



The
Total Path

➤ Military Finance Planning

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Good financial planning is a challenge for anybody, but it can be especially challenging for active and reserve service members. In addition to dealing with all of life's regular uncertainties, the men and women in our armed forces have to contend with the possibility of being called away from home and family for extended periods of time. If you're on active duty, your finances are the last thing you want to have to worry about.

The good news is that if you're in the military, there are many resources that you can utilize that will help to ensure you and your family are ready to face your financial future.

Contents

1. Securing Your Tomorrow
2. Protecting Yourself From Financial Predators
3. Know What's Available to You
4. Prepare For Deployment: Know What to do When You Return
5. A Look at Taxes
6. How to Buy (or Sell) Your Home
7. Becoming a Civilian Again

1 Securing Your Tomorrow

As a servicemember, your life is far from what most consider normal. Plenty of civilians have a rough time keeping their finances straight. You are faced with the task of doing so knowing you may have to move with little warning or deploy for an undetermined amount of time. There are many obstacles standing in your way to financial peace if you haven't properly prepared. There are, however, major benefits to being a servicemember that civilians could only dream of when it comes to securing your family's financial future.

Don't Count on a Pension

Most servicemembers leave their respective branch before they qualify for a pension. Twenty years or more of service simply isn't realistic for everyone and, unfortunately, "partial vesting" doesn't exist in the military. Serving anything short of two decades results in no pension, but the reality is that a pension isn't going to be enough to pay for all of your bills anyway. If you retire after 20 years, you're likely to get just 50% or less of your base salary.

While you may not be able to control your time in service, you can control how you spend and don't spend your money. Getting

as early a start as possible on saving for your future is important. Being a member of the military allows you access to investing opportunities and tax breaks that will enhance your growing nest egg.

Sort of Like a 401(k)—The Thrift Savings Plan

The Thrift Savings Plan (TSP) sponsored by the government is sort of like a 401(k) plan you would be eligible for if you worked for a private company. It is a low-cost, tax-advantaged retirement-savings plan for federal employees.

In 2012, servicemembers were allowed to contribute up to \$17,000 to the TSP. The exception was that those who received tax-exempt pay while serving in a combat zone could contribute up to \$50,000. You don't pay taxes on contributions from your regular pay, so paying into the TSP will not shrink your paycheck as much as you might think. More importantly, your contributions will grow tax-deferred until you withdraw your money in retirement. Once again, the earlier you start contributing, the better. For instance, if you contributed \$10,000 in 2012, in 2042 it would have grown to more than \$100,000 at an average rate of 8% growth per year. Investing \$10,000 a year for the next 30 years would ultimately surpass \$1 million.

For more than 80 years now, the average rate of growth has been nearly 10%.

Once you set up your TSP, your contributions will be deducted from each paycheck; pretty much like retirement cruise control. If you stick with it, you'll see a steady increase over time. If you were to contribute \$300 every paycheck, your take-home pay would decrease by just \$225 in the 25% tax bracket, and you would save \$7,200 in one year. Suppose you decided to leave the military after 15 years at the age of 40. If you had been contributing in this fashion for 15 years, your TSP could still be worth around \$700,000 when you turned 55, if that 8% average rate of return holds true.

Your TSP will allow you several options for deciding how to invest your money.

There are five index mutual funds that invest in large companies, small firms, international firms, bonds, or government securities for you to choose from. You also have the option of selecting a lifecycle fund, or L fund. This diversified portfolio is designed to pace how you invest with the timeline of your military career. Early on, when you have more than a decade before you start drawing out of your TSP, your investments will mostly be in stock funds. As you get closer to your retirement, your TSP investments will become more conservative.

Costs associated with the TSP are pretty negligible—roughly 25 cents annually for each \$1,000 you invest. For instance, if you had a \$100,000 portfolio, you would pay only \$25 annually in investment-management fees. Again, you won't have to pay



U.S. Army Fast Facts

- There are more than 855,000 retired army veterans in the United States
- 15 U.S. Presidents served in the modern army
- As of 2011 there were over 1.1 million people in the army and 560,000 active servicemembers

taxes on your TSP until you take money out. You can keep money in your TSP after you are discharged, or you can move it to an IRA or the 401(k) of your new employer if they offer one. It will still grow tax-deferred. There are drawbacks if you withdraw your money and choose not to roll it into another savings plan. First, you will be taxed. Second, if you aren't 55 the year you separate from your respective branch of service and access your TSP, there is usually a penalty of about 10%. The rules governing this can be found at www.tsp.gov. That website also offers a calculator to assist you in estimating what your balance will look like in the future.

Last year, a new Roth TSP option was introduced for active duty military members. Roth contributions are taken out of a servicemember's paycheck after income is taxed. The earnings and withdrawals won't be taxed if you are at least 59 ½ (or disabled) and have contributed to Roth for at least five years.

Benefits of a Roth IRA

While funds contributed to a traditional IRA can earn tax deductions to lower your tax bill today, contributions to a Roth IRA offer long-term gratification. Namely, your withdrawals when you retire will be tax-free.

Additionally, if you absolutely need to make a withdrawal before you retire, that withdrawal would be tax-free and penalty-free. This is a big difference, considering withdrawals from a regular IRA are taxed in your top tax bracket.

In 2012, servicemembers were allowed to contribute up to \$5,000 to their Roth IRAs (\$6,000 if they were 50 or older), so long as their adjusted gross income was less than \$110,000 that year if they were single or \$173,000 if they were married and filing jointly. Once your income rises above these levels, the opportunity to make contributions decreases. To qualify for a Roth IRA, income has to be earned; it cannot come from investments or gifts. Combat-zone pay meets these criteria, even though it is tax-free. This means that combat-zone money earned and contributed is tax-free going in and when you withdraw it!

Another benefit is that if you work but your spouse does not, you can contribute \$5,000 to an IRA in their name. Roth IRAs can be opened with a bank, credit union, insurance company, mutual fund, or a brokerage firm. You'll want to ask about fees and what investment choices are available when you are looking for someone to handle and oversee your IRA.

While getting started can be a bit intimidating, there is a wealth of information online that will help you to feel more comfortable about your decisions. Check out www.investorprotection.org/learn for tips to get you going. It is important to note that you can contribute the maximum to both a Roth IRA and your TSP in the same year. If you have to choose one option to invest in, it is recommended that you consider a Roth IRA first if you anticipate that your salary and your tax bracket will increase and if you earned tax-free income for serving in a combat zone. The likelihood is that you are in a lower tax bracket now than the one you will be in when you ultimately leave the service. Because of this, it would be wise to pay tax on Roth contributions today and have tax-free income tomorrow.

Remember, April 15, tax day, is always the deadline to make an IRA contribution for the previous year. April 15, 2013 is the deadline for 2012 contributions.

Take Advantage When You Can

As stated earlier, younger servicemembers should probably contribute as much as possible to a Roth IRA, especially if they can contribute tax-free combat pay. If they can, servicemembers should diversify by also contributing to the TSP and investing in

mutual funds in taxable accounts if possible.

While you are serving, you may not feel like you have the time to devote to keeping up with market trends and moving your contributions from fund to fund. Contributing to a Roth IRA and the TSP will alleviate that worry, especially considering money can be transferred directly from your paycheck into your Roth and TSP accounts every month. Regardless of where you are in the world, your contributions will be handled. If you are deployed, there is another great savings opportunity for you to take advantage of that can grow your funds—the Savings Deposit Program (SDP).

The Savings Deposit Program is designed to be used while you are deployed and for up to three months after you return from deployment. During that period, the program guarantees a 10% return annually on up to \$10,000. Although you are not allowed to contribute to the SDP until after you deploy, it would be a good idea to start setting aside funds for the program as soon as you can. That way, once you are deployed, you can contribute as much as possible. The result will be an increase in your take-home pay and tax-free income during your deployment. With your SDP earnings, you can contribute more to your Roth IRA.

Saving for some will always be harder than for others, but it certainly isn't impossible. By taking advantage of what is offered and keeping purchases to necessities with a few splurges now and then, you will be able to get rid of your high-interest credit cards, build an emergency fund (BOTH VERY IMPORTANT!), and put yourself on a road to preparing for tomorrow.

For more information, visit www.militarypay.defense.gov



2 Protecting Yourself From Financial Predators

It has long been said that a fool and his money are soon parted. Unfortunately, there are countless criminals in the world who attempt to make servicemembers out to be fools. The ways they are doing so are countless—high interest-rate payday loans, high-fee investments, ID theft, and needless insurance policies, just to name a few.

The good news is that the Department of Defense and state and federal regulators continue to protect servicemembers with new laws and resources. The bad news is that the bad guys always seem to be one step ahead in concocting some new plan to take advantage of military personnel. You need to be aware and protect yourself and your family from those who would harm you. It's just as true for your financial health as it is your physical health.

Lenders Should Be Trying to Help, Not Hurt

In the not-so-distant-past, you could leave your base, trip, and land in the doorway of a payday lender ready to give you a short-term loan against your next paycheck. Of course, that loan would come with a hefty interest rate. In some cases, the rate exceeded 400%! In 2007, the Military Lending Act was passed to cap payday-loan

rates at 36% for servicemembers and their dependents. That led to many payday lenders shutting their doors, but some remain. Some of these lenders switched tactics and are now charging “fees” instead of interest. Other lenders began to take advantage of high-rate loans that aren’t subject to the 36% cap.

Look out for car dealers who push high-rate loans with large upfront fees. Watch out for payday lenders who offer their services on-line, away from the reach of regulators. Stay away from lenders who offer open-ended loans that have rates reaching as high as 136%, thanks to a legal loophole.

How You Can Avoid the Traps

Your service branch has an emergency-relief fund that offers small interest-free loans when necessary. Get in touch with the community-service office at your base for details. You can also get details online at Army Emergency Relief (www.aerhq.org), Navy-Marine Corps Relief Society (www.nmcrrs.org), Air Force Aid Society (www.afas.org), or Coast Guard Mutual Assistance (www.cgmahq.org).

Another step you can take is to join a credit union. Credit unions typically offer short-term loans at reasonable interest

rates. In some instances, they may even offer an emergency loan to servicemembers with minimal or no credit check.

Not preparing is preparing to fail, so be as ready as possible for an emergency by maintaining an emergency fund. The less you have to borrow, the better. Your emergency fund should allow you to cover six months’ worth of expenses.

Emergencies are unexpected. If you are getting loans to cover your normal expenses, it might be a good idea to seek credit counseling with a financial advisor. Meet with someone who will assist you in setting a budget that will help you rein in your spending and take control. Check with the credit union or other financial institution on your base. They are required to offer counseling services for free. You can also look online for help via the National Foundation for Credit Counseling (www.nfcc.org) or the Association of Independent Consumer Credit Counseling Agencies



Not preparing is preparing to fail, so be as ready as possible for an emergency by maintaining an emergency fund.



(www.aiccca.org). Don't be a victim though. Just as there are payday lenders looking to make a buck, there are also "credit repair" companies who will charge you a fee upfront to fix everything. Tread carefully, because some of these companies can create more problems than they solve.

Stay Alert

It can be difficult for servicemembers to watch their credit records and bills when they are deployed. Because your Social Security number is widely available, you are a prime candidate for identity theft. Phishing attempts through phone calls and emails to get your information can literally occur daily if you are on the right (or in this case wrong) lists.

Make sure you check your accounts on a regular basis for suspicious activity. Often times, someone hacking an account will put a small purchase of \$1 or less through to see how closely you are paying attention. If that small purchase goes undetected, it could lead to a lot more small purchases and bigger purchases that will leave you scratching your head. If you know you are going to have a difficult time keeping up with your accounts while you are deployed, find a trusted family member or friend who will review your accounts for you.

Never give out personal information over the phone to someone who called you to discuss an "issue" or "problem" with one of your accounts, and never click on a link in an email that suggests something needs to be fixed. If you do receive such a phone call or an email, the best thing to do is to call your financial institution's customer service number and verify that there is a problem.

There are other steps you can take as well. For instance, you can get a free copy of your credit report from each of the three major credit bureaus annually via www.annualcreditreport.com. Take advantage of this service by getting your reports in January, May, and September or on another schedule that spaces your reports throughout the year. Additionally, you can put an active-duty alert on your credit report. By doing so, creditors will be alerted that they should be taking extra care to ensure credit is being extended to you and not someone else. Just like when you ask a trusted family member or friend to review your accounts for you, you should provide a phone number for a family member or friend for creditors to contact during your deployment. You can place an alert by contacting Experian.com, Equifax.com, or TransUnion.com.

While it may cost you a little money, you may even want to put a credit freeze on your accounts while you are deployed. This will stop lenders and other companies from getting access to your credit report without your permission, making it less likely for an identity thief to open another account or taking out credit in your name. The charge is generally around \$10 to freeze your account and then another \$10 to unfreeze it. But you do need to do this with all three credit bureaus for it to be effective.

Ask Before You Buy

Recently, state and federal regulators have been putting a stop to firms targeting servicemembers with high-fee investments. Some of these firms were sticking military personnel with a ridiculous 50% sales charge in the first year. Even though the Department of Defense and other organizations are working to expose scams and educate servicemembers about beneficial financial-planning strategies, there are still predators looking to make their fortunes, or just a quick buck, off of members of the armed forces.

There are numerous programs for you to take advantage of as a servicemember. If you are investing, make sure you take the proper precautions before you just

hand your hard-earned money over. Do your research and perform a background check on your broker through Finra's BrokerCheck tool (<http://brokercheck.finra.org>). Through this site, you will be able to obtain information on a broker, such as their licensing status, and even any disciplinary actions they have faced. You will also want to review your broker through your state securities regulator (www.nasaa.org).

Back in 1960, the music group The Miracles had a hit with the song "Shop Around." Although the single's lyrics are about a mother giving her son advice about choosing a wife, the lesson fits here. Research insurers and agents before blindly buying coverage by using the National Association of Insurance Commissioners (www.naic.org) website. The NAIC site will allow you to find state insurance regulators' links to see licensing, complaints, and disciplinary actions about insurers and agents. You can also visit www.InsureUonline.org for insurance advice for servicemembers. Before purchasing or even looking at life insurance from any insurer, make sure you are taking every advantage of Servicemembers' Group Life Insurance (www.insurance.va.gov/sgliSite/default.htm).



U.S. Marines Fast Facts

- There are over 240,00 active and reserve Marines
- The Marine Corps motto, "Semper Fidelis," means "always faithful" in Latin.
- The unofficial mascot of the Marine Corps is the English Bulldog

Not a Member of the Family

By their very nature, a criminal looking to rob you of your hard-earned money and savings will stop at little or nothing to succeed. That includes pretending to be a servicemember to gain your confidence or that of your family. Typically, these individuals or small groups will offer a product designed to give comfort to the spouse of a deploying servicemember; an alarm system perhaps. They could be offering a chance to make money at home... for a fee of course. The list of what could be on the other side of your door, the other end of the telephone, or the other side of the send button on your email is infinite.

It's Okay to Ask

Your base likely has some form of a community-service office that keeps tabs on reported scams, including those reported to the Better Business Bureau (BBB) in the

area. If you are a target of a scam, make sure to do your part in alerting your fellow servicemembers to the threat by letting you base's personnel know someone has tried to con you or your family. Your proactivity will allow the Armed Forces Disciplinary Control Board on base to keep particular people or companies from doing "business" on base. Also, if you have a contract that needs to be reviewed or explained to you, contact your base's legal-assistance office. The worst thing you can do is sign something without understanding it.

Your proactivity will go a long way in saving you, and maybe others, plenty of headaches. Don't be afraid to contact the representatives on base that have been designated to assist you. Don't hesitate to check with your local BBB (www.bbb.org) or the BBB Military Line (www.bbb.org/military) for help as well.

3

Know What's Available to You

From the moment you stepped off the bus or cattle truck at basic training, one thing was apparent to you as a servicemember—no one was going to hold your hand. Certainly your commanding officers and NCOs were going to point the way for you to go and instruct you, but you have to do the grunt work. The same can be said of your benefits and legal protections. You need to do the legwork to find out what they are. After all, if you don't know about a benefit, how can it benefit you? If you don't know about your legal protection, how can you be protected? Know what's available to you.

College Can Be Free

The Post-9/11 GI Bill potentially makes getting a college education free for you, your spouse, and your children. More specifically, the bill can take care of all of your in-state tuition and fees for public colleges for up to four academic years (36 months). Additionally, the bill will cover up to \$17,500 annually for private colleges and foreign institutions. Just as important, servicemembers qualify for housing stipends, funding for books, and tutoring. It is important to note here that the GI Bill does not limit you. The bill can be used for undergraduate

or graduate programs or even for specific programs at trade, vocational, and distance-learning schools.

You are eligible for the GI Bill's maximum benefits if you have served at least 36 months or if you have served on active duty for at least 30 continuous days and were discharged because of a disability that was somehow a result of your service. You may be eligible for partial benefits if you serve at least 90 days on active duty.

One big difference with the Post-9/11 GI Bill is that your benefits can potentially be transferred to your spouse or even your children. In most cases, you can transfer your benefits if you are serving on active duty or selected reserve, have served at least six months, and if you agree to serve four more years. If you are eligible for retirement between August 1, 2009 and August 1, 2013, the service commitments are different.

While your children will have to wait until you've served at least 10 years to use this benefit, the benefit is effective immediately for your spouse. Active servicemembers and veterans, or their spouses, have a 15-year window after leaving the military in which to use their GI Bill benefits. Children can use

the benefit outside of the 15-year window, but must do so by the age of 26.

If you do plan to transfer this benefit to your children, it is recommended that you do so as soon as you are eligible. Remember, you must agree to serve for four more years after you transfer your benefits. Those four more years begin the date your transfer to your children is approved.

Keep in mind, your GI Bill benefits allow for a total of 36 months of college, not 36 months of college for you, your spouse, and each individual child you have. But the allocation of these months is up to you. For instance, if you have two children, you could split the months between them evenly. Additionally, you could allocate 12 months to each of your children and the remainder to your spouse. How you split the time is up to you, and you can even change how you allocate the time after you leave the military. You cannot add beneficiaries, however, after you leave the military. Learn more about this benefit at www.defense.gov/home/features/2009/0409_gibill.

Remember, if the school that you or your loved one wants to attend is a private institution, or if you have to pay out-of-state tuition, the entirety of your total may not be

covered by the GI Bill. Don't be discouraged by this though. There's a chance you qualify for the Yellow Ribbon program, which provides assistance through scholarships directly through schools. Amounts vary from institution to institution. To qualify, you must be eligible for your maximum GI Bill benefits. Visit the Yellow Ribbon Program page on the Veterans Affairs website for more information (www.gibil.va.gov).

Reducing Your Interest Rate and What the Law Allows

The Servicemembers Civil Relief Act (SCRA) mandates an interest-rate cap, a benefit of extreme importance for any military member. As a servicemember, you could find it difficult, if not impossible, to meet the payment requirements of your mortgage, your credit card bills, your car loan, or something else. The SCRA provides that in some instances, the interest rate you pay can be dropped to 6%. But the benefit would only count for debts you had prior to joining the military or to activation, not debts you have incurred while on active duty. For instance, if you are a reservist and are activated, it may mean a significant reduction in your pay.

Let's say your reserve unit was activated for a tour of duty in Afghanistan. You could

submit a copy of your orders and a written request for the rate reduction to your lender and could potentially have a high interest rate dropped to 6% for the duration of your active duty. Once you return, the rate would return to its previous level, but you would be responsible for only the remaining balance at that rate. While this is a process that you can certainly handle yourself, you can contact an Armed Forces Legal Assistance Office (<http://legalassistance.law.af.mil>) if you feel like you need guidance.

There are many benefits that the SCRA provides to servicemembers, especially to servicemembers who have to move or are deployed. In brief, if you are deployed for 180 days or more, you can terminate your car lease without an early-termination fee. If you have orders for a permanent change of station or you are deployed to a location for 90 days or more, you can cancel an apartment lease. Benefits even apply to your cellular coverage. If you have orders to relocate for more than 90 days to an area your contract doesn't support, you have the right to terminate your cell-phone contract without a penalty.

Find out more about what the SCRA offers by visiting www.servicemembers.gov.

4 Prepare for Deployment: Know what to do When You Return

Most servicemembers' thoughts turn to their loved ones and friends when they find out they are being deployed. It isn't easy being broken out of your daily routine. It is important you're your finances receive plenty of attention when you find out you are being deployed, although this is often easier said than done. The importance of being ready when you have to deploy cannot be stressed enough.

Make Sure Your Documents are Current

In addition to not knowing what may happen to you while you are deployed, there's no telling what may happen at home while you are away. You can't predict the future, but you can prepare as best as you can for it by having your legal affairs office draw up a power of attorney. This document will give someone you designate the ability, and more importantly the authority, to keep your finances in order while you are gone. Additionally, you have the option of granting a general power of attorney, allowing broad powers over financial transactions, or of granting power of attorney for the purchase of specific items. You could designate the purchase of a car for instance and the amount that is to be spent.

Obviously, you will want to be very cautious in determining who to grant power of attorney to while you are deployed. Make sure you give the determination of how your money is being managed to someone you trust completely. Generally, power of attorney documents are valid for a set amount of time. Check to see that your documentation is still effective before you leave.

Perhaps more important than planning for while you are away is planning for if you don't return. It isn't a pleasant subject and one few even want to talk about, but it is important to make certain your will is updated and that guardians are named for your children if you have any. This is something that should be done even if you aren't being deployed because something could happen to incapacitate you while

you're at home. Make sure your will is current, and make sure your life insurance, Thrift Savings Plan (TSP), and IRAs all have updated beneficiary information. The beneficiaries you have listed on your life insurance, TSP, and IRAs take legal precedence over your will. So, make sure the beneficiaries are all in line with your wishes. Visit <http://legalassistance.law.af.mil> if you need to find a legal assistance office in your area to help you with your will, power of attorney, or any other legal issue.

Your Car is Not Being Deployed... Your Phone Likely Isn't Either

It never makes sense to pay for something you aren't using. Depending on how long you are going to be deployed, what seems like little savings could add up to a lot over time. Somewhere on your list of things to



U.S. Navy Fast Facts

- The Navy has more than 425,000 active and reserve personnel
- The Navy operates 288 ships
- The Navy has a battle fleet tonnage equal to the next 13 largest navies—combined
- The U.S. is one of only 4 countries that has a navy capable of operating across deep oceans

do should be to think about the fact that you won't be driving your car and that your cellphone will probably be useless where you are going.

Save on car insurance costs by garaging your vehicle. Your premiums will be lowered by roughly 75% if you aren't paying liability and collision coverage on your car. You will want to keep paying comprehensive coverage, however, in case your car is stolen or somehow damaged. When you come back for R&R, you can probably reactivate your liability and collision coverage without any cost. Just be sure to ask your insurance company what it allows.

There's also a good possibility that your area of deployment won't be a place where you can use your cellphone. If you are being deployed for 90 days or more to an area where your provider doesn't have service, the Servicemembers Civil Relief Act states that you can be allowed to cancel your contract without a penalty.

How to Pay While You're Away

If you're married or have a roommate, you probably pay bills jointly, or you may be the one taking care of the bills. Either way, that is likely to change when you deploy. The responsibility of making sure everything gets

paid on time will shift to whoever is home while you are away. A transition like this isn't something that should be taken lightly, and you need to prepare for it to make it as smooth a change as possible.

First and foremost, the person who will be administering the bills while you are gone should be handed the responsibility as far in advance of your deployment as possible. This will allow you to work out many issues while you are still at home. Hopefully, any questions that arise after you deploy can be handled by email or over the phone.

Second, something else you can do, even if you don't have someone at home to take care of the bills, is set-up automatic payments directly from your checking account. You can also pay most bills online. If you do decide to follow this route, make sure you consistently review your bank statements online to ensure your money is being allocated as it should be.



A transition like this isn't something that should be taken lightly, and you need to prepare for it to make it as smooth a change as possible.



Third, compile a “Future Folder” with everything that your loved ones could potentially need while you are away. Your “Future Folder” should contain a listing of your financial accounts and how to access them and copies of your will, power of attorney, medical directive and a letter of instruction in case something should happen to you. Though it goes without saying, because of the sensitive nature of the information in your “Future Folder,” it is important that you leave it with someone you trust can handle the responsibility.

Lastly, remember to notify all of your financial institutions that you are deploying. It will put them on alert to watch your accounts for any suspicious activity, and certainly having more eyes to look out for you is always a good thing. The heads-up that you give your financial institutions about your deployment, especially your bank and credit card issuer, will also probably stop them from freezing your accounts because of unusual charges or purchases from somewhere around the world that you make.

In Case of Emergency

You need to have an emergency fund to protect your family, regardless of whether you are deploying. Optimally, your fund

should be enough to cover expenses for at least six months. If at all possible, set aside funds for other expenses that will make your spouse’s plight as a single parent easier—babysitting, housekeeping, and yard maintenance for instance. Obviously, money can’t replace you as a parent, but it certainly will provide some relief.

5 A Look at Taxes

Hopefully you are already aware of the benefits that federal tax law provides servicemembers. What about state income taxes though? For that matter, in which state is your legal residence if you are from Louisiana, stationed in California, and deployed to Hawaii? Well, usually, legal residence is determined by the state that you live in, where you are registered to vote, where you have your driver’s license from, and where you pay taxes. As a servicemember, you are allowed to live in one state and still keep your legal residence in another. Can you imagine having to reregister for everything every time you were transferred?

So, other than avoiding the hassle of having to do a lot of paperwork every time you move, what benefit is there? Most notably, if

your legal residence is in a state that has no income tax, you won't have to worry about the high state tax rate of a more tax-minded state you get transferred to in the future.

Let's say you joined your respective service in your home state of Florida and have filed taxes in your home state for six years now. If you are transferred to California, you probably aren't going to want to change your legal residence. Florida is a no-tax state, whereas the state tax rate in California can be as high as 9.3%. No matter where you are transferred to, your military pay will be tax-free at the state level.

Make Sure You Do It Legally

You can't say you're from Florida or another no-tax state if you aren't. Your domicile is defined by both a physical presence and the intent to stay permanently or ultimately return. When you join your respective service, the state you join in is considered your domicile. If you are transferred, and decide to make your new duty station your legal residence, that's fine. Just remember that you will want to actually become a citizen of that state—register to vote, register your car, and get a new driver's license from that state, etc. You cannot change your domicile just for the purposes of saving on your taxes.

Remember, while your military pay will be taxed, or not taxed, according to the rules of your domicile state, any other income you earn can be taxed under the laws of the state where you are stationed. Laws vary from state to state.

A His and Her Benefit

If your spouse has the same domicile as you do, they can maintain their legal residency of that state if you are transferred to a new state. This will be important as your spouse's civilian paycheck will be taxed using the rules of their domicile.

Contact your legal-assistance office if you have any questions about establishing your domicile.

6 How to Buy (or Sell) Your Home

When the housing market crashed in the United States, many civilian homeowners woke up to the reality that they were underwater. Stated simply, homeowners found that they actually owed more on than homes than their homes were worth. The consequences of the housing bubble for servicemembers who wish to sell their

homes when transferred continue to be huge issues. The good news for service-members is that there are special mortgage programs and tax breaks to assist in buying or selling their homes.

Some Things to Consider

Determining whether to rent or buy a home in your new duty station is a big decision.

As a servicemember, you will get a tax-free housing allowance to pay for all or part of your monthly rent or your mortgage. You can check to see what the Basic Allowance for Housing (BAH) is by rank and zip code online at www.defensetravel.dod.mil/site/bahCalc.cfm. Without question, if you do purchase a home, you will be able to deduct your mortgage interest, even if you are paying that mortgage with tax-free money. But the question remains as to whether you should buy a home, especially if you are going to be at your duty station less than five years.

Before 2007, when the housing market began to go bust and home prices were continuously rising, buying a home for a servicemember was almost a no-brainer. Even if a servicemember was only going to be at their duty station for a year or two, they were pretty confident that they would either be able to sell their home for a profit or that they would be able to rent

their home for more than their mortgage. Housing battle plans have had to be rewritten for just about everyone.

From a conservative standpoint, your housing costs should be, at most, 30% of your monthly take-home pay. If you are likely to be at your duty station for less than three years, and really five years, it's probably better to just rent.

Buying a house should be considered an investment, but you should realize that it is also a risk. Since the housing market collapse in 2007, housing prices have dropped nationally an average of 35%, according to Forbes.com. In some areas, the drop was even more precipitous. At this time, home prices seem to be stabilizing, but keep in mind that your home's value will have to appreciate roughly 6% or more to cover buying and selling costs. Something else to keep in mind if you are considering purchasing a home is that the market is likely saturated if not overpopulated with houses and short on people to purchase them. The reality is that you will likely find a renter for your home when you are transferred before you find a buyer. Can the home you purchase be rented out for a cost that will actually cover the mortgage? It's a good idea to ensure your monthly mortgage



U.S. Air Force Fast Facts

- The Airforce operates more than 5,500 aircraft
- The USAF operates Air Force 1, the plane that carries the president
- There are more than 492,000 active and reserve members of the Air Force
- The Air Force grew out of the Army Air Forces and became a separate service branch in 1947

is well under the BAH for someone else with a similar pay grade as yours. At least that way you know there are going to be likely renters coming to town eventually.

Something else to consider: Do you really want the hassle of being a landlord when you have no idea how far from your property you will be stationed? If not, you will have to hire someone who can serve in your stead; maybe even a professional firm. That's not going to be free, and you can typically count on a 10% cut of the monthly rent to pay for this service.

If you have decided to buy, make certain to take advantage of your benefits, specifically VA loans. You can still buy a home with no money down, and the interest rates are usually comparable to many mortgage lenders. Visit the Department of Veterans Affairs website, www.homeloans.va.gov, for

information about eligibility and other rules.

A no-money down purchase can certainly help to make your dream of homeownership come true, but keep in mind the consequences of what happens if prices fall even a little. Without a down payment, and with a loan, sinking underwater is a harsh reality.

Another Dependent

Being a homeowner is sort of like being a parent. Your mortgage payment is dependent upon you to take care of it. Just like you need to prepare for unforeseeable events that may affect your family (health care, car issues, etc.) you need to prepare as a homeowner. If you are transferred and can't sell your home immediately, or can't find someone immediately to rent your home, you will need funds to cover the cost of your mortgage.

More than likely, you've already thought of one way a servicemember benefit can actually turn out not to be a benefit. Remember that as a member of the military, you have the right to get out of a lease if you have orders to deploy or when you move. That's a great law if you are the servicemember who is renting or has a lease, but what if you are the servicemember who is the landlord? You need to have an emergency fund that can cover at least a few months' worth of mortgage payments and extraneous expenses.

Something else to keep in mind is the special tax rules that will benefit you if you do sell your home for a profit after renting it. The parameters for these rules are different, depending on whether you sell your home to a civilian or another servicemember. If you sell to a civilian, that civilian has to have lived in the house for two of the immediate five years prior to the sale to claim tax-free profit. If you sell to a military family, however, that servicemember only has to have occupied the house and have paid rent for two of the immediate 10 years prior to the act of sale.

Visit www.irs.gov and review IRS Publication 3, Armed Forces Tax Guide, for information about this and other tax rules that relate to servicemembers.

7 *Becoming a Civilian Again*

When you go back to civilian life, you're going to lose a lot of perks. You will, however, also be able to take advantage of many benefits from programs designed to assist veterans. Your financial situation is going to change tremendously, depending on a lot of factors—the job market and your new career among them. Even with a higher paying job, the taxes you now have to pay may mean your paycheck will be less than when you were in the military. You're certainly not going to have the same job security, and planning for the future and the unexpected will be vital for you to live as stress-free as possible.

More Taxes Are Coming

Your new civilian job may mean a move. Imagine if you leave Florida as a servicemember and settle in Virginia. In a matter of a few weeks, you will have gone from living in a no-tax state to a high-tax state. You've also just lost your tax-free housing allowance. It will certainly be an eye-opener. These are some of the things you will need to keep in mind when you are deciding how much you can spend on your new mortgage or your rent and even when you are trying to get as much of a salary as you

can from your new civilian boss. Remember, a higher salary may not mean you will have more disposable income.

You'll Need New Life Insurance

As a servicemember, you are able to purchase very inexpensive life insurance. Servicemembers' Group Life Insurance (SGLI) is only \$312 annually for the maximum \$400,000 death benefit. 120 days after you leave the service, that coverage will expire. The good news is that during that time, you will be able to change your policy over to Veterans' Group Life Insurance (VGLI) without having to submit to a medical examination. This is huge if you have a medical condition that could prevent you from getting life insurance from civilian vendors.

All the news about VGLI isn't rosy though. The price tag is certainly steeper. If you are 30 to 34, you'll have to pay \$480 annually for \$400,000 of coverage. Additionally, the cost of your coverage will rise incrementally every five years until you turn 75. There is a good possibility that if you are healthy you can find something more agreeable that can be secured for 20 or even 30 years. Without a doubt, it would be a good idea to start looking for coverage at least six months before your separation date. If nothing else, you can use VGLI as

a fallback. Visit www.accuquote.com or www.lifequotes.com for individual policies. Visit www.insurance.va.gov/sgliSite for information about VGLI and SGLI.

You'll Need New Health Insurance, Too

As a military retiree with 20 or more years of service, you will qualify for health care. This does not mean that you can't supplement your coverage. Servicemembers who leave before the 20-year threshold will face steep premiums. For those who have health insurance through their civilian jobs, they will still have to pay deductibles, co-payments, and other out-of-pocket expenses. They still may even have to pay part of their premium.

Former servicemembers who do not have health insurance through their new civilian job, and have a spouse who does not have health insurance either, have the option of registering for the Continued Health Care Benefit Program (CHCBP) for up to 18 months. Time is of the essence, though. After leaving your respective branch of service, you will have 60 days to sign up with CHCBP. The cost of health insurance through CHCBP is \$1,065 per quarter for individuals and \$2,390 for three months for families. The cost may seem high, but it is definitely a good alternative if you have

a medical condition that makes it tough to get coverage elsewhere. Just like with life insurance, however, you could find a deal yourself that trumps what CHCBP has to offer. Visit [eHealthInsurance.com](https://www.ehealthinsurance.com) to compare policy quotes. Additionally, visit www.healthcare.gov to get information about health insurance policies that are offered in your state.

If you select a high-deductible policy and have a health savings account (HSA), your premium will be lower. The deductible is the amount of expenses that you must pay out-of-pocket before your insurer will pay any expenses. HSA deposits are tax-deductible, and are tax-free if you pay medical expenses with them, including your deductible.

Visit www.va.gov/healtheligibility to see if you are eligible for health care through Veterans Affairs.

Remember Your TSP

You have options after your retirement when it comes to your Thrift Savings Plan (TSP). You may choose to maintain it, or you may even decide to put the balance of your TSP into your new 401(k) plan if you have one with your new employer. You may even

roll the balance of your TSP into an IRA.

Continue to be vigilant with your military earnings. For any TSP funds in your new plan that came from tax-free combat pay, when you withdrawal funds from your new account, a portion will be tax-free. Visit www.tsp.gov for details.

More Important Than Ever

Your emergency fund when you were a servicemember was important. It will be more important as a civilian. Simply put, you don't have the job security that you had as a servicemember. Make sure you ultimately build your emergency fund so that you will be able to take care of at least six months of expenses.

Use the Transition and Education Resources Available to You

Your duty station has a transition office to help ease you into civilian life. There you can find out what procedures you will have to follow when you part ways with your respective branch, what benefits will be available to you, and the resources available to you. Don't stop there though.

Odds are you have friends who have left or retired before you. Call them. Email them. Talk to them. Find out what they have encountered since leaving. The real-world

advice that you can gain from your friends will likely be the best information you can get. It will most certainly help you to avoid the pitfalls that others have already fallen into.

Your base's military community-service office and programs administered by each of the military branches will assist you in the transition to civilian life, including helping you find a new job. Visit the Department of Labor's Veterans' Employment and Training Service program online at www.dol.gov/vets for assistance as well.

Entrepreneurship Bootcamp for Veterans with Disabilities

Beginning in 2007, a consortium of universities started offering cutting edge, experiential training in entrepreneurship and small business management to post-9/11 veterans with disabilities resulting from their service. The eight institutions that offer the Entrepreneurship Bootcamp for Veterans with Disabilities (EBV) program are Syracuse University, the University of California-Los Angeles, Florida State University, Texas A&M University, Purdue University, University of Connecticut, Louisiana State University, and Cornell University. Visit Whitman.syr.edu/ebv/ for more information.

Take a Hard Look

As you approach your retirement from the military or are getting ready to leave the service, take a hard look at what benefits you will receive and what your pension will be. Armed with this knowledge, you will be able to figure out what you will need to do to make sure your retirement really can be considered your golden years. Do not ignore your future, especially when you have so much control over it.

8 Resources You Can Use

Armed Forces Crossroads (www.afcrossroads.com): Discover information about benefits, deployment, relocation, and other issues.

Armed Forces Legal Assistance (<http://legalassistance.law.af.mil>): Use its search option to find legal-assistance offices at nearby bases.

Better Business Bureau (www.bbb.org): Research businesses or file a complaint against one. BBB Military Line (www.bbb.org/military) is specifically tailored to servicemembers.

ClearPoint Credit Counseling Solutions (www.clearpointcreditcounselingsolutions.org): Find budget, housing, and debt-counseling resources.

Consumer Financial Protection Bureau Servicemembers (www.consumerfinance.gov/servicemembers): Review resources to plan for the future and protect your finances.

Defense Credit Union Council (www.d cuc.org): Locate credit unions on base and find other financial information for servicemembers.

Defense Finance and Accounting Service (www.dfas.mil): Review information about active military and retiree pay, benefits, and savings.

Department of Veterans Affairs SGLI (www.insurance.va.gov/sgliSite/default.htm): Learn about Servicemembers' Group Life Insurance.

Investor Protection Trust (www.investorprotection.org): Find information about investing and protecting your money. See how to get started at www.investorprotection.org/learn.

IRS Armed Forces Tax Guide (www.irs.gov): Learn about special tax rules that can

benefit servicemembers.

Military.com: Find information about pay and benefits, financial issues, preparing for deployment, and transition out of the military.

Military Homefront (www.militaryhomefront.dod.mil): View resources and benefits for military families from this Department of Defense website.

MilitaryMoney.com: Get advice about your personal finances and links to discount and support programs.

MilitaryOneSource.com: Find information related to everything military, including deployment, legal rights, and finances.

MilitarySaves.org: Review strategies for building savings and reducing debt while learning from fellow servicemembers who have done it.

MyArmyBenefits (<http://myarmybenefits.us.army.mil>): Learn about military pay and benefits, transition information, and tax rules.

MyMoney.gov: Read information from several government resources about budgeting, taxes, homeownership, credit, and avoiding scams.

National Association of Insurance Commissioners (www.naic.org/consumer_military_insurance.htm): Read about insurance issues and find contact information for insurance regulators.

National Military Family Association (www.militaryfamily.org): Discover resources to help make the most of benefits, prepare for deployment, and handle financial issues.

North American Securities Administrators Association (www.nasaa.org): Find links to state securities regulators, tips to avoid scams, and investor information.

SaveandInvest.org: Learn about active scams and read advice about saving, investing, and researching advisers.

Securities and Exchange Commission Military Site (www.sec.gov/Investor/military.shtml): Learn about scams directed at military members, find general investor

education, and get tips about how to research a broker.

TSP.gov: Learn about the Thrift Savings Plan.

U.S. Department of Justice (www.service-members.gov): Review special legal rights for members of the military and veterans.

VA Loans (www.homeloans.va.gov): Review this Department of Veterans Affairs website for information about VA loans.

Branch Websites

The following websites will also provide you valuable information

Air Force – www.afcommunity.af.mil

Army – www.myarmyonesource.com

Army Reserve – www.arfp.org

Coast Guard – www.uscg.mil/worklife

Marine Corps – www.usmc-mccs.org

Navy – www.nffsp.org

National Guard – www.nationalguard.mil

or www.jointservicesupport.org

Reserve Affairs – <http://ra.defense.gov>



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