



T H E M I L I T A R Y C O A L I T I O N

201 North Washington Street
Alexandria, Virginia 22314
(703) 838-8113

March 31, 2004

The Honorable John McHugh
Chairman, Total Force Subcommittee
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

During the Subcommittee's March 24 hearing, you indicated that you had been given information indicating that the current average federal subsidy for the military Survivor Benefit Plan is 31%, and that if the SBP annuity were raised to 55% of retired pay for survivors age 62 and older, the subsidy would rise to about 53%.

The Coalition witness, Colonel Lee Lange, USMC (Ret), responded that these were new figures we had not seen. Since the hearing, we have had discussions with the Office of the DoD Actuary and can now provide a more substantive reply.

The Actuary's office confirms The Military Coalition's testimony that the current federal SBP subsidy for nondisabled members retiring after 20 or more years of active duty is 19%. For decades in the past, previous DoD Actuaries have established this calculation as the appropriate "apple-to-apple" comparison for the 40% subsidy inherent in establishing the statutory SBP premium.

Congress originally established retiree SBP premiums in law (and adjusted premiums in 1990) based on input from the DoD Actuary that the statutory premiums would cover 60% of long-term SBP costs for newly retiring, non-disabled members, with the government paying the other 40% as a subsidy.

The higher subsidy figures you cited in the hearing were prepared by the actuary's office in response to an inquiry from your staff as to what the average subsidy would be if all SBP-eligibles were included in the calculation, including disabled retirees, Guard/Reserve retirees (who don't start paying premiums until they begin drawing retired pay at age 60) and members who die on active duty (who paid no premiums by virtue of never having retired). We have no reason to dispute these "average" figures, but they do not reflect the calculation historically used by the DoD Actuary and Congress as the standard for the SBP subsidy and premium rates.

In tying the cost-sharing relationship specifically to non-disabled retirees following a full active-duty career, Congress and the Defense Department made a conscious decision decades ago that it is the Nation's obligation (not nondisabled retirees') to absorb any additional SBP liability associated with

other members whose service experience puts them at greater actuarial risk. Thus, the official subsidy calculation historically has excluded members who die on active duty (who have a 100% subsidy), members whose lifespans are shortened by service-connected disabilities, and Guard/Reserve retirees whose unique retirement system precludes them from paying any SBP premiums until attaining retired pay eligibility at age 60.

The Coalition believes strongly that this is the appropriate subsidy calculation. Including the other groups would make the retired community absorb part of the government's higher obligation to survivors of members killed or severely injured in combat or other hazardous duty, and would penalize regular retirees for the government's decision to defer Guard/Reserve retired pay eligibility until age 60.

The Actuary's office indicates that, if the age-62 benefit cut were eliminated, and military SBP annuitants were to receive 55% of retired pay for life, the subsidy would rise to 45%, for nondisabled members retiring today.

The Coalition sees this as well within the 48% subsidy provided for older civil service retirees. We also note that the 30-year history of the SBP program has been one of constant decline in the subsidy figure – due largely to increasing retiree longevity. The Coalition sees no reason to believe this trend will be any different in the future.

As a result, we expect that the subsidy for new nondisabled retirees will recede to the 40% level within a few years – long before many of their survivors receive any SBP payments. For older retirees who paid substantially higher premiums for almost 20 years before premiums were reduced in 1990, the subsidy will remain at or below the 40% level even with the proposed change.

Simplifying the program, keeping faith with the thousands of older retirees and survivors who weren't told of the benefit drop, and making military SBP more consistent with the flat-rate-for-life federal civilian plans more than warrant elimination of the age-62 "SBP widows tax."

The Coalition is very much encouraged that the Senate Budget Resolution includes budget authority for this much-needed change, and that the Chairmen of the House Budget and Armed Services Committees have assured Rep. Jeff Miller of their intent to find the necessary offsets to accomplish the long-overdue SBP fix.

We believe there are options to address this urgent need within the budget authority the Subcommittee is allowed, and we are most eager to address these options with you and your staff.

Sincerely,

The Military Coalition
(Signatures enclosed)

cc: Total Force Subcommittee Members