



Personal Financial Planning For Transition





Veterans Employment Center

Resources

Build a Profile

Publish an online profile to connect with thousands of employers looking to hire Veterans.

Translate Your Skills

Utilize the Department of Labor's O*NET resources to translate military occupational codes (MOC) into civilian skill equivalents and learn about related civilian career paths.

Search for Jobs

The Veterans Job Bank (VJB) allows users to search 1.2 million jobs from the private sector and federal, state and local governments.

Advantages

View Employer Commitments

Identify employers who made commitments to hire Veterans and the types of positions they need to fill.

Connect with Resources

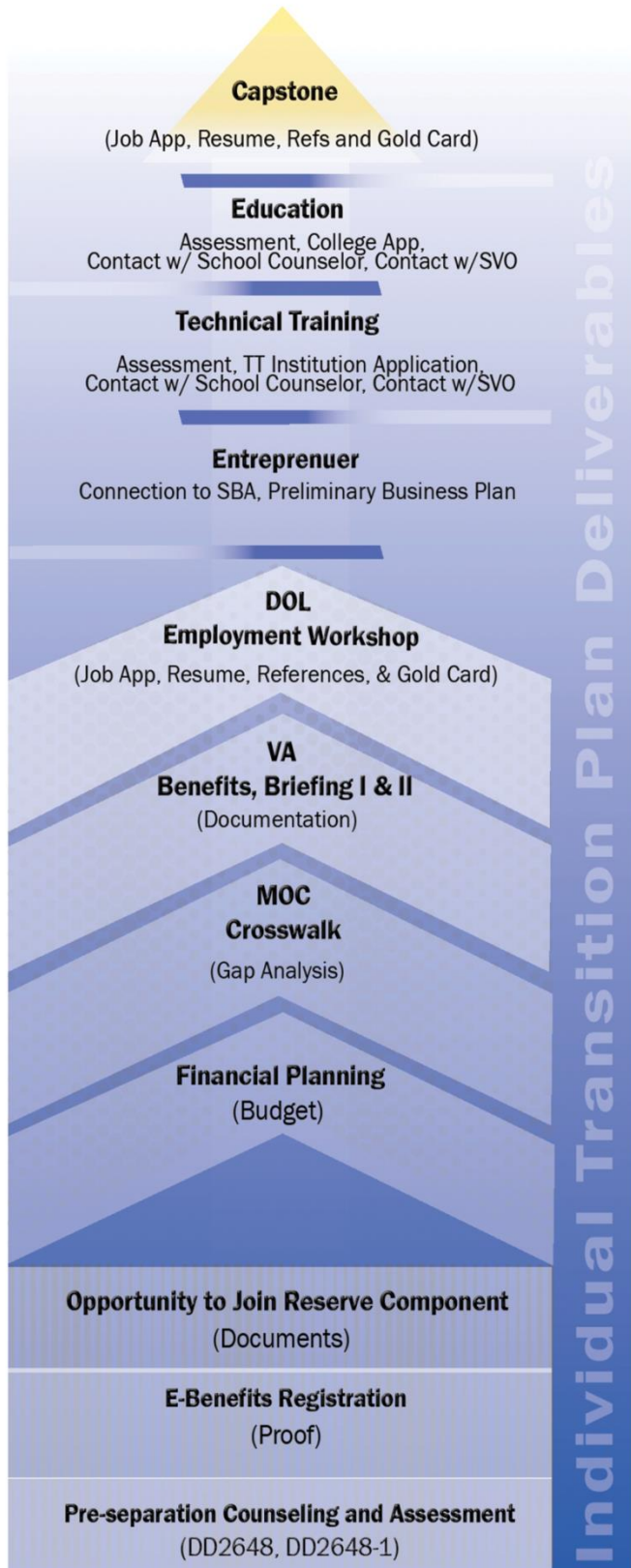
Learn more about incentives for hiring Veterans. Discover career transition resources.

Opportunities

The VEC is the federal government's single online source for connecting transitioning Service members, veterans and their families with meaning career opportunities.

In connection with the First Lady and Dr. Biden's Joining Forces initiative, the Departments of Veterans Affairs, Labor, Defense and Education, the Small Business Administration and the Office of Personnel Management, collaborated to create the VEC by incorporating the best online employment tool features.

www.ebenefits.va.gov/ebenefits/jobs



Capstone

Service members participate in Capstone to validate and verify that they are prepared to be successful following military service by producing documentation that they meet all Career Readiness Standards (CRS).

Accessing Higher Education Track

Guides and assists Service members pursuing college education with preparation for the college application process. Topics covered include: identifying educational goals, finding education funding, and researching and comparing institutions.

Career Technical Training Track

Guides and assists Service members pursuing career technical training with preparing for researching and selecting institutions and technical fields.

Entrepreneurship Track

Service members pursuing self-employment in the private or non-profit sectors learn about the challenges faced by entrepreneurs; the benefits and realities of entrepreneurship, and the steps toward business ownership.

DOL Employment Workshop

Informs and assists transitioning Service members with preparation of the tools and steps required for a successful transition to civilian employment.

VA Benefits Briefings I & II

Informs transitioning Service members of their Veterans benefits options.

MOC Crosswalk

Translates military skills, training, and experience into civilian skills, education, and credentialing appropriate for civilian jobs

Financial Planning for Transition

Provides information and tools needed to identify financial responsibilities, obligations, and goals after separation from the military.

Continuum of Military Service Opportunity Counseling

Informs Service members of the opportunity to continue their military service by joining a Reserve Component.

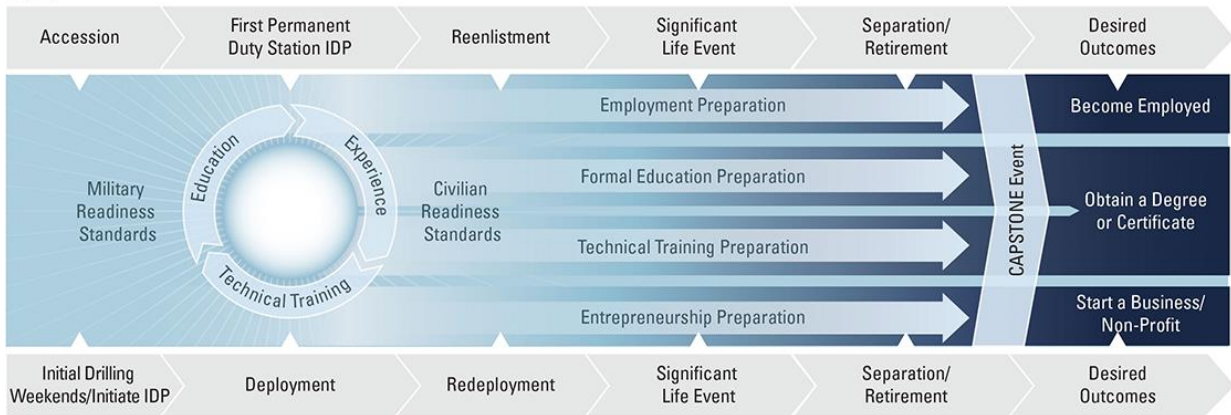
E-Benefits Registration

Provides web-based information to Service members, Veterans, and their family members on how to access Veterans benefits, resources, services, and support.

Pre-Separation Counseling

Introduces Service members to the full range of transition programs and services available.

Active



Reserve

Military Life Cycle Model

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Section 1.1: Develop Your Spending Plan

MODULE PREREQUISITE

Service members shall bring to class their most current End of Month (EOM) Leave and Earning Statement (LES), Individual Transition Plan (ITP) list of goals (career, location, home options), list of expenses, list of debts, a recent credit report, and a calculator. Each member will also need the Financial Planning Worksheet for Career Transition located on the TAP website because this tool will be updated during the delivery of this module.

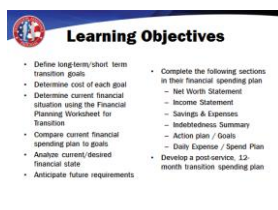
COMPETENCY

Be able to develop a post-transition 12-month spending plan.

LEARNING OBJECTIVES

Participants will:

- Define long-term (12 months) and short-term (less than a year) transition goals using the ITP
- Determine SMART Goals: Specific, Measurable, Achievable, Realistic, and Timely/Trackable
- Determine current financial situation by completing a financial spending plan using the electronic Financial Planning Worksheet
- Analyze current and desired financial state
- Anticipate future requirements
- Complete the following sections in their financial spending plan:
 - Net worth statement
 - Income Statements
 - Saving & Expenses
 - Indebtedness/Summary Action Plan/Goals
 - Daily Expense/Spending Plan
 - Develop a post-service, 12-month transition spending plan



INTRODUCTION

The Transition GPS Courses, including all of the Financial Planning modules, should help you determine your projected path. Understanding your current finances and taking what you have learned from the Transition GPS material will assist you in completing a current and 12-month post-transition budget. We understand that as time goes on this might change but having an understanding of where you are, where you want to go and what actions to take to make your goals a reality is important for your financial future.

Using the *Financial Planning Worksheet*, a comprehensive financial planning tool, you will develop a picture of your financial life. You may be thinking, “Why are we going to devote all this time to developing a spending plan?” “Why has this been determined to be a key element of your transition?” Remember those goals that you established during your pre-separation counseling? Let’s take a look at them. Most of them require money to accomplish. Let’s say you have decided to attend college or career technical school when you get out; you will have your VA educational benefits but they won’t cover all the expenses. There is now a Presidential Executive Order directing the Departments of Education, Defense, and Veterans Affairs, in consultation with the Consumer Financial Protection Bureau (CFPB), to take steps to ensure that the Service member, Veterans, and their families can get the information they need about the schools where they spend their education benefits. You will learn more about that in the Education track. Some of you are going to jump right into the civilian job market — sometimes it takes a few months to find a job that will cover your expenses, debt, and goals while fulfilling your passion. How are you going to support yourself and/or your family in the meantime? Maybe you have decided to start your own business — it could take some time to realize a profit. Many new businesses struggle the first few years and some fail, so how will you make ends meet during the lean years? Are you financially prepared? The spending plan is a tool that helps you build the financial part of your plan to meet your transitional goals.

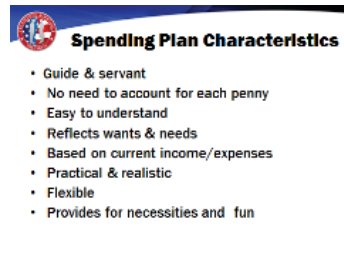
For some of you, developing a spending plan might be a new experience, or it could have been awhile since you have reviewed it. After all, you have had a consistent flow of money coming in and going out and haven’t felt the need to write it down. Whatever your circumstances, it is important for all of you to look closely at the details of your fiscal life during this time of change. For the next few hours, you will work with the tools that will help you do just that. Other topics that will be important to your plan will also be covered. We will talk about your credit reports and scores, how to evaluate salary offers, compensation packages, cost of living and tax issues related to your transition. What if that great job offer requires you to live in another state? Civilian moves are different from military moves in a number of key aspects. Consider taxes, for example. How many of you are a legal resident of one state without state income tax but live in another that does have state income tax? Typically, your military pay is only taxable in your state of residence. How many of you receive discounted rates on vehicle tags or military personal property tax waivers? You usually can’t do that as a civilian. All of these situations could have tax and cost of living implications.

WHAT IS A SPENDING PLAN?

A spending plan is simply a tool to assist you in reaching your goals. It is a written method to measure and manage the money that comes in and goes out of your pocket. A common name for a spending plan is a **budget**.

CHARACTERISTICS OF AN EFFECTIVE SPENDING PLAN

- **A guide and servant – not a master.** Some people think of a budget or a spending plan much like a diet – I have to suffer through this, and it will be painful, but hopefully in the end I'll achieve my goals. If your spending plan accounts for all of your needs but also for some of your wants, it won't feel restrictive. In fact, it should free you from worry!
- **Is not necessarily a down-to-the-penny accounting.** That is not to say it can't be down to the penny, some people like to be that specific with their money. However, if you are not much of an accountant, don't worry. The spend plan process will help you build up to accurate and effective numbers.
- **Easy to understand.** In its simplest form, a spending plan is a list of money that comes in and money that goes out. It shouldn't be any more complex than it needs to be for your situation. Although this program will introduce you to an eight-page tool, if your financial situation is straightforward, you may not need to use the complete form or a simpler form may work. Keep the process as simple as you can.
- **A reflection of your needs, wants, values and goals.** It should reflect the way you actually spend your money. Anyone that you share your fiscal life with should be involved in the budgeting process. For example, if you are married, your spouse should be included in discussing and completing the plan.



Spending Plan Characteristics

- Guide & servant
- No need to account for each penny
- Easy to understand
- Reflects wants & needs
- Based on current income/expenses
- Practical & realistic
- Flexible
- Provides for necessities and fun

- **Based on current income, savings, expenses, and debt.** If you don't know what your current income, savings, expenses and debt are, estimate as closely as you can and update when you have correct numbers. Service members can usually list their income and savings easily, but listing expenses and debt may take more effort. After you have given it your best then you need to "test drive" your spend plan. That means that you need to track all of your expenses for 30 days. Make this as easy on yourself as possible. Some people like to write down all the expenses and spending as it happens—others will save all the receipts and tally up at the end of each week. Do what works for you! Tracking expenses daily is a powerful tool to determine where your money is going. When determining debt you should review your credit report to ensure you haven't forgotten anything.
- **Practical and realistic.** It has to be based on reality. You may want to spend only \$50 a month on gas for your car, but is that realistic? You may want to start riding your bike rather than driving, but is that practical? As you work through your spending plan, be sure to keep it real.
- **Flexible.** It should not be a straitjacket. Build in flexibility by adding in a cushion, or better yet, build up your emergency and reserve savings so you can be flexible when you need to be.
- **Provides for pleasures as well as necessities.** Service members and their families work hard for their money and make sacrifices every day that most civilians don't. It bears repeating that your spending plan needs not be so restrictive that you have no room for some of life's pleasures. There are times when everyone needs to cut back, but it is reasonable and expected that people will build into their spending plan some money for pleasures, as well as necessities.
- **Can be short term or long term.** A short-term budget is for something that is less than year from now that you are planning for and a long-term budget is more than 12 months.
- **Determines SMART Goals:** A budget should be Specific (list as much as you can and in detail including goals), Measurable (set criteria so you can see progress), Achievable (setting steps and developing attitudes, abilities, skills, and financial change to reach them), Realistic (are you willing and able to work toward the goal), and Timely/Trackable (what is the timeline you need to achieve it).

WHY IS A SPENDING PLAN IMPORTANT?

Being specific on what you want to do when you transition, having a plan (e.g., budget) that you can measure as you go along, and setting action plans to make your goals achievable and realistic will help you track your progress and make your transition more rewarding.

- **Live within your income:** By putting everything down in black and white, and by planning and tracking spending, you will have a guide that keeps your spending in line with your financial goals and expectations.
- **Realize personal goals:** Part of developing a spending plan involves writing your goals down on paper and listing the steps needed to achieve those goals.
- **Maintain a good credit history:** The first step in having good credit is to pay your bills on time and a written spending plan provides the foundation for a great credit report. The ultimate goal of any spending plan is to help you build wealth, not debt, so as your assets grow and your debt is kept to a minimum or eliminated and paid on time, your credit report will improve over time.
- **Get more for your money:** A spending plan is the single best way to help find “leaks” in your spending. Tracking your income and expenses, may help find money you didn’t know you had. Perhaps you’ve been spending money on things that you don’t really need or value. You may find there is money ‘lost’ – not knowing where some of you money goes. You should account for 100% of your money.
- **Reduce financial stress and arguments:** Planning income and expenses, writing down goals, and working together with your spouse on an agreed upon plan could greatly reduce financial stress in a relationship. Money is a top reason Service members experience stress on the job and one of the top things couples fight about – a written spending plan can help avoid these situations.
- **Achieve financial competence and confidence:** A spending plan can assist with reaching an important financial goal in your life –buying a house, financing a child’s education, or retiring early. Imagine what it would feel like to be fully in control of your money, control expenses, with low debt, adequate savings and an investment plan in place.



Why a Spending Plan is Important

- Live within your income
- Realize personal goals
- Maintain good credit history
- Get more for your money
- Reduce financial stress
- Enjoy financial freedom

THE FINANCIAL PLANNING WORKSHEET

In this portion of the module, you will spend time working through the Financial Planning Worksheet. It is a straightforward, yet comprehensive budget document.

The table below highlights the major components and organization of the worksheet.

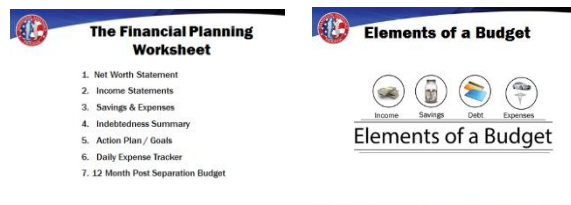
Worksheet Components	Worksheet Organization	Budget Elements
<ul style="list-style-type: none"> • Net worth Statement • Monthly Income • Monthly Savings Expenses • Expense Tracking Form • Indebtedness • Action Plan (Goals) • 12 Month Budget 	<ul style="list-style-type: none"> • Determine your net worth • Determine current income status • Use Transition GPS tools to: <ul style="list-style-type: none"> ○ determine future salary and cost of living objectives ○ determine future income, savings, expenses, and debt • Create current and projected Action Plans • Create a 12-month, post-transition budget 	<ul style="list-style-type: none"> • Income • Savings • Expenses • Debts

NET WORTH

Assessing your net worth may be helpful to you during your transition. Determining your assets and measuring their growth can be an indicator of how you are progressing in your overall financial plan. Using sound financial principles to manage your money will ensure that each year the “bottom line” increases.

NOTE: Ideally, you should have a positive net worth, but for many people just starting out, it is common to have a negative net worth.

Assets are things like cash you have on hand, the amount in your checking/savings/investments, and items of value you own.



Liabilities are financial obligations to other parties and include things like loans, credit card balances, mortgages, etc.

Note: You will see that this budget includes the market value of your primary home as an asset, but does not include the mortgage you owe on it in the liability section because your Basic Allowance for Housing (BAH) should cover the cost of your mortgage. However, when transitioning from the military you will not have BAH. When calculating net worth for your post-service budget, it is important to include any liabilities associated with your assets, including your mortgage payment.

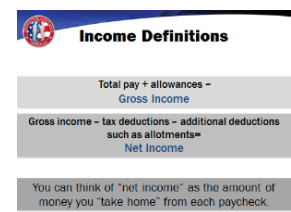
TIP: There are many calculators to assist you with estimating the value of what you own (assets).

- To find the value of savings bonds check: www.savingsbond.gov
- You can estimate your home value at: www.homegain.com
- To find your car's value check: www.nada.com

INCOME

To reduce confusion, it's important to review common terms used when dealing with income:

- **Gross Income** – Your household total pay and allowances; everything earned
- **Net Income** – Your household gross income minus taxes minus any other deductions or automatic allotments. (This is the amount deposited in your account each payday.)
- For the purpose of this course, you can think of “net income” as the amount of money you “take home” from each paycheck.



ACTIVITY: Complete the Income portions of the worksheet

Instructions: For the Income portion, you will need to pull information from your Leave and Earnings Statement (LES) and refer to Tab 2 of the Worksheet. For the Savings portion, you will need to refer to Tab 5 of the worksheet.

TOTAL FORCE LEAVE AND EARNINGS STATEMENT

A ID INFO		1 NAME (LAST, FIRST, MI)		2 SSN		3 RANK SSGT		4 SERV USMC		5 PLT CODE		6 DATE PREP 20140725		7 PRD COVERED 1-31 JUL		8 PEBD 19970605		9 YRS 10		10 EAS 20160229		11 ECC 20160229		12 MCC DIST RUC							
B FORECAST AMOUNTS		13 DATE 20140815		AMOUNT \$ 2171.82		14 DATE 20140829		AMOUNT \$ 2776.63		C SPLIT PAY		15 START DATE		16 AMOUNT \$.00		17 BALANCE \$.00		18 POE 12011		D. DIRECT DEPOSIT/LEFT ADDRESS NAVY FEDERAL CREDIT UNION PO BOX 3000 ATTN: FUNDS SERVICES MERRIFIELD VA 221190000											
E LEAVE INFORMATION												F AVIATION PAY INFORMATION																			
19 LV BF 75.5		20 EARNED 2.5		21 USED 0		22 EXCESS .0		23 BAL 78.0		24 MAX ACCRUAL 47.5		25 LOST 3.0		26 SOLD AS OF .0		27 CBT LV BAL 00000000.0		28 ASED 00000000		29 DIFOP TOTAL YRS MC		30 PRIOR DIFOP START		31 PRIOR DIFOP STOP		32 OPFLY GATE INFORMATION 0000					
G TAX INFORMATION																		H. RIGHTS OF MARINES INDEBTED TO THE GOVERNMENT YOU HAVE THE RIGHT TO:													
33 STATE TAX						34 FEDERAL TAX						35 FICA (SOCIAL SECURITY TAX)						-INSPECT AND COPY RECORDS PERTAINING TO DEBT -QUESTION VALIDITY OF A DEBT AND SUBMIT REFUTING EVIDENCE -NEGOTIATE A REPAYMENT SCHEDULE -REQUEST A WAIVER OF DEBT MORE INFORMATION ABOUT YOUR RIGHTS CAN BE OBTAINED FROM YOUR COMMANDING OFFICER VIA YOUR CHAIN OF COMMAND.													
STATE CODE						FL S 01						SSEC WAGES THIS PRD \$3635.70																			
EXEMPTIONS						EXEMPTIONS						SSEC WAGES YTD \$25449.90																			
WAGES THIS PRD						\$3417.99						SSEC TAX YTD \$1577.89																			
WAGES YTD						\$23922.32						MEDICARE WAGES THIS PRD \$3635.70																			
STATE TAX YTD						\$.00						MEDICARE WAGES YTD \$25449.90																			
FED TAX YTD						\$2781.24						MEDICARE TAX YTD \$389.02																			
J ADDITIONAL BAH INFORMATION												K EDUCATION DEDUCTION				L ADMIN INFO															
36		37 BAH ZIP 22134		38		39		40		41		42		43 DATE TOTAL CAREER SEA SVC 00000000 00 YRS 00 MO 00 DA				44 TYPE MGIB		45 MONTHLY AMT \$.00		46 TOTAL \$ 1800.00		47 PAY STATUS 00000							
M RESERVE DRILL INFORMATION												N RESERVE RETIREMENT INFORMATION																			
52 REG		53 REG FYTD		54 REG ANNYTD		55 ADD		56 ADD FYTD		57 ADD ANNYTD		58 BF ANNYTD		59 ACQU THIS PRD		60 DRILL THIS PRD		61 OTHER THIS PRD		62 MBR THIS PRD		63 END BAL ANNYTD		64 TOTAL SAT YRS		65 TOTAL RET PTS		48 PAY GROUP 00013		49 CRA DATE 10070805	
66 AFADBD 19970805		67 DEAF 19960816		68 TSP TAX DEFERRED \$ 1629.98		69 TSP TAX EXEMPT \$.00		70 TSP ROTH \$.00		71																		60 RESERVE ECC		61 DSSN 6105	

To calculate your Income:

- Copy all of your pay and allowances from your LES or use a current pay chart to calculate your gross monthly pay. Remember, your End of Month amount is not your full monthly income so remember to add in your mid-month pay.

CAUTION: This figure could be different from your taxable pay. All taxable items will have an asterisk (*) beside them in the entitlements section on your Financial Planning Worksheet. If you're not sure what entitlements are taxable, please see your installation financial counselor or your installation finance office.

Example 1	
E-5 over 8 years w/dependents	
Total compensation	\$4,774.64
Base Pay \$2,845.20, BAH\$348.44, BAH\$1,581.00	(A)
Total tax deductions	\$351.29
SOI (self/family/spouse), TSP, AFPRs, Federal taxes, FICA (social security/medicare)	(B)
Total additional deductions	\$269.83
Monthly savings \$200, monthly investing \$69.83	(C)
Net income (A-B-C)	\$4,153.52

Example 2	
E-7 over 20 years w/dependents	
Total compensation	\$6,025.54
Base Pay \$4,256.10, BAH \$248.44, BAH \$2,021.00	(A)
Total tax deductions	\$626.18
SOI (self/family/spouse), TSP, AFPR, Federal taxes, FICA (social security/medicare)	(B)
Total additional deductions	\$425
Monthly savings \$200, monthly investing \$225	(C)
Net income (A-B-C)	\$5,174.26

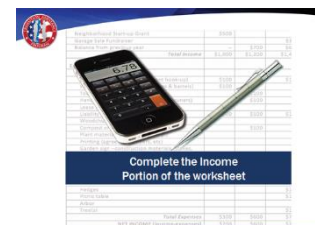
2. Subtract all deductions from your pay. These may include:
 - Taxes
 - Service members Group Life Insurance (SGLI)
 - Family SGLI (FSGLI)
 - Traumatic Service member Group Life Insurance (TSGLI)
 - Automatic contributions to your Thrift savings plan (TSP) and other investments or other automatic contributions to savings, etc.
 - Health (Medical and Dental)
 - Advance pay
 - Overpayments
 - Armed Forces Retirement Home
 - Contributions or payments to military aid organizations
 - Allotments
3. After subtracting the above from your gross income you will have calculated your net income.

NOTE: Some financial representatives will also want you to subtract from your gross income your non-automatic contributions to savings (transfers, checks, etc.). For example, when you deposit funds into your savings after your paycheck is received in your bank account. The reason for this is the goal of paying yourself first. If you automatically pay yourself first whether through automatic contributions as stated above or you immediately transfer funds after you receive your paycheck remember to do the appropriate subtraction to know what you have to spend which is your net income or as mentioned above some call your take home pay.

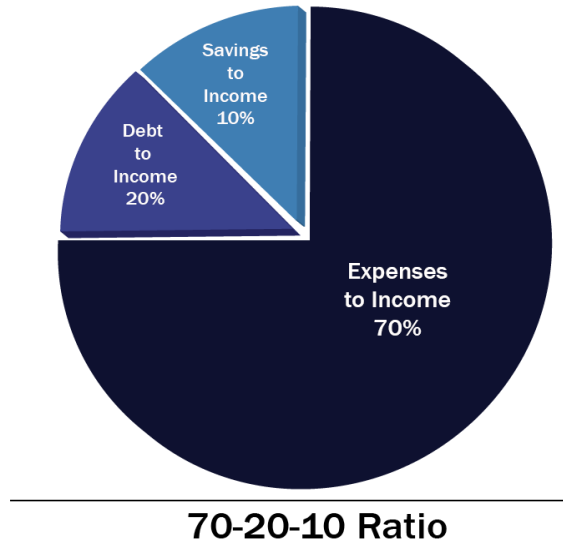
RATIOS

Often referred to as the “70–20–10 Rule,” financial experts suggest that the ideal distribution of your net income is:

- 70% to living expenses (smaller percentage is better)
- 20% to debt payments (smaller percentage is better)
- 10% to savings (larger percentage is better)



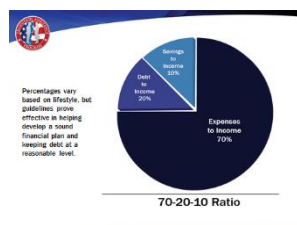
This is used as a guide to help you understand how you are doing. We will discuss ratios more as we move on through the workshop.



SAVINGS AND INVESTMENTS

To calculate your Savings

1. List all of the money you save in Tab 5 of the worksheet.
2. This includes any monthly amounts put into savings funds, as well as entries for investments such as the thrift savings plan (TSP), Saving Deposit Plan (SDP), 401(k), other mutual funds, stocks, and other types of investment tools.
3. Place in the remarks section the amount listed that came out of your gross income and prior to your net income (automatic deductions, transfer to savings immediately after receiving pay). We will explain below.
4. Total the monthly savings and investment amounts. Is this what you want?



Savings Exercise

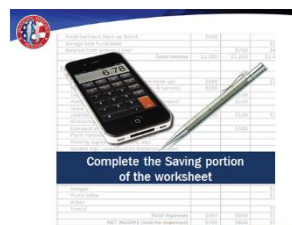
- List all of the money you save in the remarks section
- List any monthly amounts contributed to
 - Savings funds
 - Investments (TSP, SDP, 401K)
 - Mutual funds, stocks, other
- Total

5. Now let us do the 20% ratio test:

- Take your total savings/investments and divide the amount by your net income and multiply by 100. This percentage tells you how much income you save. Our goal is for 10% or more.
- If you had funds automatically contributed to your savings/investments when calculating your net income whether that was through automatic draft or you immediately transferred it once you received your paycheck then your savings ratio will be a little higher than it should show. That is because you have a lower net income number since you had automatic contributions done prior to receiving your paycheck and a larger savings amount since you also placed it on your budget sheet resulting in a duplication. This ratio is not a problem if you do not have any funds coming out prior to calculating your net income or transferring funds. However, if you did have automatic transfers/contributions that were subtracted from your net income remember to increase your net income up by your savings amount and then do the calculations.
- Most financial advisers suggest you **save 5-10% of net income at the minimum** but the more you save, the more cushion you have, resulting in less stress. This could be adjusted depending on the economic times. If jobs are hard to come by then you may want to increase this even more than 10% to prepare yourself for the potentially tough road ahead. But you should try never to go below 10%. Also, saving is easier when you are younger so you should try and save more than 10%. It is expected that as you get older your life will have more financial responsibility with family expenses. Save what you can at first and then increase it little by little. It is helpful to determine what you are saving for. If you target the money it will be easier to stick with your savings plan. This is a very important step for transitioning members. Having some money put away can give you options during your transition.

It is important you set goals for each of these areas to have a balanced savings and investment portfolio:

- Emergency Savings (minimum of \$1,000)
- Reserve (minimum of 3-6 months but 1 year would be ideal)
- Goal getter (items you want)
- IRA, TSP, and other investments



LIVING EXPENSES

Living expenses are the daily, weekly, and monthly items that we pay out in order to live – groceries, utilities, clothing, childcare, entertainment, etc.

Capture your living expenses on Tab 5 of the worksheet. Using the worksheet you've been completing thus far, work down the page and complete the "Actual" column.

TIP: If you know you spend money on an item, but don't know how much, consider tracking your spending for one or two pay periods and then update the worksheet.



TRACKING EXPENSES

Do you know how much you spend each month on living expenses? For today estimate as close as you can. You can really get exact later by tracking your actual expenses for a month.

Living expenses take up the majority of your income. Some expenses are fixed, such as rent and insurance; while others are variable – entertainment, food, and clothing. You can control variable expenses and adjust the amounts you spend in these categories to have more to use somewhere else.

NOTE: Most people who are building their first spending plan cannot account for 10% of their income – they simply don't know where the money goes. During your transition this 10% could come in very handy.

Living Expenses

Types of Expenses

Track Spending

- Track spending for 2-4 weeks
- Record all expenses daily
- Group expenditures by category
- Review past statements

Expenses

E5 + 9 years (not recommended)		E7 + 20 years (not recommended)	
Rent	\$1,000	Rent	\$2000
Electric	\$40	Insurance	\$150
Insurance	\$150	Cable/Internet	\$175
Cable/Internet	\$124.50	Cell Phone	\$250
Cell Phone	\$250	Food	\$300
Clothing	\$42.50	Transportation	\$200
Food	\$550	Child Support	\$500
Transportation	\$275.50	Charity	\$100
		Personal	\$25.00
		Other	\$25.00
TOTAL EXPENSES \$8,032.50		TOTAL EXPENSES \$4,089.50	
73% Of Income		57% Of Income	

Options for tracking expenses:

- Use the form on Tab 8 called Daily Expenses on the worksheet.
- Keep a small notebook in your wallet or purse to record every purchase
 - Write everything down – \$2 for an energy drink, \$6 for lunch, \$5 for coffee, \$15 you loaned to a coworker, etc.
- Keep receipts from every purchase and total them up at a minimum by the end of the week
- Review past spending from statements
- After you've written everything down for a month, group your expenditures into categories similar to those listed on Tab 5 of the worksheet and enter them on the form

Why track expenses? To give yourself an honest picture of your spending so you can make informed decisions about your budget.

ACTIVITY: Calculate your Living Expenses

Instructions: After you complete Tab 5 your total monthly living expenses will be automatically calculated.

EXPENSE RATIO

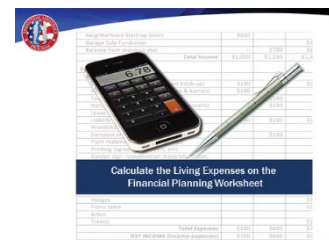
Now we will do the same thing for your expenses as we did for your savings ratio. Take the total of your expenses and divide by your net income and multiply by 100. This percentage tells you how much of your income goes to expenses. Our goal is for the expense-to-income ratio to be no more than 70%.

How is your expense ratio? If it is above that can you find areas where you can make adjustments to your spending?

On our example, what does it tell you?

DEBT MANAGEMENT

Now on Tab 6 let's look at who you owe money to, what the minimum payment is and how much interest you are being charged. This is captured in the Indebtedness tab within the worksheet.



Items that fall into this category generally include:

- Credit cards (bank, department store, gas, etc.)
- Car loans
- Personal loans
- Consolidation loans
- Student loans
- Advanced payments
- Overpayments
- Indebtedness to military aid organizations, family and friends

Items **NOT** included as debts:

- Your mortgage – For the purposes of this spend plan, your mortgage is considered a living expense and was considered in the Expenses Tab 5.
- While on active duty your housing allowance likely covers your rent/mortgage. A true debt to income ratio would include your mortgage because banks/creditors will take that mortgage payment and balance into consideration.
- Any rental property you have that is not your primary residence. This also could be considered a debt by banks/creditors so be aware that if you are going to try and obtain credit you may run the numbers with this included.

Note: Remember paying the minimum payments and having a large balance will affect your financial future as the debt can become a snowball effect. You will pay much more for the item than what you originally thought you were paying for it and most likely the value of the item will be less than what you owe on it. The Annual Percentage Rate (APR) is another factor that can affect this. That is why it is important to understand your APR on an item and how it relates to you because of your credit score which we will discuss later.

SUMMARY OF INCOME, SAVINGS, INVESTMENTS, LIVING EXPENSES, AND DEBT-INCOME RATIO

ACTIVITY: Calculate the indebtedness and summary section of the Financial Planning Worksheet

Instructions: Complete the section on your worksheet that pertains to debts and the summary of all your income, savings/investments, living expenses, balance to pay debts and total debt payments. This summary will determine whether the budget has a surplus or deficit. Don't panic if you're in a deficit situation—at least now you have it written down and can begin turning it around into a surplus. Take a look at where you feel you can adjust your expenses in order to pay off your debt faster or begin to save.

NOTE: One of the major differences you will encounter in the civilian world is the frequency of pay periods. They vary from monthly, bi-weekly, twice/month, or weekly. For example: You have been used to managing your money around 24 paydays a year, if this changes to 26 then some adjustments will be needed in your spending plan.

YOUR DEBT-TO-INCOME RATIO

Monitoring your debt-to-income ratio is a good way to get a quick check of your financial health.

The financial planning worksheet will calculate your debt-to-income ratio along with some other ratios we will discuss next.

To understand how the spreadsheet formulas are calculated we will first walk you through how to determine your debt-to-income ratio:

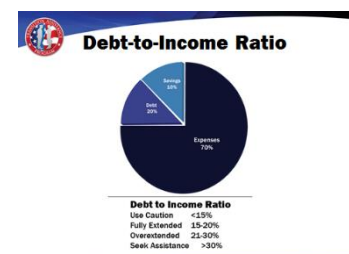
- Determine your net monthly income by identifying everything you make in one month
- Total all monthly debt payments – Remember to exclude mortgage payments while in the service as we assume your BAH covers it but you should include it on your post-service budget.
- Divide the minimum monthly debt payments by the total net monthly income to determine your debt-to-income ratio
- Your minimum payments divided by net income multiplied by 100 is your ratio

Scenario: Pete and Jennifer have a net monthly income (after taxes) of \$3,750. The total of their minimum monthly payments is \$680.

The debt-to-income ratio calculation would be:

- $680 \text{ (divided by) } 3750 = 0.18$
- $0.18 \times 100 = 18$
- Therefore, their debt-to-income ratio is 18%.

Our goal is to have the debt ratio well below 20%.



DEBT-TO-INCOME RATIO

Now that we have discussed how to calculate your Debt-to-Income Ratio lets determine what that ratio means.

The example above determined that 18% of the income went to debt. Using the following guidelines we can determine how this percentage ranks compared to a “safe” level of debt:

- Less than 15%: Use caution when taking on more debt
- 15% - 20%: Fully extended; refrain from taking on additional debt
- 21% - 30%: Overextended; don't take on additional debt and establish a plan to pay down existing debt
- More than 30%: Seek help to reduce debt from a reputable debt-management source

The less debt you have then the less stress, the less arguments with family, the better Annual Percentage Rate (APR/interest rate) you will be offered which mean less of a payback on items above the actual cost, etc. It may be difficult to change your lifestyle in the short run to accomplish your goal of decreasing your debt but in the long run you feel more comfortable about your financial future.

Now, that we have performed these ratios and you will be creating your own budget and calculating your ratios pay close attention to how you compare to these and see what you can do to improve your situation prior to transition or what you can do after transition.

These percentages will vary in different households based on different lifestyles, but these guidelines prove effective in determining your savings, expenses, and debt level and they will help you to develop a sound financial plan.

YOUR ACTION PLAN

On the Financial Planning Worksheet, find your action plan. There are several steps you can take to address financial issues that you may have detected in your spending plan.

TIP: Decreasing living expenses produces the most immediate results. A well-managed spending plan that decreases living expenses can see results within days.

NOTE: When you construct your budget for the first time, use the “Actual” column. After considering all options and realistic changes, enter figures into the projected column.

Some ways to start improving your debt-to-income ratio are listed below. Remember your installation Family Center has certified experts to help you figure out ways the will work best for you and your particular situation.

Ways to increase income:	Ways to decrease expenses:	Ways to decrease indebtedness:
<ul style="list-style-type: none"> • Spouse gets job • Active-duty person gets part-time job • Review and change tax filing status and exemptions • Enroll in federal or state programs 	<ul style="list-style-type: none"> • Cut back to basic cable • Bundle packages for cable, Internet and cell phone, when there is a savings • Eliminate your land line for cell phone • Check books out from library • Use public transportation or carpool • Turn off lights when not using • Ask for military discounts • Send e-mail rather than calling • Trade child-care duty or meal duties with another couple • Cook at home and pack your lunch • Shop at thrift stores • Evaluate needs versus wants on cell phone packages 	<ul style="list-style-type: none"> • Pay off debts • Stop using credit cards • Pay down debt using a power pay plan. Take advantage of websites that explain various methods of power paying. • Shop for the lowest interest rates, refinance when possible • Consider consolidation loans • Seek help if you are in serious debt. Accrued interest and late fees may be waived by some creditors if you enroll in a non-profit debt management program



Improving a Spending Plan



..... **Increase Income**



Decrease Living Expenses



..... **Decrease Indebtedness**

SOURCES OF HELP

Just like a business would bring in a consultant if it started to run into financial problems, you have resources available to you. If you are having financial difficulties or need assistance creating a spending plan, get help. Along with the Installation Family Service Center Financial professional there are other resources to assist:

- Debt management programs at financial institutions (both on and off the installation)
- Consumer Credit Counseling Services or other non-profit financial education organizations
- MilitaryOne Source and MFLC (while in the service as there are more free services available)

Consumer Financial Protection Bureau, Office of Service Members Affairs has contracted out to offer financial counseling at certain Department of Labor and VA centers for Veterans.



REVIEW

Understanding the fundamentals of the Financial Planning Worksheet provides you with a broad understanding of financial planning and the road to financial security. You should be able to take what you learned in this module and during this week to complete your 12-month post-transition spending plan/budget.

Here's a quick review of the components of the worksheet:

1. **Net Worth** – Helps you measure your current wealth by subtracting everything you owe (debts) from everything you own (assets). Your net worth should increase every year.
2. **Income Statements** – Allows you to calculate net monthly income.
3. **Saving and Expenses** – Allows you to total monthly savings and living expenses.
4. **Indebtedness Summary** – Allows you to total monthly debt payments, surplus or deficit, and debt-to-income ratios. Remember 70 – 20 – 10 rule.
5. **Action Plan/Goals** – Helps you plan ways to cut expenses and debt payments and increase income. It includes space for goals, referrals, and additional education/training.
6. **Spending Plan/Expense Tracker** – Spending plan provides a paycheck-by-paycheck plan to ensure your actual day-to-day spending is in line with the amounts you have budgeted. Ask yourself, “Of all the things I’ve already thought about and planned for, which am I willing to give up in order to spend the money on something else?” Update as income changes.

Expense Tracker exhibits the benefits of tracking expenses for a month or two. Track out-of-pocket expenses since everything else tends to be paid for with a check, automatic deductions, or a credit card.

7. **12 Month Post Service Budget** – It is a requirement to submit a 12 month post-service budget. As you do more research on the topics we have discussed in this class and throughout the week you will be updating this living document as you go along your career and into transition.

As you create your current budget with the tools you will learn today you will be able to do an Actual current budget. You will be able to evaluate issues and then set a projected budget. You will also be able by the completion of this transition course/week, and after doing some of your own research prepare a 12 month post service budget. Remember a budget is a living document and will need to be updated as you move along.

Spending Plan

After completing the Personal Finance for Transition module and other Transition GPS components, you should be able to develop a 12-month spending plan that supports your post-transition personal and career goals.

	Actual	Budgeted
Income		
Expenses		
Net Worth		
Debt		
Savings		
Action Plan/Goals		
Spending Plan		
12 Month Post Service Budget		

Review

- Net Worth
- Income Statements
- Expenses
- Debt
- Savings
- Action Plan/Goals
- Spending Plan
- 12 Month Post Service Budget

Section 1.2: Analyze your Credit Report and Scores

MODULE PREREQUISITE

Participants must bring with them a current credit report (within the last 60 days minimum) obtained from annualcreditreport.com

COMPETENCY

Understand your credit report and scores

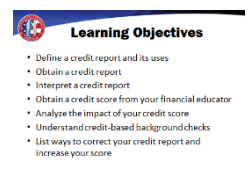
LEARNING OBJECTIVES

Participants will:

- Define a credit report and its uses
- Obtain a credit report from annualcreditreport.com
- Interpret a credit report
- Obtain a credit score from your financial educator
- Analyze the impact of your credit score on your transition
- Explain credit-based background checks
- List ways to correct your credit report and increase your credit score

WHY IS ANALYZING YOUR CREDIT REPORT AND SCORE IMPORTANT?

Knowing your credit report's content and ensuring its accuracy is important. Credit can impact everything from employment offers to loan and credit card applications. Poor credit can take money out of your pocket, harm your savings, and set back your plans for the future. Throughout this course, we will provide more specifics on the importance of, and how to manage, your credit report and score.

A graphic titled "Learning Objectives" with a small icon of a person with a gear. It lists seven bullet points corresponding to the learning objectives in the text above.

Learning Objectives

- Define a credit report and its uses
- Obtain a credit report
- Interpret a credit report
- Obtain a credit score from your financial educator
- Analyze the impact of your credit score
- Understand credit-based background checks
- List ways to correct your credit report and increase your score

WHAT IS A CREDIT REPORT?

A credit report is used by lenders to find out information about your credit history and the status of your financial accounts. Credit reports are compiled by credit reporting agencies. There are three main nationwide credit reporting agencies: **Equifax, Experian, and TransUnion**.

Most major creditors subscribe to one or more credit bureaus. Subscribing to a credit bureau is a two way street—the creditor agrees to continuously supply the credit bureau with current account information on the creditor’s customers in exchange for the right to find out information about other credit applicants.

Usually, creditors supply information to credit bureaus by computer. Each month the creditor transmits information about the status of its consumer accounts to the credit bureau. The bureaus use this information to update each borrower’s credit file automatically.

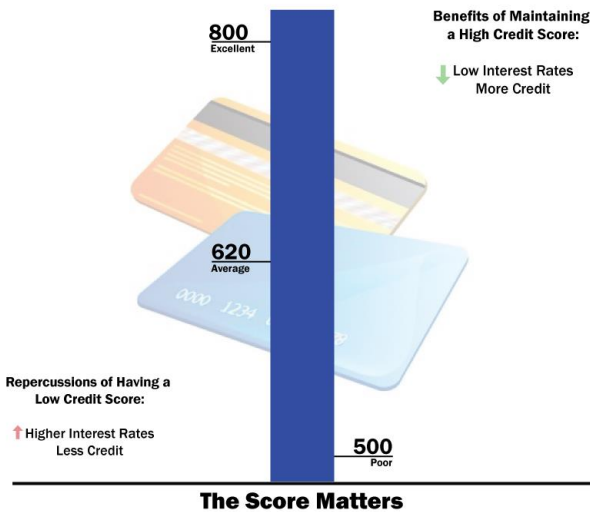
A credit report includes information about you, such as whether you’ve paid your credit cards on time, how much credit you have, how much available credit you are using, and if a debt collector is taking action on any debt you owe. Lenders use these reports to help them decide the type of credit they will extend to you, whether or not to give you an offer at all, at what Annual Percentage Rate (APR), or to check the status of an existing loan.

These reports can also include public records such as bankruptcies, garnishments, liens, and other judgments. Collection agencies send information on delinquent accounts to credit reporting agencies. There is no way to “opt out” of this process.

Numerous other companies collect specified information about consumers — such as tenant history or payday loan history.

NOTE: You will be able to receive your credit report and score while on active duty through an Installation Personal Finance Counselor or through SaveandInvest.org.





WHAT DOES A CREDIT REPORT CONTAIN?

Your credit report has basic personal information about you and lists the following information by individual account:

- Date you opened the account
- Type of account – real estate, revolving (credit card), or installment
- Whether the account is currently open or has been closed
- Monthly payment amount
- Maximum credit limit
- Latest activity on the account
- Current balance on the account
- Any amounts past due
- A code that explains whether the account is current, 30, 60, or 90 days past due
- If the account involves a repossession, charge off, or other collection activity
- Any accounts that have been turned over to a collection agency
- Addresses and telephone numbers of your creditors

Additionally, a credit report will include:

- Certain information of public record, including court judgments and possibly law suits against you, and garnishments, tax liens, foreclosures, and bankruptcies
- Legal information about divorces or annulments
- Should note any consumer statement you have provided concerning an unresolved dispute

TIP: If you find something wrong with your credit report, you should contact both the credit reporting agency and the creditor that provided the information (called the “furnisher”), if applicable, to tell them what you think is wrong and why. Your credit report will include information about how to dispute inaccurate or incomplete information.

WHO CAN SEE YOUR CREDIT REPORT?



Insurance Companies



Creditors



Government Agencies



Employers



Landlords

Who Can See Your Credit Report

- Creditors can look at your report whenever you apply to them for credit or for a loan
- Creditors can look at your report to review an existing account you have with them or for collection purposes
- Companies can look at your report if you’ve given them written permission
- Employers can look at your report, but only under certain circumstances and only if you give them written authorization
 - Employers are allowed to look at your report to evaluate you for hiring, promotions, and other employment purposes
 - Employers are, more and more, using credit reports in making employment decisions



- Government agencies, including those trying to collect child support and public assistance, can look at your report
 - Those considering you for eligibility for public assistance may review your credit report as well
 - Their reason for doing this is not to see if you have unpaid bills, only to see if you have hidden income or assets
- Insurance companies can look at your credit report to determine whether to issue you a policy and how much to charge for it
- Landlords can look at your credit record when they are deciding whether to rent an apartment to you
- If a landlord turns down your rental application because of bad credit, you may still be able to rent the apartment if you can explain some of the problems.

FAIR CREDIT REPORTING ACT

Under the Fair Credit Reporting Act:


- **You must be told if information in your file has been used against you.** Anyone who uses a credit report or another type of consumer report to deny your application for credit, insurance, or employment – or to take another adverse action against you – must tell you, and must give you the name, address, and phone number of the agency that provided the information.
-
- **You have the right to know what is in your file.** You may request and obtain all the information about you in the files of a consumer reporting agency (your “file disclosure”). You will be required to provide proper identification, which may include your Social Security number. In many cases, the disclosure will be free. You are entitled to a free file disclosure if:
 - A person has taken adverse action against you because of information in your credit report;
 - You are the victim of identity theft and place a fraud alert in your file;
 - Your file contains inaccurate information as a result of fraud;
 - You are on public assistance;
 - You are unemployed but expect to apply for employment within 60 days.

In addition all consumers are entitled to one free disclosure every 12 months upon request from each nationwide credit bureau and from nationwide specialty consumer reporting agencies. See www.ftc.gov/credit for additional information.

 **Fair Credit Report Act**

Consumers have the right to:

- know the contents of their report
- an accurate and complete file
- have mistakes fixed
- tell their side of the story
- a fresh start
- understand their report
- know who has seen their report
- Confidentiality
- know if their report has been used against them
- sue the Credit Reporting Agency (CRA)

 **FACT Act Provisions**

- One free copy of your report from each CRA each year
- Right to a copy of your credit score for a reasonable fee
- One-call fraud alerts
- Active-duty alerts
- Trade-line blocking

- **You have the right to ask for a credit score.** Credit scores are numerical summaries of your credit-worthiness based on information from credit bureaus. You may request a credit score from consumer reporting agencies that create scores or distribute scores used in residential real property loans, but you will have to pay for it. In some mortgage transactions, you will receive credit score information for free from the mortgage lender.
- **You have the right to dispute incomplete or inaccurate information.** If you identify information in your file that is incomplete or inaccurate, and report it to the consumer reporting agency, the agency must investigate unless your dispute is frivolous. See www.ftc.gov/credit for an explanation of dispute procedures.
- **Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information.** Inaccurate, incomplete or unverifiable information must be removed or corrected, usually within 30 days. However, a consumer reporting agency may continue to report information it has verified as accurate.
- **Consumer reporting agencies may not report outdated negative information.** In most cases, a consumer reporting agency may not report negative information that is more than seven years old, or bankruptcies that are more than 10 years old.
- **Access to your file is limited.** A consumer reporting agency may provide information about you only to people with a valid need -- usually to consider an application with a creditor, insurer, employer, landlord, or other business. The FCRA specifies those with a valid need for access.
- **You must give your consent for reports to be provided to employers.** A consumer reporting agency may not give out information about you to your employer, or a potential employer, without your written consent given to the employer. Written consent generally is not required in the trucking industry. For more information, go to www.ftc.gov/credit.
- **You may limit "prescreened" offers of credit and insurance you get based on information in your credit report.** Unsolicited "prescreened" offers for credit and insurance must include a toll-free phone number you can call if you choose to remove your name and address from the lists these offers are based on. You may opt-out with the nationwide credit bureaus at 1-888-5-OPTOUT (1-888-567-8688).
- **You may seek damages from violators.** If a consumer reporting agency, or, in some cases, a user of consumer reports or a furnisher of information to a consumer reporting agency violates the FCRA, you may be able to sue in state or federal court.
- **Identity theft victims and active duty military personnel have additional rights.** For more information, visit www.ftc.gov/credit.



REVIEWING YOUR CREDIT REPORT

The first step in learning about your credit report is to **order copies** from the three main credit bureaus and read these reports carefully. It is important to make sure that the information on the report is accurate, because errors in your credit report could hurt your ability to get a loan, and may determine the Annual Percentage Rate (APR) you pay on the loan.

Because there can be differences in the reports kept by each of the three major national credit bureaus, you should order your report from all three, either on-line, in writing, or by telephone.

TIP: Order from one company, then four months later from another, then four months later order the last company's report.

As mentioned above, **each** credit bureau is **required to provide you with one free credit report per calendar year**. You can get your free credit reports from a centralized request service that was created by the three nationwide consumer credit reporting companies at: **www.annualcreditreport.com**

If you prefer to use mail, complete the Annual Credit Report Request Form and mail it to:

Annual Credit Report Request Service

P.O. Box 105281

Atlanta, GA 30348-5281

Do not contact the credit bureaus individually for your free annual report; they are only providing free annual credit reports through the centralized resource mentioned previously.

WHAT TO EXPECT WHEN YOU MAKE YOUR REQUEST:

- You'll need to provide your name, address, Social Security number, and date of birth
- If you have moved in the last two years, you may have to provide your previous address
- To maintain the security of your file, each credit bureau may ask you for some information only you would know, like the amount of your monthly mortgage payment
- Each bureau may ask you for different information

You also have the right to obtain a free credit report in certain other circumstances, such as if:

- You are denied credit, insurance, employment, or rental housing, or adverse action was taken against you based on information in your credit report—for example, your interest rate was raised or your credit limit was decreased. The party making the denial or adverse action is required to tell you the name, address, and telephone number of the credit reporting agency from which the lender obtained your credit report.
- You are unemployed and plan to seek employment within 60 days.
- You receive public welfare assistance.
- You were a victim of Identity Theft.
- You have reason to believe your credit file is inaccurate due to fraud.
- Your state may offer a free or reduced-price credit report. Check with your state as these policies may change over time.
- Review the FTC information mentioned above

NOTE: If you have already accessed your free annual report, credit bureaus can currently charge you **no more than \$11.50 per report** for additional reports. This is a maximum charge, not a required charge, and some states have passed laws limiting the amount credit bureaus can charge consumers for reports. To learn more about the 3 agencies, benefits, reduced fees and state costs visit the 3 credit reporting agencies websites.

- **Equifax:** www.equifax.com/fcra
- **Transunion:** www.transunion.com/myoptions
- **Experian:** www.experian.com/report



CREDIT SCORING

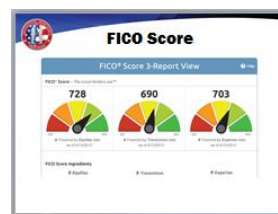
A credit score is a number used by lenders to help them evaluate the likelihood that you will pay back a loan. It is calculated based on information in your credit report, which is why it is so important that you check your credit report to ensure the information in it is accurate. There are many different credit scores sold in the marketplace. Each credit bureau and credit scoring company has a slightly different way of calculating credit scores, as such, your score may vary depending on the scoring model used and which credit reporting agency's data is used in making the report. At a minimum, most of the credit scores sold commercially look at all of the following factors to determine your credit score:

- Your payment history—have you been paying on time and how much are you paying
- Amount you currently owe on credit accounts
- The amount of credit you use compared to the amount of credit you have available
- Length of time the accounts have been open
- The different types of credit you use
- How often and how recently you have applied for credit

You should not be afraid to shop for the best credit just because you are worried too many inquiries will show up on your credit report or lower your credit score. In the case of auto loans and mortgage loans, for example, the most commonly used credit scoring models will count multiple same type inquiries as a single inquiry if they occur within a short period of time, often a 30-day period.

CREDIT SCORES

Credit scores can range from 350 to 900 depending on if it is a FICO score or Vantage score. Generally, most individual FICO credit scores fall in the 600-750 range. Rating scales vary between scoring agencies and with economic factors therefore their range of Very Risky, Risky, Good, and Excellent changes. Requesting your credit score at least once a year is important. When you request your credit report also request your credit score. Remember, higher credit scores may result in better credit terms such as lower APRs. Ultimately this lowers the total cost of the credit.



CREDIT SCORING FACTORS

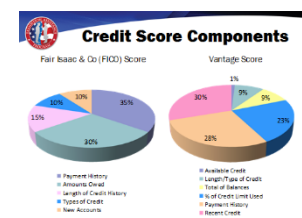
The precise factors behind a credit depend on the credit score model used. But, in general, credit scoring models tend to look at recent credit activity, length of credit history, and utilization of credit. The biggest credit scoring company having over 90% of the market – Fair, Isaac and Company – has disclosed the factors it considers in generating credit scores. Fair, Isaac's scores are called FICO scores. Most creditors and credit bureaus either use FICO scores or have a system based on the Fair, Isaac's system. More information is available on-line at www.myfico.com.

According to Fair, Isaac, the factors considered in determining FICO scores are:

- **Payment history** (about 35% of the score)
- **Amounts owed on credit accounts** (about 30% of the score)
 - They are looking to see whether you manage credit responsibly
 - A large number of accounts with balances may indicate you are overextended
- **Length of credit history** (about 15% of the score)
 - In general, a longer credit history increases the score
- **New credit** (about 10% of the score)
 - Fair, Isaac likes to see that you have an established credit history and you don't have too many new accounts
 - Opening several accounts in a short period of time can indicate greater risk
- **Types of credit** (about 10% of the score)
 - Fair, Isaac is looking for a mix of different types of credit. However, this factor is usually not important if there is sufficient other information upon which to base your score

The Vantage score is an alternative scoring model used by some lenders. The factors considered in a Vantage score include:

- **Payment history** (28%)
 - Analyzes your payment behavior. Looks at whether you've paid your bills on time, are behind on payments, or stopped paying. Late payments hurt your score
- **Utilization** (23%)
 - Utilization is the percentage of credit that you have used or owe on your credit accounts



- **Balances (9%)**
 - Reflect the reported balances on your credit cards and other loans. Sudden increases in balances can be a signal of greater risk
- **Depth of credit (9%)**
 - Looks at the length of your credit history and the types of credit you have
- **Recent credit (30%)**
 - Considers the number of recently owned credit accounts and credit inquiries. A lender may see it as risky if a consumer quickly adds a lot of new accounts
- **Available credit (1%)**
 - The available credit on all your accounts. Lenders may see high credit balances as a risk factor

NOTE: *If the number of inquiries to a consumer's report pulled down the score, the bureaus must disclose this.*

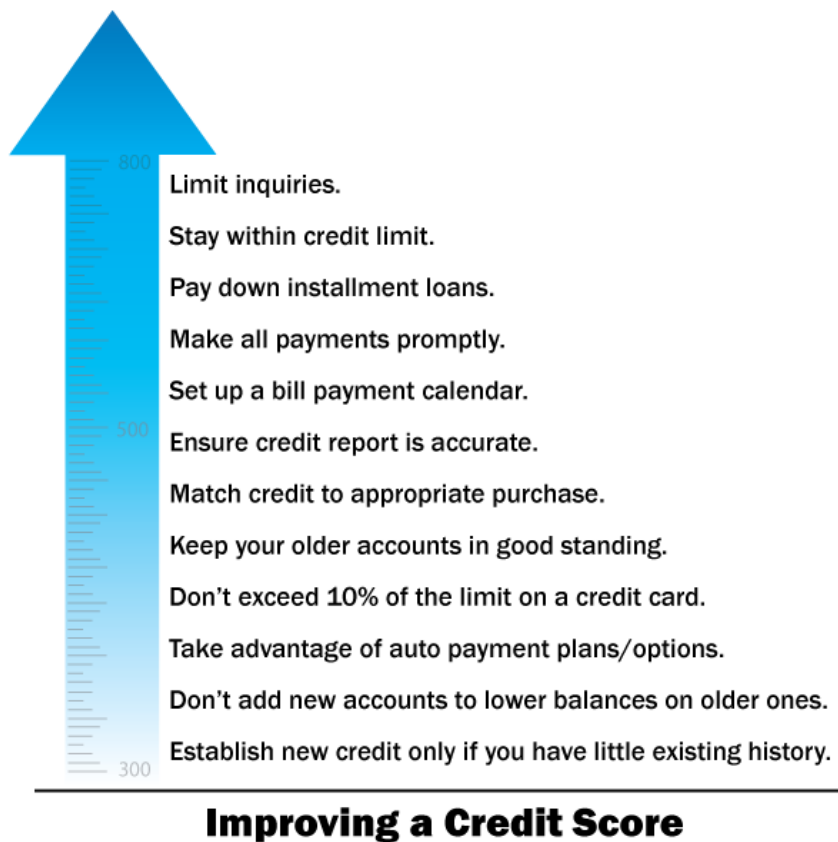
Understanding what the creditors are evaluating helps you understand what adjustments you can make to improve your score.

IMPROVING YOUR CREDIT SCORE

There are several steps you can take to cope with a less than stellar credit report. The best way to avoid being given a poor credit score is to pay your bills on time, maintain low balances, and only apply for credit that you need.

Understandably, this can be challenging to do when you are in financial difficulty. The key factors disclosed with your score should help you identify what credit information is hurting your score the most, and you can focus on improving this area.

In the meantime, you may also be able to explain a bad score to creditors. Although the creditor probably can do little to change your score with the credit bureau, it is important that you explain in detail your reasons for problems on your credit record. Other creditors may be more flexible.



REBUILDING/CORRECTING CREDIT

Although you cannot erase bad information from the report, there are some simple steps you can take to make a bad situation better.

Correct any errors on your credit report. You should send a written dispute to each credit bureau that has reported incorrect information. The credit bureau by law must investigate the entry and correct the mistakes. In most circumstances, the agency is required to get back to you with the results of the investigation within thirty days. The creditor who first supplied the information to the bureau also has a duty to correct and update the information. Even after the entry is corrected, periodically check to make sure this incorrect information has been deleted permanently.

Follow-up your dispute by:

- Obtaining another copy of your credit report with credit bureau “A” to confirm the corrections were made
- Checking to see whether your reports at credit bureaus “B” and “C” contain the same error and if so; send the results of the investigation of credit bureau “A” to those agencies as well
- Getting another copy of the report from credit bureau “A” three to six months later to make sure the bureau has not put the information back in

Consider requesting that all the credit bureaus notify past users of the corrections



Avoid Credit Repair Services

Clean up your file with the help of the creditor. You can try to obtain the creditor’s help in deleting inaccurate information. In trying to persuade the creditor the information was inaccurate, you should supply whatever proof you have. If your proof is not enough to resolve the matter, you may have to agree to pay part or all of the debt, whether immediately or in installments.

If a creditor does agree to delete information, it can contact the credit bureau to request the deletion. For example, the creditor could tell the credit bureau there was good reason for your late payment and payment had not in fact been delinquent. Second best, the creditor can agree not to verify its original information if asked by the credit bureau. Be sure any agreement with the creditor to remove past information is clear and in writing.

Clean up inaccurate Public Record information. The most damaging information on your credit record is sometimes found from public records, such as arrests, convictions, judgments, foreclosures, tax takings, and liens. The best way to remove this information from your file is to do so at the source, with the government agency supplying this information to the credit bureau, and then make sure the corrected information is updated in the credit bureau's files.

Delete old information – Most bad information must be removed from your report after a certain number of years, as follows:

- **Up to 7 Years:**
 - Accounts sent for collection or charged off may be reported from the date of the last activity on the account for up to seven years. The date of last activity is no later than 180 days from the delinquency itself. The seven-year clock does not start ticking again if the account is sold to another collection agency, however, the clock may be reset if you contact the creditor to negotiate a payoff or start making payments again after the last activity date.
 - Lawsuits and judgments may be reported from the date of the entry of the judgment for up to seven years or until the governing state statute of limitations has expired, whichever is longer. For suits, the date of entry is the first day of the suit. For judgments, the date of entry is the date the judgment was issued.
 - Paid tax liens may not be reported more than seven years after the date of payment.
 - Records of arrest (apart from criminal convictions) may be reported for seven years or until the governing state statute of limitations expires, whichever is longer.
- **Up to Ten Years:**
 - Bankruptcies may be reported for no more than ten years. The clock starts ticking from the date you file.
- **Forever:**
 - Records of criminal convictions may be reported indefinitely.
 - Positive information may be reported indefinitely. The limits discussed above apply only to bad information. Note - If you find old information on your report, you should follow the steps outlined above to request that the credit bureau investigate and delete the information.

Explain damaging items. It is often helpful to send a statement to the credit bureau explaining damaging items. Credit bureaus are required to accept these statements if they relate to why information in the report is inaccurate. They cannot charge to include this statement in your report.

The credit bureaus are not required to include in your file your explanation of why you were delinquent. However, they may agree to do so. For example, they may not have to include your letter explaining you were sick or lost your job. But they must include a statement explaining you were not delinquent because the creditor agreed to postpone payments until you could return to work from your illness.

If you request it, the bureau must give the statement or summary to anyone who received a copy of your report within the past six months, or two years if the report was given out for employment purposes. Another approach, often more effective, is to explain the delinquency to the lender from whom you are applying for credit rather than to the credit bureau. Federal law requires that creditors at least consider your explanation. Similarly, Fannie Mae requires its mortgage lenders to review any letter you provide explaining your credit problems.

Avoid overreacting to threats to damage your Credit Rating. Debt collectors may threaten to report negative information to a credit bureau, but the threat is only meant to pressure you to pay. Creditors automatically report the fact your account has been sent to a collection agency.

These threats may be illegal under the federal Fair Debt Collection Practices Act (FDCPA). If a creditor itself is doing the threatening, not an independent agency hired by the creditor, then the FDCPA does not apply. You may have other legal ways of challenging the creditor's conduct.

Avoid Credit Agencies. Avoid companies that promise to fix your credit record for a fee. They usually call themselves credit repair, credit service, credit clinic, or similar names. The agencies usually cannot deliver what they promise. You can generally do a better job cleaning up your credit record on your own at no cost, or work with one of our non-profits that have Memorandum of Understandings/Letter of Agreements that handle credit counseling.

If you use the agency, they are not allowed to provide any services until three days after you sign a written and dated contract. You have the right to cancel the contract for any reason during this three-day period. The federal law (and many state laws) also makes it illegal for a credit repair agency to make false or misleading statements to credit bureaus.

Be careful of offers by companies that claim they can repair your credit. If you see an offer for repair of your credit, here are some red flags that could indicate the service could be engaged in questionable practices:

- The company wants you to pay for credit repair services before they provide any services. Under the Credit Repair Organizations Act, credit repair companies cannot require you to pay until they have completed the services they have promised.
- The company doesn't tell you your rights and what you can do for yourself for free.
- The company recommends that you do not contact any of the three major national credit reporting companies directly.
- The company tells you they can get rid of most or all the negative credit information in your credit report, even if that information is accurate and current. No one can do this.
- The company suggests that you try to invent a "new" credit identity — and then a new credit report — by applying for an Employer Identification Number to use instead of your Social Security number, this is a bad idea.
- The company advises you to dispute all the information in your credit report, regardless of its accuracy or timeliness.

Bad advice can put you in legal hot water. It is a federal crime to lie, misrepresent your Social Security number, or to obtain an Employer Identification Number from the Internal Revenue Service under false pretenses.

Credit repair companies must abide by the Credit Repair Organizations Act, a federal statute enforced by the Federal Trade Commission. This law prohibits deceptive practices by credit repair organizations. You have a right to sue a credit repair organization that violates the Credit Repair Organization Act. You have the right to cancel your contract with any credit repair organization for any reason within three business days from the date you signed it.

If you have complaints or concerns about a credit repair scam, please contact the FTC. You can file an FTC complaint at www.ftccomplaintassistant.gov or call 1-877-FTC-HELP.

FREE ISN'T ALWAYS FREE

Watch for companies that claim your credit score is free as they may start charging your credit card for a monitoring fee each month. Use annualcreditreport.com or the actual credit reporting agencies we mentioned here. Ask the installation Financial Counselor where else you can obtain your report/score.

HOW DOES THE CREDIT SCORE IMPACT YOUR TRANSITION AND BACKGROUND CHECKS

Employers frequently conduct background checks on current and potential employees. These checks generally include obtaining a credit report. Ensuring your credit report reflects accurate and correct information helps you present your best image to a potential employer. Additionally, your credit score could affect your home rental options or mortgage interest rates.

METHODS TO MANAGE STUDENT LOAN PAYMENTS WHICH CAN AFFECT YOUR CREDIT SCORE

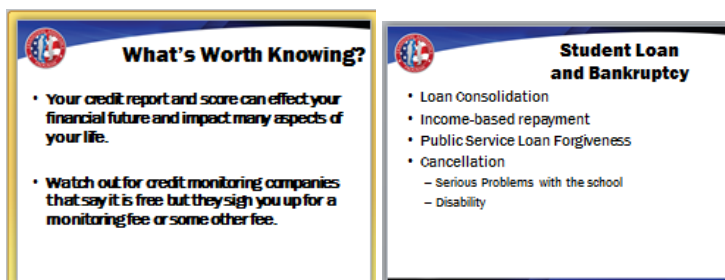
Loan consolidation – Loan consolidation is a strategy many borrowers use to try to get lower payments. The value of this approach is the borrower can make smaller monthly payments over a longer period of time.

Income-based repayment – an alternative to consolidation is to contact the party collecting on the loan and state that you want to review your eligibility for a new loan and want a reasonable and affordable repayment plan.

Public Service Loan Forgiveness (PSLF) - In 2007, Congress created the PSLF Program to encourage individuals to enter and continue to work full-time in public service jobs. Under this program, borrowers may qualify for forgiveness of the remaining balance due on their eligible federal student loans after they have made 120 payments on those loans under certain repayment plans while employed full time by certain public service employers.

What must I do to have any remaining balances on my Direct Loans forgiven under the PSLF Program?

- You must make 120 on-time, full, scheduled, monthly payments on your Direct Loans. Only payments made after October 1, 2007 qualify.
- You must make those payments under a qualifying repayment plan.
- When you make each of those payments, you must be working full-time at a qualifying public service organization.



What loans are eligible for forgiveness? Only loans you received under the William D. Ford Federal Direct Loan (Direct Loan) Program are eligible for PSLF. Loans you received under the Federal Student Loan (FSL) Program, the Perkins Loan Program, or any other student loan program are not eligible for PSLF.

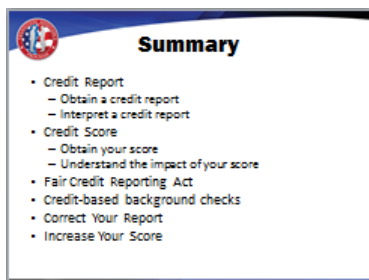
If you have FSL and/or Perkins loans, you may consolidate them into a Direct Consolidation Loan to take advantage of PSLF. However, only payments you make on the new Direct Consolidation Loan will count toward the 120-month payment requirement for PSLF. Payments made on your FSL or Perkins loans, even if they were made under a qualifying repayment plan, do not count as qualifying PSLF payments.

If you are interested in consolidating your FSL or Perkins loans into a Direct Consolidation Loan, please visit loanconsolidation.ed.gov for more information and an electronic application. If you do not know what type of loans you have, please visit nslds.ed.gov.

Cancelling your loan due to serious problems with the school you attend — You can seek to cancel your student loan due to serious problems with the school you attend only under the following eligibility criteria:

- Closed School
- Unpaid Refund
- False Certification

Disability cancellation — you may potentially qualify to cancel your loan if you are permanently and totally disabled. In general, this cancellation applies only if you became disabled or your disability worsened after you took out the loan.



Section 1.3: Evaluate Salary and Total Compensation

MODULE PREREQUISITE

N/A

COMPETENCY

Participants will evaluate salary and the total compensation package

LEARNING OBJECTIVES


Participants will:

- Analyze military compensation and compare to civilian compensation
- Compare compensation packages between Company A and Company B
- Identify different types of civilian healthcare benefits and options that affect pay
- Navigate websites to find information about Preferred Provider Organizations (PPO), Health Maintenance Options (HMO), Point of Service (POS), Cafeteria Plans, and Affordable Care Act.

COST OF LIVING ANALYSIS


Many of you will be relocating to another area when you transition. It is important to understand the impact to your financial plan and overall budget. Some areas to consider include:

- Salary
- Housing
- Utilities
- Taxes (including tax benefits for Veterans)
- Food, child care, commuting costs, clothing, entertainment, school costs, climate, medical insurance



Learning Objectives

- Analyze military compensation and compare to civilian compensation
- Compare Compensation Packages from two companies
- Identify types of health care benefits
 - PPO, HMO, POS, Cafeteria Plans, and ACA



Cost of Living Analysis

When relocating, consider what could impact your financial plan

- Salary
- Housing
- Utilities
- Taxes (including tax benefits for veterans)
- Food
- Child care
- Commuting costs, clothing, entertainment, school costs, climate, health insurance

Example scenario: Imagine you are an E-4 transitioning from active duty at 4 years. Your base pay is \$2,199.90 or \$26,388 a year and you live in the proximity of Jacksonville, NC. You are planning to move to Dallas, TX.

- Your salary comparison according to Bankrate.com would be \$25,116
- Your home price will decrease from \$243,332 to \$197,357.
 - What will the interest rate be at the time will your monthly payment drop?
 - Will you be carrying more than one house?
 - What about renting costs vice buying what is the difference?
- Health Care will increase from \$85 to \$93 (estimate is probably for a single person)
 - What are companies offering in their benefit package?
 - How much more will you be paying for medical/dental premiums for single/family, co-pays, deductibles, co-insurance, etc.
 - What are doctors charging at that location?
- Total energy bill would increase from \$162 to \$185
 - Is it gas, electric or propane? Well or city water, etc.?
 - Is it a cold or hot environment?
 - How is your home built to save energy?
- Taxes (including tax benefits for Veterans)
 - Will you lose or gain tax benefits for being a Veteran?
 - What are the property taxes on your car, home, personal property?
 - Will you be paying state income taxes now?
 - How much will your car registration and tags be at the new location?
- Food, child care, commuting costs, clothing, entertainment, school costs
 - Is your commuting costs going to go up?
 - Will you pay more for transportation?
 - What is the cost of school for your children? Will they be going to public or private school?
 - How about cost of activities?
 - What is the cost of food and clothing

All of these factors impact the total salary required to maintain your standard of living in a new location.



Energy Bill Increases
\$162 to \$185

Health Care Increases
\$85 to \$93

Home Price Decrease
\$243k to \$197k



These are resources that have the tools you need to determine these factors, including www.bestplaces.net, www.bankrate.com, www.kiplingers.com, www.military.com, www.retirementliving.com.

TIP: Always remember that when looking at cost of living, salary, and expenses you also ask for the cost of the benefits when you receive an offer from a company. You may be surprised to find a larger salary offer may be offset by larger employee costs for benefits.

MILITARY TO CIVILIAN PAY


Have you researched where you want to go?

Have you researched what job you want and the demand for that position especially near your new home?

Is the local market flooded in your desired occupation?

What is the projection for need in this position over the next year, two years, and 10 years?

What is the unemployment rate there?

 **Military to Civilian Pay**

Factors to Consider (Labor Market Information)

- Where do you want to go?
- Demand for the career field?
- Protected growth rate and need?
- What is the salary range?

What do you have that these individuals do not have? Do you have the skills the employer is asking for in the job announcements or better yet, have those skills plus more to beat the competition? And does your resume explain this well, to the point a computer can rank your resume high over the thousands that are in their databases and the Recruiter can easily identify in your resume the skills they are asking for?

When seeking civilian employment, you will need to determine a salary range that makes up for all of the changes that will occur in your paycheck AND benefits. It is therefore important to realize that your expenses will increase as a civilian, and it's important to include these considerations when deciding on a salary range.

Determining your salary: In determining your salary range, you will first want to get a good estimate of what the average salary is for what you want to do, where you want to do it, and whether you have the qualifications required for the job.

TIP: To get a better idea of an average salary range use these salary comparison calculators: www.salary.com; www.payscale.com; www.onetonline.org/crosswalk/MOC.

Realistically determine your worth: Understand that salary comparisons usually reference the skills, years of work experience, certifications, and degrees needed to work in that career. It is important that you realistically assess your OWN qualifications and determine whether they match the job requirements before you apply for and negotiate a salary.

Example: A transitioned Veteran declined a salary offer at a large organization with good upward mobility and the opportunity to relocate to a variety of other locations over time. The salary offer was \$35,000 for an entry level IT position (similar to a help desk person). This prospective employee had no certifications or degree, but he did have four years military experience as a help desk technician. He had no other related experience. After being offered the position the Veteran responded to the salary offer by telling the Recruiter, "I deserve \$100,000 and I won't take anything less". His buddies had told him that the IT field was in demand and he was moving to an area of higher living costs.

Do you think his salary expectations were realistic compared to the hundreds applying? How do you think that affected his finances as he went to each company declining job offers?



Research your job skill, career field, and job projections: In this economy some cities have more applicants than jobs, which allow them to offer lower salaries. What implications might this scenario have on your budget?

Track your salary information: As you find information about salaries, write it down on the “Compensation Comparison” handout to keep track of the many options you have. This handout will serve as an invaluable reference point to compare typical benefits as you negotiate your future compensation package.

Review the examples to better understand how salary will change once working in the civilian sector.

Service members may find the O*Net Online website useful in translating their MOC skills to civilian: www.onetonline.org/crosswalk/MOC/

The Bureau of Labor Statistics (BLS) website www.bls.gov/bls/blswage.htm contains information that can help you determine wages.

COMPENSATION COMPARISON

So what is a “compensation package”? It is the total value of an employee’s salary, benefits, and other payments (such as bonuses and commissions). Once you know the exact income replacement amount you will need, you can then compare different compensation packages.

TIP: When comparing salaries, you must also compare the benefits packages. It’s not just the dollar amount in your paycheck that is important.

Scenario: You might compare a job that is paying you an extra \$500 in base pay, but you must pay out of pocket 75% of costs for your healthcare coverage. You may find that those premiums will run in excess of the additional \$500 you will receive in base pay. It might be worth considering another option that may have a slightly smaller base pay, but a more robust benefits package.

O*Net Online Salary & Projected Job Growth*

Auto Tech, Mechanics, & Diesel Engine Specialist \$20,04 hr (\$42,730) 0-14%/job growth	Automotive Motor Mechanics \$17,65 hr (\$36,710) 0-14%/job growth	Aircraft Mechanics & Service Technicians \$26,91 hr (\$55,900) 12-20%/job growth	Office Clerk General \$11,48 hr (\$23,650) 0-7%/job growth	Information Security Analyst \$42,89 hr (\$88,960) 22%/job growth
Electrician \$24,28 hr (\$50,810) 18-21%/job growth	Police Patrol Officer \$26,99 hr (\$56,130) 0-7%/job growth	Bookkeeper, Accountant & Auditor \$17,18 hr (\$35,730) 0-14%/job growth	Network & Computer Systems Administrator \$35,58 hr (\$74,050) 0-14%/job growth	

*Median wages (2013) & projected job growth 2013-2022

A Pay Comparison

	Monthly Military Pay (Single E5 > 4 YTD)	Monthly Civilian Pay (\$26/hr)
Base Pay	\$2487.60	Base Pay \$4507.04
BAH	\$1671.00	Fed Tax \$-751.14
BAS	\$348.44	State Tax \$-213.33
Fed Tax	\$-310.02	FICA \$-254.65
State Tax	\$-57.13	SDI \$-45.07
FICA	\$-140.55	Medical \$-183.00
Net Pay	\$3999.34	Net Pay \$3069.85

A Difference of \$939

NOTE: Benefit start dates are important to consider. Some healthcare insurance plans won't begin until after 60 or 90 days of employment. This means you could potentially be without coverage. In addition, some companies are changing or evaluating their health benefit packages in regard to what they offer, how much they pay, and how much the employee pays. To avoid a break in your healthcare coverage, talk to Tricare and the representatives during your class prior to transition to see what is offered to transitioning Veterans and during a job offer speak with the companies Human Resource manager for specific information on waiting periods associated with the healthcare plan the employer is offering and a benefit cost sheet for costs.

To get a more detailed look at all of the pay and benefits that are offered, review the "Compensation Comparison" handout. This tool helps you compare different compensation packages. As you receive job offers and benefit packages, use the handout to track and compare them, to ensure you are receiving a comparable wage and benefits to what you are currently receiving in the Military.

This is how the Compensation Comparison tools works:

- At the top of the page in the far left, Column "A" contains the type of benefit
- Next, Column "B" is the national average of pay or benefits for all civilian employees
 - This column will be especially helpful in comparing future salary offers
- Column "C" is the pay and benefits you are currently receiving in the Military
- The next three Columns "D," "E," and "F" are for your use in helping you compare other offers you might receive
 - Be sure to note that Column "D" is a listing of benefits included in the federal employment compensation package, and Columns "E" and "F" are used to write in details of future job offers so they can be compared to your military compensation and the national average for U.S. employees.

Compensation Comparison

- Compare compensation packages and track future job offers.
- Include retirement plans, healthcare, insurance, and other benefits.
- Consider what you will need for both replacement income and benefits.

What?
How?
Where?

**Personal Statement of Military Compensation
"Total Military Compensation Package"**

Calculate your Basic Compensation	Payroll + TSP	Disability Service Compensation: \$1,175.00 VA Subsistence: \$200 \$1,375.00 + \$14
BAW + BAW + Special/Incentive Pay + Bonuses	Federal & State & Local Tax Advantages	Education Programs: Tuition Waiver for GI Bill: \$10,000 + \$4,000 Reserve: \$4,000 \$14,000 average
OWA + COA + PBA + OPA	Medical Care + Dental + Life Insurance + SBA + Long Term Care	USGI Continuing Education Compensation: \$200 \$14,200

Instructions:

- Starting with the top row (the “salary” row), place the amount of current pay you have calculated and the estimated equivalent civilian pay you will need in the salary row under Column “C”
- This should be the amount discussed previously (base pay and other allowances).
- Then, spend some time researching other national wage averages for jobs you are interested in by looking at www.bls.gov. As you start receiving offers, make sure to place the base pay amount in the “Salary” row under Columns “E” and “F”

NOTE: The next section on the handout is related to retirement. Depending upon the length of your service in the Military, you may be eligible for military retirement. If not, all Service members have had the opportunity to contribute to the Thrift Savings Plan (TSP) which can be used to jump start your civilian retirement plan.

- Compare your current retirement plan options to your job offer retirement benefits.
- Compare any matching funds that a future employer may contribute. Always contribute at least the amount that your employer is going to match—if you don’t you are missing out on additional money in your pocket. You may have to wait a while to access it but it is worth it. Look at the vesting schedule that each employer offers. Vesting is the amount of time you must wait until employer matching funds become yours. This is important to know when you are deciding how long to stay with a company.
- Write in the details of job offers for each additional section on the handout (healthcare, insurance, and other benefits) to compare what you are currently receiving to that which will be needed as replacement income or benefits.

TIP: For more information on vesting and specifics of retirement plans, see your installation Personal Financial Professional.

BENEFITS PACKAGE

When discussing Total Compensation, benefits is a significant factor to consider. Often times when we hear the term benefits we think only of health/medical care, however companies today, in order to be competitive, are offering more and more “perks” that fall under the umbrella of benefits.

The image shows three handout pages. The first two are titled "Benefit Package and Perks" and compare two companies (A and B) with their respective salaries and benefit packages. The third is titled "Civilian Health Insurance" and compares individual health insurance (purchased from an insurance company, generally very expensive) with group health insurance (provided by many employers, lower rates, easier to obtain).

HEALTH CARE

Let's first briefly discuss health/medical benefits, as this is a significant change to consider. As a Service member, you have come accustomed to having your health/medical benefits covered in full, not needing to worry about the type of coverage or the associated costs. As a civilian, medical care coverage will become an important factor as you look for a new employer and have to consider all of aspects included in healthcare – namely quality and cost.

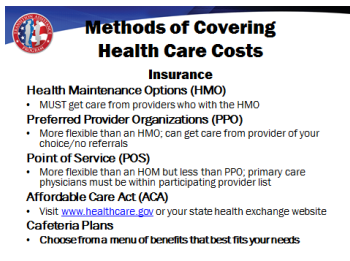
Your future employer can offer you details on each of the coverage plans they offer and can answer any questions you might have. Here are some types of coverage plans:

- Preferred Provider Organizations (PPO)
- Health Maintenance Options (HMO)
- Point of Service (POS)
- Affordable Care Act
 - The Affordable Care Act uses Health Insurance Marketplaces designed to help you buy health coverage by comparing plans, asking questions, and enrolling in the plan.
- Cafeteria Plans
 - In a cafeteria plan, an employee receives a certain number of dollars from the employer to purchase" particular components of a benefits plan.

For general information on each type of plan, visit the following websites:

- www.healthcare.gov/using-insurance
- www.tricare.mil
- <http://www.tricare.mil/reserve/>

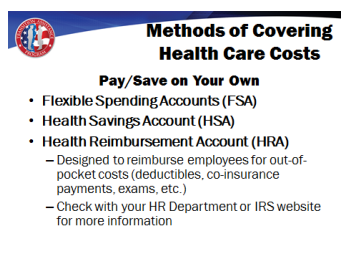
NOTE: Plan coverage details and costs will vary, so be sure to ask questions and get thorough answers so you can make an informed decision about your healthcare.



Methods of Covering Health Care Costs

Insurance

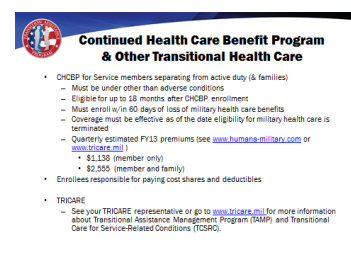
- **Health Maintenance Options (HMO)**
 - MUST get care from providers who with the HMO
- **Preferred Provider Organizations (PPO)**
 - More flexible than an HMO, can get care from provider of your choice/no referrals
- **Point of Service (POS)**
 - More flexible than an HMO but less than PPO, primary care physicians must be within participating provider list
- **Affordable Care Act (ACA)**
 - Visit www.healthcare.gov or your state health exchange website
- **Cafeteria Plans**
 - Choose from a menu of benefits that best fits your needs



Methods of Covering Health Care Costs

Pay/Save on Your Own

- **Flexible Spending Accounts (FSA)**
- **Health Savings Account (HSA)**
- **Health Reimbursement Account (HRA)**
 - Designed to reimburse employees for out-of-pocket costs (deductibles, co-insurance payments, exams, etc.)
 - Check with your HR Department or IRS website for more information



Continued Health Care Benefit Program & Other Transitional Health Care

- **CHCBP** for Service members separating from active duty (6 families)
 - Must be under other than adverse conditions
 - Eligible for up to 18 months after CHCBP enrollment
 - Must enroll w/in 60 days of loss of military health care benefits
 - Coverage must be effective as of the date eligibility for military health care is terminated
 - Quarterly estimated P13 premiums (see www.human.military.com or www.tricare.mil)
 - \$1,130 (member only)
 - \$2,550 (member and family)
- Enrollees responsible for paying cost shares and deductibles
- **TRICARE**
 - See your TRICARE representative or go to www.tricare.mil for more information about Transitional Assistance Management Program (TAMP) and Transitional Care for Service-Related Conditions (TOSRD).

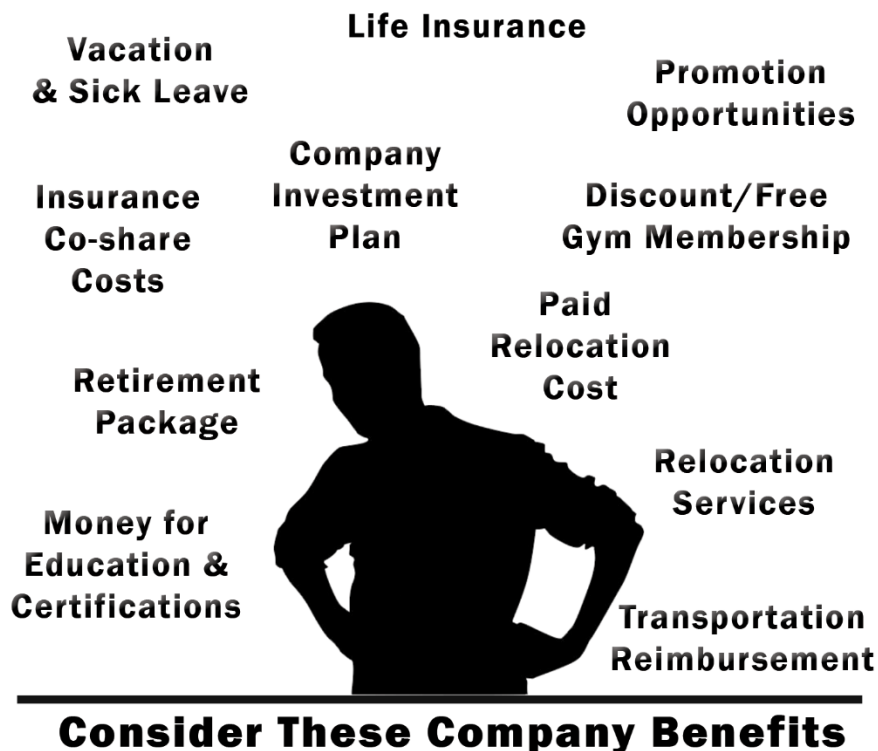
ADDITIONAL COMPANY BENEFITS (PERKS)

Below is a list of “perks” that employers may offer that should be considered in your financial planning:

- Transportation reimbursement such as public vouchers or free parking
- Discounted/free gym membership
- Pays a larger portion of your insurance
- Free life insurance (you and family)
- Strong retirement package – short vesting period; contribution matching, etc.
- Significant Vacation/Personal/Sick leave (immediate, accrued, can go in the hole?)
- Short-term and long-term disability (fully covered by employer?)
- Promotion opportunities (how quickly, what are the expectations?)
- Money for education and certifications (Is there a commitment for this?)
- Relocation services, commitment to keeping you employed with contract changes
- Job location (state with no state income tax; low cost of living; good commute)
- Company investment plan (stock options, etc.)

As you can see there is so much more to evaluate besides the salary when analyzing a “Full Compensation Package.”

TIP: For further help, contact your installation Personal Financial Professional and your Transition Assistance manager at the installation Family Center or contact Military OneSource www.militaryonesource.com.



Section 1.4: Leveraging Resources for Your Financial Future

MODULE PRE-REQUISITE

N/A


COMPETENCY

Understand resources for retirement/long-term goals including how retirement investments can lower the taxes you pay every payday

LEARNING OBJECTIVES

Participants will:

- State where to find TSP information and regulations in order to understand significant restrictions and penalties that can affect your finances (www.tsp.gov)
- State the difference between a Defined Benefit Non-Contribution (Pension) Plan as compared to a Defined Contribution Plan
- Describe a common vesting schedule (irs.gov)
- Navigate resources to include www.irs.gov, VITA, state tax calculators, militarypay.defense.gov/pay/tax/01_allowances.html
- Locate and contact personal financial educator located in Family Centers, as applicable.
- Locate and contact installation legal offices for Wills, Powers of Attorney, Estate/Tax Planning, and other legal documents, as applicable
- Understand the concept of compound interest
- Explore investment vehicles such as stocks, bond, mutual funds and other investments



Learning Objectives

- State where to find TSP information and regulations in order to understand significant restrictions and penalties that can affect your finances (www.tsp.gov)
- State the difference between a Defined Benefit Non-Contribution (Pension) Plan as compared to a Defined Contribution Plan
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- Locate and contact personal financial educator located in Family Centers, as applicable.
- Locate and contact installation legal offices for Wills, Powers of Attorney, Estate/Tax Planning, and other legal documents, as applicable
- Understand the concept of compound interest
- Explore investment vehicles such as stocks, bond, mutual funds and other investments

THRIFT SAVINGS PLAN

Service members who participated in the Thrift Savings Plan (TSP) while in the Military have options available to them when leaving military service:

- Leave the funds in your TSP account (for account balances of at least \$200. You may be able to contribute outside funds to it later on.)
- Transfer your TSP directly into another eligible account, such as an IRA or a civilian 401(k) plan <https://www.tsp.gov/planparticipation/transfers/benefits.shtml> and <https://www.tsp.gov/planparticipation/withdrawals/withdrawingAccount.shtml>
- Transfer your TSP account to a qualified annuity
- Withdraw your TSP funds subject to substantial tax and fees. <http://www.irs.gov/publications/p721/ar02.html> and <https://www.tsp.gov/planparticipation/withdrawals/taxesOnWithdrawal.shtml>

Warning! There are deadlines and rules on withdrawals. If you withdraw the funds you will be taxed on the withdrawal and will be charged a 10% penalty on the withdrawn funds if the withdrawal is made prior to age 59 1/2.

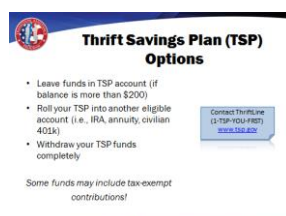
It is a good idea to consult with a financial specialist prior to making a withdrawal from a tax deferred investment account.

For more information on TSP options, withdrawal deadlines, taxes, and other details concerning TSP, call the ThriftLine at: 1-TSP-YOU-FRST (877-968-3778), or visit the TSP website at www.tsp.gov.

TIP: Seek a tax advisor/planner or VITA personnel if you have questions regarding tax implications to your federal/state taxes. Your Installation Personal Financial Counselor can provide you with basic information on the tax implications.

RETIREMENT

Regardless of whether you are separating or retiring from the Military, there are many factors you will want to consider in making financial plans for the future. Some of you may be more concerned with getting a job or into school than retirement planning. However, in today's job market you have to consider retirement options early. The odds of working at a company for a set number of years and leaving with a pension are diminishing. Most employers have programs called 401ks or other similar plans intended to help you save for retirement. An employer may match a certain percentage of what you put in but your retirement planning is up to you. Savings accounts and money market accounts are two popular options many Americans use to grow their nest eggs.

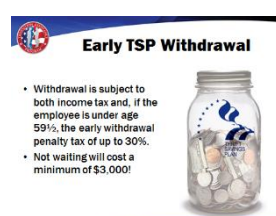


Thrift Savings Plan (TSP) Options

- Leave funds in TSP account (if balance is more than \$200)
- Roll your TSP into another eligible account (i.e., IRA, annuity, civilian 401k)
- Withdraw your TSP funds completely

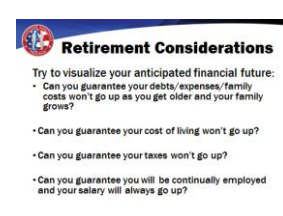

Some funds may include tax-exempt contributions!

Contact ThriftLine (1-TSP-YOU-FRST) 877.968.3778



Early TSP Withdrawal

- Withdrawal is subject to both income tax and, if the employee is under age 59½, the early withdrawal penalty tax of up to 30%.
- Not waiting will cost a minimum of \$3,000!



Retirement Considerations

Try to visualize your anticipated financial future:

- Can you guarantee your debts/expenses/family costs won't go up as you get older and your family grows?
- Can you guarantee your cost of living won't go up?
- Can you guarantee your taxes won't go up?
- Can you guarantee you will be continually employed and your salary will always go up?

This section discusses basic information that is pertinent to retirement planning and employment considerations as you prepare for transition.

Some of the first questions that you should ask the Human Resource representative of your potential future employer are:

- When do the company contributions start (is there a waiting period after hire)?
- When is my account credited with 100% of the company's contributions as my own (vested)?
- Does the company use a graduated vesting schedule where I receive a percentage at certain specified dates, i.e. 10% at 2 years, 20% at 5 years, etc., or a cliff vesting schedule?

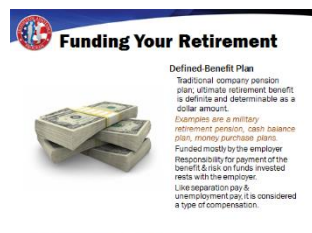
These questions not only provide you with baseline retirement information, it also conveys to the employer that you are savvy when it comes to benefits and that you understand the importance of this aspect of total compensation.

We encourage you to ask your Installation Financial Counselor about these topics. Many installations offer classes on retirement planning.

RETIREMENT PLANS

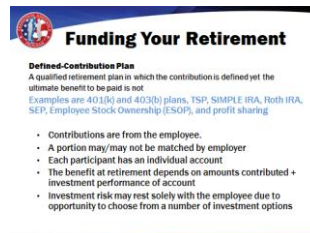
There are two general categories of retirement pensions provided as a result of employment:

1. **Defined-Benefit Plan:** A defined-benefit plan is the traditional company pension plan. It is called a "defined benefit" because the ultimate retirement benefit is definite and determinable as a dollar amount, or as a percentage of wages. To determine these amounts, defined-benefit plans usually base the benefit calculation on a combination of the employee's salary and years of employment. The military retirement pension is an example of a defined-benefit plan.
 - Funded mostly by the employer
 - Responsibility for the payment of the benefit and all risk on funds invested to pay out that benefit rests with the employer
 - Like separation pay and unemployment pay, it is also considered a type of compensation



Funding Your Retirement

Defined-Benefit Plan
Traditional company pension plan. Ultimate retirement benefit is definite and determinable as a dollar amount.
Examples are a military retirement pension, cash balance plan, money purchase plans.
Funded mostly by the employer.
Responsibility for payment of the benefit & risk on funds invested rests with the employer.
Like separation pay & unemployment pay, it is considered a type of compensation.



Funding Your Retirement

Defined-Contribution Plan
A qualified retirement plan in which the contribution is defined yet the ultimate benefit to be paid is not.
Examples are 401(k) and 403(b) plans, TSP, SIMPLE IRA, Roth IRA, SEP, Employee Stock Ownership (ESOP), and profit sharing.

- Contributions are from the employee.
- A portion may/may not be matched by employer
- Each participant has an individual account
- The benefit at retirement depends on amounts contributed + investment performance of account
- Investment risk may rest solely with the employee due to opportunity to choose from a number of investment options



Funding Your Retirement

Questions to ask a potential employer

"When do company contributions start?"

"When will my account be credited with 100% of company's contributions as my own?"

"Does your company do a graduated or cliff vesting schedule?"

2. **Defined-Contribution Plan:** A defined-contribution plan is a qualified retirement plan in which the contribution is defined, but the ultimate benefit to be paid is not. These plans take many forms and include 401(k) and 403(b) plans, Roth 401(k) and the Thrift Savings Plan (TSP), Savings Incentive Match Plan for Employees (SIMPLE) IRA, Simplified Employee Pension (SEP) IRA, Employee Stock Ownership, (ESOP), and profit sharing.
- Contributions come from the employee
 - A portion may or may not be matched by the employer
 - Each participant has an individual account
 - The benefit at retirement depends on the amounts contributed and on the investment performance of that account through the years
 - In such plans, the investment risk may rest solely with the employee because of the opportunity to choose from a number of investment options

SOCIAL SECURITY INCOME

Another source of retirement income is your federal Social Security entitlement. The amount of benefit to be collected is based on your age and the amount withheld from your paycheck over the course of your working life. Although there has been much public debate over whether or not the program will be available to future retirees, this income stream can be taken into consideration. The age at which you receive your maximum benefit has risen over the years, so take into account the age you expect to retire. The Social Security Administration provides an online retirement estimator tool on its website at <http://www.socialsecurity.gov/estimator/>.

CUTTING TAXES WHILE INVESTING


While saving and investing for your future are important, failure to consider the tax implications of your saving and investment vehicles can reduce their effectiveness. There is no one size fits all solution to saving and investing. Consider your options and consult with a professional if you need more information.

Some popular investment vehicles that can reduce your tax liability either now or in the future are listed below.



Social Security

- Social Security entitlement is based on age and amount withheld from paycheck during your working life
- Open a "My Social Security" Account
<http://www.ssa.gov/myaccount/>
- Social Security Administration Retirement Estimator
<http://www.socialsecurity.gov/estimator/>



Cutting Taxes While Investing

- Tax-deferred accounts allow the investor to delay paying taxes on earnings. Traditional 401(k) IRA, TSP are some pre-tax contribution examples.
- Immediate benefit is that the contribution is deducted from a paycheck before income taxes are calculated, so taxable pay is reduced today.
- After tax contributions are taxed now so those contributions do not lower your taxable income, you pay more taxes now.

Traditional or tax-deferred accounts allow the investor to delay paying taxes on contributions and earnings. Traditional 401(k), IRA, TSP are some pre-tax contribution examples.

- An immediate benefit of these accounts is that the contributions made to them are deducted from gross pay before income taxes are calculated, so taxable income is reduced today
- Another advantage to employer-sponsored plans, if offered, is matching contributions – essentially free money, and you should always try to take advantage of the matching maximum

Roth or after-tax accounts allow the investor to pay taxes on contributions now with the assumption they will be taxed at a higher rate at the time of withdrawal.

There are a number of theories with regard to Roth vs traditional tax advantages. Some theories look at what will the tax rate be in the future, what type of deductions will you have, and what will your income/tax bracket be upon retirement. Ultimately, only you can determine the best product for your needs. A chart is provided to give you some basic points for comparison.

NOTE: See your installation personal financial professional to discuss basic information on tax-deferred accounts such as Traditional IRAs, Keogh plans, Simplified Employee Pension-Individual Retirement Accounts (SEP-IRA) for self-employed individuals, Roth IRAs, bonds, and other investment options including options for high income earners.

	Roth IRA	Traditional IRA	TSP
Contributions	Contributions are NOT tax deductible. IRAs have annual contribution amounts. IRAs also have age limits for Roth eligibility. Some workplace plans too small to qualify for a Roth IRA.	Contributions may be tax deductible up to limits established by IRS annually. IRAs have annual contribution amounts.	Contributions reduce taxable income up to the IRS established limit. Contribution limits are generally higher than for IRAs contributions.
Earnings	Earnings may be withdrawn tax free provided account has been open at least five years and you are at least 59 1/2 years old at the time of withdrawal.	Earnings are taxed upon withdrawal.	Earnings are taxed upon withdrawal.
Transfers	Not authorized from tax deferred accounts.	TSP or 401k accounts can be transferred into a traditional IRA (varies by event count against annual contribution limits).	TSP accounts may be transferred into an employer provided 401k or a traditional IRA. TSP accounts over \$500 may also be left with TSP until retirement, once after member leaves federal service. Other employer 401k accounts may be transferred into your TSP account.
Withdrawals	Contributions may be withdrawn at any time without penalty. Earnings withdrawn before age 59 1/2 carry a 20% penalty plus tax.	Contributor or earnings withdrawals prior to age 59 1/2 subject to 20% penalty plus tax.	None, participants may withdraw up to 50% of the total account balance. Such distributions are subject to penalty and taxes.
Mandatory Withdrawals	No mandatory withdrawal age.	Mandatory withdrawals begin at age 70 1/2.	Mandatory withdrawals begin at 70 1/2 if you have not taken service, or at the time you leave federal service, if over 70 1/2.

	Roth IRA	Traditional IRA	TSP
Contributions	Contributions are NOT tax deductible. IRS limits annual contribution amounts. IRS also sets AGI limits for Roth eligibility. Some taxpayers earn too much to qualify for a Roth IRA.	Contributions may be tax deductible up to limits established by IRS annually. IRS limits annual contribution amounts.	Contributions reduce taxable income up to the IRS established limits. Contribution limits considerably higher than for IRA contributions.
Earnings	Earnings may be withdrawn tax free provided account has been open at least five years and you are at least 59 ½ years old at the time of withdrawal.	Earnings are taxed upon withdrawal.	Earnings are taxed upon withdrawal.
Transfers	Not authorized from tax deferred accounts.	TSP or 401k accounts can be transferred into a traditional IRA (transfers do not count against annual contribution limits).	TSP accounts may be transferred into an employer provided 401k or a traditional IRA. TSP accounts over \$200 may also be left with TSP until retirement, even after member leaves federal service. Other employer 401k accounts may be transferred into your TSP account.
Withdrawals	Contributions may be withdrawn at any time without penalty. Earnings withdrawn before age 59 ½ carry a 10% penalty plus tax.	Contribution or earnings withdrawals prior to age 59 ½ subject to 10% penalty plus tax.	Active participants may borrow up to 50% of the total account balance. Early distributions are subject to penalty and taxes.
Mandatory Withdrawals	No mandatory withdrawal age.	Mandatory withdrawals begin at age 70 ½.	Mandatory withdrawals begin at 70 ½ if you have left federal service; or at the time you leave federal service if over 70 ½.

WHAT IS COMPOUND INTEREST?

Compound interest is a powerful weapon in your retirement planning arsenal. Consider this example: Bob is 25 and has decided he should start saving for retirement. His goal is to have at least \$1,000,000 when he reaches age 65. If he starts saving today and makes monthly deposits to a 6% rate of return account, he must save \$361 each month. That may sound like a lot to you, but consider this. If Bob waits until he is 30 to start saving, he will need to save \$700 each month. The bottom line is, the sooner you begin saving the longer your money has to work for you. It is never too early to begin saving for retirement.

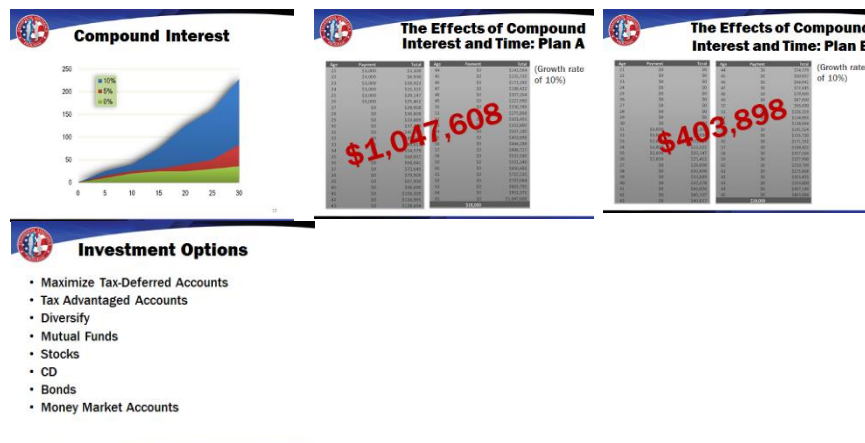
Your savings may be distributed through regular savings accounts, money markets, or a balance between that and other investments such as stocks, bonds and more.

Get the power of compound interest working for you early. It will take significantly less out of your pocket if you start when you are younger and it will increase money available when needed at retirement. Let's look closer at how this concept works.

Investment tools such as stocks, bonds, mutual funds vary in risk. Typically higher risk products carry a higher return on investment. It is important to determine your risk tolerance before making investments. It is equally important to periodically review your decisions as risk tolerance can vary with age and economic climate. Before transition, attend a workshop on investing with your Installation Financial Counselor.

These online calculators may assist you when you are planning for retirement needs:

- <http://investor.gov/tools/calculators/compound-interest-calculator#.U6RqmobD-Uk>
- <http://www.bankrate.com/calculators/savings/compound-interest-calculator-tool.aspx>



Investment Options

- Maximize Tax-Deferred Accounts
- Tax Advantaged Accounts
- Diversify
- Mutual Funds
- Stocks
- CD
- Bonds
- Money Market Accounts

Section 1.5: Evaluate the Cost Living

MODULE PREREQUISITE

N/A

COMPETENCY

Understanding housing choices.

LEARNING OBJECTIVES

Participants will:

- Evaluating costs of moving to the new location
- Calculate housing costs including rental vs. home ownership
- Determine resources needed to address existing home ownership concerns, such as short sale, foreclosure, negative equity, etc. (as applicable)
- Evaluate your relocation needs and seek assistance at your installation Family Center regarding your move

Now, that you have a better understanding of your salary and compensation and some of the factors that relate to cost of living that went into your salary considerations you will need to compare costs of moving, renting versus buying, how to handle your current home, and where you can get ideas prior to transition.

COSTS OF MOVING TO YOUR NEW LOCATION

When researching the relocation and cost of living the following should be evaluated:

- What is it going to take to move you and how much will be out of your pocket?
 - Moving truck, supplies, people
 - Transportation (gas, car repairs, lodging, food)
 - Down payment or first/last month rent



Learning Objectives

- Evaluating costs of moving to the new location
- Calculate housing costs including rental vs. home ownership
- Determine resources needed to address existing home ownership concerns, such as short sale, foreclosure, negative equity, etc. (as applicable)
- Evaluate your relocation needs and seek assistance at your installation Family Center regarding your move



Cost of Relocation

How much will a relocation cost you?

- Moving truck, supplies, people
- Transportation (gas, car repairs, lodging, food)
- Down payment or first/last month rent
- Costs to set up residence (paint, curtains, tools, state vehicle registration, etc.)
- Utility deposits
- Family expenses (children or pets)

- Costs to set up residence (paint, curtains, tools, state vehicle tags/registration, etc.)
- Costs to set up utilities (no military waiver/discount anymore)
- Children or pet costs (prior, during and after the move)

RENTING VS. BUYING


Beyond your career, education, and geographic location choices, one of the most fundamental decisions you will likely need to make as part of your transition is housing – specifically, whether it is more cost effective to rent or buy. There are advantages and disadvantages to both renting and buying, which will be discussed below.

Caution: “Staying with friends” or “moving back home” is usually not the best choice for a housing plan for numerous reasons and it will definitely delay making a complete and successful transition.

RENT

Renting may be a better choice for you if:

- **You move a lot (your job requires mobility)** – unless you can stay in your home until the market is right to sell, you may lose money when selling your home. If you cannot sell, you may consider converting your home to a rental property and becoming a landlord.
- **You are unfamiliar with the area** – before taking the plunge and buying a home, you may want to identify a neighborhood and rent there first to determine its ultimate long-term desirability.
- **You are low on cash** – to cover the down payment, property taxes, and initial costs involved in purchasing a home without depleting your financial reserves. Renting can enable you to save for a down payment, closing costs, and other costs associated with home ownership.
- **Maintenance costs** – of a home greatly exceed those of renting. If you cannot imagine not calling a landlord to fix the backed-up bathtub drain, you should consider renting.
- **You prefer more fixed expenses** – there are a lot of variable, unplanned expenses when you own a home.



Rent or Buy?

Bankrate has great questions that you should ask yourself before making a decision to buy or rent such as:

- Amount in savings?
- Amount of debt?
- Amount of down payment for a home?
- Credit History?
- How are the home prices in your area?
- How long will you stay in your house?
- Does the tax deduction apply to you?
- How is your monthly budget?

<http://www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx>
<http://money.msn.com/home-issues/rent-or-buy-calculator.aspx>



Rent vs. Home Ownership

Renting makes sense if you...	Buying makes sense if you...
Need to determine long-term desirability	Have money for the larger initial investment
Move frequently or suddenly	Are ready for stability
Are low on cash (down payment, closing costs)	Desire a sense of community
Don't have time/desire/funds for maintenance/improvements	Can financially support two homes
Don't want to risk loss of equity	Like to remodel/fix/personalize
Not ready for tax advantages	Can financially manage fluctuating expenses
Don't want to be a landlord	Can be a landlord
Thinking just isn't right for you to keep!	Thinking is right for you to buy!


Renting vs. Home Ownership

- **You do not want the risk losing equity** – however you will not gain any equity either.
- **You do not mind not being able to personalize your home** – often with renting you take the dwelling as-is, and the landlord may not be willing to let you paint or change anything.
- **Tax advantages** that come with owning a home may or may not help you.
- **You do not want to be a landlord** – if you buy a home and have to move, you may be unable to sell it for profit or unable to sell it at all. As a result, many military homeowners become landlords. If you do not want to be a landlord, renting may be best

BUY

Buying may be a better choice for you if:

- **You hope to grow equity** – If you are moving to an area enjoying high appreciation in the value of residential property, your equity could grow and offset the costs of selling should you be transferred. However, this is dependent on the current and future market. Market conditions at the time of purchase and at the time of sale can vary dramatically. Markets also vary by region, state, county, and even neighborhood. While everyone will tell you not to buy at the peak of a market; peaks generally can't be identified except when evaluated in hind sight. Equity in a home can be an excellent source of retirement security, if the mortgage is paid off and equity in the home grows. It could also be a great long-term investment as a rental as long as you can financially support all home ownership requirements.
- **You have money for the larger initial investment** – involved in buying a home.
- **You want to itemize** - to minimize taxes. Mortgage interest on your primary residence, real estate taxes, and some other home expenses qualify as itemized deductions which can reduce your tax liability. However, itemizing generally doesn't make sense unless your itemized deductions exceed the standard deduction amount.
- **You are ready for stability and a sense of community** – Buying a home automatically commits you to a region and a neighborhood. You become interested in the zoning laws, the tax rates, the city's/county's plans for expansion and growth, and the appearance of your neighbor's property.



Beyond Renting vs. Buying

A Personal Financial Management Specialist (PFM) can assist with:

- Selling your home
- Modification of the loan
- Renting your home
- Short Sale
- Foreclosure
- Deed in Lieu of Foreclosure
- Negative Equity

Additional resources:

http://www.va.gov/finance/loan/compare/rent_vs_buy

<http://www.fairmarket.com/rent-vs-buy-2014-2015/>

<http://www.mortgagecalculator.org/>

<http://www.rental.com/home/compare/rent-vs-buy-calculator>

<http://www.rental.com/home/compare/rent-vs-buy-calculator>

<http://www.rental.com/home/compare/rent-vs-buy-calculator>

- **You do not mind the possibility of becoming a landlord** – if you must move. Market conditions may make selling your home a poor option. Or, you may have decided you'd like to eventually return to this home. In either case, renting the property may be the best solution for you. Rental property can generate positive cash flow, but it is important to keep a solid financial cushion for unexpected expenses such as maintenance or times when the property is vacant or the rental income is overdue. There are also tax implications with regard to converting rental properties to or from principle residences. Be sure to consult with your tax advisor before making these decisions.
- **You have the financial ability** – to support multiple homes if you must relocate or your rental property is vacant or the rental income is overdue.
- **You like to remodel/fix** and personalize your home.
- **You can financially manage fluctuation** – in expenses due to repairs, maintenance, etc.

There are online calculators that you can use to help make an informed decision about your housing plan and whether to rent or buy.

- www.freddiemac.com/homeownership/rent_or_buy/right_foryou.html
- http://www.freddiemac.com/singlefamily/service/mha_modification.html
- <http://www.realtor.com/home-finance/tools/rent-or-buy-calculator>
- <http://money.msn.com/home-loans/rent-or-buy-calculator.aspx>
- <http://www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx>
- <http://www.knowyouroptions.com/>

Come to an Installation Financial Counselor's workshops on home buying/options prior to transition.

Renting makes sense if you...

Need to determine long-term desirability

Move frequently or suddenly

Are low on cash (down payment, taxes, closing costs)

Don't have time/desire/funds for maintenance/improvements.

Don't want to risk loss of equity

Not ready for tax advantages

Don't want to be a landlord

Timing just isn't right for you to buy!

Buying makes sense if you...

Have money for the larger initial investment

Are ready for stability

Desire a sense of community

Can financially support two homes

Like to remodel/fix/personalize

Can financially manage fluctuating expenses

Can be a landlord

Timing is right for you to buy!

Renting vs. Home Ownership

MORTGAGE CONCERNS AND RESOURCES FOR HELP

If you plan on moving but your home is not selling, you are upside down on the mortgage, you can't afford the payments then options to you may be:

- Selling your Home
- Modification of the loan
- Renting
- Short-Sale
- Foreclosure
- Deed in Lieu of Foreclosure
- Negative Equity

This information can be very specific and covers too much territory for this course. However, your Installation Financial Counselor and other resources mentioned in this financial course may be great resources to help you start the process of where and how to work the process.

Here are some websites to obtain additional information:

- <http://www.makinghomeaffordable.gov/pages/default.aspx>
- <http://www.usa.gov/Citizen/Topics/Family/Homeowners/Foreclosure.shtml>
- http://portal.hud.gov/hudportal/HUD?src=/topics/avoiding_foreclosure/workingwithlenders
- http://www.vba.va.gov/ro/cleveland/foreclosure_alternatives.htm
- http://www.benefits.va.gov/HOMELOANS/resources_payments.asp
- http://www.freddiemac.com/mortgage_help/index.html
- <http://www.consumerfinance.gov/mortgagehelp/>
- <http://www.federalreserve.gov/consumerinfo/foreclosure.htm>

RESOURCES

The Transportation Management Office (TMO), and Personal Financial Management Specialist (PFM) can assist with information regarding:

- Entitlements
- Allowances
- Needs
- Costs



Relocation Assistance

Transportation Management Office (TMO) and Personal Financial Management Specialist (PFMs) can assist with information regarding:

- Entitlements
- Allowances
- Needs
- Costs



Summary

- Consider relocation expenses
- Calculate housing costs
 - Rental vs. home ownership
- Mortgage concerns and resources
- Installation Resources
 - RAP, TMO, PFM

Section 1.6: Understand How Taxes Change

MODULE PREREQUISITE

N/A

COMPETENCY

Participants will understand how taxes will change and be able to navigate free resources to use during the course of their transition

LEARNING OBJECTIVES

Participants will:

- Navigate resources to include irs.gov, VITA, state tax calculators, and military pay
- Locate and contact personal financial educator located in Family Centers, as applicable
- Contact installation legal offices for Wills, Powers of Attorney, Estate/Tax Planning and other legal documents, as applicable


TAX IMPLICATIONS

Now that we have spoken about budgets, financial impact of transitioning, cost of living, total compensation, investing, insurance and health care a final topic to consider is tax planning.

Even though everyone has to pay federal income taxes, you have had special considerations while you have been in the Military.


After transitioning from service, you may find that your tax situation will change. It is important to understand how this will affect your future financial situation.

NOTE: For tax purposes, separating Service members (not retirees), will be able to view and print their W-2 from the MyPay website at www.mypay.dfas.mil/mypay.aspx for up to one year after separation. Retirees will have continued access to review personal information via MyPay.




Learning Objectives

- Navigate resources to include irs.gov, VITA, state tax calculators, and military pay
- Locate and contact personal financial educator located in Family Centers, as applicable
- Contact installation legal offices for Wills, Powers of Attorney, Estate/Tax Planning and other legal documents, as applicable



Understanding Tax Issues



- **Tax Advantages**
 - FICA (Social Security)
 - Federal taxes
 - State taxes
- **Withholding**
 - Marital status
 - Exemptions

Use VITA, www.irs.gov, state calculators


UNDERSTANDING HOW TAXES AFFECT YOUR INCOME

The following are changes that you need to prepare for:

- You may not have been paying state income tax while in the military depending on the state you listed as your home residence (such as Florida or New Hampshire); however, as a civilian, you may start paying an income tax depending on where you relocate.
- Also, while in uniform you have been receiving compensation that is not taxable. Except in a few circumstances, ALL your civilian salary will be taxed at both the federal and state levels. In some areas county and city tax may also be assessed on your income. This is a key factor in determining what your salary needs are. If you simply say, “I want a job that will pay me what I am making now,” you will fall short because more of your money will go to paying taxes.
- You will no longer receive an automatic extension on the April 15 tax filing deadline, unless you specifically request it – Remember, the IRS will charge interest on any unpaid amount due on the April 15 deadline.
- You may have been exempt from certain local and or property taxes while you were serving that you will now be responsible for paying. You may have also received substantially discounted rates for vehicle registration and tags by registering as a military non-resident where you were stationed. These expenses should be considered as you transition.
- There are resources that can help you determine your federal, state, and sometimes local tax obligations. The IRS provides a W-4 calculator at www.irs.gov/Individuals/IRS-Withholding-Calculator that can assist you in determining the amount you should have withheld from your paycheck for taxes. Many states have similar tools on their websites. Just as you had a VITA site on your installation to help you prepare and file your taxes while on active duty, there are VITA sites in the civilian sector as well.

IMPORTANCE OF PREPARING FOR TRANSITION

Understanding and preparing for your tax and income changes will help you realize what your actual net income will be compared to your current military net pay. Understanding that these extra deductions will lower your net income helps you determine if your post-transition income will cover your needs.



Tax Considerations

- No longer eligible for automatic filing extension
- May need assistance for TSP tax issues
- Factor all taxes into salary considerations
- No more tax exempt income
- Research your state's website for State Income Tax Withholding tables
- Use www.irs.gov/Individuals/IRS-Withholding-Calculator to determine correct W-4 withholdings
- Must pay property taxes (car, home, etc)
- Veterans have one year from separation to view/print their MyPay W-2
- Advantages of educational expenses



Contact Installation Legal Office

Determine distribution of assets during lifetime and at death
Include several items:

- Will
- Trusts (as needed)
- Power of Attorney (POA)
- Medical directive or medical POA
- Financial plan to care for survivors

- Ensure information on designated beneficiaries is current and correct
- Update every couple of years or when major life changes occur
- These can save your family work and money.


While on Active Duty, contact the installation legal offices for wills, power of attorneys, estate/tax planning and other legal documents, as applicable, prior to transition. After separation you will have to pay a civilian lawyer or other professional for this service.

Legal services are free while you are in the military, so take advantage of these resources to create/update your wills, power of attorneys, etc., before you leave active duty. You can save hundreds of dollars by not having to pay the costs of these services in the civilian sector. These items will save you and your family a lot of work and money if these are done to protect your assets and your family.

Work with your tax preparer or use the websites mentioned in this section to make an informed estimate of your projected withholdings and exemptions to determine your future taxes.

- <http://www.irs.gov/>
- <http://www.irs.gov/Individuals/IRS-Withholding-Calculator>
- <http://www.bankrate.com/taxes.aspx>

Your state may also have its own state income tax, property tax and other calculators.



Summary

- Preparation is key
- Understand how much of your income could be withheld for federal and state taxes from your future civilian paycheck
- Understand property taxes on your home, land, car, and recreational vehicles
- Utilize installation legal resources to prepare wills, POAs, etc., before transition
- Understand your withholdings and exemptions

SUMMARY

You now have additional tools and resources to facilitate your successful transition to civilian life. As you get closer to your transition you may find you have more questions and concerns about your specific financial plan. Be sure to make an appointment to see your installation personal financial professional for assistance—you will be glad you did.

Your required Career Readiness Standard (CRS) is completion of the 12 month post separation budget. You have already begun the process of creating your budget, and you have a strong foundation of knowledge to complete this CRS requirement!