

CHAPTER 4

COST OF COVERAGE

80401. General Provision

The cost of RSFPP coverage for the option or options elected is computed based on age of the member and beneficiaries and rate of retired pay in effect on date of retirement or effective date of election, whichever is later. Exclude cost of living increases effective on date of retirement. The cost remains the same regardless of future pay increases or decreases.

80402. Continuance or Discontinuance of Cost Based on Options Elected

a. For members who withdraw, the reduction ends effective the first day of the seventh month after the date the application for withdrawal is received. (See part 8, chapter 2, section B.)

b. When option 4 was not elected with options 1, 2, or 3 (retirements before 1 Nov 1968), cost for coverage continues even though all beneficiaries die before the retiree or are ineligible to receive annuity benefits.

c. When option 4 (automatic after 31 Oct 1968), is combined with options 1, 2, or 3, cost for coverage ends on the first day of the month after the month in which there are no eligible beneficiaries.

d. When option 3 is elected (retirements on or after 1 Nov 1968), cost for coverage ends on last day of month that spouse becomes an ineligible beneficiary. Eligible children remain covered at no cost.

80403. Reduction of Retired Pay for Cost of Coverage

a. The RSFPP reduction in retired pay was computed on cost tables in effect on retirement date or date of election, whichever is later. The cost tables were published as Tables of Percentage Reduction of Retired Pay under the RSFPP and are available at the DFAS-Cleveland Center.

b. If the member had no eligible dependents under the option or options elected on date of retirement, no reduction was made in retired pay.

c. An adjustment could have been made in the reduction of retired pay upon finding an administrative error or a mistake of fact.

d. If a member elected option 3 with or without option 4 but on the date of retirement:

(1) Had no children eligible for the

annuity, costs were computed as though member elected option 1 with or without option 4.

(2) Had no spouse eligible for the annuity, costs were computed as though member elected option 2 with or without option 4.

e. If member elected multiple options (option 1 and option 2) but on date of retirement:

(1) Had no spouse eligible for the annuity, costs were computed as though member elected option 2 or option 2 with 4 only.

(2) Had no children eligible for the annuity, costs were computed as though member elected option 1 or option 1 with 4 only.

f. Members who retired before 1 Nov 1968, had until 1 Sep 1969, to add option 4 to a previous election. (See paragraph 80203e(1).) The additional cost was effective the first day of the month in which the original RSFPP election was effective. The member had to pay the additional cost which would have been deducted from retired pay if the member had first elected option 4, plus interest. The interest was not deductible from taxable income. If undue hardship or financial burden resulted, payment could have been made:

(1) In 2 to 12 monthly installments when the monthly amounts involved were \$25 or less, or

(2) In 2 to 36 monthly installments when the monthly amounts exceeded \$25.

g. No amounts by which retired pay was reduced before the election of option 4 were refunded to, or credited on behalf of, the retired member by virtue of an application to include option 4.

80404. Effective Date of Reduction

a. The effective date of reduction is the date of retirement or date of election, whichever is later.

b. For members who retire and die during the same month, the deduction for the cost of coverage is made only from date of retirement through date of death.

80405. Payment of Cost During Non-Receipt of Retired Pay

a. The RSFPP cost that would otherwise be withheld from retired pay must be deposited by direct remittance to the military department. Deposits are due on the effective date of coverage. For example, if member retired 1 June, the first

payment is due on 1 June for period 1-30 June.

b. The retired pay activity informs the retiree of the amount and date when deposits are to be made.

c. If a total VA waiver is in effect, the retiree may authorize Department of Veterans Affairs to withhold the cost from the VA benefits. See DoD/VA Memorandum of Agreement, 13 June 1985, appendix 7.

d. Payments for RSFPP cost for retirees recalled to active duty for more than 30 days may be paid by a class U allotment. This allotment is stopped upon release from active duty. See Volume 7A, part six.

e. If deposits are not made within 30 days of the due date, the DFAS - Cleveland Center informs the member of the delinquency and that designated beneficiaries cannot be paid the annuity provided under the plan until all delinquent cost, plus interest at the rate applicable for the delinquent period, is paid. Notification of delinquency advises the member that 15 additional days have been granted in which to remit the deposit, and if the arrears are not deposited within that period, member is charged interest to include the first day of delinquency. In no case will the expiration date of the 15 days exceed a date later than 45 days from the date the deposit was due. Compute interest monthly on the interest rate applicable for the delinquent period. Withhold any arrears, with compound interest, if such member later receives retired pay.

retiree is removed from the TDRL for reasons other than transfer to the PDRL.

b. For members who remain on the for 5 full years, cost and coverage cease at the end of the 5 years. If member thereafter dies no benefits are payable.

80407. Calculation for Delinquent Costs

a. RSFPP interest rates are:

<u>Effective Date</u>	<u>Annual Rate</u>	<u>Monthly Rate</u>
1 Nov 1953	3.00%	.00247
1 Jan 1961	3.25%	.00267
1 Jan 1966	3.75%	.00307
1 Jan 1970	4.25%	.00348
1 Mar 1975	6.00%	.00487

b. For delinquent accounts, calculate the total cost plus interest by multiplying the monthly cost by the compound interest factor shown opposite the total number of payments due on the appropriate RSFPP compound interest tables 1 through 5. (See appendices 2-6.)

c. These examples show how to compute interest when intermittent payments have been received. The computations are as of the 30th of each month on the basis that past due amounts were received after 45 days elapsed.

80406. Temporary Disability Retired List (TDRL)

a. The RSFPP coverage terminates when the

EXAMPLES:

<u>Date</u>	<u>Delinquent Amount</u>	<u>Mo Cost</u>	<u>Amt Rec'd</u>	<u>Amt Applied to Pay Cost Current Mo</u>	<u>Amt Applied to Delinquent Amount</u>	<u>Interest</u>	<u>Bal Due</u>
30 Nov	\$476.16	\$20.00	\$ -0-	\$ -0-	\$ -0-	\$ 476.16 x .00487 = 2.32	\$498.48
31 Dec	498.48	20.00	60.00	20.00	40.00	458.48 x .00487 = 2.23	460.71
31 Jan	460.71	20.00	20.00	20.00	-0-	460.71 x .00487 = 2.24	462.95
28 Feb	462.95	20.00	-0-	-0-	-0-	462.95 x .00487 = 2.25	485.20
31 Mar	485.20	20.00	40.00	20.00	20.00	465.20 x .00487 = 2.27	467.47

80408. Age Factor

a. Use age of member and beneficiaries to their nearest birthday on day of member's retirement, or the effective date of election, whichever was later. Round 6 months or more to the next full year.

- (1) Option 1-Member and spouse.
- (2) Option 2-Member and youngest child.

(3) Option 3-Member, spouse, and youngest child.

b. Age Adjustments:

(1) For a female member, adjust her age and age of her husband. Subtract 5 years from her actual age; add 5 years to his actual age. If actual age or adjusted age of member is over 90, consider actual or adjusted age to be 90.

(2) If member's age and wife's age are the same, use table for wife older by 0 Years. Applies to Tables of Percentage Reduction of Retired Pay Under RSFPP before 1 Nov 1968.

(3) If member's wife is more than 15

years older than member, consider difference to be exactly 15 years.

(4) If member's wife is more than 25 years younger than member, find reduction factor by extrapolation. If member's husband is more than 25 years younger than member, see Table of Percentage Reduction of Retired Pay Under RSFPP before 1 Nov 1968.

(5) If a child is over 17-1/2 years of age but less than 18, consider age to be 17 for cost computation before 1 Nov 1968. Consider age to be 18 for cost computation on or after 1 Nov 1968.

(6) If child is less than 6 months old, consider the age to be 0.

(7) If child is exactly 6 months old, consider the age to be 1 year.

(8) If youngest child is 18 or older and physically or mentally incapacitated (because of disability which existed before age 18), base the cost on factor for child aged 17.

80409. Calculating Cost for Single Option

a. Retirement before 1 Nov 1968:

Annuities of one-half of reduced retired pay:

Basic Data for Examples

Date of Retirement	1 Aug 1966
Member born 15 Jan 1916	Age 51 (nearest age)
Wife born 27 Feb 1918	Age 48
Difference between ages	3 years
Youngest child born 15 Aug 1954	Age 12
Member's gross retired pay entitlement	\$884.03

MEMBER	WIFE	YOUNGEST CHILD
66-08-01	66-08-01	66-08-01
<u>16-01-15</u>	<u>18-02-27</u>	<u>54-08-15</u>
50-06-16	48-05-04	11-11-16
or	or	or
51 years	48 years	12 years

EXAMPLE 1: Member retired with 20 years' service and elected option 1 with option 4 to provide his widow with an annuity of one-half of his reduced retired pay.

(a) Using the appropriate table (Table of Percentage Reduction of Retired Pay Under RSFPP, April 1966, with 20 years' service), find the member's age (51) in the extreme left column headed Age and the difference between the member's age and his wife's age (member older than wife by 3 years) at the top of the table. The percentage reduction factor is located in the column headed by the difference in age on the line with the member's age. (0.1232)

Option 1-4 and Option 3-4-One-Half

Age	Retired Member Older than Dependent Wife by			
-	25	4	3	2 _____
-				
-				
-				
49				
50				
51 _____				.1232

(b) Multiply member's gross retired pay by the reduction factor. This gives the monthly deduction to be made from the member's retired pay.

Gross retired pay	\$884.03
Reduction factor	x 0.1232
Monthly deduction from retired pay	\$108.91

EXAMPLE 2: Member retired with 20 years' service and elected option 2 with option 4 for one-half of member's reduced retired pay.

(a) Under the table (April 1966) with more than 20 years' service, for option 2 with option 4 for one-half, find the member's age (51) in the extreme left column headed Age and the child's age (12) along the top of the table. The reduction factor is in the column headed by the child's age on the line with the member's age. (0.0133)

Option 2-4-One-Half

Age	Age of Child at Retirement				
-	0	1	11	12	13 _____
-					
50					
51 _____					.0133

(b) Multiply member's gross retired pay by the reduction factor. This gives the monthly deduction to be made from member's retired pay.

Gross retired pay	\$884.03
Reduction factor	x 0.0133
Monthly deduction from retired pay	\$11.76

EXAMPLE 3: Member retired with 20 years' service and elected option 3 for one-half of member's reduced retired pay.

(a) Using the table for option 1 find the member's age (51) in the extreme left column headed Age and the difference between the member's age and his wife's age (member older than wife by 3 years) along the top of the table. The reduction factor is in the column headed by the difference in age on the line with the member's age. Table 1 Jan 1966, for retirement on or after 1 Jan 1966, with more than 20 completed years of service.

Option 1-One-Half

Age	Retired Member Older than Dependent Wife by:				
-	Years 25	4	3	2	1
-					
-					
50					
51					.1137

(b) From the lower part of the same table, select the multiplier appearing below the age of the youngest child.

Age of Child	0	11	12
Multiplier			1.001

(c) Multiply the reduction factor for an annuity of one-half for option 1 by the multiplier based on age of youngest child.

$$0.1137 \times 1.001 = 0.1138$$

(d) Multiply member's gross retired pay by the reduction factor. This gives the monthly deduction to be made from member's retired pay.

Gross retired pay	\$884.03
Reduction factor	x 0.1138
Monthly deduction from retired pay	\$100.60

NOTE: When the youngest child is at least 13 years old, use only the factor for option 1. (The multiplier based on the age of the youngest child is 1.000.)

(e) Annuities of one-quarter or one-half of reduced retired pay. Use conversion tables to convert the percentage reduction factor for an annuity of one-half of the reduced retired pay. Locate the first three digits of the one-half reduction factor in the extreme left column of the appropriate conversion table. The column is titled RF one-half (Reduction factor for one-half of reduced retired pay). The fourth digit of the reduction factor for an annuity of one-half appears at the top of one of the succeeding columns. Find converted reduction factor in the column headed by the fourth digit in the reduction factor for one-half on the line opposite the first three digits. For example: Reduction factor for one-half is .1232 and member wants to provide an annuity of one-quarter. The reduction factor is .0656.

ConversionTable-One-Quarter

Range .100 to 149										
100	0	1	2	3	4	5	6	7	8	9
-										
-										
-										
123										.0656

b. **Retirements 1 Nov 1968 Thru 20 Sep 1972.** Cost is now based on 12-1/2, 25, or 50 percent of full, rather than reduced, retired pay. Figure the amount of the annuity before computing the cost of coverage per month.

EXAMPLE: Member aged 41 retired with more than 19 years' service after 1 Nov 1968. The member elected option 2 with 4 to provide the child, age 2, with 50 percent of total retired pay:

Gross Retired Pay	\$547.36
Percentage	x .50
Annuity Payable per month	\$273.93
*Redution Factor	<u>x.0434</u>
Cost	11.888562 or \$11.89

*Obtained from actuarial cost table according to member's age, child's age, option elected, percentage fact and type of retirement.

80410. Calculating Cost for Multiple Options

a. **1 Nov 1953-3 Oct 1961.** Public Law 239, 83d Congress, 1 Nov 1953, required the cost for multiple options to be computed by an actuarial equivalent method using as a basis appropriate actuarial tables selected by the Board of Actuaries. Use these steps to compute cost:

(1) For each one-quarter option chosen, find the reduction factor for the corresponding one-half option, For each one-eighth option chosen, find the reduction factor for the corresponding one-quarter option. There will be two factors, one for option 1 portion and one for option 2 portion.

(2) For each factor in (1), find the complement by subtracting the factor from 1.0000.

(3) Get the product of the complements by multiplying together. Get their sum by adding.

(4) Divide the product by the sum and keep six decimal places in the answer.

(5) Multiply the factor from (4) by the gross monthly retired pay and round off to dollars and cents. This is the member's monthly reduced retired pay for each option chosen.

(6) Find the cost of each option by multiplying the answer found in step (5) by the quotient of the reduction factor for the option divided by its complements.

EXAMPLE: Member, age 50, retired for physical disability on 1 Aug 1961:

- a. Wife's age 48
 - b. Youngest child's age 8
 - c. Gross monthly retired pay \$452.62
- Member combines option 1 for one-quarter

reduced retired pay with option 2-4 for one-eighth reduced retired pay.

STEP 1. Determine reduction factors:

Option 1- 1/4 same factor as for option 1, 1/2 = .1688.

Option 2-4- 1/8 same factor as for option 2-4, 1/4 = .0196.

STEP 2. Determine complements of reduction factors:

Option 1 - 1.0000 · 1688 = .8312

Option 2-4-1.0000 · 0196 = .9804

STEP 3. Multiply and then add complements:

.8312 x .9804 = .81490848 (product)

.8312 + .9804 = 1.8116 (sum)

STEP 4. Divide product by sum:

.81490848 ÷ 1.8116 = .449828

STEP 5. Multiply gross monthly retired pay by answer in step 4:

\$452.62 x .449828 = \$203.60

STEP 6:

a. Divide reduction factors (step 1) by complements (step 2):

Option 1 - .1688 ÷ .8312 = .203079

Option 2-4-.0196 ÷ .9804 = .019991

b. Figure cost of each option by multiplying product in step 5 by each quotient in step 6:

Option 1 - \$203.60 x .203079= \$41.35

Option 2-4- \$203.60 x .019991 = \$4.07

STEP 7. Determine total reduced retired pay by multiplying answer in step 5 times 2:

2 x \$203.60 = \$407.20

NOTE: Annuity for each option is: (see paragraph 80505b(l))

Option 1 - 1/4 x \$407.20 = \$101.80

Option 2-4-1/8 x \$407.20 = \$50.90

b. **4 Oct 1961-31 Oct 1968.** Cost is now computed by multiplying reduction factor elected by gross retired pay. Use conversion tables to determine reduction factor when member elects annuity of one-quarter or one-eighth of reduced retired pay instead of one-half as shown in paragraph 80409a(2).

EXAMPLE: Member, age 46, retired for physical disability on 16 Dec 1965, with less

than 18 years' service for pay purposes. Table of Percentage Reduction of Retired Pay-April 1962.

- a. Wife's age 43
- b. Youngest child's age 13
- c. Gross monthly retired pay \$814.95

Elected option 1 with 4 for one-quarter combined with option 2 with 4 for one-quarter. Reduction Factor:

Option 1-4 for 1/2 = .1504; factor for 1/4 is .0813
 Option 2-4 for 1/2 = .0109; factor for 1/4 is .0055

Retired Pay	Cost	Reduced Retired Pay	Annuity Payable
Option 1: \$814.95 x .0813=	\$66.25	\$748.70 • 1/4=	\$187.18 (See paragraph 80505b(2))
Option 2: \$814.95 x .0055 =	\$4.48	\$810.47 • 1/4 =	\$202.62

c. **1 Nov 1968-20 Sep 1972.** Public Law 90-485, 1 Nov 1968, again, changed method to compute cost of coverage. Cost is computed on amount of annuity payable. The annuity payable is specified as either a dollar amount or a percentage of retired pay, but not both. Multiply reduction factor for annuity elected by monthly annuity payable for each option.

EXAMPLE: Member, age 52, retired for years of service on 31 July 1970 with more than 19 years' service for basic pay purposes.

- a. Wife's age 51
- b. Youngest child 17
- c. Monthly gross retired pay award is \$1,082.34

Elected option 1 with option 4 for one-quarter combined with option 2 with option 4 for 1/4. Option 1-4. \$1,082.34 x 25% or 1/4 = \$270.59 annuity payable monthly (see paragraph 80505b(2))

option 2-4. \$1,082.34 x 25% or 1/4 = \$270.59 annuity payable monthly

Option 1-4. \$270.59 x .2561 factor (cost table D, opt #1) = \$69.30 cost of coverage
 Option 2-4. \$270.59 x .0253 factor (cost table D, opt #2) = \$6.85 cost of coverage

80411. Taxability of Cost

For Federal income tax purposes the cost of RSFPP coverage is excluded from taxable income on TD Form W-2P. A refund of cost resulting from administrative error, correction of records, late receipt of withdrawal request, or youngest child attaining maximum age is taxable income to the member.

80412. Income Exclusion

The member will receive an income exclusion for the amount of the direct remittance for cost of coverage upon returning to a pay status. The appropriate DFAS Center will exclude the amount of the direct remittance from the taxable income on TD Form W-2P. See paragraph 80405 for payment of cost during nonreceipt of retired pay.

(This page intentionally left blank.)