Financial and Benefit Planning Guide

for Military Families

Financial and benefits planning for military families

You understand what it means to put on the uniform every day to serve this great nation and what it means to have others depend on you. Service life is often times unpredictable and tragedy can strike in an instant.

Life insurance helps protect your family from the potentially devastating financial impact that could result if something happened to you, and help them maintain stability when their world is at its most uncertain.

Are your existing benefits enough?

Every families financial needs are unique and a military family is no different. Life insurance can help pay for funeral expenses, pay off debts, mortgages, replace income, pay for education, or even health insurance coverage for your family if your TRICARE benefits end if you were to pass.

SGLI should be a part of every service member's financial plan, but it may not be enough for your long-term financial goals. In addition, when you separate or retire, you are no longer eligible for this benefit and lose your coverage. Many veterans and separatees opt for VGLI, but these monthly premiums are higher and increase every five years.

Life insurance can help:

Cover funeral expenses

Replace income

Pay off debt

Pay mortgage payments

Provide education funding

Cover health costs

Leave an inheritence

Take control of your family's financial future

This booklet highlights some of the benefits you may be eligible for as a military member. It also provides an overview of different types of life insurance and how to determine what you need.

Founded to protect those who serve

Born in the Pentagon. Built to Serve.

In 1947, the Armed Forces Benefit Association (AFBA) emerged from the basement of the Pentagon to provide our military members with death benefits when no one else would. We were founded with a commitment to safeguard those who serve.*

We leverage a legacy of service to create a membership experience that caters to the unique needs of all who serve. We make the hardest days easier with a proactive benefit claims process that delivers essential aid swiftly and compassionately. We provide support that goes beyond life with member benefits including a survivor scholarship. (Scholarship available in all states except New York. In Virginia, only available to First Responders.)

AFBA membership provides military members, first responders, federal employees and contractors, and their families certainty and peace of mind, with benefits tailored to their real-life needs. Purpose-built for all who answer the call to serve, our benefits provide the security our members deserve and the protection their loved ones need. More than 75 years later, we remain steadfast in our mission.

Protection you and your family can count on

Transparent and dependable, we adapt our member benefits to meet the unique circumstances of service members at every level. Becoming an AFBA member is more than signing up for benefits; it's joining a community that ensures your family won't be alone. It's the assurance that no matter what tragedies life brings or what adversity your loved ones face, they'll have a partner to help them find their feet and keep moving forward.

AFBA product benefit features are tailored to service life and beyond

24-hour coverage
No war or terrorism exclusions. You are covered on and off duty with no hazardous, line of duty or occupational restrictions.

Emergency death benefit
Once you have coverage for two years, up to $15,000 of the total death benefit is released as an Emergency Death Benefit (EDB).**

Keep the coverage
After you retire or separate, you can continue your coverage for you and your family as long as contributions are paid.

Ease of payment
Simple payment available through military allotment.

Spouse and child coverage
Easily purchase coverage using the same enrollment form.

* AFBA is not affiliated with any government agency. ** EDB is released within one business day once all requirements are met. It can be done over the phone without the need to provide a death certificate as long as third-party proof of death can be verified (subject to contestability).

Life insurance member benefits provided by AFBA are underwritten by 5Star Life Insurance Company (a Lincoln, Nebraska company) with an administrative office at 909 N. Washington Street, Alexandria, VA 22314. Survivor benefits not available in all states and U.S. Territories.

Life beyond the benefit

By becoming an Armed Forces Benefit Association (AFBA) member, you secure much more than life insurance member benefits and financial peace of mind. In addition to a college scholarship, members and beneficiaries gain access to a host of benefits that help save money by providing special discounts for travel, healthcare, shopping, entertainment, as well as financial and legal services. You are also automatically eligible for an Association of the United States Army (AUSA) membership which provides even more benefits.

Career and education
Resources that help you excel at any stage in your career.

Financial and legal
Products and services that assist you to reach your financial goals.

Health and well-being
Plans and discounts designed to help promote your health.

Life Insurance
Protection for AFBA eligible members and their families underwritten by 5Star Life Insurance Company.

Shopping and entertainment
Savings on experiences and products for everyone in your family.

Travel
Deals and discounts to use when planning your next adventure.

Family survivor college scholarship
As a unique member benefit, AFBA is proud to offer families of eligible fallen members the Charles C. Blanton AFBA Family Survivor College Scholarship. Surviving spouse and children are eligible for $10,000 per year, up to a total maximum benefit for the entire family of $40,000 toward an undergraduate degree, license or certification.

Not available in New York. In Virginia, only available to First Responders.

A reserves the right to change this program at any time as it deems necessary.

Visit AFBA.com

Learn more

Visit our website to learn more about AFBA member benefits.

Life insurance member benefits provided by AFBA are underwritten by 5Star Life Insurance Company (a Lincoln, Nebraska company) with an administrative office at 909 N. Washington Street, Alexandria, VA 22314. Survivor benefits not available in all states and U.S. Territories.

Military Pay and Allowances

Active Duty Basic Pay

Each year the President submits a pay raise request to Congress. The basic pay rates reflecting a 5.2% pay raise effective January 1, 2024. View the pay table on the **DoD website**.

View Pay Table

Other types of pay and allowances

In addition to basic pay, active duty personnel often receive several other items of pay and allowances depending on their marital status, type of duties performed, professional skills, and areas of assignment. It is important to note that items of "pay" are generally subject to taxation and are included in the taxable income reported to the federal and state government at the end of the year. However, "allowance" items are not subject to taxation and are not included in annual taxable income. The most common special and incentive pay and allowances are discussed here (in alphabetical order).

Career Sea Pay

Career Sea Pay for officers, warrant officers and enlisted members can range from a monthly rate of $60 to $805 depending on paygrade and how many years of sea time. There are two incentives associated with Career Sea Pay:

Submarine Duty Pay

This is a monthly pay for submarine crew members. The amount payable is based on the member's rank and years of service. Enlisted crew members receive from $85 to $600, warrant officers from $320 to $475, officers from $255 to $950.

Nuclear Qualified Officer Pay

To train and retain qualified nuclear officers, the Navy pays two types of special pays: an annual Continuation Pay not to exceed $40,000 and an annual Incentive Bonus not to exceed $22,000.

Diving Pay

A monthly payment of up to $240 is given to officers and up to $340 to enlisted members whose duties involve diving.

Enlistment and reenlistment bonuses

Enlistment Bonus. There are many benefits to joining the military, but few directly affect pay as much as enlistment bonuses which can be as much as $50,000.

Reenlistment Bonus

The Selective Reenlistment Bonus (SRB), sometimes called the Selective Retention Bonus, is a cash incentive paid to enlisted members to encourage reenlistments and retention in critical military skills.

Bonus award levels are adjusted as needed to ensure the services are retaining the correct quantity and critical skill mix to optimize their ability to accomplish the mission. Currently the SRB ranges from $30,000 to $100,000. Members may qualify for up to 2 SRBs in their military career for a maximum total of $200,000.

Flight Pay

There are four primary special pays for members whose military duties involve aerial flight.

Aviation Career Incentive Pay for Officers

Active duty commissioned officers on aviation duty are entitled to Aviation Career Incentive Pay (ACIP). ACIP is restricted to regular and reserve officers who hold, or are in training leading to, an aeronautical rating or designation and who engage and remain in aviation service on a career basis. Pay ranges from $125 to $1,000 per month.

Critical Skill Incentive Pay

In lieu of Hazardous Duty Incentive Pay (HDIP), enlisted aviators may receive continuous flight pay as long as they meet flying requirements. The pay ranges from $225 to $600 a month.

Aviation Bonus Pay

An annual bonus of up to $35,000, depending on branch, may be paid to selected officers who agree to extend their aviation service.

Hazardous Duty Incentive Pay (HDIP)

HDIP is payable to crew members whose duties can only be performed on an in-flight aircraft. Monthly payments range from $110 to $250 per month.

Foreign Language Proficiency Bonus Pay

A monthly payment, not to exceed $500 for a single language or dialect, or $1,000 for two or more, is payable to those who maintain proficiency in specific foreign languages and dialects designated by the military departments.

Hardship Duty Pay–Location (HDP–L)

These payments are for officers and enlisted personnel for service in locations where living conditions are substantially below those in the continental United States. Payments range from $50 to $150 depending upon the duty location.

Hazardous Duty Incentive Pay (Non-Aircrew Members)

A $150 monthly payment is authorized for members required to perform certain hazardous duties. Qualifying duties include demolition work, parachute jumping, work with toxic fuels or pesticides, work inside pressure chambers, flight duty as a non-crew member, flight deck operations, and similar hazardous duties. Additionally, in the field of parachute jumping, there is a monthly High Altitude Low Opening (HALO) pay of $225 which may be authorized for members who perform unique parachute duties.

Servicemembers that meet the requirements for more than one type of hazardous duty pay during the same period are entitled to receive a maximum of two types of hazardous duty pay. This presumes that the individual in question was assigned to a unit whose mission involves the performance of both types of hazardous duties.

Hostile Fire and Imminent Danger Pay

A $225 monthly payment is authorized to members who perform duties within areas designated as imminent danger zones.

Involuntary Separation Pay

This is a special lump-sum payment authorized for certain members who are involuntarily separated from the service (for reasons other than misconduct) after having served at least six years but less than 20 years on active duty.

Medical Pay

Military personnel who are serving in various medical specialities are entitled to receive a variety of special pays. Health Professions Special & Incentive (HPS&I) pay is paid to Health Profession Officers (HPOs) for the specialty for which they are fully qualified. Being an HPO doesn't necessarily mean being a medical doctor. Pharmacists, dentists, social workers, veterinarians, mental health specialists and nurses also qualify to name just a few.

Special Duty Assignment Pay

A monthly payment ranging from $75 to $450 is given to enlisted members who perform duties that have been designated as being extremely difficult or involving a high degree of responsibility.

ALLOWANCES

Basic Allowance for Housing (BAH)

BAH is a monthly allowance for members not assigned to government quarters. The objective of the BAH program is to ensure the same out-of-pocket housing expense for each member regardless of duty location. BAH covers 95% of housing expenses with members paying 5% of their housing expenses out of pocket.

The 2024 BAH rates increased by 5.4%. The increase is an average for all areas and actual rates will continue to be set by the individual location based on the current local rental housing market survey process. A key feature of the BAH program is "rate protection." Rate protection ensures that service members will not have a reduction in their BAH payment even if rates go down. The rate in effect when the member arrives at their duty station is the guaranteed minimum rate they will receive during their current assignment. Also, if rate increases are made for a given location, then everyone assigned to that location will receive the benefit of the new rate increase.

Basic Allowance for Subsistence (BAS)

BAS is a monthly allowance designed to offset the cost of meals to the member. In 2024, officers receive $316.98 a month regardless of rank. Upon completion of initial training, enlisted members who are authorized to mess separately receive $460.25 per month.

Clothing Allowance

All officers are entitled to an initial uniform allowance which is usually payable only once. Enlisted personnel receive an initial uniform issue at the time of entry into the service, and are subsequently paid an annual clothing replacement allowance.

Conus Cola

The Cost of Living Allowance for the Continental United States is designed to partially offset the higher, non–housing costs experienced by active duty members living in designated high cost areas in the United States. The amount varies based upon rank, dependent status, years of service and geographical location.

Dislocation Allowance (DLA)

Dislocation Allowance is designed to partially reimburse active duty personnel for the expenses they incur in relocating their households in conjunction with a permanent change of station. The allowance is determined by the member's grade and is paid at either a "with dependents" or "without dependents" rate.

Family Separation Allowances (FSA)

FSA is payable only to members with dependents. The monthly payment of $400 is designed to provide compensation for the added expenses incurred because of an enforced family separation under one of the following conditions:

FSA–R

Transportation of dependents is not authorized at government expense and the dependents do not live in the vicinity of the member's home port/permanent duty station.

FSA–S

The member is on duty aboard a ship, and the ship is away from the home port continuously for more than 30 days.

FSA–T

The member is on TDY/away from the permanent duty station continuously for more than 30 days and the member's dependents do not reside at or near the TDY/TAD station.

Overseas Station Allowances

Overseas Station Allowances consist of a series of payments designed to help defray the additional costs for food, lodging, and related incidental expenses incurred by active duty members and their dependents as a result of assignment to permanent duty outside the United States. This allowance contains four separate components:

- Cost of Living Allowance (COLA);
- Overseas Housing Allowance (OHA);
- Temporary Lodging Allowance (TLA); and,
- Interim Housing Allowance (IHA).

The amount of each of these allowances varies geographically because the excess costs upon which they are based vary from one foreign locality to another.

Temporary Lodging Expense (TLE)

Temporary Lodging Expense is designed to partially offset the lodging and meal expenses incurred by active duty personnel and/or their dependents when it is necessary to occupy temporary lodgings in conjunction with a permanent change of station (PCS). The allowance is payable for a limited period of time — up to ten days in connection with a CONUS PCS and up to five days in conjunction with a PCS to a duty station outside CONUS.

Access to your pay account

View MyPay

MyPay is a great tool to help members of the military, defense civilians, retirees, and annuitants manage their pay. This tool lets you make changes to your pay account information online at anytime on the **MyPay website**. MyPay allows you to view your LES, adjust the amount of your federal and state tax withholdings, change direct deposit accounts for your monthly pay, etc. Features vary slightly by service and status.

Thrift Savings Plan (TSP)

View TSP

The Thrift Savings Plan is an optional retirement investment program that is similar to 401(k) plans administered by many private corporations. Active, reserve, and guard members can contribute to the plan from their military pay and are entitled to keep both their contributions and additional earnings regardless of whether they leave the service prior to retirement or actually retire from military service. On **tsp.gov**, you can access your investment account, get current information on the performance of various funds, find retirement planning information, and more.

Enrollment and Member Contributions

If you are not covered by the Blended Retirement System (BRS), your account is established by your service after you make a contribution election using your service's automated system such as myPay. If your service does not use an electronic system, you can complete form TSP–U–1 which can be downloaded at **tsp.gov**. You may sign up to contribute to the TSP at any time.

If you are a BRS member who began or rejoined service after October 1, 2020, your service automatically enrolled you in the TSP, and 5% of your basic salary is deducted from your paycheck every pay period and deposited into the traditional balance of your TSP account unless you made a contribution election to stop or change your contributions. If you are a BRS member who stopped your contributions during the year, you are automatically re-enrolled at 5% of your basic pay on January 1.

If you are a BRS member who began or rejoined service between August 1, 2010 and September 30, 2020, you were automatically enrolled at 3%.

You may invest up to 100 percent of your basic pay each pay period. Contributions are limited only by the restrictions imposed by the Internal Revenue Code. For 2024 tax rules limit the annual dollar amount that can be contributed to $23,000. If you are age 50 or older and are already contributing the maximum amount of regular TSP contributions, you may elect to make up to $7,500 in additional "catch–up" contributions.

If you contribute to the TSP from your basic pay, you may also contribute up to 100 percent of any incentive, special, or bonus pays that you earn. You may start, stop, or change your contribution at any time. You can not invest any allowances (BAS, BAH, etc.) that you receive.

Service Automatic and Matching Contributions

If you are covered by the BRS, your service will automatically contribute an amount equal to 1% of your basic pay into your TSP account each pay period. This does not come out of your pay. If you elect to contribute a portion of your pay, your service will match dollar to dollar up to 3%. For every dollar beyond 3% and up to 5%, your service will contribute 50 cents. So if you contribute 5%, you will receive a 4% matching contribution plus 1% automatic for a total of 5% from your service.

There is no service contribution if you are under the traditional retirement system.

Withdrawal

Since the TSP is designed to be a long-term retirement savings program, withdrawals made before 59 1/2 years of age may be subject to a 10% early withdrawal tax. The simplest rule to get around the 10% penalty before 59 and 1/2 is if you retire in the year you turn age 55 or later. For example, if you turn 55 in December of this year and you retire this year as well, then you'd be able to access your TSP without the 10% penalty.

TRICARE Health Care Programs

2

Overview of TRICARE

TRICARE is a regionally based health care program that employs Managed Care Support Contractors (MCSC) to coordinate medical services at both military and civilian treatment facilities. The two main options: TRICARE Prime and TRICARE Select.

TRICARE Prime

If you are an active duty service member, you must enroll in TRICARE Prime. Prime is also available to Active Duty Family Members (ADFM), retirees and their families.

Prime is a Health Maintenance Organization (HMO) option that is similar to many programs offered by civilian employers across the U.S. In addition to treating you when you are ill, this option focuses on keeping you healthy through preventive care and services such as periodic physical exams, mammograms, and prostate screenings. In order to participate, you must enroll in the TRICARE Prime option. Enrollment is for one year and, depending upon eligibility status, you may be required to pay an annual enrollment fee. While the Prime option does not have an annual deductible, it may require the payment of cost sharing fees for prescription drugs, civilian doctor visits, and other services.

TRICARE Select

This program is available to the same population as Prime except for those on active duty. Select allows you to manage your own health care and gives you the freedom to seek care from any TRICARE-authorized provider you choose. Enrollment fees are only applicable for beneficiaries whose sponsor's initial enlistment or appointment occurs on or after January 1, 2018. Additionally, participants in the Select program will have an annual deductible for outpatient services and cost-shares for most services.

Which Plan Is Right For You?

If you are an active duty service member, you must enroll in TRICARE Prime. All other eligible beneficiaries have the option to enroll in either the Prime or Select options.

TRICARE Prime offers fewer out-of-pocket costs than TRICARE Select but less freedom of choice for providers since you must select a provider from the network.

If you are concerned about selecting your own physician, you may not want to be restricted to using only those providers who are members of the Prime network — in this case, TRICARE Select option may be a better choice.

Enrollment

You must enroll in one of the TRICARE programs to participate. TRICARE Open Season is the annual period when you can enroll in or change your health care coverage for the next year. Each year, the TRICARE Open Season runs from the Monday of the second full week in November through the Monday of the second full week in December. Open season applies to anyone enrolled in or eligible for a TRICARE Prime option or TRICARE Select. During Open Season you can choose to a) keep your plan; b) enroll in TRICARE, or; c) change your plan.

Outside of TRICARE Open Season, you can enroll in or change enrollment to TRICARE Prime or TRICARE Select following a Qualifying Life Event (QLE). A QLE is a certain change in your life, such as marriage, birth of a child, or retirement from active duty.

Active duty members and dependents

Active duty members must enroll in one of the TRICARE Prime options depending on where they live. Dependents of active duty members may also enroll in TRICARE Prime without paying an annual enrollment fee. Dependents of active duty personnel who do not enroll in TRICARE Prime may choose to participate in TRICARE Select.

Retirees and dependents

In order to participate in a TRICARE program, retirees and their dependents must enroll in either the Prime or Select option. Retirees and their dependents living more than 40 miles from a military treatment facility are not eligible to participate in TRICARE Prime. However, they may apply and be allowed to participate in the program if they agree to waive their "drive time" standards to receive primary and speciality care under the Prime option.

Tricare For Life (TFL)

The objective of the TRICARE For Life program is to offer secondary coverage to TRICARE eligible beneficiaries who have both Medicare Part A and B. It does not affect retirees under age 65 (with the exception of those who are Medicare eligible due to disability).

Long Term Care

Long term care is not a covered benefit under either Medicare or TFL. Consequently, the costs of long term care must be borne by either the beneficiary or through private insurance. As a general rule, long term care involves situations where individuals require assistance with their ***non–medical*** personal care needs. Normally people who are unable to perform at least two activities of daily living (i.e., eating, dressing, bathing, etc.) are considered to be in a long term care status.

Dental Care

Complete dental care is provided to all active duty members under the Active Duty Dental Program. However, dental care is generally not authorized for either retirees or the dependents of active duty or retired members at military facilities within the United States. Routine treatment may be available at overseas locations and emergency dental care is authorized worldwide.

Learn more

View TRICARE plans on their **website**.

Visit TRICARE

Military Retirement

3

Retired Pay Background

The traditional retirement system is a non–contributory plan that provides defined benefits at any age. Normally, military retirees who have honorably served for 20 years on active duty receive a 50% pension. The Blended Retirement System changes some of these facts as you will read later in this chapter.

Over the years, participation in the program has increased significantly with now over 2 million retirees and survivors receiving benefits totaling approximately $50 Billion.

DIEMS (Date Initially Entered Military Service). There are four different retirement systems in existence. The applicability of each system is determined by your Date Initially Entered Military Service (DIEMS). The DIEMS date is the earliest date of enlistment, induction or appointment in a regular or reserve component of a uniformed service as a commissioned officer, warrant officer, or enlisted member.

Retired Pay Systems

DIEMS before September 8, 1980

Final Pay System

The computation of retired pay is a three–step process:

Step One
Determine a "retirement factor" by multiplying years of service for retired pay by 2.5%. The factor is increased for full months of service completed in the final year of duty.

Step Two
Determine your monthly base pay at time of retirement.

Step Three
Multiply the retirement factor (Step 1) by the monthly base pay (Step 2) and round this amount down to the nearest whole dollar.

DIEMS between September 8, 1980 and July 31, 1986

High–36 System

The computation of retired pay is a three–step process:

Step One
Determine a "retirement factor" by multiplying years of service for retired pay by 2.5%. The factor is increased for full months of service completed in the final year of duty.

Step Two
Determine the average monthly basic pay received during the highest 36 months of active duty.

Step Three
Multiply the retirement factor (Step 1) by the average monthly basic pay (Step 2) and round the amount down to the nearest whole dollar.

DIEMS between August 1, 1986 and December 31, 2017

High–36 or CSB/Redux System

Members in this group are automatically covered under the High–36 system. However, those members who are qualified under service regulations for retention to 20 years of active service, may elect to use the optional CSB/REDUX formula which has three phases:

Phase One
Between the 14 1/2 and 15th year of active service, you elect the REDUX option. At that time, you will be given a $30,000 Career Status Bonus (CSB). Members who receive this bonus must agree to serve a minimum total of 20 years. Although the bonus is taxable, a portion of the payment may be sheltered through contributions to both IRA and Thrift Savings Accounts.

Phase Two

At the date of retirement, your retirement benefit is calculated using the average monthly basic pay received during the highest 36 months of active duty. However, the percentage multiplier that is initially used is lower than those used in the other formulas. For 20 years of service, members retiring under the CSB/REDUX plan receive a 40% retirement factor versus a 50% retirement factor for comparable service under the Final Pay and High–36 retirement plans. For each additional year of service beyond twenty, the CSB/REDUX retirement factor is 3.5% through year 30. Members who retire with over 30 years of service receive 2.5% for each year of additional service.

While the annual percentage increase under the CSB/REDUX plan is higher, the plan's lower percentage for twenty years of service results in members initially receiving less retirement income for each year before thirty years of service.

Phase Three

At age 62 the retirement percentage factor that would have applied under the High–36 Formula is now applied to the CSB/REDUX retiree. This recomputation is commonly referred to as the Catch–Up aspect of the CSB/REDUX system. If you retire with less than thirty years of service, the Catch–Up computation will increase your retired pay. However the new retirement factor is not retroactively applied to previous retirement payments.

In summary, the computation of retired pay under the CSB/REDUX system is a four step process:

Step One

Determine the retirement factor for years of service.

Step Two

Determine the average monthly base pay received during the highest paying 36 months of active duty (prorated for months of service).

Step Three

Multiply the appropriate retirement factor (Step 1) by the average monthly base pay (Step 2) and round the amount down to the nearest whole dollar.

Step Four

At age 62, recompute the entitlement using the retirement factor that would have applied under the High–36 system.

Retirement Info

While the $30,000 bonus that is included with the REDUX retirement plan may seem like a nice windfall five years before you reach the 20-year pension mark, it is important to understand the long-lasting effects that will impact your total retirement income. Ultimately each member must make their own decision based upon their personal preference and individual circumstances. To assist with the decision process, more information and retirement calculators are available on the **DoD Military Pay website**.

DIEMS on or after January 1, 2018.

Blended Retirement System (BRS)

This military retirement system blends the traditional legacy retirement pension with a defined contribution to members' Thrift Savings Plan account. Members who enter service on or after January 1, 2018 are automatically enrolled in the BRS. Active members with fewer than 12 years of service and Reserve Component Service members who had accrued fewer than 4,320 retirement points as of December 31, 2017 had a one-time window to opt into the Blended Retirement System.

The BRS contains both a Defined Contribution and a Defined Benefit (pension) component.

Defined Contribution

This component incorporates the Thrift Savings Plan into the blended system by providing both automatic and matching contributions.

For members under the BRS who begin service on or after October 1, 2020, you are automatically enrolled at 5% of your basic salary. If you began service prior to September 30, 2020, you were automatically enrolled at 3%. These amount can be changed once enrolled. Visit www.tsp.gov for more information on the TSP.

Your service will also automatically contribute an amount equal to 1% of your basic pay into your TSP account each month. The Service Automatic Contribution is not taken from your pay and is on a pretax basis. In addition, if you elect to contribute a portion of your own pay into your TSP account, your service will match up to an additional 4% of your basic pay. Your contribution is taken from your pay on a pretax basis.

For members who entered active service on or after January 1, 2018 the Automatic Contribution begins after 60 days of service and the Service Matching Contribution will begin after completing two years of service. For members who elected to opt in, both the Service Matching and Automatic Contributions began immediately.

Members are immediately vested in their contributions, the Service Matching Contributions, and the earnings associated with these funds. To become vested in the Service Automatic Contributions, however, you must have completed two full years of service. If you had completed two years of service before opting in, you were immediately vested.

The defined contribution is a change from the legacy systems where there is no service contribution to your TSP. Under BRS, once you are vested, you walk away with the service contributions in your TSP account even if you don't stay in the service for 20 years. In 2024, you can contribute up to $23,000 in your TSP.

The matching contributions add up. For example, an E-3 in BRS who does not contribute to her TSP for five years is losing out on more than $6,000 in estimated DoD matching contributions and earnings. However if she contributes 5 percent of her pay over those 5 years, she would have around $16,000 in her retirement stash, counting DoD's match and the earnings on the money.

Defined Benefit

Members who stay in the Uniformed Service for 20 or more years are eligible to receive a defined benefit (pension) based on a percentage of their basic pay.

The benefit amount is calculated using the same steps as the High—36 system (discussed earlier in this chapter), except the BRS uses a multiplier of 2% rather than High—36's 2.5%. This means that after 20 years of service your pension would be 40%.

Step One

Determine a "retirement factor" by multiplying years of service for retired pay by 2%. The factor is increased for full months of service completed in the final year of duty.

Step Two

Determine the average monthly basic pay received during the highest three years (36 months) of active duty.

Step Three

Multiply the retirement factor (Step 1) by the average monthly basic pay (Step 2) and round the amount down to the nearest whole dollar.

Continuation Pay

The BRS contains a Continuation Pay provision which is a direct cash payout — similar to a retention bonus. It is payable between 8 to 12 years of service and is designed to encourage members to remain in service. It is payable at the discretion of each military service and will generally be a function of specialty skill and retention rates.

Lump Sum Option

Service members under BRS who qualify for retired pay, may be eligible to elect either a 25 or 50 percent discounted portion of their monthly retired pay as a lump sum in exchange for reduced monthly retired pay. Monthly retired pay returns to the full amount when they reach their full Social Security retirement age which is generally age 67.

Retired Pay Increase

Retirement pay is adjusted to meet the increased cost of living. This Cost-of-Living-Adjustment (COLA) varies based on the previous year's Consumer Price Index (CPI).

Enlisted Personnel Retirements

In order to qualify for voluntary retirement, enlisted members must generally have completed at least twenty years of active military service. They are normally retired in the active duty grade held at the time of retirement. However, if a member's active service plus service on the retired list totals 30 years, he or she may be advanced on the retired list to the highest grade satisfactorily held on active duty and receive retired pay based on that higher rank.

If an enlisted member held a commission as a reserve officer and at least ten of the member's qualifying years for retirement were served as a commissioned officer, he or she may retire and receive retired pay based upon the commissioned rank held.

Officer Retirements

Military officers are normally eligible for voluntary retirement upon completing twenty years of Total Active Federal Military Service (TAFMS), at least ten years of which were active commissioned service. Unless the officer is entitled to retire at a higher grade under some other law, retirement is usually at the highest grade satisfactorily held on active duty provided certain time–in–grade requirements are met. Officers having twenty years of active service who desire to retire before completing ten years of active commissioned service, must normally retire in an enlisted status. If their DIEMS date places them in the High–36 category, only their enlisted basic pay will be used to calculate the average of their highest three years of basic pay. Officers who do not complete the time–in–grade requirement will normally be retired at their previous grade. However, those who are eligible for the High–36 formula may count their service at their highest grade for purposes of determining the highest 36 months of basic pay.

Mandatory Retirements

The Army, Navy, Marines, Air Force, Space Force, and Coast Guard all set their own policies, so the maximum age for service varies slightly in each branch, and even for different ranks within a branch. The policies change frequently based on military needs and budgets. In general, regular officers holding the rank of Major General and below (O–8 and below) are required to retire upon reaching age 64. Officers in the grades above Major General (O–9 and O–10) usually have a mandatory retirement age of 64 as well, but this can be extended to age 68 by the President.

Disability Retirements

Members receiving disability retirement will receive the highest retired pay computed under one of the following formulas:

Percentage of Disability Formula

This method determines retired pay by multiplying final basic pay times the percentage disability rating.

Length of Service Formula

This method determines disability retired pay using the High–36 formula previously discussed.

Survivor Benefit Plan

4

The Survivor Benefit Plan (SBP)

Military retired pay stops upon death of the retiree. The Survivor Benefit Plan (SBP) allows a retiree to ensure, after death, a continuous lifetime annuity for their dependents.

The plan has several valuable features including government subsidization of program costs, payment of lifetime benefits to eligible beneficiaries, and inflation protection through cost of living adjustments. Additionally, the member's SBP cost is paid from pre–tax dollars which means that the monthly premium payments reduce the retiree's taxable income.

Who can participate?

Active duty members who are retiring are automatically enrolled in the SBP. This automatic enrollment is at the maximum dollar level of coverage for eligible dependents at the time of retirement. The spouse's written consent is required if married members (a) do not want to join; (b) desire to participate at a level below the maximum base amount; (c) wish to elect "child only" coverage; (d) with REDUX retirement do not elect as a base amount the full retirement they would have received under the High–3 retired pay plan; (e) with BRS retired pay elected lump sum retirement and did not elect as a base amount the full retirement pay they would have received without the lump sum. In summary, the spouse must specifically agree to receive less than the maximum SBP benefit allowance.

Who can be beneficiaries?

Beneficiaries may include a member's spouse; spouse and child; child only; former spouse; former spouse and child; or when there is no spouse or child, an election may be made to select a person with an insurable interest.

How much does the beneficiary receive?

The amount of the survivor's annuity is 55% of the base level of coverage selected by the member.

The SBP premiums and benefits depend on what is referred to as the "base amount." The base amount is the dollar amount of coverage that is elected. The base amount can be any amount ranging from $300 to the full amount of the member's retired pay.

How much does it cost?

All active duty members receive SBP coverage at no cost. The monthly cost for retirees to participate in the SBP program depends upon the dollar level at which the member elects to participate and the beneficiaries designated to receive SBP benefits.

Paid–up premium provision

Once a retired member has made 360 months of premium contributions and is at least 70 years of age, the member is considered "paid–up" and does not have to make additional premium contributions.

Disenrollment

There are a few circumstances in which a member may terminate his or her SBP coverage. SBP participants have a one time, one year window of opportunity to terminate coverage between the 25th and 36th month following commencement of retired pay. Termination requires spousal or former spouse concurrence and no premiums are refunded for coverage already received. Also, the member is barred from re–enrolling at a future point in time.

A member may also withdraw with their spouse's consent, if he or she has been rated by the VA as totally disabled for ten continuous years (or five continuous years since retirement).

Dependency and Indemnity Compensation (DIC)

When the death of an active duty or retired member of the Armed Forces is the result of a service–connected injury or disease, certain members of his or her family may qualify to receive monthly Dependency and Indemnity Compensation (DIC) benefit payments from the Department of Veterans Affairs (the VA).

Taxation of SBP annuities

The amount a retiree pays to participate in the SBP program is tax free and is not reported on the end of year wage and tax statement issued by the Defense Finance & Accounting Service (DFAS). Consequently, the amount paid to a member's beneficiaries after his or her death is considered taxable income.

Veterans Benefits

5

Veterans Benefits in General

Most VA benefit programs were established for veterans who served during periods of military conflict or during the peacetime period that immediately followed the conflict. There are presently over 16 million veterans eligible to participate in these programs.

Normally, in order to qualify for a VA benefit program, a veteran's military service must have been terminated under honorable conditions. Dishonorable discharges usually disqualify the veteran from benefit programs. Those with Bad Conduct and General Discharges may qualify for some benefits depending on a VA determ–ination of facts surrounding the member's discharge.

While many programs are available throughout a veteran's lifetime, some benefits have a limited eligibility period; for these, the veteran must either apply within the specified time frame or lose the benefit.

Application periods for the major programs are outlined in the table to the right. More information can be found on the **VA Benefits website**.

Veteran's Benefit Timetable	
Veteran's Benefit	**Application Period**
Education:	
Post–9/11 GI Bill	No time limit for members discharged after January 1, 2013. 15 years for members discharged prior to 2013.
MGIB–AD	10 years from date of discharge.
Veteran Readiness & Employment	No time limit for members discharged after January 1, 2013. 12 years for members discharged prior to 2013.
Disability Compensation	No time limit.
Pension Benefits	No time limit.
Health Care	No time limit.
Dental Care	180 days from the veteran's date of discharge or separation from active military duty.
Home Loan Program	No time limit.
Life Insurance	Application period depends upon insurance program.
Burial	No time limit.
Survivor Benefits	No time limit.

Educational Support

The primary programs for active duty members are the Post–9/11 GI Bill and the Montgomery GI Bill—Active Duty (MGIB–AD). Visit the **VA Benefits website** for details.

GI Bill Info

You may be eligible for more than one VA education benefit program. However, you may only receive payments from one program at a time.

Post–9/11 GI Bill

The Post–9/11 GI Bill is an education benefit for individuals who served on active duty on or after September 11, 2001. The program provides up to 36 months of benefits.

Dependent Transfer

Active duty members may elect to transfer their Post–9/11 educational benefits to either their spouse and/or dependent children. Additional information can be obtained on the **VA Benefits website**.

Transfer Info

Fry Scholarship

This is an amendment to the Post–9/11 GI Bill that makes education benefits available to the surviving spouse and children of service members who die in the line of duty after Sept. 10, 2001. Eligible dependents are entitled to 36 months of benefits at the 100% level of the Post–9/11 GI Bill. This includes the tuition and fee payment, a monthly housing allowance, and a books and supplies stipend. Children are eligible for this benefit until their 33rd birthday. A spouse will lose eligibility to this benefit if he or she remarries within 15 years of the service member's death.

Yellow Ribbon Program

The Post-9/11 GI Bill can cover all tuition and fees at public degree granting schools, but may not cover all private and foreign degree granting schools. The Yellow Ribbon Program provides additional support in those situations. Institutions voluntarily enter into an agreement with the VA to fund uncovered charges. The VA matches each dollar of unmet charges the institution agrees to contribute, up to the total cost of the tuition and fees. Only veterans entitled to the maximum benefit rate, as determined by service requirements, or their designated transferees may receive this funding. Recipients of the Fry Scholarship and Purple Heart are also covered under the Yellow Ribbon Program.

ROTC and Academy Graduates

Officers who graduated from service academies or received ROTC scholarships qualify for the Post-9/11 GI Bill benefit. However, time spent satisfying the ROTC/service academy active duty obligation does not count toward the active duty service necessary to qualify for education benefits.

Montgomery GI Bill—Active Duty

The MGIB program provides up to 36 months of education benefits to eligible veterans and service members who have at least 2 years of active duty. This benefit may be used for degree and certificate programs, flight training, apprenticeship/on-the-job training and correspondence courses. Educational institutions approved for training include colleges, universities, business and technical schools, and other schools providing education at a secondary or higher level. Additionally, selected correspondence, co-op and on—the—job training programs may be eligible for support.

Benefits under the MGIB are on a contribution basis. You must contribute $100 of pay each month during your first year of active service (a maximum contribution of $1,200). You can substantially increase these benefits by making additional contributions above $1,200 while on active duty. For example, MGIB participants who use their full 36 months of entitlement, can increase their benefits by $5,400 by making the maximum additional contribution of $600.

Entitlements under the MGIB expire at the end of the ten year period following the date of your last discharge or release from active duty, or the last day on which you become entitled to such assistance, whichever date is later.

Veteran Readiness and Employment (VR&E)

This program assists veterans with service-connected disabilities to prepare for, find, and keep suitable jobs. For veterans with service-connected disabilities so severe that they cannot immediately consider work, this program offers services to improve their ability to live as independently as possible.

To be eligible for VR&E, you must you must have been discharged or released under conditions other than dishonorable and have a service—connected disability rating of at least 10%.

Disability Compensation

A veteran who is disabled by injuries or by a disease incurred in or aggravated during active military service is considered to have a service—connected disability. After separation from active duty, the veteran will usually qualify for monthly disability compensation, provided he or she was not separated or released under dishonorable conditions. The amount of this compensation is based on the veteran's percentage of disability, which is determined by the VA.

Health Care Assistance

Eligible veterans may qualify for a number of free or low-cost health care benefits including hospital care, nursing home care, domiciliary care, outpatient pharmacy services, and outpatient dental treatment.

Nursing Home Care

Nursing home care in VA or private nursing homes may be provided for veterans who are not acutely ill and are not in need of hospital care. First priority is given to veterans who have a service—connected disability. Veterans whose illness is non—service—connected may receive support based upon income eligibility criteria.

Domiciliary Care

Domiciliary care is long-term health maintenance support provided for veterans who do not need hospitalization or nursing home care. Eligibility is based upon income criteria.

Home Loan Guaranty Program

Virtually all veterans who served on active duty during a wartime period, as well as present active duty personnel who have served at least 24 months of continuous duty (90 days, if called to active duty), qualify for home loans under the Home Loan Guaranty Program. An unmarried surviving spouse of a veteran who served during these periods and who died as a result of service–connected disabilities may also qualify for the program. Additionally, members of the Reserve and National Guard who have served a minimum of six years are generally eligible.

Under this program the VA provides a limited guaranty to financial institutions that agree to furnish a mortgage for the veteran's property. This guaranty assures the institution that, should the veteran default on the loan, the VA (depending on the circumstances) will either pay the institution a guaranteed amount of the outstanding mortgage or pay the balance of the mortgage and assume title to the property. Veterans who have full entitlement may obtain no–down payment VA–backed loans in all areas of the country, regardless of home prices. Loan limits apply for those who have remaining entitlement. The standard VA loan limit in 2024 is $766,550 for most U.S. counties. VA loan limits for high–cost counties, top out at $1,149,825 for a single–family home.

This program can be used to buy a detached home, townhouse, condominium, mobile home or farm (but not farm machinery or livestock). Also, the VA loan guaranty can be used to refinance an existing home loan, make repairs or improve an existing home, and to buy a lot for a mobile home the veteran already owns. Visit the **VA Benefits website** for more information.

VA Home Loans

Life Insurance

Many commercial insurance policies contain war clauses which deny benefits if the death of the insured is the result of war or conflict. To fill this void, the government has sponsored a series of life insurance programs which have provided uninterrupted protection for military personnel and veterans since 1919. The following discussion examines the major programs that are currently open for enrollment. Further information can be found on the **VA Benefits website**.

Life Insurance

Servicemembers' Group Life Insurance (SGLI)

SGLI coverage is available in $50,000 increments up to the maximum of $500,000. Active duty members are automatically insured for $500,000. The cost of SGLI coverage $.60 per month per $10,000 of coverage — $500,000 of coverage costs $30 per month.

Servicemembers can use the SGLI Online Enrollment System (SOES) to manage the amount of their SGLI and spouse coverage and to designate or update beneficiaries. To access SOES, go to the **milConnect website**, to sign in and go to Benefits, Life Insurance SOES — SGLI Online Enrollment System.

Access SOES

SGLI does not build a cash value, has no loan value, and provides no extended coverage value. Members may designate any individual or legal entity (such as a trust) to be the beneficiary of their insurance. SGLI settlement options are fairly simple — proceeds can be paid in either a lump sum or 36 equal installments at the discretion of the member or the beneficiary if the member did not select an option.

Traumatic SGLI (TSGLI)

This program is a rider under SGLI that provides payment to any member of the uniformed services covered by SGLI who sustains a traumatic injury that results in certain severe losses. Coverage is automatic for any member covered by SGLI for an additional $1 a month. Insurance payments are based upon the severity of the injury and range from $25,000 to $100,000.

Family Servicemembers' Group Life Insurance (FSGLI)

Members with SGLI are eligible to get FSGLI coverage for their dependent children and spouse (unless the child or spouse is insured under SGLI as a Servicemember). Spousal coverage cannot exceed $100,000 and the monthly premium costs are determined by the amount of coverage and age of the spouse. The cost of FSGLI ranges from $0.45 per $10,000 coverage for a spouse under 35 to $4.50 per $10,000 coverage for a spouse over 60. The program provides $10,000 of coverage for dependent children at no cost to the service member.

Veterans' Group Life Insurance (VGLI)

The Veterans' Group Life Insurance program is designed to give military personnel the opportunity to continue the insurance protection they had under SGLI. When a member separates from active duty, his or her active duty insurance (SGLI) remains in force for 120 days. Coverage under VGLI is designed to go into effect on the 121st day following separation, thus providing the member with continuous insurance protection.

Veterans must apply to convert SGLI to VGLI within one year and 120 days from discharge. If their application is submitted within 240 days after discharge, they do not need to submit evidence of good health. Those who apply after the no-health period are required to answer questions about their health. You can apply online or create an account to pay your premiums, update your beneficiaries, and manage your account on the **Prudential website**.

Access VGLI

The amount of initial VGLI coverage is limited to the amount of SGLI coverage had while serving on active duty. However insureds under age 60 with less than $500,000 of coverage, may purchase up to $25,000 of additional coverage every 5 years up to a $500,000 maximum without medical underwriting. Payments for VGLI coverage are made by the insured and are sent directly to the Office of Servicemembers' Group Life Insurance. The premium cost will depend on both the level of protection and your age. A complete rate table is available on the **VA Benefits website**.

VGLI Rates

VGLI is a five year renewable term policy. Every five years the program allows the insured to renew their coverage at either the current benefit level or a lower benefit level. Premium cost is determined by age at time of renewal. Also, VGLI coverage may be converted to an individual life insurance policy at any time with a commercial company that participates in the program.

VGLI is similar to SGLI in that it does not build up either a cash or loan value; you can name as a beneficiary any person, firm or legal entity; and, settlement options of either lump sum or 36 monthly payments are available.

Accelerated Benefit

The SGLI, FSGLI, and VGLI programs offer an accelerated benefit option for insured members who are terminally ill. Under this option the insured may elect to receive up to 50% of their coverage in a lump sum prior to their passing. To be considered terminally ill, the insured must have an anticipated life expectancy of nine months or less.

Veterans Affairs Life Insurance (VALife)

This is a new program started in January 2023 to provide low-cost coverage to veterans with service-connected disabilities. Guaranteed acceptance whole life insurance coverage is available up to $40,000 (in $10,000 increments) to veterans age 80 and under, with any level of service-connected disability. Some veterans age 81 and older may also be eligible.

Burial Benefits

With few exceptions, every veteran, their spouse, and minor children are eligible to be buried in a national cemetery provided the member completed their required period of service and was discharged under conditions other than dishonorable. However, the VA does not make funeral arrangements or perform cremations. Families should make these arrangements with a funeral provider or cremation office. Any item or service obtained from a funeral home or cremation office will be at the family's expense.

National Cemeteries

The VA maintains 155 national cemeteries in 42 states (and Puerto Rico). Funeral directors or others making arrangements should contact the cemetery of choice at the time of death. Gravesites in national cemeteries cannot be reserved. Assistance can be obtained from the National Cemetery Scheduling Office at 1-800-535-1117.

Arlington National Cemetery

Arlington National Cemetery is under the jurisdiction of the Army. Due to space constraints, eligibility for burial is more limited than at other national cemeteries. For information on Arlington burials, call 703-607-8585.

Grave Marker or Headstone

A grave marker or headstone is automatically provided and placed over the grave (free of charge) when a veteran or eligible family member is buried in a national cemetery. If buried in a private cemetery, the VA will provide (free of charge) a government grave marker, but the veteran's survivors must apply for the marker and pay for placing it on the grave. The maximum allowance for headstones and grave markers is $290 depending on date of death.

Burial Flag

The VA will provide a United States flag to drape over the deceased veteran's casket. After the burial ceremony, the flag is usually given to the veteran's next of kin, or to a close friend if there is no next of kin.

Funeral Honors

Upon request, the DoD will provide military funeral honors for the burial of military members and eligible veterans. The basic ceremony consists of the folding and presentation of the American flag and the playing of Taps by either a bugler or electronic recording. The honors detail will consist of two or more uniformed members of the Armed Forces. The DoD maintains a toll-free telephone line (877–MIL–HONR) for use by funeral directors who are coordinating the honors ceremony.

Survivor Benefits

Benefits include Dependency and Indemnity Compensation, Survivors Pension, and Educational Assistance.

Dependency and Indemnity Compensation (DIC).

This is a tax-free monetary benefit paid to eligible survivors of military servicemembers who died in the line of duty or eligible survivors of veterans whose death resulted from a service-related injury or disease. Dependency and Indemnity payments may be authorized to the surviving spouse; unmarried children under 18; children between the ages of 18 and 23 who are attending a VA approved school; and, low income parents of both active duty and veteran personnel.

Survivors Pension

The Survivors Pension benefit, which may also be referred to as the Death Pension, is a tax-free monetary benefit payable to a low-income, surviving spouse and/or unmarried child(ren) of a deceased veteran with wartime service. Yearly family income must be less than the amount set by Congress to qualify for the Survivors Pension benefit.

Survivors and Dependent's Educational Assistance (DEA)

There are two main GI Bill programs offering education assistance to survivors and dependents of veterans: The Fry Scholarship for children and spouses of servicemembers who died in the line of duty after September 10, 2001 (discussed earlier) and the Survivors' and Dependents' Educational Assistance (DEA) program which offers education and training opportunities to eligible dependents of veterans who are permanently and totally disabled due to a service-related condition or of veterans who died while on active duty or as a result of a service-related condition. DEA benefits are also available to the spouse and dependent children of a member listed as a prisoner of war or missing in action for more than ninety days.

Life Insurance Overview

Building an Insurance Program

The fundamental purpose of insurance is protection. The insurance product that may best satisfy that need when you are starting out in life is term insurance. Why? Because when you are young, the premium dollars spent on term insurance will provide the most protection for the least cost. However, as you get older, the cost of term insurance can rise dramatically. Also, lower cost term coverage is usually unattainable during the later stages of life as health problems begin to occur. Consequently, most insurance advisors recommend clients move toward a combination of term and permanent insurance at a point in their lives when they can afford the higher premiums associated with permanent insurance products. By purchasing permanent insurance, you are able to lock in a specific payment for the remainder of your life and guard against being uninsurable at some subsequent point.

Why Life Insurance

The answer lies in one word — risk. The purpose of life insurance, as with all forms of insurance, is to provide protection from loss by transferring the risk associated with that loss to someone else, i.e. the insurance company. With life insurance, the loss we are generally trying to protect ourselves from is the loss of income in the event of the death of a family provider. In addition to income replacement, life insurance is often purchased to pay expenses including home mortgages and estate taxes that may exist after the insured dies, as well as funeral costs.

Many people may think that during tough economic times, life insurance is something that can be cut. However, life insurance is more important than ever in a bad economy since most plans offer guaranteed coverage amounts that are not dependent on the economy for performance. It is also important to note that death benefits from life insurance are not taxable under current law.

Types of Life Insurance

The insurance industry offers an array of products, each designed to satisfy a particular requirement in the marketplace. In fact, the variety of products coupled with the unique jargon associated with the insurance industry can make the task of simply understanding insurance options a bit daunting.

The three most popular types of insurance sold are term, whole life, and universal life. We will focus on these first, and then will examine some of the other types of life insurance including variable, group, and multiple life policies.

Term Life Insurance

Term life insurance offers protection for a stipulated period or term. The policy may be renewable annually, or it may be issued for a fixed period, say 5, 10, or 20 years. The face amount of the policy is payable only if death occurs within the period that the insurance is in force.

Most term policies are sold with a renewability clause which allows the policyholder to successively extend the insurance coverage up to a specified termination point which is usually 65 or 70 years of age. Also, many term policies have a convertibility feature that allows the holder to exchange the term policy for another type of life insurance program. The renewability and convertibility features associated with term insurance can generally be implemented "without evidence of insurability." This means that if an individual takes out term insurance when he or she is healthy and then becomes terminally ill, the renewal or conversion of the insurance cannot be denied based upon the current adverse medical condition.

Term policies issued for a fixed period of time may not have conversion options available at the end of that time. If they do have conversion options, it will be at an increased cost.

Term policies may be either decreasing or level. These words refer to the death benefit provided. Decreasing term policies provide a reduced amount of coverage for the same premium cost at each renewal period. For example, let's say you bought a $100,000 policy at age 35 for $200 a year. By the time you are 50 years of age, you will continue to pay $200 a year but the insurance coverage will have decreased to approximately $50,000. Decreasing term policies were once very common but have become rare as level term has become more competitive.

With level term policies, the amount of insurance coverage remains the same over a period of time, however the cost of the insurance increases as you get older. Some policies have renewal periods in which the premiums change at each specified period. The premiums start very low at age 25 or 30 and increase at five year intervals for the life of the policy. A more popular version of level term insurance is one in which the amount of coverage and the premiums are fixed over a period of 10, 15, 20, or 30 years. This type of insurance is referred to as "fixed level term" and enables the individual to buy term insurance to fulfill their needs over an extended period. These programs usually are available in three rate classes: preferred, standard, and smoker. Preferred rates are the lowest and offered to those with the more healthy lifestyles while smoker rates are the highest for all age categories. Rate categories may vary from company to company and include additional categories of preferred like super-preferred, as well as ratings for certain occupations or hobbies.

So what is the bottom line on term insurance? Generally, for a younger person term insurance is the least expensive form of insurance coverage. It is designed to furnish basic protection against the risk of death and is comparatively inexpensive when purchased at a point in life when the probability of death is low. Term policies do not include additional characteristics such as the accrual of cash value. While cash value is a useful feature contained in many types of policies, it can significantly increase the premium charge.

Whole Life Insurance

Unlike term insurance, which is intended to provide protection for a specified period of time, the purpose of whole life insurance is to provide protection for the duration of an individual's life. It is called permanent insurance because the amount of insurance coverage and the premium charged generally remain constant over the life of the insured. In addition to providing death protection, whole life policies contain a savings feature called cash value. The idea behind cash value is to provide the insured with some type of tangible benefit while they are alive in return for the insurance premium charges they are paying. The benefit is in the form of a savings program which generally carries a guaranteed minimum level of interest return. Consequently, the cash value of a policy will build up over time. Since the actual cost of insurance increases with age, the buildup of cash value is also used to fund these increased charges later in the life of the insured.

Based upon the duration of the premium payments, there are three types of whole life insurance — ordinary, limited payment, and single payment. Under ordinary life (also called straight life) policies, level premium payments are made on a periodic basis over the life of the insured. The earlier in life the policy is started, the lower the periodic payments will be. However, all things being equal, the earlier you start the coverage the greater will be the total payments that you make into the policy. Of the various types of whole life policies available, ordinary life offers the most death protection and the least savings buildup. Consequently, most insurance advisors agree that when death protection is the principal objective, the ordinary life policy represents the best choice for families who are filling their permanent insurance needs.

Limited-payment whole life also provides insurance coverage over the life of the insured. However, it schedules level premium payments for a specified period, generally 20 or 30 years. These are called 20 payment or 30 payment whole life policies. One advantage of limited-payment policies is a faster buildup of the policy's cash value feature. A disadvantage is higher premium costs. In fact, because of their higher premium costs, limited-payment policies are not well suited for those who want permanent insurance and whose personal circumstances require a high level of protection at a time when their income level is relatively low. The insurance needs of people in this category are better served through an ordinary life or term insurance program. Limited-payment whole life is designed for those individuals who already have enough insurance in force to protect against income loss, but who are seeking additional insurance that will also provide a supplement to their personal savings or retirement plan.

Another type of whole life policy is called single-payment whole life. With this type of policy, insurance is purchased through a one time cash payment made at the beginning of the insurance contract. This is different from ordinary life and limited pay life which provide for the payment of premiums on an installment basis over an extended period of time. An advantage of a single-payment whole life program is the immediate availability of substantial cash and loan values. Since the single premium cost is relatively expensive, these programs are generally of limited usefulness in the life insurance plans of most families. However, the investment attributes of these programs may make them useful for those individuals who are looking for a tax sheltered investment vehicle which simultaneously provides a degree of insurance protection.

So what is the bottom line on whole life? The biggest advantage of whole life is that these policies provide protection and allow the accumulation of an estate regardless of how long the insured lives. If he or she dies prematurely, the value of the policy will be paid to the beneficiaries. If the insured lives a long life, the buildup of cash value provides a source of funds which can be accessed through borrowing, policy cancellation, and fund withdrawal or conversion to a paid-up policy. Another benefit of whole life is that it allows individuals who need a lifetime of insurance to budget their payments over a relatively long period, thereby eliminating potential problems of uninsurability and the high cost associated with term policies in the later years.

Universal Life Insurance

Universal life is similar to whole life in that it provides both death protection and a cash value savings feature. With whole life policies these features are merged and the allocation of premiums between these benefits is not distinguishable to the policyholder. In universal life policies, the cost of death protection and the investment in the cash savings feature are separated.

Universal life is available with either a level death benefit or an increasing death benefit. With a level death benefit you have a fixed amount of protection, i.e. $100,000, which is the face amount of the policy. The increasing death benefit combines the face amount of the policy and the cash value for a total death benefit.

The cost of insurance protection provided by universal life policies is similar to term insurance — that is, the cost will increase as the policyholder gets older. The cash savings component earns tax-deferred interest at market rates and generally includes a guaranteed return. If all the cash value remains in the policy until the death benefit is paid, the interest earned is not taxed since the death proceeds of a life insurance policy are not considered taxable income of the beneficiary.

Other Types of Life Insurance

This discussion provides information on some of the other types of life insurance products including variable life, group life, and multiple life insurance.

Variable Life Insurance is a form of permanent life which allows the policyholder to determine how the cash value portion of the policy will be invested. In effect, the cash value accounts are set up like mutual funds, and the insurance company provides a full range of investment opportunities from conservative money market and bond funds to aggressive stock funds. Since the policyholder is allowed to direct the investment process, he or she has the opportunity to earn the highest return on the savings portion of the whole life policy. However, with variable life there may be no minimum guaranteed return. Also, the amount of insurance coverage and the policy's cash value can fluctuate as a result of investment performance. Although the amount of insurance coverage can fluctuate, most variable life policies guarantee a minimum death benefit. The bottom line is that while variable life insurance is a useful product, it contains an element of risk that is not associated with other insurance programs.

Group Life Insurance is generally term insurance which is sold to a specified community, i.e. military members, employees of a company, members of a professional association, etc. Normally a master insurance policy is issued to the group and each of the participants receives an individual certificate of insurance. The major advantage of group policies is that they normally provide a given level of insurance at a lower premium cost than could be obtained on an individual basis. Both the Servicemembers' Group

Life Insurance (SGLI) and Veterans' Group Life Insurance (VGLI) programs (discussed in Chapter 6) are examples of group life insurance products. Group policies normally provide some type of conversion feature which allow a member to convert coverage to an individual policy.

Multiple Life Insurance

Joint life or "first to die" insurance is popular in two income families where each spouse's earnings are equally important to the family's standard of living. Joint life pays the full death benefit to the surviving spouse and is especially suitable where the death of one spouse could jeopardize the lifestyle of the surviving family members. Though the purchase of one joint life policy is less expensive than the purchase of individual policies by each spouse, it does not cover both lives. Its disadvantage is that the surviving spouse may or may not be insurable upon the death of the first spouse. In addition, if the surviving spouse is insurable the cost would be higher at an older age.

Another form of multiple life is survivorship or "last to die" insurance. This type of policy covers both spouses but only pays benefits after both parties have died. The focus of this insurance is the payment of estate taxes.

Contract Provisions

This discussion examines some of the major features that are generally included in insurance contracts.

Beneficiary

The primary beneficiary is the person, business, or trust that is designated to receive the death benefit. A contingent beneficiary will receive the policy proceeds only if the primary beneficiary dies before the benefits are paid. It is very important to keep your beneficiaries up-to-date to ensure payment of proceeds as intended.

An irrevocable beneficiary is a beneficiary that can only be changed with the permission of that beneficiary.

Many parents designate their children as contingent beneficiaries in order to ensure that the children will receive the insurance benefits in the event of the simultaneous death of both parents. However, this could create a problem because state law may prohibit the payment of insurance proceeds to young children. Consequently, if you have younger children, you may want to designate as the contingent beneficiary the individual who would care for the children in the event of the simultaneous death of both parents.

Contestability Period

The period of time (normally two years) during which the insurer can challenge the validity of a life insurance policy based on misstatement of health or other material facts.

Grace Period

A period of time, usually 30 days following the due date for the premium, during which an overdue payment can be paid without penalty.

Incontestability

This clause prohibits the insurance company from denying payment after the policy has been in effect for a period of time (generally two years). The purpose of this clause is to protect the beneficiary from error or misstatements made by the insured on the original application.

Insurance Riders

These are provisions that are attached to the policy that provide either additional benefits or limit the company's liability. Riders that provide additional benefits usually result in higher premium costs. Insurance riders may include:

Multiple Indemnity

This feature provides for an increased death benefit if the insured dies either in an accident or within some specified period of time as a result of injury sustained in an accident. For example, a Double Indemnity rider provides for a death benefit payment that is twice the face value of the policy.

Cost of Living

This rider increases the policy's death benefit over a period of time to accommodate.

Disability Waiver

This provision permits the waiver of premium payments in situations where the insured becomes disabled before a certain age (usually 60 to 65).

Guaranteed Insurability

This option allows the insured to increase coverage at stated intervals without further medical examination.

Accelerated Benefits

This provision allows the policyholder to receive a portion of the life insurance proceeds before he or she dies.

Nonforfeiture

This provision allows the insured to receive the current cash value of the policy in exchange for the future payment of the death benefit. This exchange can involve either the receipt of cash or the receipt of another paid-up policy of reduced benefit.

Participation Features

Life insurance premiums are a function of mortality experience, investment earnings, and company expenses. When these factors are favorable, the company will have a good year. Participating policies provide a mechanism by which the benefits of a good year can be returned to the policyholder in the form of a dividend which really represents a refund of previously paid premiums of either term or whole life policies.

Policy Loans

Most whole and universal life policies allow the insured to borrow against the cash value of the policy. Generally, the rate of interest charged by the insurance company is lower than the prevailing loan rate. Since the insured is borrowing against his or her own money, neither the principal of the loan nor the accruing interest has to be repaid. However, if the policyholder dies, any unpaid loan balances plus accrued interest will be deducted from the insurance proceeds paid to the beneficiary.

Since the purpose of insurance is financial protection, some insurance advisors counsel against policy loans because the practice often results in the premature spending of policy proceeds.

Policy Reinstatement

Policies which have lapsed may be eligible for reinstatement for up to a five year period. Insurance companies that permit reinstatement generally require a current physical examination plus the payment of all past due premiums and accumulated interest.

Settlement Options

In addition to a lump sum settlement, insurance companies will generally offer several different procedures for the payment of death benefits:

Payments for a Stated Period

The beneficiary receives the policy proceeds plus accrued interest in a series of periodic income payments that are made for a specified time period. Generally, once a time period has been selected, it cannot be modified unless the beneficiary wishes to withdraw all remaining funds in one lump sum.

Payments of a Stated Amount

This approach is similar to the stated period option except that it allows the beneficiary to establish the size of the periodic payment rather than the number of years over which the money will be received. This option generally provides a greater degree of flexibility since most companies allow the beneficiary to subsequently change the payment amount.

Life Income

This method guarantees a certain payment level to the beneficiary for the remainder of his or her life. Most companies will ensure the continuation of payments for a minimum number of years. Consequently, if the primary beneficiary dies before the minimum period has elapsed, payments will continue to a secondary beneficiary until the minimum payment period has been satisfied.

While each of the payment options discussed above has its pluses and minuses, many insurance advisors recommend that it is in the best interest of the beneficiary to receive the insurance proceeds in a single lump sum and temporarily deposit the funds in either a money market deposit account or some other insured savings vehicle. This approach provides the beneficiary with a safe and financially flexible mechanism during the period immediately following the death of the insured. Subsequently, the beneficiary can move the funds into an investment vehicle of his or her choice.

Life insurance benefits are generally not subject to income tax at either the state or federal level.

Suicide Clause

This provision, is usually required by state law, stipulates that the policy will not pay the death benefit if the insured commits suicide within the first two years of purchase date. After two years, most state laws require that suicide is one of the risks covered and the designated beneficiaries will receive the same death benefit that would be payable under any other cause of death.

How Much Life Insurance

There are two common methods for determining an individual's life insurance requirement, the "multiple earnings" approach and the "needs" approach.

Multiple Earnings Approach

Under this model, the required amount of life insurance is a direct function of the insured's annual income level. One version of this approach multiplies current earnings by a factor of 7 to 10 and increases that amount by the value of the unpaid home mortgage plus $50,000 for each child living at home.

Example

A member with a spouse, two children in high school, $150,000 outstanding mortgage, monthly gross income of $5,000.

Required Insurance:

Salary – $5,000 x 12 x 7	$420,000
Outstanding Mortgage Balance	$150,000
Children – $50,000 x 2	$100,000
Total Insurance Requirement =	**$670,000**

Needs Approach

This technique examines the financial situation of the insured and considers other resources that may be available. While it takes more effort than the multiple earnings method, it will produce an estimate that is specifically tailored to an individual's situation.

Risk Classification

Most insurance companies have different premium charges — standard, substandard, and preferred — for different risk classes. The standard risk class is made up of individuals whose health, life style, and employment is regarded as average. Most individuals are included in the standard risk class. Substandard rates, which are higher than standard rates, are charged on policies where the insured is determined to be a higher risk than the average individual (i.e. smokers). Preferred rates, which are lower than standard rates, are charged on policies where the anticipated mortality of the insured is lower than the standard risk class. Individuals in the preferred class do not smoke, are generally in excellent physical condition, and have a good family medical history.

Selecting a Life Insurance Company

The selection of a sound company is critical to your insurance planning. The company's ability to pay is a function of its financial strength which is a direct result of its management practices and investment strategies. Fortunately, there are a number of rating services which evaluate the insurance industry. A review of this information can help with the selection process. However, each service has its own rating system and since they are making independent judgements, they do not always agree on the claims paying ability of a given company. It is prudent to check the ratings of a given insurance company with two or three different rating services.

Another important consideration in selecting a life insurance company is the cost. As with any long term purchase, it pays to do your homework. The cost of life insurance is influenced by a number of factors including gender (females tend to live longer than males), lifestyle (i.e., drinking and smoking habits), health history, and age. Anticipated life expectancy or "mortality tables" are a key component in determining premium charges. You can get insurance quotes from many different sources: direct from the life insurance company, agents, or online quote services. Keep in mind when using quote systems however, that many of these services also sell life insurance, so their quotes may be biased and they may recommend more coverage than you need. Use the guidelines discussed in this chapter to determine how much insurance you need before going to these sites or calling.

The Language of Life Insurance

ACTUARY. An individual who is trained in the mathematics of insurance including the calculation of premiums, reserves, and dividends.

ACCIDENTAL DEATH BENEFIT. A life insurance option that increases the death benefit in the event that the insured's death is accidental. If the accidental death benefit is double the face amount of the policy, the option is often called a "Double Indemnity" provision.

ANNUITANT. The individual designated to receive an annuity.

CASH SURRENDER VALUE. An amount available to a policyholder upon voluntary termination of a policy before it becomes payable by death or maturity.

CHARTERED LIFE UNDERWRITER (CLU). Professional designation given to individuals in the life insurance profession who have successfully passed a series of examinations and who have met other eligibility requirements.

CONTESTABILITY PERIOD. The period of time (normally two years) during which the insurer can challenge the validity of a life insurance policy.

CONVERTIBILITY. Refers to the ability to exchange one type of insurance for another (i.e. term or whole life) without additional medical review or examination.

CREDIT LIFE INSURANCE. Term life insurance sold by a lender to cover the repayment of a loan, installment purchase, or other obligation in case of the debtor's death.

DIVIDEND (To Policyholder). A return of part of the premium on participating insurance. In effect a refund which represents the difference between the premium charged by the insurance company and the company's actual expenses, mortality costs, and investment experiences.

ENDOWMENT INSURANCE. A type of insurance that pays the insured if he or she is living on the maturity date of the policy or the beneficiary if the insured dies prior to the maturity date of the policy.

FACE AMOUNT. The amount stated in the policy that will be paid upon the death of the insured or upon the maturity date of the policy.

FAMILY POLICY. A life insurance policy that provides coverage on all members of the family in one contract.

GROUP INSURANCE. An insurance plan under which the members of a given group (i.e. employees of a company and their dependents) are insured under a single policy issued to the group, while the individual members of the group are provided with separate certificates of insurance.

INDEMNITY. A legal principle applicable to the insurance industry which holds that the individual recovering under an insurance claim is only entitled to be restored to the approximate financial condition that they were in prior to incurring the loss.

INDEPENDENT AGENT. An individual business operator who represents several insurance companies and divides the policies that he or she writes among the companies represented.

INDEXED LIFE INSURANCE. A type of whole life insurance policy that provides for both the death benefit and the premiums to automatically increase each year in accordance with the annual increase in the Consumer Price Index (CPI).

LIVING BENEFIT RIDER. A policy clause which allows the insured to receive all or part of the policy's death benefit if certain conditions are met. This type of provision is often used to help the insured pay their health care costs if they become terminally ill.

MASTER CONTRACT. The contract between an insurance company and a group insurance policy holder (normally an employer or association). The master contract insures the participating individuals under a single life insurance contract.

MUTUAL INSURANCE COMPANY. A nonprofit insurance company that is owned by the policyholders.

PAID–UP INSURANCE. Insurance on which all required premiums have been paid.

PERIOD CERTAIN. A specified time during which the insurer guarantees the payment of benefits.

PERMANENT LIFE INSURANCE. A phrase which refers to any type of life insurance that accrues a cash value.

REINSTATEMENT PROVISION. A provision that outlines the conditions the policyholder must meet in order for the insurer to reinstate the policy after it has been terminated for nonpayment of premiums.

REINSURANCE. A transaction between two insurance companies in which one company purchases insurance from another company to cover a portion of the risks that the first company does not want to retain.

RENEWABILITY. A provision which allows the insured to renew a term policy without a medical examination. Subsequent premium payments are usually higher.

SUPPLEMENTAL GROUP LIFE INSURANCE. Life insurance coverage that exceeds basic coverage provided in a group policy. Supplemental coverage is usually paid for by the insured.

UNDERWRITER. The organization that assesses the insurance risk and guarantees that funds will be available to pay for insured losses.