

CHAPTER 4

COST

***100401. General**

a. **RCSBP.** The cost of providing RCSBP coverage under the immediate or deferred annuity option is not subsidized by the government but is shared by members and beneficiaries who will potentially benefit from the coverage. The cost to the retiree is in the form of an additional reduction above the standard SBP cost. RCSBP, unlike SBP, requires a reduction in the survivor annuity. Cost begins when the member meets the age and service requirements even though the member may delay application for retirement, or, in the event of the member's death before age 60, when the survivor begins to receive an annuity which is reduced due to RCSBP coverage. Cost increases at the same time and by the same percentage that retired pay increases by cost-of-living adjustments.

b. **RC-SSBP.** The cost for RC-SSBP coverage for spouse or former spouse is added to the RCSBP premium. Supplemental SBP cost is expressed as a percentage of the base amount, full retired pay. Once the RC-SSBP cost is established from retired pay, the cost shall be increased by cost-of-living adjustments at the same time and in the same manner as the RCSBP premium.

100402. Cost Factor Tables

a. The original RCSBP cost factor tables, developed under contract, were applicable to members who elected RCSBP and retired or died before 1 Jan 1980. Members age 59 years, 6 months or more, were considered age 60. Effective 1 Dec 1984, these pre-1980 factors were changed to the 1 Jan 1980 cost factors with a save-pay clause which limited the factor to the pre-1980 factor. The tables were separated by:

(1) Annuity Option-Immediate or Deferred;

(2) Type of Beneficiary;

(3) Male or Female Member;

(4) (In some instances) Differences Between the Ages of the Member and the Beneficiary;

(5) Male or Female Beneficiary for Insurable Interest Person.

b. The DoD Office of the Actuary created new RCSBP cost factor tables in 1979 to reflect military specific death rates, to include remarriage and divorce rates and to incorporate dynamic actuarial assumptions. The new cost factors

effective 1 Jan 1980 affected members who elected RCSBP and retired or died on or after 1 Jan 1980. The tables were built on a "years younger or older than member" concept. The ages at the nearest birthday to date of election receipt were used. When ages expressed in years are the same, the table is determined by comparing months and days.

(1) The child only tables were later added but effective 1 Jan 1980.

(2) Under the 1 Jan 1980 cost factor tables, members age 59 years, 6 months or more were rounded to age 59 instead of age 60. Cost using age 60 is the same as the standard SBP cost. Separate tables for members age 59 years, 6 months or more (but less than 60) were later developed and effective 1 Jan 1980.

(3) The RCSBP premium consists of an SBP portion and an RCSBP portion. The SBP portion is calculated in the same manner as regular SBP. (Exception: RCSBP cost for a natural person with insurable interest coverage may exceed 40 percent of gross retired pay). The RCSBP portion, which is unisex, is a reserve tack-on rate.

c. In December 1984, RCSBP cost factors were revised to show the SBP cost portion of the RCSBP premium as unisex. The changes affected members with child or spouse and child coverage effective 1 Dec 1984.

d. Effective 1 Mar 1986, the FY 1986 DoD Authorization Act eliminated the social security offset system, established a two-tier benefit system for annuitants, and significantly changed the initial calculation of SBP cost. As a result, there are two sets of RCSBP cost factors: one set for the social security offset system (revised due to changes in economic assumptions) and one set for the two-tier benefit system. The cost factors of either set do not include built-in SBP cost. The calculated SBP cost plus the reserve tack-on cost equals the RCSBP premium. The two sets of RCSBP cost factors apply to existing and future RCSBP participants on and after 1 July 1986.

e. On 1 Mar 1990, the threshold formula for computing SBP cost was replaced with a flat-rate reduction formula of 6-1/2 percent of the base amount. Members who retire under Title 10, U.S.C., Chapter 67, non-regular service retirement, remain eligible for whichever cost formula is more advantageous to the member.

*f. Supplemental SBP coverage became effective 1 Apr 1992. The cost for RC-SSBP is in addition to the member's RCSBP premium. The SSBP cost is expressed as a percentage of the base amount. The member elects SSBP coverage in increments of 5, 10, 15, or 20 percent of the base amount. SSBP premium factors applicable to each 5 percent increment are shown in table 10-4-2 for members who elected an immediate annuity under RCSBP and table 10-4-3 for members who elected a deferred annuity under RCSBP.

*g. Premium additions for open season election, table 9-4-6, do not apply to RCSBP. The premiums for RCSBP open season elections, however, will be computed in two parts. The first part of the cost is the premium for the effective RCSBP election. The second part of the cost is an additional charge for the previously existing RCSBP coverage. This second part is defined as the RCSBP premium applicable to member's original election minus the RCSBP premium applicable to that earlier election using the ages of the member and beneficiaries on their birthday anniversaries nearest the date the new election becomes effective. All premium rates for this computation are based on the current cost factor table.

100403. Calculation of Cost

a. The RCSBP premium consists of an SBP portion and an RCSBP or reserve tack-on portion.

(1) The SBP portion of the RCSBP premium is computed as SBP cost. The initial, standard SBP cost formula, before Public Law 99-145, was 2-1/2 percent of the first \$300 of the base amount, plus 10 percent of the base amount in excess of \$300. The \$300 in the cost formula effective 1 Mar 1986, is referred to as the threshold, or low-cost amount. The threshold amount is subject to two possible indexing provisions including active duty increases and cost-of-living

adjustments associated with the pay tables used to calculate that member's retired pay. Effective 1 Mar 1990, the cost formula for spouse or former spouse coverage changed to a flat-rate reduction formula of 6-1/2 percent of the base amount. An individual who entered a uniformed service before 1 Mar 1990, or a member who is entitled to retired pay under Title 10, U.S.C., Chapter 61 (disability), or Chapter 67 (non-Regular service retirement), is entitled to whichever cost formula is more favorable to the member.

(2) The RCSBP portion of the RCSBP premium depends on the type of beneficiary elected, the annuity option elected, and the applicable method of annuity computation. As the anticipated benefits under the social security offset system are higher, the cost factors and, therefore, the costs are higher. The social security offset system is still applicable to the survivors of reservists who, on 1 Oct 1985, had attained sufficient service so as to be eligible for retired pay under Title 10, U.S.C., Chapter 67, but for the fact of being under 60 years of age.

b. The member elects a given dollar amount or a percentage of retired pay as the base amount. Any dollar election is converted to a percentage of gross retired pay as of the effective (date of election to guarantee full indexing in proportion to member's retired pay). If the given dollar amount exceeds 100 percent of the member's retired pay on the effective date of election, the base amount is 100 percent of the monthly retired pay. If the given dollar amount is less than 100 percent of gross retired pay but greater than \$300 when computed against the retired pay, use the ratio against the gross retired pay entitlement at age 60, assuming member has met age and service requirements. Table 10-4-1 is a worksheet for use in conjunction with the RCSBP cost factor tables effective 1 July 1986.

Example:

Member's age at election =	52
Member's elected monthly base amount =	\$300.00
Member's estimated current monthly retired pay =	\$1000.00
Ratio =	$300/1000 = .3$
Eight years later:	
Member's monthly retired pay at age 60 =	\$2000
Member's base amount at age 60 =	$.3 \times \$2000 = \600.00

c. Cost Examples. Examples follow for spouse or former spouse, spouse and child or former spouse and child, child, or insurable interest person. The cost for former spouse or former spouse and child is the same computation as spouse or spouse and child cost if coverage for the former spouse is provided under the spouse category vice the insurable interest category.

table used to compute member's pay is \$321. The SBP portion of the RCSBP premium would also be computed 1 Mar 1990 on the flat-rate reduction formula of 6-1/2 percent of the base amount for comparison. The SBP portion would be based on whichever cost formula produced the lesser cost. Member's election provides an immediate annuity option for spouse only.

(1) Spouse Cost. Member lives to age 60. The threshold amount associated with the pay

Method:		Offset
Type:		Immediate annuity
Option:		Spouse only
Member's age nearest birthday at election:		52
Beneficiary's age nearest birthday at election:		49
Age difference:		3 years younger than member
Reserve factor:		.0400
Monthly base amount:		\$600.00
Monthly SBP portion of RCSBP premium:		
(.025 x \$321) + (.10 x \$279) =	\$35.93	
OR		
(.065 x \$600) =	\$39.00	
Lesser =		\$35.93
Monthly reserve portion of RCSBP premium:		
(.0400 x \$600) =		\$24.00
Monthly RCSBP premium:		
(\$35.93 + \$24) =		\$59.93
Revised base amount to be used in survivor annuity:		
(\$600 - \$24) =		\$576.00

(2) Spouse and Child Cost. Same facts as (1) except member's election provides a deferred annuity option for spouse and child - both beneficiaries are still eligible. Subparagraph (2)(a) covers cost for spouse and child coverage when the

spouse is no longer eligible; subparagraph (2)(b) covers cost for spouse and child coverage when the child is no longer eligible on the date member meets age and service requirements.

Method:		Offset
Type:		Immediate annuity
Option:		Spouse and child
Member's age nearest birthday at election:		52
Beneficiaries' ages nearest birthday at election:		
Spouse		49
Child		8
Age difference:		3 years younger than member
Reserve factor:		.0344
Monthly base amount:		\$600.00
Monthly SBP portion of RCSBP premium:		
(.025 x \$321) + (.10 x \$279) =	\$35.93	
OR		
(.065 x \$600) =	39.00	

Lesser =	\$35.	9	3
(\$600 x .0003) =			
<u>18</u>	\$ 36.11		
Monthly reserve portion of RCSBP premium:	\$ 20.64		
(.0344 x \$600)			
Monthly RCSBP premium:	\$ 56.75		
(\$36.11 + \$20.64)			
Revised base amount to be used in survivor annuity:	\$579.36		
(\$600 - \$20.64)			
(a) Spouse and child cost. Same facts as (2) except member's spouse is no longer eligible.			
Method:	Offset		
Type:	Deferred annuity		
Option:	Spouse and child		
Member's age nearest birthday at election:	52		
Beneficiaries' ages nearest birthday at election:			
Spouse	N/A		
Child	8		
Age difference:	N/A		
Reserve factor:	.0090		
Monthly base amount:	\$600.00		
Monthly SBP portion of RCSBP premium:	\$ 3.72		
(\$600 x .0062) =			
Monthly reserve portion of RCSBP premium:	\$ 5.40		
(\$600 x .0090) =			
Monthly RCSBP premium:	\$ 9.12		
(\$3.72 + \$5.40) =			
Revised base amount to be used in survivor annuity:	\$594.60		
(\$600 - \$5.40) =			
(b) Spouse and child cost. Same facts as (2) except member's child is no longer eligible.			
Method:	Offset		
Type:	Immediate annuity		
Option:	Spouse and child		
Member's age nearest birthday at election:	52		
Beneficiaries' ages nearest birthday at election:			
Spouse	49		
Child	8		
Age difference:	3 years younger than member		
Reserve factor:	.0344		
Monthly base amount:	\$600.00		
Monthly SBP portion of RCSBP premium:	\$35.93		
(.025 x \$321) + (.10 x \$279) =			
OR			
(.065 x \$600) =	\$39.00		
Lesser =	\$35.93		
Monthly reserve portion of RCSBP premium:	\$ 20.64		
(.0344 x \$600) =			
Monthly RCSBP premium:	\$56.37		
(\$35.93 + \$20.64) =			
Revised base amount to be used in survivor annuity:	\$579.36		
(\$600 - \$20.64) =			

*d. SSBP premiums for spouse or former spouse coverage are added to RCSBP premiums. The SSBP premium factors depend on the type of RCSBP annuity option elected by the member, immediate or deferred. See Table 10-4-2, Reserve Component Immediate Supplemental Spouse Annuity Premium Rates, and Table 10-4-3, Reserve Component Deferred Supplemental Spouse Annuity Premium Rates. The member elects SSBP coverage in increments of 5, 10, 15, or 20 percent of the base amount. The SSBP premium factors shown on the tables apply to each 5 percent of the base amount member elects. SSBP cost is computed by multiplying the SSBP premium factor from either the immediate or the deferred SSBP table, based on the members age on the birthday nearest the date the election first becomes effective, by 1, 2, 3, or 4, respectively.

100404. Initial Cost and Effective Date

*a. If a member has eligible beneficiaries, RCSBP and any SSBP cost begins on the first day of the month after the member meets the age and service requirements for Title 10, U.S.C. Chapter 67 retirement. If the member meets the age and service requirements on the first day of the month, cost is effective that month. If the member specifies a retirement date which is after the date the member meets the age and service requirements, or if the member delays application for retirement, cost is retroactive to the date mentioned in the previous sentence(s).

Exception: Child beneficiary---If a member elects child coverage and the child is no longer eligible, the Reserve portion of the RCSBP premium for pre-age 60 coverage begins on the same date cost begins for an eligible beneficiary.

b. If a member who elected RCSBP dies before the age and service requirements are met, the cost for the pre-age 60 coverage begins with the immediate or deferred annuity as an actuarial reduction of that annuity.

*c. In some instances, a member may change the type of coverage before cost begins. Among the election changes, such as those included below, initial cost is effective on the first day of the month after a member meets age and service requirements (or, if a member meets age and service requirements on the first day of the month, cost is effective that month).

(1) Member has no spouse beneficiary and acquires a spouse beneficiary effective before the member meets age and service requirements. The spouse may be covered under the SSBP program.

(2) Member has child coverage and later acquires a spouse beneficiary before the date the member meets age and service requirements. The spouse may be covered under the SSBP program.

(3) Member has no child beneficiary and later elects child coverage within 1 year of acquiring a child which is before the member meets age and service requirements.

(4) Coverage changes from former spouse or former spouse and child to spouse or spouse and child coverage effective before the member meets age and service requirements. Previous SSBP coverage now covers the spouse.

(5) Member has no coverage or coverage is changed to former spouse under a deemed election by the Secretary concerned. The former spouse may be covered under SSBP.

(6) Member has insurable interest coverage and acquires a spouse and/or child before the date the member meets age and service requirements. The spouse may be covered under the SSBP.

100405. Suspension, Termination, Reinstatement, and Change of Cost

a. Suspension.

(1) Spouse.

(a) Spouse dies. Cost is suspended the first day of the month following the spouse's death.

(b) Spouse and member divorce. Cost is suspended the first day of the month following the divorce.

(2) Child. No cost suspension situations.

(3) Former Spouse (spouse category). Former spouse remarries before age 55. RCSBP cost is suspended on the first day of the month following the remarriage.

(4) Natural person with an insurable interest or former spouse (insurable interest category). No cost suspension situations.

b. Termination.

* (1) Spouse. If the member loses a spouse beneficiary, remarries, and elects not to resume spouse coverage, any cost terminates as of the first day of the month following the receipt of member's election.

(2) Last Dependent Child:

(a) Child dies before age 22 while still eligible. The RCSBP premium terminates on the first day of the month following the death of the last dependent child.

(b) Child marries. The SBP portion of the RCSBP premium terminates on the first day

of the month after the marriage of the last dependent child.

(c) Child discontinues full-time school attendance. The SBP portion of the RCSBP premium terminates the first day of the month after the last dependent child discontinues school attendance. If the exact date is unknown, the SBP portion of the RCSBP premium is discontinued on the first day of the month after receipt of the notification from the member.

(3) Former spouse (either category) or natural person with an insurable interest. Cost terminates the first day of the month following the death of the former spouse or natural person with an insurable interest.

c. Reinstatement

*** (1) Spouse.** If the member loses a spouse beneficiary, remarries after age 59 and elects to resume spouse coverage and the spouse is not the same spouse as when the member became eligible to participate, (that is, the spouse is not immediately eligible upon remarriage), cost is effective on the first day of the month following the anniversary date, or on the first day of the month following the birth of a child of that marriage, whichever is later. If the anniversary or birth is the first day of the month, cost is effective with that month. If member previously elected SSBP coverage, SSBP is reinstated upon remarriage. The level of any previously elected SSBP coverage may not be reduced. The level of SSBP coverage may be increased or SSBP may be added.

(2) Child:

(a) Child resumes school attendance. The SBP portion of the RCSBP premium is reinstated on the first day of the month after the child resumes school attendance.

(b) Child's marriage is terminated by an annulment which renders the marriage void or invalid, or terminated by a judicial decree by a court of competent jurisdiction declaring the marriage void. The SBP portion of the RCSBP premium would be reinstated effective the date the SBP cost portion of the RCSBP premium was terminated by the marriage. The termination of the child's marriage by death of the child's spouse or by divorce does not serve as a basis for reinstatement of child coverage.

(c) Member acquires another child following a period where all existing children are no longer eligible, the full RCSBP premium is reinstated on the first day of the month following the date member acquires the child. The SBP portion of the RCSBP premium is recomputed

using the age of the youngest child (child only coverage).

* (3) Former spouse (spouse category). If the former spouse's remarriage is terminated by death of the spouse, annulment, or divorce, RCSBP and SSBP costs resume on the first day of the month after the marriage is so terminated.

(4) Former spouse (insurable interest category) or natural person with an insurable interest. No cost reinstatement situations.

***d. Cost Changes**

(1) Spouse:

(a) If a member loses a spouse beneficiary, remarries, and elects to increase the level of coverage, the member pays the difference between any SBP costs incurred and any SBP costs that would have incurred if the new level of participation had been elected originally, including interest. The difference in costs is remitted before the spouse becomes an eligible beneficiary. The SSBP election is made within one year of the remarriage. SSBP costs start as of the date the spouse becomes an eligible beneficiary or on the date age and service requirements are met, whichever is later. SSBP cost is computed using the member's age at the time of SSBP election.

(b) If a member has spouse and child coverage, and loses the spouse beneficiary, the cost changes from spouse RCSBP cost to child RCSBP cost on the first day of the month after spouse eligibility is lost. Any SSBP cost is suspended on the date RCSBP cost changes. RCSBP eligible child cost equals SBP child cost plus a Reserve portion of cost. If the child is ineligible, only the Reserve portion of the RCSBP premium is charged.

(c) If coverage changes from former spouse or former spouse and child to spouse or spouse and child after the member meets age and service requirements, the RCSBP cost is computed using members age as 60 which is the same cost as SBP. The Supplemental SBP cost is associated with RC-SSBP tables.

(d) RC-SSBP tables 10-4-2 and 10-4-3 show factors for members over age 60 because a member over age 60 may have RCSBP without Supplemental SBP, divorce and later elect SBP former spouse coverage and elect Supplemental SBP. An RC-SSBP annuity is a percentage of the base amount less the RCSBP premium add-on.

(c) If the member has child coverage and later acquires a spouse beneficiary after the member meets the age and service requirements, RCSBP child cost is changed to SBP

cost for spouse and child. If the spouse later becomes ineligible, RCSBP is charged for child coverage. If the child becomes ineligible, SBP spouse cost is charged.

(2) Child. If child coverage is added to spouse coverage within 1 year of acquiring the child, cost is recomputed on the first day of the month after member meets age and service requirements or on the first day of the month after member's child election is received by the Secretary concerned. An election effective before member meets age and service requirements is considered RCSBP.

(3) Former Spouse:

(a) If the member has former spouse and child coverage and the former spouse dies or remarries, cost changes as in subparagraph d(1)(b) above.

(b) If coverage changes from spouse or spouse and child to former spouse or former spouse and child, the cost (change) is effective on the first day of the month after member meets the age and service requirements or the first day of the month after the election is received by the Secretary concerned, whichever is later. An election effective after the member meets age and service requirements is considered SBP.

(c) Cost for former spouse under a deemed election by the Secretary concerned is effective on the first day of the month after the later of:

1. Member's retirement date;
2. The first day member could have voluntarily made such an election; or
3. The date of the court order involved.

***e. Other Changes, Suspension, or Terminations of Cost**

(1) If a member is declared mentally incompetent, later adjudged competent and elects to change the RCSBP or RC-SSBP election, cost changes the first day of the month following the receipt of the election.

(2) Cost increases at the same time and by the same percentage that retired pay increases under a cost-of-living adjustment.

(3) If a member is recalled to active duty for more than 30 days, cost is suspended effective the first day that member returns to active duty.

(4) Cost is charged through the date of member's death.

TABLE 10-4-1
WORKSHEET USED TO CALCULATE MONTHLY RCSBP REDUCTION

1.	Method:	_____	Offset Method
		_____	Two-tier Method
2.	Type:	_____	Immediate
		_____	Deferred
3.	Option:	_____	Spouse/ Former Spouse only
		_____	Spouse/ Former Spouse and Child (both beneficiaries still eligible)
		_____	Insurable Interest
		_____	Child only
		_____	Spouse/ Former Spouse and child (spouse/ former spouse no longer eligible)
4.	Member's age nearest birthday at election:		
5.	Beneficiary's age nearest birthday at election:		
6.	Age difference (4) - (5) (A negative number indicates beneficiary older than member)		
7.	Reserve factor:		
8.	Monthly base amount (gross retired pay for insurable interest option):		
9.	Monthly SBP part of RCSBP premium: (note 1)		
10.	Monthly Reserve part of RCSBP premium: (note 2) (7) x (8) for all options except insurable interest (7) x (8) - (9) for insurable interest options:		
11.	Monthly RCSBP premium (9) + (10):		
12.	Revised base amount to be used in survivor annuity: (8) - (10) for all options except insurable interest: (8) - (11) for insurable interest option:		

NOTES:

1. The SBP premium part of the RCSBP rate should be treated the same as SBP only. The threshold used in the SBP calculation should be the one relating to the basic pay scale used in the calculation of the members retired pay. See table 9-8-1 for SBP threshold amount.

2. When calculating the reserve part of the RCSBP premium, several things should be noted. Make

sure you use the table that relates to the correct method, type, and option. Spouse or former spouse and child factors are the same as spouse or former spouse only factors when both spouse or former spouse and child are still eligible. If the spouse or former spouse becomes ineligible, the factor switches to child only even if the child is no longer eligible. The reserve child only cost never drops off.

TABLE 10-4-2**RESERVE COMPONENT IMMEDIATE SUPPLEMENTAL SPOUSE ANNUITY
PREMIUM RATES EACH 5%**

Age at Election	Premium Rate	Age at Election	Premium Rate
35	.0363	73	.0468
36	.0359	74	.0490
37	.0352	75	.0512
38	.0349	76	.0536
39	.0344	77	.0564
40	.0338	78	.0589
41	.0335	79	.0615
42	.0317	80	.0642
43	.0308	81	.0672
44	.0307	82	.0700
45	.0307	83	.0731
46	.0305	84	.0766
47	.0303	85	.0810
48	.0298	86	.0849
49	.0294	87	.0894
50	.0289	88	.0936
51	.0286	89	.0987
52	.0283	90	.1037
53	.0281	91	.1087
54	.0279	92	.1137
55	.0276	93	.1187
56	.0273	94	.1236
57	.0270	95	.1284
58	.0267	96	.1331
59	.0262	97	.1376
60	.0250	98	.1418
61	.0266	99	.1454
62	.0279	100	.1476
63	.0293	101	.1511
64	.0307	102	.1565
65	.0321	103	.1610
66	.0337	104	.1639
67	.0353	105	.1693
68	.0369	106	.1800
69	.0386	107	.2035
70	.0405	108	.2658
71	.0424	109	.5677
72	.0447		

TABLE 10-4-3**RESERVE COMPONENT DEFERRED SUPPLEMENTAL SPOUSE ANNUITY
PREMIUM RATES EACH 5%**

Age at Election	Premium Rate	Age at Election	Premium Rate
35	.0373	73	.0469
36	.0368	74	.0491
37	.0361	75	.0514
38	.0357	76	.0538
39	.0351	77	.0565
40	.0345	78	.0591
41	.0342	79	.0617
42	.0323	80	.0644
43	.0313	81	.0674
44	.0312	82	.0702
45	.0311	83	.0733
46	.0309	84	.0769
47	.0307	85	.0812
48	.0302	86	.0851
49	.0297	87	.0897
50	.0292	88	.0939
51	.0288	89	.0990
52	.0285	90	.1040
53	.0282	91	.1091
54	.0280	92	.1141
55	.0277	93	.1190
56	.0274	94	.1239
57	.0270	95	.1288
58	.0267	96	.1335
59	.0262	97	.1380
60	.0251	98	.1422
61	.0267	99	.1458
62	.0280	100	.1481
63	.0294	101	.1516
64	.0308	102	.1570
65	.0322	103	.1615
66	.0338	104	.1644
67	.0354	105	.1698
68	.0370	106	.1806
69	.0388	107	.2041
70	.0406	108	.2666
71	.0425	109	.5695
72	.0448		