
Annuity

Attached is Interim Change **R04-06** to Volume 7B, Chapters 42, 43, 45, 46, 48, 49 and 50
of the "DoDFMR." This change implements Public Law 108-375, Section 644, October 28,
2004, which eliminates the SBP and allows the phased elimination of the two-tier SBP annuity.
The annuity will rise gradually in 5-percent increments from October 1, 2005, until March 31,
2008, at which time all annuities will be computed at 55 percent of the base amount selected by
the member. This change also eliminates SBP premiums.

Assignment of the interim change number is authority for the Director of Finance to
initiate a procedural modification to implement this change. This office requests that the
Director for Accounting and Finance Policy and Analysis post a copy of this interim change to
the "DoDFMR" web site.

Lydia Moschkin
Director, Policy and Performance
Management

Attachment:
As stated

cc:
DFAS-AMO (Pat McGriff)
DFAS-DGM/CL
DFAS-PDO/CL (William Tyminski)
DoD-DHRA/OGC
ODUSD (MPP) (Comp)
Service Liaisons
USCG/NOAA/PHS Liaisons

SURVIVOR BENEFIT PLAN**1. Add Section 4603 to read:**4603 PHASED ELIMINATION OF TWO-TIER COMPUTATION METHOD.

460301. Authority. Public Law 108-375, October 28, 2004, Section 644 provides a phased elimination of the two-tier method of computing a spouse or former spouse annuity, beginning October 1, 2005 and ending March 31, 2008. The two-tier method is eliminated by increasing the amount of the annuity four times during the elimination period as follows:

<u>Periods</u>	<u>Amount of Annuity</u>
For months prior to October 2005	35 percent
October 2005 - March 2006	40 percent
April 2006 - March 2007	45 percent
April 2007 - March 2008	50 percent
April 2008 and after	55 percent

460302. Computing an Initial Annuity. Effective October 1, 2005, and ending on March 31, 2008, for a spouse or former spouse annuitant who is age 62 or older upon initial commencement of an SBP annuity, the annuity is computed by multiplying the percentage amount of annuity in effect for the month the annuity begins as described above by the base amount selected by the member. The annuity is subsequently recomputed each time the amount of the annuity percentage increases. All annuities commencing on or after April 1, 2008 are computed at 55 percent of the base amount selected by the member.

For example, if a member who elected SBP for a spouse dies on January 15, 2006, the initial SBP annuity for that spouse, who is age 62 or older, is computed using 40 percent of the base amount selected by the member. Alternatively, if the member dies on June 15, 2007, the annuity is computed using the 50 percent of the base amount selected by the member.

460303. Existing Annuity Recomputation.

A. A surviving spouse or former spouse who, on October 1, 2005, is receiving an SBP annuity will have their annuity recomputed on October 1, 2005, or when they become age 62, whichever is later, so that the annuity reflects the percentage amount described in paragraph 460301 above. This applies to both standard and Reserve Component annuities. The recomputation will occur each time the amount of the annuity percentage increases.

B. Recomputing an existing annuity requires determination of an “implied” base amount at death. The “implied” based amount is determined by dividing the annuity amount being paid on September 30, 2005 by the current percentage of the base amount being paid (either 55 or 35 percent). This implied base amount is then multiplied by the applicable

annuity percentage for the current period, as described in paragraph 460301, to determine the new annuity amount. Subsequent recomputations are made by multiplying the implied base amount at death and the annuity percentage applicable for the current period, described in paragraph 460301, and adding the applicable cost-of-living adjustments for each year to determine the new annuity amount.

460304. Special Consideration.

A. Social Security Offset Consideration. During the phased elimination of the two-tier computation method, a surviving spouse or former spouse who is entitled to have the SBP annuity computed using the Social Security offset method of computation (see 10 U.S.C. §1451(e)) receives the greater of the computation described in paragraphs 460302 or 460303 above, or the computation made using the Social Security offset method. See paragraphs 460203 through 460207. Each time the annuity percentage changes, as described in paragraph 460301 above, the two methods of computation are compared and the greater of the two computations is paid to the annuitant. The comparison in the previous sentence is made until the flat rate method results in a greater annuity. Thereafter, no further comparison is made. Any change that impacts the annuity entitlement amount will require a two-tier comparison to insure the annuitant receives the greater of the two computation methods. The Social Security offset method of computation is eliminated for all annuity entitlements effective April 2008 and after.

B. Presumed Supplemental SBP (SSBP). In accordance with the provisions of Public Law 108-375, Section 644(d)(1), maximum SSBP coverage without cost to the participating member shall be presumed for any valid election of maximum SBP coverage for a spouse or former spouse that a member makes with an effective date of election of October 28, 2004 through March 31, 2008. This does not include an open enrollment election made pursuant to the provisions of section 645 of Public Law 108-375.

C. Supplemental SBP Consideration. The surviving spouse or former spouse of a member who either elected Supplemental SBP (SSBP) or had presumed SSBP coverage will receive the applicable percentage for the month the annuity is payable, as described in paragraph 460301 above, or the percentage amount of the basic SBP annuity plus the percentage of supplemental coverage, whichever is greater. Pursuant to Public Law 108-375, Section 644(b), SSBP annuities are phased-out as the applicable annuity percentage provided in paragraph 460301 increases. Therefore, the percent used to compute the SSBP annuity may not exceed 20 percent for any month before October 2005, 15 percent for months after September 2005 and before April 2006, 10 percent for months after March 2006 and before April 2007, and 5 percent for months after March 2007 and before April 2008. In no case may the surviving spouse or former spouse receive more than 55 percent of the base amount selected by the member. Effective April 1, 2008, the authority for SSBP is repealed.

2. Revise paragraph 420105 to read:

420105. Under the Supplemental SBP (SSBP) program, a member who had maximum annuity coverage for spouse or former spouse could provide a Supplemental SBP annuity in increments of 5, 10, 15, or 20 percent of the base amount to offset the reduction in annuity that would occur when the annuitant reached age 62. SSBP annuity payments will be gradually phased out between October 1, 2005 and March 31, 2008, at which time SSBP is repealed. See paragraph 460304.

3. Add the following sentence at the end of paragraph 420227.

“See paragraph 460304 B. and C. regarding the repeal of SSBP, effective April 1, 2008.”

4. Revise existing paragraph 430203 to read as follows, and reletter the revised paragraph as subparagraph A.**430203. Supplemental SBP Coverage (SSBP)**

A. Prior to October 28, 2004, a member who elected SBP coverage for spouse or former spouse at the maximum level could elect a supplemental spouse annuity for that beneficiary. A member could elect a monthly SSBP annuity payable to the beneficiary in increments of 5, 10, 15, or 20 percent of the base amount. A member could not elect SSBP if the annuity of the spouse or former spouse would be computed under the social security offset method, 10 U.S.C. 1451(e) (reference (c)), unless the member waived the right to have the annuity computed under the social security offset method.

5. Add the following as subparagraphs B. and C. of paragraph 430203.

B. Effective November 1, 2004, the reduction in retired pay for SSBP premiums is terminated. Consequently, SSBP coverage without cost shall be presumed for any valid election of maximum SBP coverage for a spouse or former spouse with an effective date on or after October 28, 2004 through March 31, 2008.

C. SSBP coverage is eliminated effective April 1, 2008, and will be gradually reduced between October 1, 2005 and March 31, 2008. See paragraph 460304 C.

6. Delete paragraph 430303 F.**7. Revise paragraph 430501 E. to read:**

E. A member with dependent children, who was unmarried on September 21, 1973, (pre-September 21, 1972, retiree) or on date of retirement (post-September 21, 1972, retiree), may elect spouse coverage upon subsequent marriage regardless of whether coverage was elected for his or her dependent children. The election must be received by the Secretary concerned within 1 year of the marriage date. Prior to October 28, 2004, a member who elected SBP for his or her spouse at the maximum level could simultaneously elect supplemental SBP

(SSBP) coverage. Maximum SSBP coverage without cost to the participating member shall be presumed for any valid election of maximum SBP coverage for a spouse or former spouse that a member makes with an effective date of election of October 28, 2004 through March 31, 2008. All SSBP coverage is eliminated effective April 1, 2008. See paragraph 460304.

8. Delete “and any SSBP election” from paragraph 430501 G.

9. After the second sentence of paragraph 430503 A., add the following:

“Refer to paragraph 430501 E. regarding the phase out of SSBP coverage.”

10. Delete the second, third and fourth sentences of paragraph 430503 B. and replace with the following:

“If the member elects to provide former spouse coverage, effective October 28, 2004 through March 31, 2008, and existing spouse coverage was elected at the maximum level, maximum SSBP coverage will be presumed. See paragraph 430501 E. regarding the phase out of SSBP coverage.”

11. Add at the end of the first full paragraph of 430503 C., the following new sentence:

“A deemed SSBP election is subject to the provisions of Public Law 108-375, Section 644(b), which phase out SSBP annuities between October 1, 2005 and March 31, 2008. See paragraph 460304 C.”

12. Delete the second and third sentences of paragraph 430701 A. and replace with the following:

“A member who is participating with maximum spouse coverage, but who is not a participant in the SSBP, is presumed to have maximum SSBP if the resumed or increased spouse coverage at the maximum level is effective October 28, 2004 or after. See paragraph 430501 E.”

13. Delete the second sentence of paragraph 430701 A.2.

14. Revise the second sentence of paragraph 430702 to read:

“Effective October 28, 2004, a member who elects to provide former spouse coverage at the maximum level is presumed to have maximum SSBP coverage. See paragraph 430501 E.”

15. Revise paragraph 450102 to read:

450102. Supplemental Survivor Benefit Plan (SSBP). Effective November 1, 2004, the reduction in retired pay for SSBP premiums is terminated. Also, see Section 4603 of this volume.

16. Add to paragraph 450204 to read:

450204. SSBP coverage became available in April 1992. The premium for SSBP was in addition to the regular SBP premium. The SSBP premium was expressed as a percentage of the base amount. The member could elect SSBP coverage in increments of 5, 10, 15, or 20 percent of the base amount and the SSBP premium would be computed by multiplying the SSBP premium factor based on the member's age at election by 1, 2, 3, and 4, respectively. The SSBP premium rates were for each 5 percent of SSBP coverage as reflected in Table 45-5. Effective November 1, 2004, the reduction in retired pay for SSBP premiums is terminated. Also, see Section 4603 of this volume.

17. Add subparagraph 450501.C to read:

450501.C. SSBP – November 1, 2004. All SSBP premiums are terminated effective November 1, 2004. Also, see paragraphs 450204 and 460304 C.

18. Add the following at the end of paragraph 450503 B.4.:

“Also see paragraph 460304 C. regarding phase out of SSBP.”

19. Delete all references to “SSBP” in paragraph 450601 and add the following sentence at the end of the paragraph:

“Effective November 1, 2004, premiums for SSBP were terminated. See paragraph 460304.”

20. Revise paragraphs 460101.C to read:

C. Effective March 1, 1986, Public Law 99-145, section 711 (reference (fc)), created a two-tier annuity benefit system for spouse and former spouse (spouse category) beneficiaries. The social security offset system was eliminated, except as provided in paragraph 460101 C. 1. and 2. below. Effective March 1, 1986, if the spouse or former spouse (spouse category) annuitant was under age 62 upon becoming entitled to the annuity, the monthly annuity was 55 percent of the base amount, as adjusted under 10 U.S.C. 1401a (reference (c)). If the beneficiary was age 62 or older upon becoming entitled to the annuity, the monthly annuity was 35 percent of the base amount, as adjusted under 10 U.S.C. 1401a (reference (c)). When the annuitant reached age 62 after becoming entitled to the annuity, the amount of the annuity was reduced to 35 percent of the base amount, as adjusted by 10 U.S.C. 1401a (reference (c)), on the first day of the month after the annuitant reached age 62. The annuity entitlement for a natural person with an insurable interest or former spouse (insurable interest category) remained unchanged.

1. A spouse or former spouse who was an eligible annuitant on October 1, 1985, and had reached age 62, would receive 55 percent of the base amount, as adjusted under 10 U.S.C. 1401a (reference (c)), less social security offset or 35 percent of the base amount, as adjusted under 10 U.S.C. 1401a (reference (c)), whichever was greater. The

greater amount became payable March 1, 1986 or on the first day of the month after the annuitant reached age 62, whichever was later. There was no subsequent comparison.

2. The eligible spouse or former spouse beneficiary of a member, who on October 1, 1985:

- a. Was a Plan participant,
- b. Was entitled to retired pay,
- c. Was qualified for that pay except that member had not applied for or been granted that pay, or
- d. Would have been eligible for retired pay under 10 U.S.C., Chapter 1223, (reference (c)) but for the fact that member was under age 60; would receive the greater of the two annuity amounts described in subparagraph 460101.C.1., above. The greater annuity amount became payable the first month the annuitant would otherwise have been entitled to the annuity of 35 percent of the base amount. There was no subsequent comparison.

21. Reletter subparagraph D of paragraph 460101 as subparagraph E and add the new subparagraph D to read:

“D. Effective April 1, 2008, Public Law 108-375, Section 644, eliminates the two-tier annuity benefit system. For the phased elimination of the two-tier system effective October 1, 2005, refer to section 4603.”

22. Revise the relettered subparagraph 460101.E to read:

“E. Effective April 1, 1992, a member could elect to provide the spouse or former spouse annuitant with a Supplemental SBP (SSBP) annuity, in additional increments of 5, 10, 15, or 20 percent of the annuity base amount, to be payable when the annuitant reached age 62. SSBP annuities are to be phased-out beginning October 1, 2005 and eliminated entirely effective April 1, 2008, under Public Law 108-375, Section 644(b). See paragraph 460304.”

23. Delete the last sentence of paragraph 460103.B and replace with the following:

“A phased elimination of SSBP payments will begin October 1, 2005 through March 31, 2008. See paragraph 460304.”

24. Add the following at the end of paragraph 460201:

“See section 4603 regarding the phased elimination of the two-tier annuity system.”

25. Delete the second and third sentences of subparagraph 460202.A.1 and insert the following to read:

For DIC awards effective prior to October 1, 2005, SBP premium refunds were computed using the SBP annuity of 55 or 35 percent, whichever was applicable on the effective date of the DIC award. For DIC awards effective on or after October 1, 2005, the refund will be computed using the percentage applicable on the date that the DIC award is effective, as provided in paragraph 460301, below.

26. Delete the second sentence of subparagraph 460202.A.2 and revise the first sentence to read:

“2. SSBP. SSBP premiums are not refunded.”

27. Add the following NOTE immediately after the heading of paragraphs 460203 through 460207:

NOTE: Effective April 1, 2008, the Social Security offset method of computing an annuity will be permanently eliminated. See paragraph 460304 A. below.

28. Add at the end of paragraph 480102 A. the following:

See subparagraph 460304 C. regarding the phase-out of SSBP payments.

29. Revise paragraph 490204 to read:

Effective November 1, 2004, the reduction in retired pay for Supplemental Survivor Benefit Plan (SSBP) premiums is terminated. Also, see Section 4603 of this volume.

30. Add the following after the first sentence of paragraph 490301.

See subparagraph 460304 C. regarding the phase-out of SSBP payments.

31. Add the following at the end of paragraph 550112:

RC-SSBP coverage terminates effective April 1, 2008. See subparagraphs 460304 B. and C. of this Volume.

32. Add the following at the end of paragraphs 550201.H, 550401.A, 550402.B NOTE, 550501.C, 550501.D, 550502.A, 550503. A, 550503.C.2, 550504, 550505.E, and 550505.F. :

See paragraph 550112.

33. Table 45-4, add rule 12 to read:

R U L E	A	B	C	D
	If a member		then the premium is	with an effective date
12	elected SSBP/RCSSBP	X	November 1, 2004 (see section 4603 and paragraphs 450102 and 570102)	

34. Add the following as a parenthetical under the title of Table 45-5:

“(For premiums payable prior to November 1, 2004.)”

35. Add to the Bibliography:**Paragraph****Citation**

420105

Public Law 108-375, Section 644,
October 28, 2004
OUSD (P&R) memorandum dated November 16, 2004
OUSD (P&R) memorandum dated June 1, 2005

450102

Public Law 108-375, Section 644,
October 28, 2004
OUSD (P&R) memorandum dated November 16, 2004
OUSD (P&R) memorandum dated June 1, 2005

4603

Public Law 108-375, Section 644,
October 28, 2004
OSD (P&R) memorandum of June 1, 2005

550112

Public Law 108-375, Section 644,
October 28, 2004

Table 45-4
Rule 12

Public Law 108-375, Section 644,
October 28, 2004
OUSD (P&R) memorandum dated November 16, 2004
OUSD (P&R) memorandum dated June 1, 2005