

DEPENDENCY AND INDEMNITY COMPENSATION (DIC) FOR SPOUSE ONLY

DIC is a payment made by the Department of Veteran Affairs (DVA) to the spouse of a member who dies due to a service-connected illness or injury. The DVA determines entitlement to and the amount of the DIC award. If DIC is awarded, the SBP/RCSBP annuity must be reduced by the amount of the DIC award. The SBP/RCSBP annuity is terminated if the DIC is greater than the SBP/RCSBP. However, if an annuitant receives DIC based on a member other than the one providing SBP/RCSBP, there will not be a DIC reduction.

Each annuitant signs a DIC authorization statement when they submit their annuity application. This allows DFAS to establish their SBP/RCSBP annuity prior to notification from the DVA regarding their entitlement to DIC. This prevents delays in SBP/RCSBP payments.

If the DIC is awarded, the following conditions apply:

1.

If the monthly DIC benefit exceeds the SBP/RCSBP monthly annuity, the amount of the SBP/RCSBP annuity paid prior to notification of the DIC award, not including the month of death, is an overpayment. If the DIC monthly benefit does not exceed the SBP/RCSBP monthly annuity, the amount of SBP overpayment will be the amount of DIC awarded prior to notification. See number 3 for more information on overpayments.

2.

Once Defense Finance and Accounting Services (DFAS) receives all of the necessary information from the DVA, the annuitant will be due a refund of all or part of the SBP/RCSBP costs paid into the plan by the member (SBP/RCSBP cost

March 2009 DFAS-CL 1340.3-G 5

refund) if the DIC award is made retroactive to the date of death. The SBP/RCSBP cost refund will be applied to any SBP/RCSBP overpayment or other indebtedness, and a check for the remaining balance, if any, will be forwarded to the annuitant. The SBP/RCSBP cost refund may be taxable if the retiree paid the SBP/RCSBP costs from the retired pay taxable income. Any taxable portion of the cost refund will be included as taxable income on the TD Form 1099-R annuitants receive at the end of the year.

3.

Depending on the amount of the overpayment, it will either be collected from the SBP/RCSBP cost refund, referred to the DVA for collection from the annuitant's DIC payment, or combination of both. Annuitants will be advised of the method of collection and sent an account statement showing the SBP/RCSBP cost refund less any overpayment collected when the SBP/RCSBP cost refund is processed.

Annuitant's taxable income will be increased by the taxable portion of the cost refund and reduced by the amount applied to the overpayment. The taxable income will be adjusted when the overpayment is collected. An annuitant may receive a tax deduction or tax credit, as appropriate, if the overpayment occurred.

4.

Since SBP/RCSBP costs are not paid by members who die while on active duty, or by Reservist who dies before retirement, there will be no refund of costs. The overpayments will be referred to the DVA for collection from the annuitant's DIC.

5.

Annuitants can reduce the amount of the SBP/RCSBP overpayment by notifying DFAS at once when DIC has been awarded. Please furnish DFAS a copy of the award letter from the DVA.

6.

Since DIC benefits are nontaxable, DFAS encourages annuitants to apply for DIC if they have not done so

7.

If the DIC effective date is past the first day of the month after the member's death and the annuitant has received benefit from receipt of the SBP/RCSBP, no cost refund is due.