

DFAS-CL 1352.2-PH  
Defense Finance and  
Accounting Service  
Cleveland



## Preparing For Your Military Retirement

April 2001

FOREWORD

This pamphlet is issued under the authority of DFAS-CL Instruction 1352.2, "Military Pre-Retirement Procedures." It is effective immediately and replaces DFAS-CL 1352.2-PH, "Preparing for Your Military Retirement," dated June 1999.

As you prepare to retire or transfer to the Fleet Reserve/Fleet Marine Corps Reserve you will have many questions about your pay computation, taxability, the Survivor Benefit Plan, and other areas of concern. You must make many decisions, which will affect your retired/retainer pay account.

This pamphlet has been prepared to answer many of the questions we receive about preparation for retirement and those actions that relate to establishing your retired pay account. The Defense Finance & Accounting Service hopes that this booklet will provide you with useful information for making the transition from active to Fleet Reserve/Fleet Marine Corps Reserve or Retired status. We, at DFAS Cleveland, stand ready to serve you!

//Signed//  
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Director  
Retired Pay Operations

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NOTE - Unless otherwise indicated the term  
Retired pay includes retainer pay.

C1. CHAPTER 1

PREPARING FOR RETIREMENT

C1.1. Counseling.

C1.1.1. General Counseling. Prior to your retirement, it is important that you attend any briefings offered by your command concerning the retirement system. The decisions you make at the time of retirement affect the amounts of your retirement benefits and of your survivor's benefits. Some decisions cannot be changed, so careful consideration of all options is crucial.

C1.1.2. Retired Pay Estimates. For Air Force members, you can obtain an estimate of your retired pay at your local Military Personnel Flight (MPF). Retirement Services Offices (RSO) (Army) will also estimate retired pay.

C1.1.3. SBP Cost and Annuity Estimates. The MPF for Air Force retirees also calculates cost and annuity values for Survivor Benefit Plan (SBP) options. RSO's (Army) will also calculate SBP cost and annuity values. If you are a Navy or Marine Corps retiree you can receive information on SBP by completing and submitting a NAVCOMPT 2274 to DFAS Cleveland.

C1.1.4. DFAS Cleveland. Retired Pay Operations will answer any questions you may have concerning the establishment of your retired pay account. For Navy or Marine Corps members, you can receive an estimate of your retired pay by obtaining, completing and submitting a Pre-Retirement Pay Information Request (NAVCOMPT 2274) to DFAS Cleveland. This form may be obtained from your local disbursing officer. Additional Pre-Retirement Pay Information Requests may be submitted if your pay data changes prior to your retirement. You may also request multiple estimates if you wish to obtain information for more than one SBP election and/or federal income tax withholding exemption allowance computation.

C1.1.5. Available Publications. There are several publications which are available to provide you with more detailed information on retirement preparation.

C1.1.5.1. Survivor Benefit Plan for Uniformed Services: The Simple Facts (DOD PA-11H) and associated Fact Sheets are available from your Career Counselor.

C1.1.5.2. Navy Guide for Retired Personnel and Their Families (NAVPERS 15891G) is available from your Career Counselor (Navy retirees only).

C1.1.5.3. DAPAM 600-5, "Handbook for Retiring Soldiers and Their Families" is available from RSOs - for Army members.

C1.1.5.4. Pre-Retirement Counseling Guide (available from RSOs - Army only).

C1.2. Documents/Events. The following documents/events form the basis for the establishment of your retired account and are to be completed as part of your pre-retirement preparation.

C1.2.1. Data for Payment of Retired Personnel (DD 2656). This form is available in your disbursing office (Navy), Military Personnel Flight (Air Force) your installation's RSO (Army) or sent to Marines with their retirement order. It must be completed and submitted in accordance with your branch of service's policy. The form must be completed prior to your retirement/ transfer date. It requires you to provide DFAS with dependency information, your SBP election, beneficiary information to whom unpaid retired pay will be paid at the time of your death, and withholding information for Federal and state tax purposes. All of this information is used to build your retired pay account.

C1.2.2. Survivor Benefit Plan (SBP) Election Statement for Former Spouse Coverage (DD 2656-1). In addition to the DD 2656, if you elect some type of Former Spouse SBP coverage, you must also complete a DD 2656-1. This form is available at the same location as the DD 2656.

C1.2.3. Allotment Authorization. You can start, stop, or change current allotments by requesting action by the office that takes care of your active duty pay account. Ensure that your allotment total will not exceed your retirement pay. All necessary adjustments to your allotments should be made at least 30 days prior to retirement. Retirees are permitted to have a maximum of 6 allotments, classified as discretionary allotments, deducted from their retired pay. You can start, stop or change these allotments at any time. Of the following list of allotments, those that are discretionary have been identified with the word "Discretionary".

C1.2.3.1. The following allotments cannot be carried forward to your retired account:

C1.2.3.1.1. Charity allotments, except contributions to Navy/Marine Corps Relief Society, Army Emergency Relief or Air Force Assistance Fund.

C1.2.3.1.2. Education allotment.

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C1.2.3.2. The following allotments may be carried forward to your retired pay account if at least one month's payment was made while on active duty.

C1.2.3.2.1. Loan repayment to Red Cross.

C1.2.3.2.2. Savings allotment - Discretionary.

C1.2.3.2.3. Home loans - Discretionary.

C1.2.3.2.4. U. S. Savings Bond. (Bonds established for safekeeping while on active duty cannot be carried forward to your retired account and continue to be held in safekeeping.)

C1.2.3.2.5. Dependency allotment. (To spouse, former spouse(s), children, grandmother, and/or anyone having a permanent residence other than your own) - Discretionary.

C1.2.3.2.6. National Service Life Insurance - Discretionary.

C1.2.3.2.7. Commercial life insurance - Discretionary.

C1.2.3.2.8. Navy/Marine Corps Mutual Aid Insurance - Discretionary.

C1.2.3.2.9. Repayment of a debt to a federal agency and tax levy assignments to the Internal Revenue Service.

C1.2.3.2.10. Charitable contributions to Navy/Marine Corps Relief Society, Army Emergency Relief, or Air Force Assistance Fund.

C1.2.3.2.11. Repayment of loans to Navy Relief Society, Army Emergency Relief, or Air Force Aid Society.

C1.2.3.2.12. Veterans Group Life Insurance - Discretionary.

C1.2.3.2.13. TRICARE Retiree Dental Program- enrollment and withdrawal must be done through Delta Dental - Discretionary.

C1.2.3.3. The following is general information for starting/changing allotments after your retirement:

C1.2.3.3.1. The dollar amount of allotments may not exceed your gross retired pay less deductions for SBP and federal withholding tax and any other deductions. To request an allotment start, stop, or change, furnish DFAS Cleveland with the month of start, termination, or change; the amount, and the full name and address to which the allotment is to be sent. Requests for allotment action can be made by:

C1.2.3.3.1.1. Letter must include your signature and your social security number.

C1.2.3.3.1.2. Employee Member Self Service (See Chapter 3).

C1.2.3.3.1.3. Air Force members may effect allotment changes at their local Finance Services Office (FSO).

C1.2.3.3.2. Start, stop or adjustment actions for either National Service Life Insurance or Veterans Group Life Insurance should be sent to DFAS Cleveland via the Department of Veterans Affairs or Office of Serviceman's Group Life Insurance, respectively.

C1.2.3.3.3. It is not necessary to provide the policy numbers for changes to insurance allotments. You must request starts, stops, and changes by referencing the monthly premium amount and the name of the company.

C1.2.3.3.4. Excess allotment payments made on your behalf are a matter solely between you and the payee. We cannot take steps to recover the payments.

C1.2.4. Separation from Active Duty. Your retired account will not be established until your active duty account reflects the fact that you have been released from active duty. This is required to expedite the establishment of your account. It is important that your command closes your active duty account. Your account cannot be established until this action is accomplished.

C1.2.5. Payment Method/Schedule. Your net retired/retainer pay should be sent to your financial institution by Direct Deposit unless you reside in a foreign country in which Direct Deposit is not available. Your retired pay will be deposited to your account on the first business day of the month following the end of the month. Complete the appropriate sections of Part I of the DD 2656 with the Routing Transit Number (RTN), Financial Institution Name and Address, your Account Number and whether or not your account is a Checking or Savings account. Direct Deposit enables your payment to be deposited directly to the bank, savings and loan association, or credit union of your choice. Direct Deposit has the following advantages:

C1.2.5.1. It eliminates the possibility of your check being lost, stolen, forged or destroyed in delivery. Treasury Department statistics show that over one million checks are either lost or stolen each year.



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C1.2.5.2. It eliminates the inconvenience of cashing and depositing your check.

C1.2.5.3. It assures deposit of your pay on the first business day of the month following the month for which payment is due.

C1.2.5.4. It assures the delivery, deposit, and availability of your pay while you travel.

C1.2.6. After you retire, you will need to notify retired pay whenever you change your financial institution. Do not close your old bank account until you receive the first deposit in the new financial institution.

C2. CHAPTER 2

ESTABLISHING YOUR ACCOUNT

C2.1. Your First Payment and Communication from DFAS Cleveland. Your first payment for retired pay normally will arrive 30 days after your release from active duty, or, on the first business day of the month following the month of first entitlement to pay. In a separate mailing, you will receive a letter, which will show you how your pay was computed. This will include your deductions for SBP, federal/state income tax, and allotments.

C2.2. Retired Establishment Data from Military Personnel Community. In addition to the forms that have been mentioned previously that are used to build your retired account, DFAS Cleveland will receive retirement information from the personnel community in order to establish your pay account. In the case of Navy non-disability retirees who have at least 20 years service, if the personnel information that certifies your actual service for retirement purposes is not received in time, your account will be established assuming 20 years service at your present grade. When the actual service information is received, your account will be adjusted to show the correct data. Any retroactive pay adjustment will be forwarded by a separate payment.

C2.3. Pay Computation.

C2.3.1. Calculation. For Navy and Marine Corps members, you are considered to be a retired member for classification purposes if you are an enlisted member with over 30 years service, or a warrant or commissioned officer. Enlisted Navy and Marine Corps members with less than 30 years service are transferred to the Fleet Reserve/Fleet Marine Corps Reserve and their pay is referred to as "retainer pay". Air Force and Army members with over 20 years service are all classified as retired. When a Navy or Marine Corps member completes 30 years, including time on the retired rolls in receipt of retainer pay, the Fleet Reserve status is changed to retired status. Retired pay amounts are determined by multiplying your service factor (normally referred to as your "multiplier") by your active duty base pay at the time of retirement (See paragraph (C2.3.1.2.) below for definition of active duty base pay). By law, the gross retired pay must be rounded down to a whole dollar amount.

C2.3.1.1. Service Factor (Multiple). If you are a retiree with 30 or more years of service, your multiple is 75 percent. If you are a retiree/Fleet Reservist with less than 30 years, this factor is determined by taking 2 1/2 percent times your years of service. Years of

service include credit for each full month of service as one-twelfth of a year. "Years of service" for officers includes all active service, periods of inactive reserve service prior to June 1, 1958, ROTC active duty time prior to October 13, 1964, constructive service credit for Medical and Dental Corps, and drills performed while in the inactive reserve after May 31, 1958. "Years of service" for Fleet Reservists and all other enlisted retirements include all active service, active duty for training performed after August 9, 1956, any constructive service earned for a minority or short-term enlistment completed prior to December 31, 1977, and includes drills performed while in the Active Reserves.

C2.3.1.2. Base Pay at Time of Retirement. If you entered the service before September 8, 1980, your base pay for retirement is the same as your last active duty pay. (Remember, your allowances are not considered). An example of this type of retired pay calculations is as follows.

C2.3.1.2.1. A Navy or Marine E-8 is transferring to Fleet Reserve on July 31, 2000 with 22 years, 8 months service.

C2.3.1.2.2.  $2\frac{1}{2}\% \times 22.67 \text{ years} = 56.68\%$ .

C2.3.1.2.3.  $56.68\% \times \$3161.10$  (July 1, 2000 Active duty rate for an E-8 over 22 years) = \$1791.71 or \$1,791.00.

C2.3.1.2.4. For those who entered the Armed Forces on or after September 8, 1980 the base pay is the average of the highest 36 months of active duty base pay received. The base pay for members having less than three years service is the average monthly active duty basic pay during their period of service. For certain retirees who entered the Armed Forces on or after September 8, 1980, the initial cost-of-living increase is reduced. Refer to Chapter 3 (C3.2.2.) of this booklet under Cost-of-Living increases.

C2.3.1.2.5. For those who entered the Armed Forces on or after August 1, 1986, the base pay is computed in the same way as it is computed for retirees identified in paragraph (C2.3.1.2.) above. However, there are differences in how cost-of-living increases are computed. Refer to Chapter 3 (C3.2.2.) of this booklet under Cost-of-Living increases.

C2.3.2. Tower Amendment. In addition to the computation explained previously, your pay will be computed according to provisions of the Tower Amendment if it applies to your situation. The Tower Amendment was enacted to ensure that you will not receive a lesser amount of retired pay than you would have received if you had retired on a prior date. The Tower eligibility date is usually the day prior to the effective date of

an active duty pay increase. Tower pay is computed by utilizing the active duty pay rates in effect on that date, your rank/rate on that date, total service accumulated on that date, and all applicable cost-of-living increases.

C2.3.2.1. Using the previous example, the member was an E-8 and had 22 years, 1 month, service on December 31, 1999. The member's pay would be computed as follows:

$$2 \frac{1}{2}\% \times 22.08 \text{ years} = 55.20\%.$$

$$55.20\% \times \$3,119.40 \text{ (January 1, 1998 Active duty rate for an E-8 over 22 years)} = \$1,721.90 + 2.8\% \text{ (COL Increase)} = \$1,769.00.$$

C2.3.2.2. Since the E-8 was eligible to transfer to the Fleet Reserve on December 31, 1998, we would also compute the entitlement as of that date. The E-8 has 21 years, 1 month service. The pay would be computed as follows:

$$2 \frac{1}{2} \% \times 21.08 = 52.70\%.$$

$$52.70\% \times \$2,976.60 \text{ (1/1/99 active duty rate for an E-8 over 21 years)} = \$1,568.00 + 1.3\% \text{ (COL Increase)} = \$1,588.00 + 2.8\% \text{ (COL Increase)} = \$1,632.00.$$

C2.3.2.3. In this situation therefore, this Fleet Reservist would receive monthly retainer pay of \$1,796.00 since the Tower Amendment computations are not more beneficial than the current pay computation.

C2.3.3. Disability Retirement. If you have been found to be physically unfit for further military service and meet certain standards specified by law, you will be granted a disability retirement. Your disability retirement may be temporary or permanent. If temporary, your status should be resolved within a five-year period.

C2.3.3.1. The amount of your disability retired pay is determined by one of three methods:

C2.3.3.1.1. The first method is to multiply your base pay at time of retirement by the percentage of disability, which has been assigned. However, the minimum percentage for temporary disability retirees will equal 50%. The maximum percentage for any type of retirement is 75%.

C2.3.3.1.2. The second method is to multiply only your years of active service at the time of your retirement by 2 1/2% by your base pay or

average of highest 36 months of active duty pay at the time of retirement.

C2.3.3.1.3. The third method applies to you if you were eligible to retire/transfer under any other law. DFAS Cleveland establishes your account using the method which results in the greatest amount of retired pay. If you desire that another method be used, you may request (in writing) that the other method be used.

C2.3.4. Temporary Early Retirement Authorization (TERA). A law has been passed that grants all branches of service temporary authority to approve retirements for members with more than 15 but less than 20 years of service. In order to compute retired pay under this provision of law, a retiree is assessed a reduction factor. The reduction factor is computed as 1 minus one twelve hundredth of the difference between 240 (the number of months for a standard 20 year retirement) and the number of months of creditable service for retired pay. The reduction factor is assessed upon the standard retired pay computation which provides for 2.5% for each year of service, multiplied by the final base pay on active duty or the average of the highest 36 months of base pay.

C2.3.4.1. Service Entry Date prior to September 8, 1980. For example, an E-7 with exactly 19 years of service (228 months) for retirement is granted a TERA retirement. Pay is computed as follows:

C2.3.4.1.1. Reduction Factor =  $1.0 - (240-228)/1,200 = 1.0 - (12/1,200) = 1.0 - .01 = .99$ .

C2.3.4.1.2. Unreduced Retired Pay in this example would be computed as \$2,588.10 (Active Duty Pay Rates for E-7 over 18 years) X 19 X .025 = \$1,229.34.

C2.3.4.1.3. Multiply the unreduced Retired Pay by the Reduction Factor and round to the next lower whole dollar.  $\$1,229.34 \times .99 = \$1,217.00$ .

C2.3.4.2. Service Entry Date on/after September 8, 1980. An E-7 who entered the service on or after September 8, 1980, retiring with exactly 15 years of service (180 months), would have pay computed as follows:

C2.3.4.2.1. Reduction factor =  $1.0 - (240-180)/1,200 = 1.0 - (60/1,200) = 1.0 - 0.5 = .95$ .

C2.3.4.2.2. Unreduced Retired Pay in this example would be computed as \$2,350.00 (Average of the highest 36 months of basic pay received) x 15 x .025 = \$881.25.

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C2.3.4.2.3. Multiply the Unreduced Retired Pay by the Reduction Factor and round to the next lower whole dollar.  $\$881.25 \times .95 = \$837.18$  or  $\$837.00$ .

C2.3.4.3. Another portion of TERA affords a retiree the opportunity to obtain credit for military retired pay by performing public and community service during the period of time from their retirement date under TERA through the date that 20 years of service would have attained. In order to get credit for community service; you must sign up on the Public Community Service Registry (See your retirement counselor for specific details). Retired pay in this situation would be recomputed when the retiree reaches age 62 and, based on the amount of community service, may give the retiree active duty pay rates at a higher number of years' service (not to exceed 20) and a lower or eliminated Reduction Factor. Using the E-7 example, in paragraph (C2.3.4.1.) above, if the retiree earned an additional 6 months of service, retired pay would be based on E-7 active duty rates of OVER 18 or  $\$2,588.10$ .

C2.3.4.3.1. Reduction Factor =  $1.0 - (240-234/1,200) = 1.0 - (6/1,200) = 1.0 - .005 = .995$ .

C2.3.4.3.2. Unreduced retired pay would be  $\$2,588.10 \times 19.5 \times .025 = \$1,261.70$ .

C2.3.4.3.3. Multiply the Unreduced retired pay by the Reduction Factor and round to the next lower whole dollar.

C2.3.4.3.4.  $\$1,261.70 \times .995 = \$1,255.39$  or  $\$1,255.00$ .

C2.3.4.4. Only a TERA-approved retiree can obtain information on the community service provision by calling Operation Transition at 1-800-727-3677 (6 a.m. to 6 p.m. Pacific Time) or by writing:

OPERATION TRANSITION  
99 PACIFIC STREET  
SUITE 155A  
MONTEREY, CA 93940-2453

#### C2.3.5. Deductions.

C2.3.5.1. Federal Withholding Tax. In most cases, retired pay is fully taxable. The amount of taxable income is reduced by SBP costs and any waiver for VA compensation. The amount deducted from your pay for federal withholding tax is based on the number of exemptions you indicate on either your pay data form or your W-4 after retirement. To change your withholding tax status or to request an additional withholding amount after retirement:

C2.3.5.1.1. You can forward an IRS Form W-4 to DFAS Cleveland.

C2.3.5.1.2. Use Employee Member Self Service (See Chapter 3)

C2.3.5.1.3. Air Force retirees can visit their local Financial Services Office or Air Force Base to change their Federal Income Tax Withholding information. Some Navy Personnel Support Detachments (PSDs) and Army Retirement Service Offices (RSOs) also offer this service.

C2.3.5.1.4. Disability retirement payments are taxable for those members with either total military service after September 24, 1975, or who were in the service before this date but were not on active military service or under binding written commitment to become a member of the armed services on September 24, 1975. Disability retirement payments are non-taxable for those members with total military service before September 24, 1975; members who were on active military duty or under binding written commitment to a member of the armed services on September 24, 1975, or members whose disability retirement has been deemed as combat-related, regardless of their active military service. If your calculation is based on the first method (See paragraph (C2.3.3.1.1.)), only that portion of your pay which would have been received under the actual percentage of disability calculation (See paragraph (C2.3.3.1.2.)) is non-taxable.

C2.3.5.1.5. The amount of taxable income may be further reduced by any SBP cost. If, after retirement, you waive a portion of your pay in favor of VA compensation, your taxable income will be reduced by the amount of VA compensation or the amount of percentage of disability calculation, whichever is greater.

C2.3.5.2. State Withholding Tax. State tax withholding is on a voluntary basis and must be in whole dollar amounts. \$10.00 is the minimum monthly amount. Before making your request in writing, you must contact the taxing authority in the state in which you have established residence to determine if you are required to pay state income tax. If you are an Air Force retiree, you may contact your local Financial Services Office at the Air Force Base to adjust your state income tax withholding information. Some Navy Personnel Support Detachments (PSDs) and Army Retirement Service Offices (RSOs) can adjust your state tax withholding information. Navy personnel should check with their local PSD to see if this service is available.

C2.3.5.3. Federal Insurance Contribution Act (Social Security). Retired/retainer pay is not subject to FICA deductions, nor is your retired pay reduced when you become entitled to social security payments.

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C2.4. Department of Veterans Affairs (VA) Compensation. Contact your local VA office immediately after retirement/transfer to see whether you are eligible for a disability award (VA criteria for a disability award may be different from military criteria). All retiring members can apply for VA benefits prior to retirement and in some circumstances service personnel will complete the application for you. If you are eligible, a service-connected disability is established. The following benefits accrue as a result of VA compensation:

C2.4.1. VA compensation is non-taxable.

C2.4.2. VA approved disability gives you a priority admittance to VA hospitals for medical treatment for your disability.

C2.4.3. VA out-patient facilities are available for treatment of your disability.

C2.4.4. If you die as a result of the service-connected disability, your surviving spouse is eligible for Dependency and Indemnity Compensation (DIC) from the VA.

C2.4.5. Even a rating by VA of 0% (although of no monetary benefit) documents your physical condition as service-connected.

C2.4.6. A rating by VA of 30% or higher allows you to receive additional tax-free allowances for your dependents.

C2.4.7. Annual cost-of-living increases to your compensation amount.

C2.4.8. VA disability percentage (and VA compensation) can be increased, based on a request and approval of reevaluation, resulting in increased tax-free compensation.

C2.4.9. Possibility of purchasing up to \$10,000 of National Service Life Insurance without a physical exam.

C2.4.10. If you are awarded VA compensation, the gross amount of the compensation is deducted from your retired pay. The VA advises DFAS Cleveland of all changes in VA compensation amounts. However, if the amount of your VA compensation does not match the amount deducted from your retired paycheck, you should immediately notify DFAS Cleveland and the VA to resolve the discrepancy. IMPORTANT: The Comptroller General has ruled that you will be held responsible for any overpayment even if it is the result of an administrative error.

C2.5. Special Compensation for Severely Disabled. Certain severely disabled retirees of the Uniform Services that have a disability rating



as reported by the Department of Veterans Affairs (VA) are entitled to special compensation. The special compensation entitlement is paid for that month in accordance with the following schedule:

- C2.5.1. 70% or 80% = \$100.00
- C2.5.2. 90% = \$200.00
- C2.5.3. 100% = \$300.00

C2.5.4. You must meet all of the following requirements for entitlement to special compensation for severely disabled:

C2.5.4.1. You are not retired from the military for a disability during the period of October 1, 2000 through September 30, 2001. (You may receive a payment if you retire from the military for a disability after October 1, 2001).

C2.5.4.2. You are in a retired status and on the retired pay rolls. Members recalled to active duty are not in a retired status.

C2.5.4.3. You have 20 or more years of service for the purposes of computing retired pay. A reservist must have 7,200 or more points to qualify.

C2.5.4.4. The VA rating for disability of 70% or higher must be awarded within 4 years of retirement.

C2.5.4.5. The VA rating must be 70% or higher for each month. If the rating falls below 70% any given month, then the retiree has no entitlement to the special compensation for that month.

C2.6 Foreign Employment. Any applicant who accepts employment with a foreign government without approval is subject to having reserve or retired pay withheld for the period of unauthorized employment. If you are retired and contemplating employment by a foreign government, you must obtain approval from the Secretary of the service concerned and the Secretary of State. For more information contact:

C2.6.1. Navy - The Office of the Judge Advocate General, 200 Stovall Street, Alexandria, VA 22332-2100.

C2.6.2. Air Force - HQ AFMPC/DPMARR3, 550 C Street West, Suite 11, Randolph AFB TX 78150-4713.

C2.6.3. Marine - HQMC (MMSR-6), 3280 Russell RD, Quantico, VA 22134-5103 or call 1-800-336-4629 if there are any questions.

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C2.6.4. Army - U.S. Army Reserve Personnel Command, Attn: ARPC-SFR-SCI,  
1 Reserve Way, St. Louis, MO 63132-5200.

C2.7. Severance Pay/Separation Pay. A member who receives non-disability severance pay, separation pay, special separation benefit (SSB) or voluntary separation incentive (VSI) who later qualifies for retired pay will repay an amount equal to the total amount of separation pay received. The amount of repayment will be computed when retired pay is established.

C3. CHAPTER 3

MAINTAINING YOUR ACCOUNT

C3.1. Changes in Account Data. Once retired, it is important that you keep DFAS Cleveland informed of any changes in your account. Our Retired Pay Customer Service Branch is the contact point for any matter concerning your retired/retainer pay account.

C3.1.1. Toll-Free Number. The toll-free number, which may be used for any calls, made within the Continental United States, including Alaska and Hawaii is 1-800-321-1080. The commercial number for calls made from outside these areas is (216) 522-5955, or DSN 580-5955. All telephone lines are staffed Monday through Friday from 7:00 a.m. - 7:30 p.m., Eastern Time. Toll-free lines are reserved for use for our customers. The above numbers can be used for general questions about your account and notifications such as: change of address, etc. You must sign requests that involve monetary changes. Therefore, this type of change cannot be handled by phone. If the monetary change will prevent an overpayment to you, an exception will be made to this rule.

C3.1.2. Automated Voice Response System. DFAS Cleveland also has an Automated Voice Response System on the toll-free number. The system gives you answers to the most commonly asked questions. You can access your own retired pay account 6 days a week (except Sunday), 24 hours a day. You will be able to access the Voice Response System from either a touch tone or rotary phone. Shortly after you retire you will be sent a letter that contains a system assigned Personal Identification Number or PIN. You will use the PIN and your Social Security Number to access the Voice Response System. Once you have successfully entered your Social Security Number and system assigned PIN, you must change your PIN to any four numbers you like. You will have 120 days after the PIN is assigned to change your PIN number or the system assigned PIN number will be deactivated.

C3.1.3. Toll-Free Fax Number. The toll-free fax number, which may be used for any calls, made within the United States, including Alaska and Hawaii is 1-800-469-6559. The commercial fax number for calls made outside the United States is (216) 522-5237 or DSN 580-5237.

C3.1.4. Employee/Member Self Service (E/MSS). This service allows the retiree access to their pay account using either a Personal Computer (PC) via the Internet or telephone using a touch tone telephone via an Interactive Voice Response System. You will use your Personal Identification Number (PIN) and your Social Security Number to access E/MSS.

C3.1.4.1. The retiree can change their Federal tax withholding status and exemptions; start, stop or change allotments (electronic fund transfer - EFT payment only); change correspondence address; and update financial institution - electronic fund transfer information.

C3.1.4.2. To access E/MMS using the WEB the Internet address is WWW.EMSS.DFAS.MIL. A myriad of security features are built into the design of E/MSS. E/MSS Internet transmissions require 128-bit encryption and uses Secure Socket Layer technology. Your personal computer must have one of the following industry-standard browsers: Netscape Navigator versions 3.0, 4.01 or higher, Microsoft Internet Explorer version 4.0 or higher, or Netscape Communicator 4.7 with 128 bit strong encryption.

C3.1.4.3. To access E/MSS by telephone via the Interactive Voice Response System, the toll-free number is 1-877-363-3677 or commercial (912) 757-3119.

C3.1.4.4. You can check E/MSS to see if your change was processed 3 working days after you input the information.

C3.1.5. DFAS Cleveland Mailing Address. The address which must be used for requests for monetary changes is:

Defense Finance & Accounting Service Cleveland  
Retired Pay Operations  
(Code FR)  
PO Box 99191  
Cleveland OH 44199-1126

C3.1.6. Military Bases or Installations. Air Force retirees can visit their local Finance Services Office and check their retired pay account. The local Air Force Finance Service Office can process some changes such as allotment stops, starts and changes, changes of address and changes to your withholding for Federal and state income tax purposes. Some Navy Personnel Support Detachments (PSDs) and Army Retirement Service Offices (RSOs) also offer this service.

C3.1.7. Address Changes. It is especially critical that you notify DFAS Cleveland of changes in your correspondence and payment mailing addresses. Even if you have direct deposit of your pay, you have waived your military retired pay, and are receiving disability compensation through the Department of Veterans Affairs, or combined your military service with Federal service in order to receive a larger Federal pension, it is important that you provide a current correspondence address to ensure prompt receipt of important documents. Some of these

documents include Retiree Account Statements and Federal tax forms. In addition, by providing DFAS Cleveland a current correspondence address, you will continue to receive your service's retiree newsletter; Army Echoes (Army), Shift Colors (Navy), Semper Fi (Marine Corps) and Afterburner (Air Force).

### C3.2. Changes in Benefits.

C3.2.1. Retiree Account Statement. You will receive a statement with your first payment from DFAS Cleveland and thereafter only when monetary changes occur in your retired pay account.

C3.2.2. Cost-of-Living Increases. Current provisions of law authorize periodic increases to retired pay. These increases were intended to reflect rises in the Consumer Price Index (CPI). The increases affect the amounts of gross monthly pay, federal withholding tax, SBP costs and annuities. Retired members who entered the Armed Forces on or after September 8, 1980 and who became entitled to retired pay on or after January 1, 1996 will receive an initial cost-of-living increase computed, using the quarter of the retirement date, minus 1%. Cost-of-living increases thereafter for members meeting the above conditions will be unreduced. Cost-of-living increases for retired members who entered the Armed Forces on or after August 1, 1986, will be reduced by 1%.

C3.2.3. Federal Civil Service Retirement. Should you subsequently retire from federal civilian service and wish to waive your military retired pay (in order to include your military service in the computation of your civil service annuity), DFAS Cleveland should be advised, in writing, at least 60 days prior to your planned civilian retirement date. It is suggested that you contact your civilian personnel office prior to the submission of your waiver request to ensure that you are aware of all the available options. If you elect survivor coverage from your civil service annuity, your military SBP participation will be suspended while you receive the civil service annuity. If you want to retain military SBP you may do so, but you must then decline survivor annuity from the Office of Personnel Management. If your pay is subject to court-ordered distribution, you must authorize an allotment in an amount equal to the distribution, in order to include military service in the civil service annuity computation.

C3.2.4. Garnishment. Your retired pay is subject to garnishment for payment of child support or alimony upon the issue of a writ of garnishment by a state or federal court. Office of General Counsel, Directorate for Garnishment Operations will notify you should a garnishment be applied to your retired pay. Any action to rebut the writ of garnishment or to restrain its execution must be taken through the

court, which issued it. DFAS Cleveland is under a legal obligation to enforce the writ and has no authority to modify it in any way.

C3.2.5. Payments to a Former Spouse. Your retired pay is subject to court-ordered distribution to a spouse or former spouse where the parties were married to each other for at least 10 years during which you performed at least 10 years of creditable military service. The distribution can consist of a division of disposable retired pay. This division may include community property or payments of alimony and/or child support. The total amount payable under this provision of law cannot exceed 50% of the disposable retired pay. In cases where there is both a division of pay and a garnishment, the total amount payable cannot exceed 65% of the disposable retired pay. You will be notified should a distribution be applied to your retired pay. Any action to rebut the court order or to restrain its execution must be taken through the court that issued it. DFAS Cleveland is under a legal obligation to enforce the court order and has no authority to modify it in any way. Payment of these monies is not automatic. Former spouses must apply to DFAS Cleveland to receive this benefit.

C3.2.6. Tax Levies. DFAS Cleveland also must honor tax levies for delinquent taxes issued by the Internal Revenue Service (IRS). As in the case of garnishments, the collection action is mandatory and any rebuttal concerning the levy must be addressed to the IRS. Levies are continuous and collection will run until the entire amount is either collected or the IRS informs us that DFAS Cleveland is released from collecting the levy amount.

C4. CHAPTER 4

SURVIVOR BENEFIT PLAN (SBP)

C4.1. Options. The Survivor Benefit Plan provides an annuity to your designated survivor(s) based on a specified dollar amount of your retired pay. Depending on the coverage you elect, an annuity may be paid to your spouse/former spouse only, your child(ren) only, your spouse/former spouse and child(ren), or a person with an insurable interest. You are automatically enrolled in SBP with maximum coverage when you retire if you have a spouse or dependent children, unless you elect a lesser coverage or no coverage.

C4.1.1. If you have a spouse and you elect less than the maximum spouse coverage or child only coverage, you must obtain your spouse's written concurrence to validate this election. If spousal concurrence is not provided any election for less than full spouse coverage will be invalidated and automatic coverage will be established at full spouse/spouse and children coverage.

C4.1.2. If you decide to provide SBP coverage for a spouse or a spouse and child, and your beneficiaries become ineligible, the monthly cost will be suspended. Should you remarry and have suspended spouse only or spouse and child coverage, you have the following options:

C4.1.2.1. Spouse coverage is resumed as before (Spouse coverage will automatically resume at the same level in effect for the previous spouse, adjusted by cost of living increases, on the first anniversary date of remarriage, or when a child is born as legal issue of the marriage, unless you elect either (C4.1.2.2. or C4.1.2.3. below). NOTE: If you divorce and remarry the spouse for which you had previously provided SBP coverage, the coverage and premium deductions become immediately effective, at the same level as the original election.

C4.1.2.2. Increase coverage (base amount) up to and including full-retired pay. If you select this option, you must pay the difference between the SBP costs incurred and the costs which would have been incurred if the new level of participation had been originally elected, plus interest. Elections under this provision become effective as stated in paragraph (C4.1.2.1.), and when any increase in premiums, with interest, have been paid. Payment of these premiums and interest must be completed before the spouse qualifies as an eligible beneficiary or the election will be null and void.

C4.1.2.3. Elect not to resume the spouse portion of coverage before the date the spouse becomes an eligible beneficiary. Elections under this

option are effective upon receipt. However, notification must be received prior to the date that the spouse becomes an eligible beneficiary or the spouse coverage will automatically be resumed at the level of coverage for the previous spouse plus any cost of living increases.

C4.1.2.3.1. Election of either option (C4.1.2.2. or C4.1.2.3.) must be done prior to the first anniversary of the remarriage.

C4.1.2.3.2. Notification of your intent to select one of the above options should be forwarded to DFAS Cleveland as soon as possible after remarriage along with a copy of the marriage certificate. Failure to promptly notify may result in an over or under deduction of premiums.

C4.1.3. If you are married at retirement but decline SBP participation, you cannot later enroll in the plan on behalf of that spouse or any other spouse acquired after retirement.

C4.1.4. If you have no eligible beneficiaries at retirement, and later gain a spouse and/or child(ren) you must notify DFAS Cleveland within one year of acquiring that dependent if you wish to elect SBP for these beneficiaries. If you elected spouse and child coverage or child only coverage at retirement and acquire an additional child after retirement, send the child's birth certificate to DFAS Cleveland to include the child as an eligible beneficiary.

C4.1.5. Child(ren) coverage may be elected if the child(ren) meet any one of the following conditions:

C4.1.5.1. Under 18 at the time of retirement.

C4.1.5.2. Unmarried, over 18 but under 22 years of age and attending school on a full-time basis.

C4.1.5.3. Incur a disability before age 18, or after 18 under condition (C4.1.5.2.) above and incapable of self-support. A statement is required from an official of a hospital certifying to the physical or mental disability of the child. Such statement should indicate when the disability initially began and the nature and extent of the disability. If the child is 18 or older, a statement is required every two years unless medical prognosis indicates that the disability is permanent and the child will always be incapable of self-support.

C4.1.6. Former Spouse Coverage

C4.1.6.1. Former spouse coverage may be elected, regardless of your dependency status, in the same manner as a spouse election. Such



election should be accompanied by a statement setting forth whether the election is being made pursuant to a written agreement, or is voluntarily made and if such agreement has been incorporated in writing, or ratified, or approved by, a court order. The member and the former spouse must sign the statement.

C4.1.6.2. Child coverage may be included with a former spouse election provided the child resulted from your marriage to the former spouse.

C4.1.6.3. You may make a former spouse election after retirement if you are a participant in the SBP with spouse coverage, and the election is for a former spouse who was not your former spouse when you became eligible to participate in the Plan. A former spouse election cannot be made for a former spouse you married after retirement unless you were married for at least one year, or the former spouse is the parent of issue. An election request must be received within one year from the date of the decree of divorce, dissolution or annulment.

C4.1.6.4. A former spouse election may be deemed if the court orders the coverage or if you entered into a written agreement to provide coverage and such agreement was incorporated in, or ratified, or approved by, a court order, and you fail or refuse to make the election. The request made by the former spouse must be received within one year from the date of the court order.

C4.1.6.5. Former spouse coverage may be changed to coverage for a newly acquired spouse and/or child. If the former spouse was designated as beneficiary by written agreement, then you must submit a statement signed by the former spouse agreeing to the change. If the former spouse was designated on the basis of a court-approved written agreement, then a copy of a court order modifying all previous orders relating to the agreement must be submitted with your change request.

C4.1.6.6. The cost for former spouse, or former spouse and child coverage is determined in the same manner as for spouse only or spouse and child coverage.

C4.1.7. Supplemental SBP. Under this option, retirees who elect basic SBP at the maximum level for a spouse or former spouse may purchase additional coverage to increase the survivor benefit after age 62 by one of four benefit levels: 5 percent, 10 percent, 15 percent, or 20 percent of retired pay. This "supplemental" will offset the two-tier reduction that you will read about in the annuity section. Your SBP counselor is able to provide additional information.

C4.1.8. SBP Withdrawal. A retiree may request to withdraw from SBP on the first day of the twenty fifth month following retirement to the

thirty sixth month following retirement. This withdrawal must be done on DD Form 2656-2 dated May 1998. If withdrawing for spouse coverage, the spouse must concur in writing with the withdrawal, and RSO/RAO or a Notary must witness her signature. Once a retiree withdraws, they can not elect into the Plan again in the future.

C4.2. Costs.

C4.2.1. Spouse Only. Retirees who first became a member of an uniformed service before March 1, 1990 and Disability and Title III (Reserve) retirees will have their costs computed by two methods and will be charged the lesser amount of the two computations. Retirees who were not members of an uniformed service before March 1, 1990, or retirees who did not retire for disability reasons or as a Title III retiree, will only get the cost computation shown in Example #1 below. The examples that follow are for a base amount of \$1,000.00.

C4.2.1.1. Example #1

Base Amount multiplied by 6-1/2%  
 $\$1,000 \times 6-1/2\% = \$65.00$

C4.2.1.2. Example #2

2-1/2% for the first \$462.00 (effective January 1, 1999) plus 10% of the amount over \$462.00.

\$1,000.00	Base Amount	
\$462.00	$\times 2-1/2\%$	11.55
\$538.00	$\times 10\%$	+ 53.80
Total Monthly Cost		\$65.35

C4.2.1.3. Since the 6-1/2 percent method would yield a cost of \$65.00, it is the more beneficial method for computing cost.

C4.2.2. Children Only. The cost of coverage for this election is based on your age and the age of your youngest child at time of retirement.

C4.2.3. Spouse and Children. The cost of coverage for this election is the cost for spouse coverage plus an additional charge for the children based on your age, your spouse's age, and the age of your youngest child at time of retirement. This additional charge for children ceases when no child remains eligible for survivor payments. Any annuity payable under this election reverts to your eligible children beneficiaries should your surviving spouse become ineligible to receive the annuity due to death, divorce, or remarriage prior to their 55th birthday.

C4.2.4. Person With Insurable Interest. You may elect coverage for a person with an insurable interest in yourself if you are not married and have no more than one dependent child at the time of your retirement. The base amount of coverage must be your full gross retired pay. This is an expensive option because the cost of such coverage is 10 percent of the full gross retired pay, plus an additional 5 percent of such pay for each full five years the beneficiary is younger than you. The total cost of coverage may not exceed 40 percent of your gross monthly retired pay.

C4.2.5. Payment of Costs.

C4.2.5.1. The cost for participating in SBP is automatically deducted from your retired pay as long as there is an eligible annuitant. Coverage is suspended and costs cease to be deducted whenever a retiree does not have an eligible annuitant for whom an SBP election has been made. Spouse coverage is suspended upon the spouse's death or divorce from the retiree. Child coverage and costs automatically terminate upon the youngest child's reaching age 22, if that child is a full-time student, with the following exceptions: a child incapable of self-support because of a mental or physical incapacity which existed before the child's 18th birthday, or which occurred before age 22 while the youngest child was pursuing a full-time course of study. It is the retiree's responsibility to notify DFAS Cleveland when an annuitant is no longer eligible.

C4.2.5.2. Deductions made from your retired pay account for the payment of SBP costs are non-taxable. DFAS Cleveland automatically deducts costs paid into SBP when preparing your IRS 1099-R.

C4.2.5.3. Whenever your retired pay account is increased for a retired pay cost-of-living increase, the SBP base amount, SBP costs, and the SBP annuity payable are increased by the same amount.

C4.2.5.4. Should you waive your pay for any reason, remittances for SBP costs still must be paid to DFAS Cleveland (with the exception of Civil Service Annuity waivers). (See Chapter 3, paragraph C3.2.3.)

C4.2.5.5. If you are retained on active duty, or recalled to active duty after retirement for a period exceeding 30 days, you are provided with free SBP coverage while serving on active duty. Deductions for SBP costs will resume once you are released from active duty. If you are recalled to active duty, you cannot change your SBP election coverage upon return to your retired pay status.

C4.2.5.6. Since the payment of SBP costs depends on the eligibility of your beneficiaries, DFAS Cleveland should be advised of any changes in

your status, which may require an adjustment of costs. Such changes may include death of a spouse/child, divorce, acquisition of a new spouse/child, or children reaching age 18 or 22.

#### C4.3. Annuity Payments.

C4.3.1. All annuities are paid by DFAS Denver. DFAS Cleveland will forward information to DFAS Denver immediately upon the notification of death. The SBP annuity will be effective the day after death and will be payable to the eligible survivor(s). If any SBP costs are outstanding at the time of death, such costs must be recovered, in full, prior to the payment of the monthly annuity. All gross annuity amounts will be rounded down to a whole dollar amount. The toll-free number, which may be used to notify DFAS Cleveland of a retiree's death, for any calls made within the continental United States, Alaska and Hawaii, is 1-800-269-5170. Call 1-216-522-6680 outside these areas. If calling DSN, the number is 580-6680.

C4.3.2. Annuities paid to spouses of retirees who were eligible to retire before October 2, 1985, will be computed at 55 percent of the base amount at the time of death of the retiree for a beneficiary under 62 years of age. When the beneficiary reaches age 62, they will receive the most beneficial of the following computations:

C4.3.2.1. Fifty-five percent minus the Social Security Offset amount based on all active duty earnings after December 31, 1956. NOTE: Spouses, who continue working and do not begin drawing Social Security benefits, can delay the reduction caused by the Social Security Offset.

C4.3.2.2. Thirty-five percent with no Social Security Offset.

C4.3.3. Annuities paid to former spouses of retirees who were eligible to retire before October 2, 1985, and whose final divorce decree is dated before November 30, 1989, will be computed at 55 percent of the base amount at the time of death of the retiree for as long as the beneficiary remains eligible to receive the annuity.

C4.3.4. Annuities paid to spouses of retirees who were not eligible to retire before October 2, 1985, or former spouses of retirees who were not eligible to retire before October 2, 1985, regardless of the date of the final divorce decree, will be computed at 55 percent of the base amount at the time of death of the retiree for a beneficiary under 62 years of age. When the beneficiary reaches age 62, they will receive 35 percent of the base amount with no Social Security Offset.

C4.3.5. Annuities paid to former spouses of retirees who were eligible to retire before October 2, 1985, but whose final divorce decree is dated

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on/after November 30, 1989, will be computed at 55 percent of the base amount at the time of death of the retiree for a beneficiary under 62 years of age. When the beneficiary reaches age 62, they will receive 35 percent of the base amount with no Social Security Offset.

C4.3.6. An annuity payable to a child will be computed at 55 percent of the base amount at time of death. If more than one child is an eligible beneficiary, the 55% annuity will be divided among all eligible beneficiaries.

C4.3.7. Annuities terminate on the first day of the month in which eligibility is lost.

C4.3.8. Whenever retired pay accounts are increased by a cost-of-living increase, SBP annuities are also increased.

C4.3.9. If the surviving spouse remarries prior to age 55, the annuity payments are suspended. However, the annuity may be reinstated if death or divorce later terminates that marriage.

C4.3.10. If a surviving spouse is eligible for Dependency and Indemnity Compensation (DIC) payments from the Department of Veterans Affairs, the annuity will be reduced by the amount of the DIC payment. If an annuity is not payable because DIC is greater than the annuity, all costs paid into SBP are refunded to the spouse. If an annuity is reduced due to DIC, the difference between the costs paid into SBP and the costs, which would have been paid on the basis of the re-calculated annuity, is refunded to the spouse, and is taxed.

C4.3.11. SBP annuity payments are fully taxable for federal withholding tax purposes. Amounts deducted from annuity payments for DIC and Social Security Offset are non-taxable. SBP annuity payments are not subject to FICA taxes.

C4.3.12. SBP annuities under the child option or the insurable interest option are not reduced by DIC, the two-tier method or social security offset.

C4.3.13. An annuity payable to a person with an insurable interest is 55 percent of the retired/ retainer pay remaining after the reduction of costs from the retired/ retainer pay. For example, an \$800.00 retired pay with \$80.00 SBP costs:  $\$800.00 - \$80.00 = \$720.00 \times 55\% = \$396.00$  annuity.