

CHAPTER 36

RETIREED SERVICEMAN'S FAMILY PROTECTION PLAN –
COST OF COVERAGE3601 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.

3602 CONTINUANCE OR DISCONTINUANCE OF COST BASED ON OPTIONS ELECTED

360201. 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 section 3402 of this volume.)

360202. When option 4 was not elected with options 1, 2, or 3 (retirements before November 1, 1968), premiums for coverage continue even though all beneficiaries die before the retiree or are ineligible to receive annuity benefits.

360203. When option 4 (automatic after October 31, 1968), is combined with options 1, 2, or 3, premiums for coverage end on the first day of the month after the month in which there are no eligible beneficiaries.

360204. When option 3 is elected (retirements on or after November 1, 1968), premiums for coverage end on last day of month that the spouse becomes an ineligible beneficiary. Eligible children remain covered at no cost to the member.

3603 REDUCTION OF RETIRED PAY FOR COST OF COVERAGE

360301. The RSFPP reduction in retired pay was computed on cost tables in effect on the date of retirement 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.

360302. If the member had no eligible dependents under the option or options elected on date of retirement, no reduction was made in retired pay.

360303. An adjustment could have been made in the reduction of retired pay upon finding an administrative error or a mistake of fact.

360304. If a member elected option 3, with or without option 4, but on the date of retirement:

A. Had no children eligible for the annuity, premiums were computed as though the member elected option 1 with or without option 4.

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

360305. If member elected multiple options (option 1 and option 2) but on date of retirement:

A. Had no spouse eligible for the annuity, premiums were computed as though member elected option 2 or option 2 with 4 only.

B. Had no children eligible for the annuity, premiums were computed as though member elected option 1 or option 1 with 4 only.

360306. A member who retired before November 1, 1968, had until September 1, 1969, to add option 4 to a previous election. (See subparagraph 340103.E.1 of this volume.) The additional premium was effective the first day of the month in which the original RSFPP election became effective. The retiree had to pay the additional premium which would have been deducted from retired pay if he or she 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:

A. In 2 to 12 monthly installments when the monthly amounts involved were \$25 or less, or

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

360307. No amounts by which retired pay was reduced before the election of option 4 were refunded to, or credited on behalf of, the retiree by virtue of an application to include option 4.

3604 EFFECTIVE DATE OF REDUCTION

360401. The effective date of reduction is the date of retirement or date of election, whichever is later.

360402. For members who retired and died during the same month, the premium deduction was made only from date of retirement through date of death.

3605 PAYMENT OF COST DURING NON-RECEIPT OF RETIRED PAY

360501. The RSFPP premium that otherwise would be withheld from retired pay must be deposited by direct remittance to the DFAS-Cleveland Center. Deposits are due on the effective date of coverage. For example, if the member retired June 1, the first payment is due on June 1 for period June 1-30.

360502. The retired pay activity informs the retiree of the amount and date when deposits are to be made.

360503. If a total VA waiver is in effect, the retiree may authorize Department of Veterans Affairs to withhold the premium from the VA benefits. See the DoD/VA Memorandum of Understanding, June 13, 1985, at [Appendix G](#) of this volume.

360504. Payments for RSFPP premiums 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, Chapters 41 and 42](#) of this Regulation (reference (ey)).

360505. If deposits are not made within 30 days of the due date, the DFAS-Cleveland Center informs the retiree of the delinquency and advises him or her that beneficiaries cannot be paid an annuity under the plan until all delinquent premiums, plus interest at the rate applicable for the delinquent period, is paid. The notification of delinquency advises the retiree that 15 additional days have been granted in which to remit the deposit and, if the arrears are not deposited within that period, the retiree will be 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 the retiree later receives retired pay.

3606 TEMPORARY DISABILITY RETIRED LIST (TDRL)

360601. The RSFPP coverage terminates when the retiree is removed from the TDRL for reasons other than transfer to the Permanent Disability Retired List.

360602. For members who remain on the TDRL for 5 full years, premiums and coverage cease at the end of the 5-year period. If the retiree dies after the 5-year period, no benefits are payable.

3607 CALCULATION FOR DELINQUENT PREMIUMS

360701. RSFPP interest rates are:

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

360702. 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 B through F.)

360703. These following 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.

Examples

Date	Delinquent Amount	Monthly Premium	Amount Received	Amount Applied to Pay Premium Current/Month	Amount Applied To Delinquent Amount	Interest	Balance Due
Nov 30	\$476.16	\$20.00	-0-	-0- / -0-	476.16 x .00487 =	2.32	\$498.48
Dec 31	498.48	20.00	\$60.00	\$20.00 / \$40.00	458.48 x .00487 =	2.23	460.71
Jan 31	460.71	20.00	\$20.00	\$20.00 / -0-	460.71 x .00487 =	2.24	462.95
Feb 28	462.95	20.00	-0-	-0- / -0-	462.95 x .00487 =	2.25	485.20
Mar 31	485.20	20.00	\$40.00	\$20.00 / \$20.00	465.20 x .00487 =	2.27	476.47

3608 AGE FACTOR

360801. Calculate the age of the member and beneficiaries as of their nearest birthday on the day of the member’s retirement, or the effective date of election, whichever was later. Round 6 months or more to the next full year.

- A. Option 1- Member and spouse
- B. Option 2- Member and youngest child
- C. Option 3- Member, spouse, and youngest child

360802. Age Adjustments

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

B. If the member's age and the wife's age are the same, use the table for "wife older by 0 years." This applies to Table of Percentage Reduction of Retired Pay Under RSFPP before November 1, 1968.

C. If the member's wife is more than 15 years older than the member, consider the difference to be exactly 15 years.

D. If a member's wife is more than 25 years younger than member, find the reduction factor using extrapolation. If a member's husband is more than 25 years younger than the member, see the Table of Percentage Reduction of Retired Pay Under RSFPP before November 1, 1968.

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

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

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

H. 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.

3609 CALCULATING COST FOR SINGLE OPTION

360901. Retirements before November 1, 1968

Annuities of one-half of reduced retired pay:

Basic Data for Examples

Date of Retirement	August 1, 1966
Member born January 15, 1916	Age 51 (nearest age)
Wife born February 27, 1918	Age 48
Difference between ages	3 years
Youngest child born August 15, 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

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

1. Using the appropriate table (Table of Percentage Reduction of Retired Pay Under RSFPP, April 1966, with 20 years of 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

2. Multiply the 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	<u>x 0.1232</u>
Monthly deduction from retired pay	\$108.91

B. Example 2: A member retired with 20 years of service and elected option 2 with option 4 for one-half of member’s reduced retired pay.

1. Under the table (April 1966) with more than 20 years of 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
-	1 11 12 13 _____
-	
50	
51	_____ .0133

2. Multiply the 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	<u> x 0.0133</u>
Monthly deduction from retired pay	\$11.76

C. Example 3: A member retired with 20 years of service and elected option 3 for one-half of member’s reduced retired pay.

1. 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. Use Table for January 1, 1966, for retirement on or after January 1, 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

2. 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

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

$$0.1137 \times 1.001 = 0.1138$$

4. Multiply the 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	<u>x 0.1138</u>
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.)

5. 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 (i.e., 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.

Conversion Table-One-Quarter

Range .100 to 149

100	0	1	2	3	4	5	6	7	8	9	
-											
-											
-											
123	_____							.0656			

360902. Retirements November 1, 1968 Through September 20, 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: A member aged 41 retired with more than 19 years of service after November 1, 1968. The member elected option 2 with 4 to provide the child, age 2, with 50 percent of total retired pay:

Gross Retired Pay	\$547.86
Percentage	<u>x .50</u>
Annuity Payable per month	\$273.93
*Reduction Factor	<u>x.0434</u>
Cost 11.888562 or	\$11.89

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

3610 CALCULATING COST FOR MULTIPLE OPTIONS

361001. November 1, 1953 - October 3, 1961. Public Law 83-239 (reference (et)), required the cost for multiple options to be computed by an actuarial equivalent method using, as a basis, appropriate actuarial tables selected by the DoD Board of Actuaries. Use these steps to compute cost:

A. 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 the option 1 portion and another for the option 2 portion.

B. For each factor in Step A, find the complement by subtracting the factor from 1.0000.

C. Obtain the product of the complements by multiplying them together. Obtain their sum by adding them together.

D. Divide the product by the sum and carry the answer to six decimal places.

E. Multiply the factor from Step D 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.

F. Find the cost of each option by multiplying the answer found in Step E by the quotient of the reduction factor for the option divided by its complements.

Example: A member, age 50, retired for physical disability on August 1, 1961:

- a. Wife's age is 48
- b. Youngest child's age is 8
- c. Gross monthly retired pay is \$452.62

The 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:

$$\text{Option 1 - } 1.0000 - .1688 = .8312$$

$$\text{Option 2-4 - } 1.0000 - .0196 = .9804$$

STEP 3. Multiply and then add complements:

$$.8312 \times .9804 = .81490848 \text{ (product)}$$

$$.8312 + .9804 = 1.8116 \text{ (sum)}$$

STEP 4. Divide product by sum:

$$.81490848 \div 1.8116 = .449828$$

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

$$\$452.62 \times .449828 = \$203.60$$

STEP 6:

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

$$\text{Option 1 - } .1688 \div .8312 = .203079$$

$$\text{Option 2-4 - } .0196 \div .9804 = .019991$$

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

$$\text{Option 1- } \$203.60 \times .203079 = \$41.35$$

$$\text{Option 2-4- } \$203.60 \times .019991 = \$ 4.07$$

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

$$2 \times \$203.60 = \$407.20$$

Note: Annuity for each option is: (See subparagraph 370502.A of this volume.)

$$\text{Option 1 - } 1/4 \times \$407.20 = \$101.80$$

$$\text{Option 2-4- } 1/8 \times \$407.20 = \$ 50.90$$

361002. October 4, 1961-October 31, 1968. The cost is computed by multiplying the reduction factor elected by gross retired pay. Use conversion tables to determine reduction factor

when the member elects annuity of one-quarter or one-eighth of reduced retired pay instead of one-half as shown in paragraph 360902, above.

Example: A member, age 46, retired for physical disability on December 16, 1965, with less than 18 years of service for pay purposes. Table of Percentage Reduction of Retired Pay-April 1962.

- a. Wife's age is 43
- b. Youngest child's age is 13
- c. Gross monthly retired pay is \$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 x 1/4 =	\$187.18 *
Option 2	\$814.95 x .0055 =	\$4.48	\$810.47 x 1/4 =	\$202.62

* (See subparagraph 370502.B of this volume.)

361003. November 1,1968 - September 20, 1972. Public Law 90-485 (reference (ev)), again changed the method for computing coverage premiums. The premium is based on the amount of annuity payable. The annuity payable is specified as either a dollar amount or a percentage of retired pay, but not both. Multiply the reduction factor for the annuity elected by the monthly annuity payable for each option.

Example: A member, age 52, retired for years of service on July 31, 1970, with more than 19 years of service for basic pay purposes.

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

The member elected option 1 with option 4 for one-quarter combined with option 2 with option 4 for 1/4.

	Retired Pay	Annuity Payable
Option 1-4	\$1,082.34 x 25% or 1/4 =	\$270.59 *
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

* (See subparagraph 370502.B of this volume.)

3611 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 premiums resulting from administrative error, correction of records, late receipt of withdrawal request, or youngest child attaining maximum age is taxable income to the retiree.

3612 INCOME EXCLUSION

The retiree will receive an income exclusion for the amount of the direct remittance for cost of coverage upon returning to a pay status. The DFAS-Cleveland Center will exclude the amount of the direct remittance from the taxable income on TD Form W-2P. See section 3605 of this volume for payment of cost during non-receipt of retired pay.