Survivor Benefit Plan

(SBP)

MAKE IT PART OF YOUR RETIREMENT PLANS

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Estate planning is very important for everyone. As the saying goes, there are only two things in life that are certain - death and taxes. Estate planning is preparing for both of these. A primary purpose of estate planning is to distribute your assets according to your wishes after your death. It is also to ensure that a surviving spouse and/or other dependents are taken care of financially. If you own one thing, you have an estate and probably already have an idea of who you would like to receive your property if something should happen to you, but have you ever put this down in writing? There are several steps involved in estate planning.

Step One - Make a list of all your assets. This will help you determine your household worth. To do this, inventory everything you have and assign a value to each asset. Here's a list to get you started. You may need to delete some categories or add others.

- **Residence**
- **Other real estate**
- **Savings (bank accounts, CDs, money markets)**
- **Investments (stocks, bonds, mutual funds, securities)**
- **401(k), IRA, profit sharing, pension and other retirement accounts**
- **Life insurance policies and annuities**
- **Ownership interest in a business**
- **Motor vehicles (cars, boats, planes)**
- **Jewelry**
- **Collectibles (gold, silver, stamps)**
- **Other personal property**

Keep in mind that estate planning is not a one-time job. There are a number of changes that may call for a review of your plan. You may want to take a fresh look at your estate plan if:

- **The value of your assets changes significantly**
- **You marry, divorce or remarry**

- **You have a child**
- **You move to a different state**
- **The executor of your will or the administrator of your trust dies or becomes incapacitated, or your relationship with that person changes significantly**
- **One of your heirs dies or has a permanent change in health**
- **The laws affecting your estate change**

<u>Step Two</u> - Make a list of your liabilities. Your liabilities may be debts/loans that will have to be paid-in-full at your death.

- **Large credit card debts**
- **Loans**
- **Real estate debts (residence or other property)**
- **Motor vehicle loans (car, boat, plane)**
- **Miscellaneous loans (student loans)**
- **Any major creditors**

<u>Step Three</u> - Now you are ready to do some calculating. Subtract your liabilities from your assets. What's left over, minus administrative and probate costs, is what you can leave to your beneficiary(ies). Decide who gets what, and in what proportion. Your desires should be put down in a legal document (e.g., will, trust, etc.).

<u>Step Four</u> - If you have a spouse, do a widowhood analysis. This step is threefold.

(1) Make a list of your spouse's income after your death

- **Personal income**
- **Proceeds from your life insurance policies**
- **Social Security (widow(er) is not eligible to receive payments until age 60 [reduced rate], 50 [if disabled])**
- **Income from pensions, IRAs, securities, stocks, bonds, etc. (Check with company about age stipulations and penalties for early receipt.)**
- **Any other income**

(2) Make a list of your spouse's debts/monthly expenses after your death. This list will vary with each family, so add and delete as necessary.

- **Mortgage payments**
- **Car payments/expenses**
- **Utilities**
- **Groceries**

(3) Is there sufficient income to meet your widow's(er's) expenses (both normal and emergency) and still allow him/her to live comfortably? If not, it may not be too late to remedy the situation!

<u>Step Five</u> - Get organized. There are many ways to do this. One way is to maintain a personal document file, preferably in a filing cabinet. The most important thing to remember is that this file will be of no value to your survivors if they cannot find it after you're gone. Keep it in a central location, preferably in something fire-proof, known to your next of kin.

Some suggested subject areas are listed below, but subject areas should be tailored to your individual situation/needs:

- **Personal Records (original birth certificates, marriage certificate, divorce decrees, Social Security numbers, passports, citizenship documentation)**
- **Military Records (DD Form 214, Statement of Service)**
- **Medical Records (record of insurance coverage, list of doctors with phone numbers)**
- **Income Tax Records**
- **Insurance Records (original insurance policies, list of insurance agents with contact phone numbers)**
- **Automobile Records**
- **Investment Records (stocks, bonds, mutual funds, list of brokers, real estate investments, deposit box [gems/gold/rare coins/etc.])**

- **Estate Planning Records (will, trust, final instruction letter which should include instructions for disposition e.g., Do you want a funeral or memorial service? What type of service? Do you want to be cremated? Do you want military honors? Do you want to be interned at a national cemetery? Do you want to be buried in your military uniform? If so, where is it located? If cremated, do you want your ashes scattered? If so, where? Are you an organ donor? Do you want people to send flowers or would you prefer donations to a charity? Who should be notified about your death? Etc.,)**
- **Financial Services Records (list of banks and credit unions, savings account statements, location of safe deposit box)**

Why should the Survivor Benefit Plan (SBP) be made part of your estate plan?

SBP has some unbeatable features:

- **SBP premiums are a guaranteed fixed percent of retired pay**
- **Premiums are tax free**
- **Premiums are government-subsidized (retirees do not pay the total cost of the Plan)**
- **Premiums will be paid-up at age 70 provided you have paid in for 360 months (30 years)**
- **Your health at the time of purchase has no bearing on the cost of the coverage**
- **SBP coverage cannot be cancelled due to your ill health or advancing age**
- **SBP provides an annuity designed to keep up with the pace of inflation**
- **SBP covers a beneficiary category (e.g., spouse and/or children), not a particular person, therefore a future spouse and/or child can be covered**

- ♦ **Spouse cannot outlive the annuity**

Be very cautious. Projections of life insurance cash values 20 or 30 years into the future are awfully appealing but can be misleading because of inflation and the time value of money. For example, $200,000 is a lot of money today, just like $20,000 was 25 years ago. This is not to say that life insurance is unnecessary even if you enroll in the SBP. On the contrary, even though the SBP is an unbeatable program, SBP has no cash value feature to borrow against in times of emergency. Remember, however, that the "cash value" of insurance is based upon the premiums you have paid, less the profit and commissions required to keep the company solvent. Additionally, SBP does not provide a large sum of immediate cash to pay expenses upon your death. Although SBP definitely helps in the long term, some type of savings or life insurance may be needed for emergencies or immediate expenses after your death. That is why many retirees supplement SBP with other programs. Life insurance is a valuable and necessary complement to SBP in building your estate, but life insurance CANNOT replace SBP.

The next time you have a discussion with anyone who feels they can offer you a better plan than SBP, ask them if their plan has <u>ALL</u> of the abovementioned unbeatable features. Remember, their plan can't have just <u>some</u> of the features, it has to have <u>ALL</u> of them. It won't! It can't. Otherwise, they would not still be in business.

Many agents sell other products as an alternative to pension survivorship plans under a sales concept known as "pension maximization". The problem with this is that other products may be a viable option to many <u>civilian</u> pension survivorship plans in which the annuity does <u>not</u> keep up with the pace of inflation like SBP does. Many financial planners are unaware of the provisions of the SBP that make it so valuable.

<u>Note</u>: SBP counselors are not trained in estate planning, nor is this handout a legal or binding document. It's intended to be used solely as a tool for your own personal use.