"Last Call" Retirement Planning

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Sgt. 1st Class Dana Lescoe will turn in his uniform after a 20-year career. He ends his Army career by calling in a last call for fire mission during a recent live fire exercise at Camp Beuhring, Kuwait, while serving with the 1st Battalion, 7th Field Artillery Regiment, 2nd Armored Brigade Combat Team, 1st Infantry Division. (Photo captured from U.S. Army Video by Staff Sgt. John Portela) SFC Lescoe, Last Call for Fire Video (/Portals/7/nco-journal/images/DOD_103167079-1024x576-1769k.mp4?ver=2017-12-07-112348-463)

You have reached the end of a long and storied military career, ready to enjoy retirement and all of its benefits.

However, without careful planning and preparation, uninformed choices at retirement can dramatically alter your family's security.

When planning for retirement, Soldiers should begin planning three to five years in advance and know which options and programs will affect their retirement pay and benefits. Additionally, noncommissioned officers also need to be aware of the retirement services and options that effect Soldiers who face early or medical retirement.

The Survivor Benefit Plan

The SBP is a voluntary election made at retirement. The plan is designed to protect the Soldier's family or survivors against inflation.¹

A Soldier's retired pay ends upon death and SBP coverage is not automatic.² If you do not have SBP coverage, a healthy savings account, or additional life insurance beyond service members group life insurance, the lack of retirement pay may leave your surviving spouse without an income. The SBP is a method for retirees to provide 55 percent of their full or reduced retired pay to eligible surviving beneficiaries.

To decline coverage, elect reduced or child-only coverage, your spouse must concur with your decision. Additionally, SBP coverage is automatic if you fail to submit your application by the first day of your official retirement.³

Arrears of Pay

Arears of Pay is a one-time payment made to a designated beneficiary. This payment is the pro-rated amount of pay or other monies owed at the time of your death. The SBP helps to protect your family in the event of your death. When you retire your retirement will not be passed on to your

spouse. It you die on the 17th day of the month; your estate will receive 17 days retired pay. This pay is delayed, up to 60 days, while the finance office makes sure there are no outstanding debts to the Army.⁴

Soldiers who retire because of a service-connected disability incurred while on active duty will have the opportunity to participate in SBP.5

Active duty Soldiers with eligible dependents, who are retirement eligible and die while on active duty, are covered by SBP automatically.6

If you have any questions or concerns about the SBP contact your retirement services office, separation point, or finance office. The SBP is covered as part of the Transition Assistance Program's retirement briefing.

Reserve and National Guard

Reserve and National Guard Soldiers may participate in the Reserve Component-Survivor Benefit Plan after completing 20 creditable years of qualifying service for reserve retirement. They are also eligible for SBP coverage if their death is in the line of duty while on active duty regardless of years of service. If a reserve or National Guard member's death is not in the line of duty, then benefits are based on years of service.⁷

SBP or Life Insurance?

It takes a large amount of life insurance to match the same coverage SBP provides. Even though insurance coverage may appear to be an inexpensive "alternative", it becomes harder to obtain and increasingly expensive as you age. 8 If you are medically retired, insurance may be costly or impossible to obtain because of pre-existing medical conditions.

There are several considerations when comparing insurance to SBP. Insurance carriers can raise the price of premiums, drop coverage, or you could outlive the insurance policy. Additionally, changes in health can affect premiums.

"The biggest mistake retirees make is to assume they would/could afford life insurance after retirement," said Cecelia Luna, assistant retirement services officer, Installation Management Command Directorate - Training, Fort Leavenworth, Kansas.

Often retirees believe insurance can cover the cost, but Luna thinks that is a mistake.

"When it comes to the annuity [SBP] versus life insurance, in most cases the annuity can exceed the insurance pay," Luna said.

For instance, in order for insurance to meet the same level of protections SBP offers, \$300,000 of life insurance is needed.9

"Insurance will not last, and in most cases, it will cease sooner than later," 10 Luna added.

The cost of SBP premiums is 6.5 percent of retired pay, which may seem expensive, but as a pre-tax deduction, it reduces the monthly taxable gross. Unlike SBP, life insurance premiums are not eligible for a pre-tax deduction.¹¹

It is important to talk with a certified financial planner, to determine the best options for a comprehensive, affordable financial portfolio. Each person has individual needs and requirements for short, near, and long-term goals. The SBP and life insurance are not the only options available.

Veterans Groups Life Insurance

The VGLI is an option for separating or retiring service members, who cannot medically qualify for a regular life insurance policy and are uninsurable. VGLI requires submission within 240 days or applicants must answer questions about their health. Retirees can convert their insurance from SGLI to VGLI if completed within 485 days from discharge or retirement.¹²

The greatest downside to VGLI is that its premiums increase significantly every five years. For example, a \$400,000 life insurance policy for a 45-year-old is \$88 a month. Premiums rise to \$144 when you reach age 50 and at age 55 jump to \$268. The premium becomes a fixed rate of \$1,840 a month at age 75 and up. The costs of the current prices come from the 2017 VA rate scale (http://www.benefits.va.gov/insurance/vgli.asp). The reality is, very few people will be able to pay premiums past age 74.¹³

There are a few options to reduce insurance costs:

If you shop around while you are in good health, you can find other types of life insurance, such as a whole life policy, and term life insurance.

Other options include converting your VGLI policy into an individual permanent life policy with a participating insurance company at standard premium rates, without proof of good health.¹⁴

A balanced portfolio, which includes the SBP, some term, and some whole-life insurance policies, may serve you best. The SBP is not for everyone, but it is an option.

Uniformed Services Blended Retirement System

On January 1, 2018 a new military retirement system goes into effect. It is a blend of the traditional retirement pension with a defined contribution to the service members Thrift Savings Plan.

All service members who enter after the 1 January start date will automatically be enrolled in the blended retirement system. Service members with less than 12 years of active duty service, or reserve component members with less than 4320 retirement points will have the option to opt into the plan. The period to opt into the BRS will run from January 1 – December 31, 2018.¹⁵

It is vital for Soldiers to understand their options, so the Department of Defense has established a website at

www.militarypay.defense.gov/blendedretirement/ (http://www.militarypay.defense.gov/blendedretirement/), which providesvarious resources. One of these is the Leader Pocket Card which NCOs can use to inform their Soldiers,

http://militarypay.defense.gov/Portals/3/Documents/Blended%20Retirement/FINRED-LeaderCard-31Aug17-Final.pdf?ver=2017-09-07-101041-543 (http://militarypay.defense.gov/Portals/3/Documents/Blended%20Retirement/FINRED-LeaderCard-31Aug17-Final.pdf?ver=2017-09-07-101041-543).

Conclusion

"Soldiers need to weigh their options long before retirement and talk to financial counselors who don't make a commission from selling insurance policies," 16 said Luna.

Many financial planners make commissions from products such as life insurance and many independent planners only charge fees for service.

Knowledge of retirement planning is not only important to NCOs personally, it is also important information they can us to assist their Soldiers in case of early retirement or medical separation. Luna's advice to Soldiers is to plan well and research all their options before they retire and consider everything, including the SBP.

Contact your local retirement services office and your financial planner for individual planning and specific coverage for your needs.

Notes

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