



FINANCIAL PLANNING FOR TRANSITION

Financial Planning for your Future



PARTICIPANT GUIDE 2019

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Individual Transition Plan (ITP)

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 Exploration and Planning Track

Identifies training and upskilling opportunities for Service members after the completion of an interest and aptitude survey. Provides information on industries, labor market, career options, credentialing, and apprenticeships

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 (DOLEW)

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

VA Benefits and Services

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.

eBenefits Registration

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

Pre-separation Counseling

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

Individual Transition Plan Deliverables

CAPSTONE

(Commander Verification)

Accessing Higher Education

(Comparison of Higher Education Institutions or Technical Training Institutions)

Career Exploration and Planning

(Comparison of Higher Education Institutions or Technical Training Institutions)

Entrepreneuership



DOL Employment Workshop (Resume)



VA Benefits and Services



Financial Planning for Transition (Post-Separation Budget)



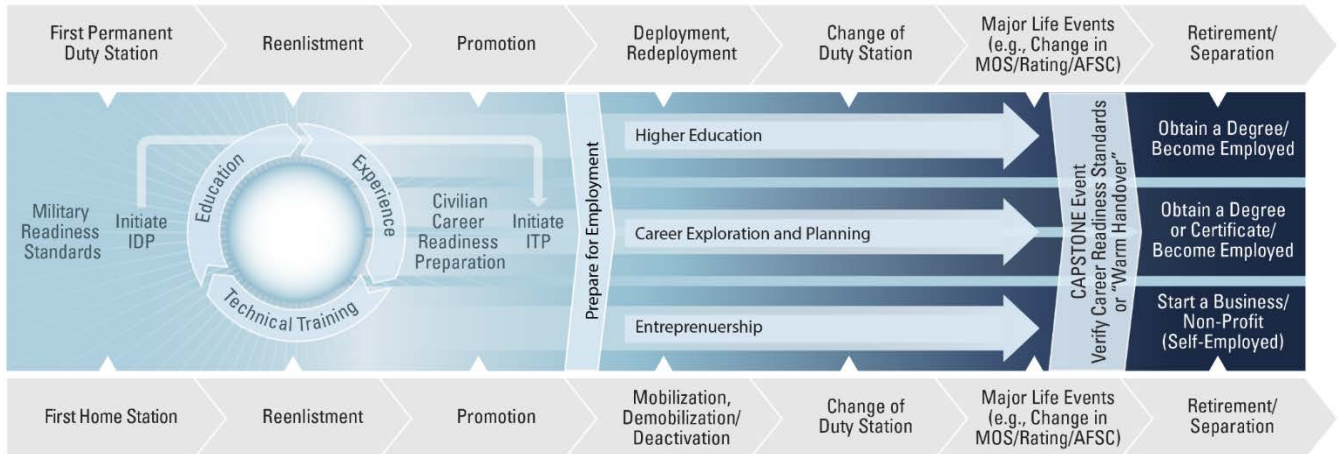
Military Occupational Codes Crosswalk (Gap Analysis)

Continuum of Military Service Opportunity Counseling (Documents)

eBenefits Registration (Verify)

Pre-separation Counseling and Assessment (DD2648)

Active Duty Touch Points



Military Life Cycle

FINANCIAL PLANNING FOR TRANSITION

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MODULE COMPETENCY

Identify changes and plan for the impact transitioning from the Service will have on personal finances.

INTRODUCTION

The Transition GPS courses, including the Financial Planning module, should help you determine your projected path after transition. This specific course is designed to help you understand your current financial situation by using what you have learned from previous Financial Readiness courses which you have attended throughout your military life cycle. The knowledge from those courses and the content covered in the Financial Planning for Transition will enable you to complete the career readiness standard associated with this financial module.

During this course, you will develop or update a Service-specific spending plan and gain an understanding of how transition will impact your financial situation. To gain this knowledge, topics such as income, debt, and assets will be discussed. Within each of these topics are subtopics to encourage awareness of changes which will affect your financial situation during transition. As each section is discussed, you are encouraged to add the pertinent information to the spending plan to create a complete financial picture now and for the future. At the end of this course, you should be able to understand how transition can affect your finances, what to expect financially as you transition, and know the income required to maintain your current lifestyle.

The Participant Guide (with fillable PDFs) for this workshop is available online at <https://go.usa.gov/xQGf3>.

FINANCIAL GOALS

COMPETENCY

Formulate short-term and long-term financial goals based on your understanding of your current financial situation.

LEARNING OBJECTIVE

- Define short-, medium-, and long-term financial goals
- Determine a short-, medium-, and long-term financial goal/s

FINANCIAL GOALS

What is a financial goal?

A financial goal is an objective which is based on money. These goals can be further defined by time objectives to create short-, medium-, or long-term goals.

An important part of a financial goal is the length of time in which you expect to achieve this goal. There are three basic timelines:

- Short-term: 6 months to 1 year
- Medium-term: 1 to 5 years
- Long-term: 5 to 10 years

Examples of financial goal statements:

- Decrease credit card debt by \$9,000 in 12 months. (The 12 months should have an end date to be more specific.)
- Build an emergency fund to \$10,000 within 2 years.

- Pay off student load debt early by increasing payment amount by \$200 each month.
- Create a house down payment fund by creating an automatic transfer of 10% of each paycheck into a separate account.
- Increase IRA by 10% each month until the amount will allow for maximization of contribution.

When setting any goals, but especially financial goals , it is important to be SMART:



- **SPECIFIC:** state the goal in terms that are clear; to be rich is undefined and vague.
- **MEASURABLE:** have a clear definition of success so you will know when you have reached your goal and be able to celebrate; to have credit card debt below \$500.
- **ATTAINABLE:** be sure you can attain the goal, but set one that shows an improvement over your current situation; having a million dollars in the bank after 1 week is not attainable by most standards and situations.
- **REALISTIC:** is the goal realistic based on your situation; it may be achievable to save \$1000 a month when you make \$2000 a month, but is it realistic based on your life situation?
- **TIME-BASED:** goals need to have a specific time limit in which to achieve the goal; add days, weeks, months, years.



ACTIVITY: Financial Goals for Transition

DIRECTIONS: Write three SMART financial goals in the box below: one short, one medium, and one long-term financial goal.

FINANCIAL GOALS

| | |
|--------|--|
| 1. | |
| 2. | |
| 3. | |
| NOTES: | |

SPENDING PLAN — ALSO CALLED A BUDGET

You may be thinking, “Why are we devoting time to developing a budget or spending plan? Haven’t we done this before? This is supposed to be about transition.” The answer to all your questions is yes; however, remember the goals established during your pre-separation counseling? Are you attending college or career technical school when you separate, starting your own business, or joining the civilian job market? Each of these three choices comes with its own set of financial questions. If you are attending school, you may be eligible for VA education benefits to help pay for tuition, housing, and books, but you may still need additional funds to cover expenses like insurance, transportation, etc. If you are starting your own business, it could take some time to realize a profit. If you are joining the civilian job market — it may take a few months to find a job that will cover your living expenses. How are you going to support yourself and/or your family in the meantime? How will you make ends meet during this transition period? The spending plan is a tool to help build a financial plan to meet your transition goals.

Developing a spending plan should not be a new experience. This is something that should have been created during one of the many personal financial courses, but it may

have been awhile since you reviewed it. No matter if you just reviewed it or it has been a while, it is important to carefully examine financial details of a spending plan during a major life transition, such as leaving the military. For the next few hours, you will work with tools that can help you understand the changes your financial situation may undergo during and after transition. Many of the topics which will be covered during this course should be familiar to you from prior classes so the basics will not be fully explained. If you have a question specific to your financial situation, it is recommended you schedule an appointment with a financial counselor on the installation.

As you proceed through this course, there are activities which will assist you in gathering the information required to create your Service-specific spending plan or update your current one. Follow the instructions provided by the facilitators to complete the spending plan. Having a projected budget after transition is the Career Readiness Standard (CRS) for the Financial Planning module.



INCOME

COMPETENCY

Evaluate current financial and salary information in order to determine salary requirements after transition.

LEARNING OBJECTIVES

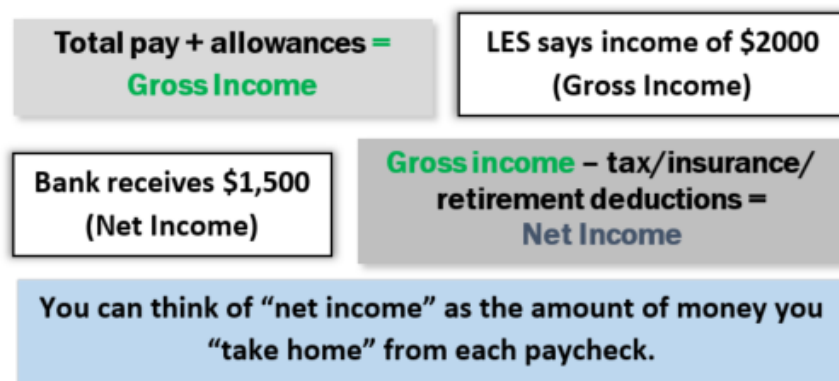
- Determine current military salary with compensation
- Compare current military salary to civilian equivalent to predict future salary requirements

INCOME

Review of the common terms used when discussing income:

- **Gross Income** – Wages (pay and allowances) *before* any deductions (taxes, Social Security, insurance premiums, retirement plan contributions, etc.)
- **Net Income** – Wages minus deductions (taxes, Social Security, insurance premiums, retirement plan contributions, etc.)--the amount deposited into your bank account
- For example, the LES says an income of \$2,000 per month (gross income) but the amount deposited into your bank account is only \$1,500 per month (net income).

LEAVE AND EARNINGS STATEMENT



Most of you are probably aware and understand how to read your leave and earnings statement (LES). This becomes even more important when it comes to understanding what will change after transition.

Entitlements:

This includes the amounts of money that you receive in your paycheck due to base pay, BAS, BAH, Dive Pay, Fly Pay, COLA – what is important to remember is that only SOME of these are taxable.

DFAS Form 702, Jan 02

| | | | | | | | | | | | | | | | | | |
|---------------|------------------------|------------------|----------------|------------------|-------------------|--------------------|----------------|-------------------|-----------|----------------|-------------|----------|--------|----|-----------|---------|--|
| ID | NAME (LAST, FIRST, MI) | | SOC. SEC. NO. | GRADE | PAY DATE | YRS SVC | ETS | BRANCH | ADSN/DSSN | PERIOD COVERED | | | | | | | |
| ENTITLEMENTS | | | DEDUCTIONS | | | ALLOTMENTS | | | SUMMARY | | | | | | | | |
| | TYPE | AMOUNT | TYPE | AMOUNT | TYPE | AMOUNT | | | | +AMT FWD | \$S | | | | | | |
| A | XXXX | \$S | XXXX | \$S | XXXX | \$S | | | | +TOT ENT | \$S | | | | | | |
| B | | | | | | | | | | -TOT DED | \$S | | | | | | |
| C | | | | | | | | | | -TOT ALMT | \$S | | | | | | |
| D | | | | | | | | | | =NET AMT | \$S | | | | | | |
| E | | | | | | | | | | -CR FWD | \$S | | | | | | |
| F | | | | | | | | | | =EOM PAY | | | | | | | |
| G | | | | | | | | | | | \$S | | | | | | |
| H | | | | | | | | | | | | | | | | | |
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| P | | | | | | | | | | | | | | | | | |
| TOTAL | | \$S | | \$S | | \$S | | | | DIEMS | RET PLAN | | | | | | |
| LEAVE | | BF BAL | ERND | USED | CR BAL | ETS BAL | LV LOST | LV PAID | USE/LOSE | FED TAXES | WAGE PERIOD | WAGE YTD | M/S | EX | ADD'L TAX | TAX YTD | |
| | | # | # | # | # | # | # | # | # | | \$S | \$S | X | # | \$S | \$S | |
| FICA TAXES | WAGE PERIOD | SOC WAGE YTD | SOC TAX YTD | MED WAGE YTD | MED TAX YTD | STATE TAXES | ST | WAGE PERIOD | WAGE YTD | M/S | EX | TAX YTD | | | | | |
| | \$S | \$S | \$S | \$S | \$S | \$S | XX | \$S | \$S | X | # | \$S | | | | | |
| PAY DATA | BAQ TYPE | BAQ DEPN | VHA ZIP | RENT AMT | SHARE | STAT | JFTR | DEPN | 2D JFTR | BAS TYPE | CHARITY YTD | TPC | PACIDN | | | | |
| | X | # | #### | \$S | # | X | XXXXX | # | | X | \$ | | XXX | | | | |
| TRAD TSP | BASE PAY RATE | BASE PAY CURRENT | SPEC PAY RATE | SPEC PAY CURRENT | INC PAY RATE | INC PAY CURRENT | BONUS PAY RATE | BONUS PAY CURRENT | | | | | | | | | |
| | % | \$S | % | \$S | % | \$S | % | \$S | | | | | | | | | |
| ROTH TSP | % | \$S | % | \$S | % | \$S | % | \$S | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| CM AGCY CONTR | AGCY-AUTO | AGCY-MATCH | | | | | | | | | | | | | | | |
| | \$S | \$S | | | | | | | | | | | | | | | |
| CONTRIBUTION | YTD DEDUCTIONS | YTD TSP DEFERRED | YTD TSP EXEMPT | YTD ROTH | YTD TSP AGCY-AUTO | YTD TSP AGCY-MATCH | | | | | | | | | | | |
| TOTALS | \$S | \$S | \$S | \$S | \$S | \$S | | | | | | | | | | | |
| REMARKS | YTD ENTITLE | \$S | YTD DEDUCT | \$S | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |

Income is any source that provides a regular supply of money, such as employment, investments, or a pension. For your spending plan, it is important to consider these additional sources of income. Does your spouse have an income? Do you have a second

job? Are you receiving income from investments? Do you receive child support or alimony? All sources of income need to be considered.

SPENDING PLAN UPDATE - INCOME



Now is the time to review the income section of the spending plan. Follow the directions provided by your facilitator and fill in the appropriate areas.

Include:

- Income from LES to include all entitlements
- Spouse income
- Income from additional sources

CIVILIAN SALARY EQUIVALENT

Now that you know your current income, we can determine the civilian equivalent based on your current salary in the military.

One way to determine your civilian equivalent is to use the Regular Military Compensation (RMC) calculator.

<http://militarypay.defense.gov/Calculators/RMC-Calculator/>

Two examples are provided below:

B. Hardy, E5, single, living in Washington DC with 4 years of Service. His annual basic pay is \$32,800, adding in BAH and BAS brings his full compensation to \$62,000.

| RMC Calculator | |
|--|---|
| Grade | E-5 ▼ |
| Years of Service | 4 ▼ |
| Tax Filing Status | Single ▼ |
| Family Size, Including Yourself | 1 |
| Living OCONUS or Not Receiving BAH | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| ZIP Code of your Permanent Duty Station | 20002 |
| <input type="button" value="Calculate RMC"/> | |

Note: Final display of your results may take a few moments while the browser processes your selected tax data. Results will appear below when complete.

| | |
|--|-------------|
| Grade | E-5 |
| Years of Service | 4 |
| Tax Filing Status | Single |
| Living OCONUS or Not Receiving BAH? | false |
| Living OCONUS? | N/A |
| ZIP Code of your Permanent Duty Station | 20002 |
| Annual Basic Pay | \$32,799.60 |
| Annual Basic Allowance for Housing | \$24,696.00 |
| Annual Basic Allowance for Subsistence | \$4,432.68 |
| Non-Taxable Allowances (BAH + BAS) | \$29,128.68 |
| Number of Exemptions for Previous Calendar Year | 1 |
| Personal Exemption Amount | \$0.00 |
| Standard Deduction | \$12,000.00 |
| Total Deductions | \$12,000.00 |
| Taxable Income (Annual Basic Pay - Total Deductions) | \$20,799.60 |
| Tax Rate | 12% |
| Gross Up | \$33,100.77 |
| Tax Advantage | \$3,972.09 |

Total Regular Military Compensation (RMC): \$65,900.37

The calculator shows B. Hardy will need a salary of almost \$66,000 to meet current financial obligations and maintain his life style in Washington DC.

H. Smith is a retiring O-5, married with 2 children and lives in San Antonio, TX. Her base pay is approximately \$108K; total compensation with BAH and BAS is approximately \$136K.

| RMC Calculator | |
|--|---|
| Grade | O-5 |
| Years of Service | 20 |
| Tax Filing Status | Married Filing Jointly |
| Family Size, Including Yourself | 4 |
| Living OCONUS or Not Receiving BAH | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| ZIP Code of your Permanent Duty Station | 78150 |
| <input type="button" value="Calculate RMC"/> | |

Note: Final display of your results may take a few moments while the browser processes your selected tax data. Results will appear below when complete.

| | |
|--|------------------------|
| Grade | O-5 |
| Years of Service | 20 |
| Tax Filing Status | Married Filing Jointly |
| Living OCONUS or Not Receiving BAH? | false |
| Living OCONUS? | N/A |
| ZIP Code of your Permanent Duty Station | 78150 |
| Annual Basic Pay | \$108,111.60 |
| Annual Basic Allowance for Housing | \$24,840.00 |
| Annual Basic Allowance for Subsistence | \$3,052.68 |
| Non-Taxable Allowances (BAH + BAS) | \$27,892.68 |
| Number of Exemptions for Previous Calendar Year | 4 |
| Personal Exemption Amount | \$0.00 |
| Standard Deduction | \$24,000.00 |
| Total Deductions | \$24,000.00 |
| Taxable Income (Annual Basic Pay - Total Deductions) | \$84,111.60 |
| Tax Rate | 22% |
| Gross Up | \$35,759.85 |
| Tax Advantage | \$7,867.17 |

Total Regular Military Compensation (RMC): \$143,871.45

The calculator shows H. Smith will need a salary of \$144,000 to meet current financial obligations and maintain the family's life style, in San Antonio, TX.

SALARY DIFFERENCE

This may seem to be an overly inflated number, but this is the reality of taxable versus non-taxable income.

Many of your entitlements, which are non-taxable in the military (Basic Allowance for Housing and Basic Allowance for Subsistence), would be taxed at the full monetary value in the civilian sector. Therefore, to find a civilian equivalent, the entitlements must be figured in and the taxes deducted from that total amount.



WEBSITE ACTIVITY: Determine the CIVILIAN SALARY EQUIVALENT

DIRECTIONS: Using the RMC Calculator on MilitaryPay.com, determine the civilian salary equivalent based on your current location:

<http://militarypay.defense.gov/Calculators/RMC-Calculator/>

1. Provide the information requested on the RMC calculator
 - Rate/rank (when transition occurs)
 - Years of Service
 - Tax filing status (single, married filing jointly, married filing separately, head of household).
 - Family size (type 1, if it is only you)
 - Living OCONUS or Not Receiving BAH
 - ZIP code of where you are currently living or where you plan to relocate
2. Click **CALCULATE RMC**
3. Write the amount in the box below
4. Repeat using a second location
5. Provide additional notes as needed

CIVILIAN SALARY EQUIVALENT

| | |
|-------------------------------------|--|
| Current Location (zip code) | |
| Civilian Salary Equivalent | |
| Possible Second location (zip code) | |
| Civilian Salary Equivalent | |
| NOTES: | |

EXPENSES

COMPETENCY

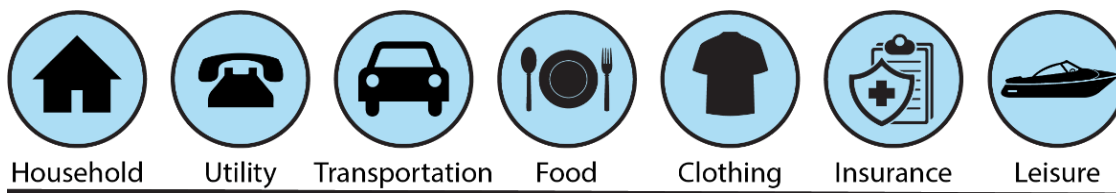
Evaluate current expenses and compare to expenses that will change and affect your income after transition.

LEARNING OBJECTIVES

- Create a list of current expenses and utilize a method to track expenses
- Compare cost of living at current and 2nd location
- Determine changes in taxes based on future salary requirement and location
- Describe the basics of health insurance
- Describe the basics of life insurance

EXPENSES OR LIVING EXPENSES

Expenses are the daily, weekly, and monthly items you pay in order to live – groceries, utilities, clothing, childcare, entertainment, etc. This includes ALL items where cash, debit, credit, or any other method of payment is used to make a purchase. This does not include debt, which will be discussed in the next section.



Types of Expenses

The unknown expense is the one that can send your budget off track. This is commonly found at the end of the pay period. The money is gone, but you have no idea where it went. It went into the unknown expense. It is best to avoid this cycle, if possible.

TRACKING EXPENSES

Living expenses take up the majority of your income. Fixed expenses include rent, car payments, and insurance. There are also those variable expenses that change depending on the time of year; electric may be more expensive during the summer when you use the air conditioner. This group may not be fixed, but you know and can generally estimate these variances. There are other expenses which are covered through disposable income. These include items such as eating out, going to the movies, in-app purchases, stopping by the coffee shop, or eating lunch out. This is the group of expenses where you can easily lose track of where the money is spent. A \$5 latte per day may not seem like much, but that amounts to over \$100 per month. The \$7 per day spent eating out for lunch quickly adds up to \$70 per pay period.

Consider tracking your expenses for a few weeks or a month to determine how much is spent on these seemingly inexpensive items.

HOW TO TRACK EXPENSES

There are many ways to track your expenses; the way you track is a personal preference. As there is no “correct” way, the best way is the way that is easy and understandable so you will use it consistently.

- Use a free app to track spending; many can be found in the app store
- Keep a small notebook with you to record every purchase (cash/credit/debit)
- Keep receipts from every purchase and total them up at the end of the week
- Create your own log using computer software such as Excel or Word

How you track is not as important as the tracking itself. However you choose to track your spending, be sure to write down **all** purchases.

SPENDING PLAN UPDATE - EXPENSES

Now is the time to review the EXPENSES section of the spending plan. Follow the directions provided by your facilitator and fill in the appropriate areas.

Include:



- Rent
- Estimate utilities
- Estimate grocery expenses
- Personal grooming
- Other expenses

CHANGES TO EXPENSES AFTER TRANSITION

As you transition, many things will change including current expenses. But how and in what way will your transition change your expenses?

- Will the expenses decrease?
- Will expenses increase?
- Will there be new types of expenses?
- Will there be a decline in income?

The reality is--some expenses will decrease, some will increase, and new expenses will occur.

Depending on where you live, expenses for groceries, gas, utilities, and housing may decrease, especially if you are moving to an area with a lower cost of living or moving in with family, friends, or roommates; however, these same expenses may increase if you are living in the barracks and now have to find a place to live or if you are moving to an area with a higher cost of living.

Take the time to think through what may be a new or unexpected expense as these new or unexpected expenses can easily turn into debt, especially since your income may decline for a short period of time. It is important to consider the cost of living if you are seeking to relocate after transition.

EXPENSE OF RELOCATION

After transition you may still have one move provided by the military. Even if the military pays for your final move, there are still expenses associated with relocation that need to be considered.

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

- What is it going to take to move 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 (security deposit, pet deposit)
 - Costs to set up residence (paint, curtains, tools, state vehicle tags/registration)
 - Costs to set up utilities (no military waiver/discount anymore)
 - Children or pet costs (prior, during, and after the move)
 - Changes to insurance coverage and additional costs (vehicle, renters, or homeowners)
 - Furniture/appliance purchases

CHANGES TO COST OF LIVING

If you are seeking to relocate after transition, it is important to understand the financial impact this may have on your salary needs and expectations. Some factors to consider include:

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

To understand the extent of the differences in cost of living and the impact this will have on your salary requirements, there are a few different websites to use:

- <http://www.bestplaces.net>
- <http://www.bankrate.com>
- www.money.cnn.com/calculator/pf/cost-of-living
- <http://www.payscale.com/cost-of-living-calculator>

Let's revisit B. Hardy and H. Smith:

Hardy, upon learning salary requirements in Washington, DC, decided to look at other locations. He has family in Raleigh, NC, which is a larger city where he should be able to get a job. But how much would he need to make and what is the difference in the cost of living in NC compared to Washington, D.C.?

Using BankRate.com, B. Hardy found the following:

| | |
|--|---|
| <p>City you are moving from</p> <div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 10px;">Washington-Arlington-Alexandria DC-VA</div> <p>City you are moving to</p> <div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 10px;">Raleigh NC Metro</div> <p>Your current income</p> <div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 10px;">\$ 66,000</div> <div style="background-color: #f0f0f0; padding: 10px; text-align: center; margin-top: 10px;">REFRESH LISTING</div> | <p style="text-align: center;">Your results</p> <p>To maintain your current standard of living Raleigh NC Metro, you need to earn:</p> <p style="font-size: 2em; text-align: center;">\$ 40,688.01</p> <p>The cost of living is 38.35% lower in Raleigh NC Metro.</p> |
|--|---|

Most of his expenses would go down, as would his salary requirements, which is what would be expected when moving out of Washington, D.C.

H. Smith and her family are seeking to move to a location where her retirement pay will not be taxed; something that was not a consideration for B. Hardy. H. Smith has been interviewing with a company in Boston, MA. What salary range would H. Smith need to request to be equivalent to her current salary with all the compensations?

According to BankRate.com:

| | |
|---|---|
| <p>City you are moving from</p> <div>San Antonio-New Braunfels TX Metro</div> <p>City you are moving to</p> <div>Boston MA Metro Div.</div> <p>Your current income</p> <div>\$ 144,000</div> <div>REFRESH LISTING</div> | <p>Your results</p> <p>To maintain your current standard of living in Boston MA Metro Div., you need to earn:</p> <p>\$ 238,020.62</p> <p>The cost of living is 65.29% higher in Boston MA Metro Div..</p> |
|---|---|

H. Smith's income will need to be significantly higher than her current income to adjust for the cost of living in Boston.

These are not the only considerations to be made when viewing cost-of-living information. The information provided by any of the cost-of-living calculator websites is incomplete and many have differing numbers. Take time to think about your situation and research the area before determining if a particular location will fit your personal and financial needs after transition.



WEBSITE ACTIVITY: Determine the COST OF LIVING at a new location after transition

DIRECTIONS: Using the BankRate.com website (<http://www.bankrate.com/calculators/savings/moving-cost-of-living-calculator.aspx>) or a different cost-of-living calculator, find the location based salary equivalent:

1. Write your new location in the box provided
2. Determine your new salary based on location and using civilian salary equivalent
3. Write the amount in the box below
4. Determine a secondary location and repeat the calculations.
5. Review housing adjustment. Is it higher or lower than your current housing price?
6. Provide additional notes as needed

COST OF LIVING

| | |
|--|--|
| 1 st Location (city, state) | |
| Salary adjustment for location | |
| Housing difference for location | |
| 2 nd Location (city, state) | |
| Salary adjustment for location | |
| Housing difference for location | |
| NOTES: | |

FEDERAL, STATE AND LOCAL TAXES

Taxes are one of the most important changes to understand as you transition. During your time in the military, certain parts of your income were non-taxable.

WHAT IS TAXABLE? WHAT IS NON-TAXABLE?

While in the military, certain allotments and entitlements are non-taxable. It is important to understand the differences because what is taxable during military Service and what is taxable after you transition can affect your net income. Generally, items labeled “pay” are taxable, but there are some exceptions to that rule. Using your LES, determine which entitlements are taxable/non-taxable and list them in the boxes below.

| TAXABLE | NON-TAXABLE |
|---------|-------------|
| | |

These previously non-taxable items, are fully taxable as a civilian when included as part of your civilian gross income, which helps to explain the previous section where the civilian equivalent of your current income was determined. One reason it may seem to be unreasonably high is the increase in taxes due to the increase in taxable income which needs to be accounted for in the civilian sector. Basically, the amount of taxes you pay will increase, thereby decreasing the amount of net income, i.e. your take home pay.

UNDERSTANDING HOW TAXES AFFECT YOUR INCOME

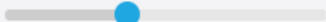
The following are changes that you need to prepare for:

- **Paying State Income Tax:** 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 your location.
- **All Income is Taxable:** 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 taxes may also be assessed on your income.
- **No Automatic Extensions:** 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.
- **Property Taxes:** 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.

To understand the complete tax burden for a location and salary amount, use the following website: <https://smartasset.com/taxes/income-taxes>

The use of this website does not constitute an endorsement by DOD or any of its partners. This website is for research purposes only and are not intended to provide tax advice or a tax bill.

B. Hardy: Estimated civilian equivalent--\$65,900

| | | |
|--|-------------------|---------------------------|
| Household Income \$ 65,900  | Location 20002 | Filing Status Single ▼ |
| Advanced | | |

Your 2017 Federal Income Tax Plus FICA : **\$14,655**

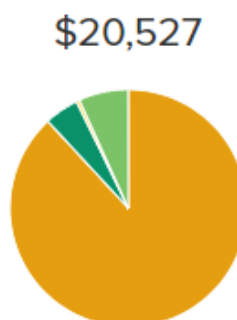
Your Income Taxes Breakdown

| Tax Type | Marginal Tax Rate | Effective Tax Rate | 2017 Taxes | 2018 Trump Taxes* |
|---------------------------|-------------------|--------------------|-----------------|-------------------|
| Federal | 25.00% | 14.59% | \$9,614 | \$7,798 |
| FICA | 7.65% | 7.65% | \$5,041 | \$5,041 |
| State | 6.50% | 5.21% | \$3,430 | \$3,413 |
| Local | 0.00% | 0.00% | \$0 | \$0 |
| Total Income Taxes | | | \$18,085 | \$16,252 |
| Income After Taxes | | | \$47,815 | \$49,648 |

Total Estimated Tax Burden

| | |
|-----------------------------------|-----------------|
| Income Tax | \$18,085 |
| Sales Tax | \$962 |
| Fuel Tax | \$91 |
| Property Tax | \$1,389 |
| Total Estimated Tax Burden | \$20,527 |

Percent of income to taxes = **31%**



SEPARATION TAX CALCULATIONS



WEBSITE ACTIVITY: Determine your taxes after transition

DIRECTIONS: Find the 3 tax amounts using:

<https://smartasset.com/taxes/income-taxes>

1. Enter your Civilian Salary Equivalent as the Household Income
2. Enter a location
3. Indicate Filing Status
4. Choose a secondary location
5. Write the information in the space provided below
6. Provide additional notes as needed

TAXES FOR CIVILIAN SALARY EQUIVALENT

| | |
|--|--|
| 1 st Location (city, state, zip) | |
| 1 st Location - Taxes based on civilian salary equivalent | |
| 2 nd Location (city, state, zip) | |
| 2 nd Location - Taxes based on civilian salary equivalent | |
| NOTES: | |

RETIREMENT TAX CALCULATIONS

H. Smith: Estimated civilian equivalent--\$143,871

<https://smartasset.com/retirement/retirement-taxes>

| | | |
|---|--|---------------------------|
| Annual Social Security Income \$ 0 | Annual Retirement Account Income \$ 0 | Annual Wages \$ 94,000 |
| Location 78150 | Year of Birth 1973 | Filing Status Married |
| Add Pension | | |
| Annual Income from Private Pension \$ 0 | Annual Income from Public Pension \$ 50,000 | |
| You will pay \$0 of Texas state taxes on your pre-tax income of \$144,000 | | |

| | | |
|--------------------|----------|--|
| Your Tax Breakdown | | |
| Federal | \$25,470 | |
| State | \$0 | |
| Local | \$0 | |
| Total Taxes | \$25,470 | |

Quick Guide to Texas Retirement Income Taxes

| |
|--|
| Texas is tax-friendly toward retirees. |
| Social Security income is not taxed. |
| Withdrawals from retirement accounts are not taxed. |
| Wages are taxed at normal rates, and your marginal state tax rate is 0.0% . |
| Public and private pension income are not taxed. |

NOTE: Using militarypay.mil to estimate retirement pay at \$50,000 – leaving a gap of \$94,000 for annual wages estimation to fulfilled the \$144,000 civilian salary equivalent.



WEBSITE ACTIVITY: Determine your taxes with retirement pay
(Calculating taxes for retirees requires you to first determine your pre-tax retirement pay.)

DIRECTIONS:

1. Estimate **pre-tax** retirement pay using
<http://militarypay.defense.gov/Calculators/Active-Duty-Retirement/High-36-Calculator/>
2. GO TO: <https://smartasset.com/retirement/retirement-taxes>
3. Choose the state where you wish to retire
4. Complete the following information:
 - SS = \$0 (if not drawing SS)
 - Annual Retirement = military retirement
 - Annual wages = amount needed to close the gap between retirement pay and civilian salary equivalent
 - Location = zip code
 - Year of birth
 - Filing Status
5. Choose a secondary location
6. Write the information in the space provided
7. Provide additional notes as needed

TAXES FOR RETIREMENT

| | |
|---|--|
| Retirement Pay | |
| Annual Wages: Amount used for gap between retirement pay and civilian salary equivalent | |
| 1 st Location for Retirement (city, state, zip) | |
| 1 st Location Tax Amount | |
| 2 nd Location for Retirement (city, state, zip) | |
| 2 nd Location Tax Amount | |

HEALTH CARE

Healthcare and health insurance could be considered two of the best benefits provided by the military. While in the Service, if you are on Tricare Prime, you have become accustomed to having your health/medical benefits completely covered. There has been no need to worry about the cost of medicines, co-pays, or if the doctor is in your network. Decisions about healthcare and health insurance are important and should be considered carefully. Most importantly, you will be required to have healthcare insurance after transition and even with insurance, you will still have medical expenses. Be prepared, know your options, and make informed decisions.

IMMEDIATELY AFTER TRANSITION

Healthcare insurance is different for separatees and retirees. If retiring, you have 30 days to sign up for Tricare from your date of retirement or there may be penalties; 60 days if you are choosing another option such as insurance through an employer or the marketplace.

Depending on your type of separation, you **may** qualify for transition healthcare insurance. Transition Assistance Management Program (TAMP) offers the same coverage available under Tricare, but is only available for 180 days after your date

of separation. Following TAMP, Tricare offers Continued Health Care Benefit Program (CHCBP), which can offer coverage for up to 18 months. There is a quarterly premium, co-pay, and deductible associated with CHCBP.

For more information and to determine eligibility in any of these coverage options, go to www.tricare.mil.

For members of the National Guard and Reserve, the eligibility requirements are different. Visit www.tricare.mil for more detailed eligibility information.

THINGS TO KNOW BEFORE YOU CHOOSE YOUR PLAN

Before you choose your plan, there are four topics you need to understand:

- Individual vs. Group Insurance
- Basic healthcare terminology
- Plan and networks types – HMO, PPO, POS, EPO
- Estimating healthcare costs

INDIVIDUAL OR GROUP INSURANCE

Healthcare is generally provided in two ways, individual and group health insurance. The main difference is how and with whom the insurance is generally negotiated. For group insurance, the negotiation is between an insurance company and a group (such as a company). Negotiating allows the group to possibly obtain a better price than an individual, as the group will consist of both healthy individuals who will still pay their premiums and those who will use the insurance more often. Due to this group negotiation, the cost to the individual within the group plan may be less and, individuals within the group cannot be denied coverage; however, there may be fewer choices of coverage types or networks.

Since this is generally the option used by employers, your future employer can provide details on each of the coverage plans they offer and can answer any questions you might have.

Individual plans are between you and the insurance company. These plans may be more expensive, and there may be a questionnaire or physical exam involved before you receive coverage; which means you can be denied coverage. However, there are more choices for individualizing plans.

Many companies are now choosing to provide a healthcare stipend by adding a set amount to the paycheck each pay period. The intent is for the employee to use this stipend to offset the cost of health insurance.

Still other companies provide health insurance for the employee, possibly paying a portion or all of the premium.

BASIC HEALTHCARE TERMINOLOGY

To better understand healthcare, which can be complicated, it is important to understand the terminology. Here are a few of the most common terms:

- *Co-Insurance*: the percentage of medical costs that you are mandated to pay after reaching your minimum deductible
 - EX: if a visit to the doctor is \$100 and your co-insurance is 20%, you owe \$20.
- *Co-Payment*: a flat fee service providers charge based on the health plan
 - EX: a \$20-\$40 co-pay every time you visit your primary care physician
- *Deductible*: amount you are responsible for paying before your insurance starts cost sharing
 - EX: if you have a \$1500 deductible, you pay all costs up to the \$1,500; exception to this rule is for standard wellness visits where only the co-pay is due.
- *In-Network Cost*: cost to see a doctor who is in your particular network and has an agreement with the insurance company
- *Out-of-Network Cost*: cost to see a doctor who is not in your healthcare plan; cost is usually greater and can be up to the full cost of the service.

- *Out-of-Pocket Cost*: deductibles, co-payments, and co-insurance not covered by the insurance provider; does not include premiums

TYPES OF PLANS

Whether you enroll in a group or individual plan, there are generally only a few types of plans. Below are the most common types:

- Preferred Provider Organizations (PPO)
 - Health plan where you pay less if you use providers in the plan's network. You can use doctors, hospitals, and providers outside of the network without a referral for an additional cost.
- Health Maintenance Organization (HMO)
 - Health plan that usually limits coverage to care from doctors who work for or contract with the HMO. Out-of-network care is generally not covered except in an emergency. An HMO may require you to live or work in its service area to be eligible for coverage. HMOs often provide integrated care and focus on prevention and wellness
- Exclusive Provider Organization (EPO)
 - A managed care plan where services are covered only if you use doctors, specialists, or hospitals in the plan's network (except in an emergency).
- Point of Service (POS)
 - A health plan where you pay less if you use doctors, hospitals, and other health care providers that belong to the plan's network. POS plans require you to get a referral from your primary care doctor to see a specialist.

- Catastrophic Plan
 - To be eligible for the catastrophic plan, the individual must be under 30 years of age. This plan has lower premiums and allows the greatest amount of flexibility on the choice of provider. However, the deductible for the catastrophic plan is very high.

CHOOSING THE RIGHT HEALTHCARE OPTION FOR YOU & YOUR FAMILY

- Estimate your yearly medical needs
 - How often do you visit the doctor? Is there a medical condition requiring regular visits, young children needing well-baby checks, pregnancy and new baby?
- Decide which plan type best meets your needs
 - Consider all types of plans--HMO, PPO, POS--and determine which will fit you and your family's needs
- Size up the cost
 - Compare the total cost, not just the monthly payment or deductible – also consider the cost of hospitalization and prescriptions and balance this with your overall health and expected medical needs
- Don't get lured by freebies
 - Do your research to be sure that what is being touted as free isn't something that is already covered by the plan
- Check the quality of the plan
 - The National Committee for Quality Assurance ranks healthcare plans across the country based on their clinical performance, member satisfaction, and surveys.
- Consider a healthcare savings account
 - Save money by setting aside pre-tax money into a healthcare savings account (HSA) or a flexible spending account (FSA). These accounts can be used to pay for prescriptions, contacts, and other out-of-pocket medical expenses, but generally not the premium.

- Check out the prescription coverage
 - Not all plans include prescription coverage, and not all drugs are covered. If you have medications you take on a regular basis, be sure your prescription is included in the coverage.
- If you don't know or aren't sure, **ASK**
 - Healthcare is complicated; ask, if you have questions. Call the members services department of the health plan you are considering or the HR department at your future employer.

ESTIMATING HEALTHCARE COSTS

When estimating the cost of healthcare, assume that you will be paying the entire premium for you and your family. If you obtain employment where a portion of your insurance is paid by your employer, your healthcare costs will be less than estimated.

There are many different websites available to assist in comparing plans and estimating the cost of healthcare insurance.

One example is the Healthcare Marketplace. This website can be used to estimate the out-of-pocket expense of different plans with varying levels of coverage. While this will not provide the exact cost, it will provide a good estimation of the cost of health insurance.

Go to: <https://www.healthcare.gov/find-premium-estimates/>, answer a few questions, and health insurance plans and costs will be provided.

Many different companies and organizations offer similar healthcare cost calculators. It is recommended to use 2-3 different sites when estimating the cost of healthcare.



WEBSITE ACTIVITY: Estimate the cost of health insurance

DIRECTIONS:

1. Go to a healthcare website – such as <https://www.healthcare.gov/find-premium-estimates/>
2. Add your zip code; follow directions to add your specific information
3. Review Plans – there is no obligation to purchase/enroll
4. Add your research to the box below

ESTIMATED COST OF HEALTHCARE

| Website Used | | | |
|-----------------|--|--|--|
| Plan Name | | | |
| Company | | | |
| Monthly Premium | | | |
| Annual Premium | | | |
| Deductible | | | |

Remember, the estimates shown on the healthcare cost calculators are for purchasing healthcare on your own and not as part of a group through an employer. A plan provided by an employer is likely to cost less but may have fewer plan choices.

VETERAN SPECIFIC SITE ON HEALTHCARE MARKETPLACE

Visit www.healthcare.gov/veterans for information and help in understanding your transition and healthcare options. As a transitioning Service member, you will not be required to wait until the open enrollment period to obtain insurance through the Healthcare Marketplace. Leaving the military qualifies as a life event and entitles you to a Special Enrollment Period.

For more information, visit the following websites:

- <https://marketplace.cms.gov>
- <https://www.healthcare.gov>
- www.tricare.mil
- <http://www.tricare.mil/reserve/>

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

Be aware that healthcare laws may change. You are responsible for knowing and understanding how these changes impact you as a civilian.

LIFE INSURANCE

HOW MUCH LIFE INSURANCE DO YOU ACTUALLY NEED?

The purpose of life insurance is to replace the loss of income upon the death of the insured and to be able to pay debts, funeral expenses, education costs, etc. But how much is really necessary? That fully depends on your current life situation. A family with young children will have different life insurance needs than a couple nearing retirement. In general, your life insurance amount should be calculated by first determining your long-term financial obligations and then subtracting your assets.



While in the Service you were covered by the Servicemembers' Group Life Insurance (SGLI). There was also an option to cover your family with Family Servicemembers' Group Life Insurance (FSGLI). After transition, SGLI coverage continues for 120 days. After that time, SGLI is no longer an option, but there are other options available:

- Veterans Group Life Insurance (VGLI) – allows Service members one year plus 120 days to convert their SGLI coverage to term life insurance
<http://www.benefits.va.gov/insurance/vgli.asp>
- Coverage from an insurance agency
- Coverage from your employer

If you choose to use an insurance agency, there are a few things you need to understand. First is the difference between Term Life Insurance, Universal or Whole Life Insurance, and Disability Insurance:

- *Term Life Insurance* – provides coverage at a fixed rate of payments for a limited period or term. When the term expires, so does the coverage. Renewing the policy may result in a higher rate or have added conditions. This is the least expensive way to purchase substantial death benefits.
- *Universal or Whole Life Insurance* – policy designed to build a cash value that is tax-deferred and to provide a guaranteed benefit when the insured dies. This insurance generally is set to mature around age 100 and is less expensive the younger you are when you buy the policy, but frequently more expensive than term life insurance.
- *Disability Insurance* – while in the Service, you continued to receive your pay and benefits even when ill or injured. In the civilian sector, this requires disability insurance. Most employers offer some type of disability insurance as part of the compensation package or you can purchase individual disability insurance.

Determining whether term or whole life insurance is better for you and your family is a decision you need to make and should be based on research you have conducted.

Finding the best life insurance company takes time as there are hundreds competing for your business. One consideration is purchase price. It is highly recommended you get life insurance quotes from a few different companies. This is actually very easy with most companies having a quote process online. However, realize that you will be required to provide them basic information including your contact information to obtain a quote. This may lead to phone calls or emails from the company. By comparing quotes, you can discover the differences in cost and in coverage as well as how much premiums will increase as you age. Understanding the coverage, the terms, and if there is any cash value is

important to know. Do the research and be an informed consumer before purchasing.

WRAP UP QUESTIONS

- Why should you track your spending? How will this benefit you?
- What is a co-pay? Deductible?
- What insurance expenses will you add after leaving the military?

DEBT

COMPETENCY

Evaluate current total debt and the effect this may have on transition.

LEARNING OBJECTIVES

- Determine debt-to-income ratio
- Analyze the impact of credit score on transition
- Identify ways to correct errors on credit report

WHAT IS YOUR CURRENT DEBT

To calculate your debt, you'll need to determine to whom you owe money and the minimum payment due each month.

Items that fall into the debt category generally include:

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

SPENDING PLAN UPDATE - DEBT



Now is the time to review the DEBT section of the spending plan. Follow the directions provided by your facilitator and fill in the appropriate areas.

Include:

- Mortgage
- Car Payments
- Credit Cards – bank, department, Military Star Card
- Loans – personal, student, car, home

DEBT-TO-INCOME RATIO

As you transition, it is good to know the amount of debt you have in relation to your income. This is your debt-to-income ratio (DTI). This ratio is one way to measure how financially solvent you are. Lenders will determine your DTI and use this, along with other factors, to decide your ability to repay. As you consider taking on additional debt, it is important to consider your current DTI. Remember, it's a snapshot of your current situation, so it needs to be recalculated regularly as your income and/or debt change.

During your military life cycle financial training, the 70-20-10 Ratio is used as a budgeting guideline for allocating expenses, debts, and savings in a fiscally responsible manner. In calculating this ratio, rent and mortgage are included in the expense category.

While similar to the 70-20-10 Ratio, DTI, which is used by civilian lending institutions, is calculated differently. Mortgage/rent is included in the debt category. This means your DTI will usually be higher than your 70-20-10 Ratio and the acceptable level for DTI is raised accordingly.

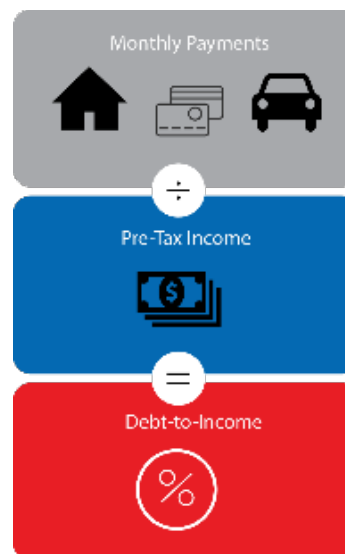
HOW TO CALCULATE YOUR DEBT-TO-INCOME RATIO

✓ **Step 1:** Add up all your monthly bills. This may include:

- Rent/mortgage
- Car payment
- Insurance
- Minimum monthly credit card payments
- Any payment that is paid monthly or quarterly

✓ **Step 2:** Divide the amount from step one by your gross monthly income (pre-tax income).

✓ **Step 3:** The result is your DTI.



Scenario: Pete and Jennifer have calculated their total monthly expenses as \$1,725; their gross monthly income (pre-taxes) of \$4,750.

The DTI calculation is:

- $1725 \div 4750 = 0.36$
- $0.36 \times 100 = 36$
- Therefore, their DTI ratio is 36%.
-



ACTIVITY: Determine Debt-to-Income Ratio

DIRECTIONS:

1. Determine the total amount of your monthly payments, and write them in the box below (remember to include your rent/mortgage)
2. Write your gross monthly income from your spending plan in the box below.
3. Divide payments by income, and multiply by 100.
4. The result is your DTI. Write it in the box provided.
5. Provide additional notes as needed.

DEBT-TO-INCOME RATIO

| | |
|------------------------------------|--|
| Total reoccurring monthly payments | |
| Gross Monthly Income | |
| DTI | |
| NOTES: | |

DEBT-TO-INCOME RATIO – WHAT DOES THIS MEAN?

Now that you have determined your DTI Ratio, the next step is to understand and determine what that ratio means.

The previous example determined that 36% of the income went to debt. Using the following guidelines, you can determine how this percentage ranks compared to a “safe” level of debt:

- Less than 33%: Good – debt is manageable.
- 34% - 49%: Could be improved – it would be better to be below 34; try to lower DTI. A lower DTI will enable a better handling of unforeseen expenses.
- Over 50%: With over half your income going to debt, it limits the amount left to save or spend and lenders may not be able to lend further credit.

| | | |
|---|--|--|
| $\leq 33\%$ Acceptable Level of Debt | 34% to 49% Be Cautious About Accepting More Debt | $\geq 50\%$ Seek Financial Assistance |
|---|--|--|

There are times when a DTI within the middle range of 34% to 49% is still considered acceptable; for example, if the number is in that range due to a mortgage payment. But, generally the less debt you have, the better Annual Percentage Rate (APR/interest rate) you will be offered.

SPENDING PLAN UPDATE – DEBT-TO-INCOME RATIO (DTI)

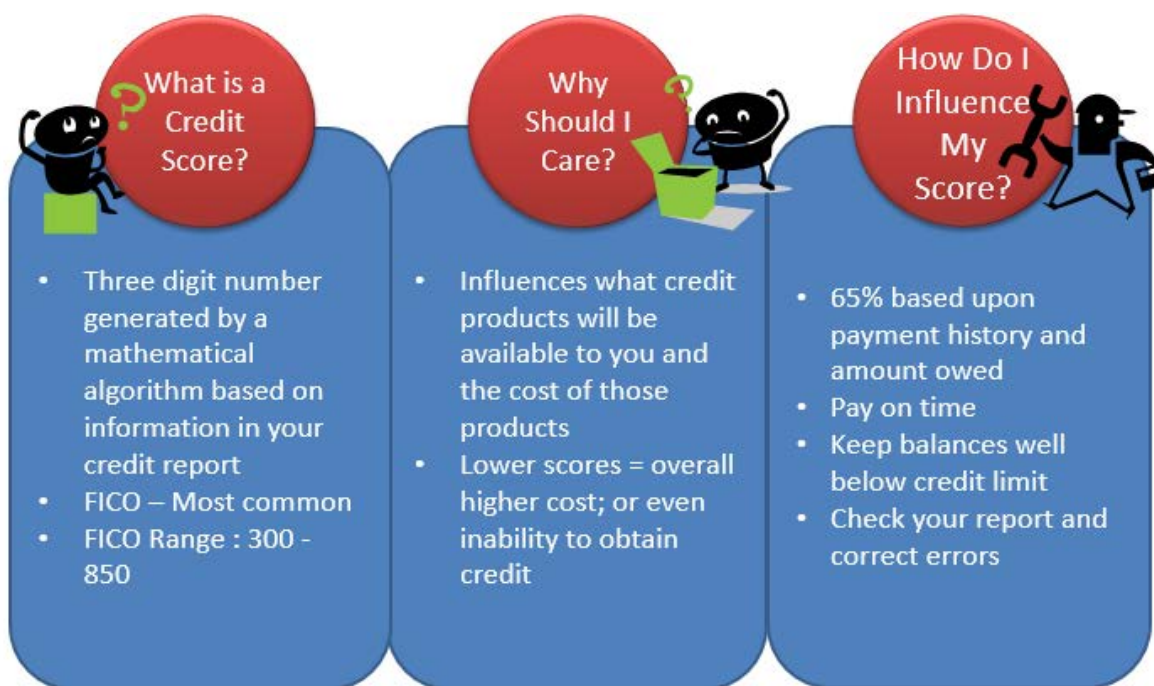


Now is the time to update the DEBT-TO-INCOME RATIO section of the spending plan. Follow the directions provided by your facilitator and fill in the appropriate areas.

CREDIT REPORT AND SCORE

During your time in the military, you may have attended financial classes that included information on the credit report and score. This section will be a review of that information to ensure you are aware of how a credit score and report can impact your transition--positively and negatively.

CREDIT SCORES



Credit scores are widely available to consumers from sources such as banks and credit card companies. However, 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.

CREDIT SCORING FACTORS

Credit scores range from 300 to 850; the National average for a FICO score is 695 - 700, with most in between 660 and 720. Remember, higher credit scores may result in better credit terms such as lower annual percentage rates (APR).

The biggest credit scoring company with over 90% of the market – Fair, Isaac and Company (FICO) – has disclosed the factors it considers in generating credit scores. Most creditors and credit bureaus use either FICO scores or have a system based on the FICO system. More information is available on-line at <http://myfico.com>

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

- **Payment history** (about 35% of the score)
 - Previous credit accounts were paid on time
- **Amounts owed on credit accounts** (about 30% of the score)
 - Amount of credit used and how much debt is owed
- **Length of credit history** (about 15% of the score)
 - How long your credit accounts have been established
 - How long it has been since you used certain accounts
- **New credit** (about 10% of the score)
 - How many new accounts have been recently opened; number of new requests for credit
- **Credit Mix** (about 10% of the score)
 - FICO scores will consider the mix of credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans.

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

Don't let the "New Credit-number of new requests for credit" factor stop you from shopping around for the best loan, especially on large purchases such as a car or home. Multiple credit checks for the same type of loan should not lower your credit score as the most commonly used scoring models will count them as a single inquiry if they occur within a short period of time (14-45 days).

HOW DOES THE CREDIT REPORT AND SCORE IMPACT YOUR TRANSITION?

During your transition, there may be times when your credit report and score are reviewed by a potential employer, for a mortgage or loan, or to rent a home. If your credit report is incorrect, it can negatively impact your score and affect your ability to gain employment and your access to additional credit. Ensuring your credit report reflects accurate and correct information helps you present your best image to anyone reviewing your credit report.

As you transition, there are many different entities which may view your credit report:



- **Employers:**
 - Employers are allowed to look at your report to evaluate you for hiring, promotions, and other employment purposes
- **Creditors:**
 - When you apply for home loan or credit
- **Government agencies:**
 - When being considered for assistance, such as unemployment
 - When trying to obtain a security clearance

- **Insurance companies:**
 - When applying for health, life, and auto insurance, companies may look at your credit report to determine your ability to pay a premium
- **Landlords:**
 - Will review a credit report when deciding whether to rent you a place to live

During transition is a good time to check your credit report so you know what it contains and that the information is correct and accurate.

ANALYZE YOUR CREDIT REPORT AND SCORE BEFORE TRANSITION

Now is the time to request a report from each of the three crediting agencies, **Equifax**, **Experian**, and **TransUnion**, which can be easily accomplished by visiting www.annualcreditreport.com. These three credit agencies will provide your credit reports. When you receive them, closely review the reports, and if married, review them with your spouse to ensure all credit that has been accessed was from within your family.



Remember from previous classes that most major creditors subscribe to one or more credit bureaus. Therefore, it is important to request a report from each credit bureau. 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, what Annual Percentage Rate (APR) to offer, or to check the status of an existing loan.

Information is continuously gathered by the credit bureau from creditors, who in turn expect the credit bureau to provide information about credit applicants. It is your responsibility to review information on your credit report and to request corrections.

Remember to use www.AnnualCreditReport.com to print your credit report.



Even if you have reviewed your credit report recently, it is recommended you review it prior to transition. AnnualCreditReport.com will only allow one credit report from each agency per year. However, the installation personal financial counselor can assist you with obtaining a copy of your report.

FAIR CREDIT REPORTING ACT

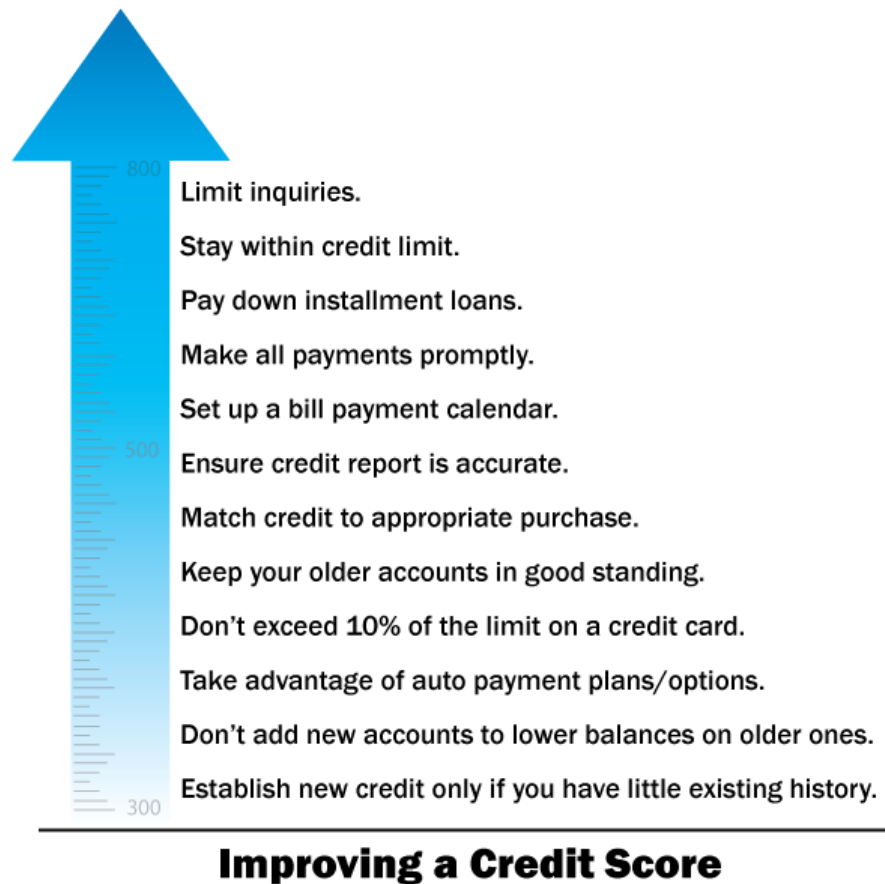
To ensure fairness when it comes to credit reports, the federal Fair Credit Reporting Act (FCRA) was created to promote the accuracy, fairness, and privacy of information in the files of consumer reporting agencies. There are many types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records, and rental history records). Here is a list of your major rights under the FCRA. You must be told if information in your file has been used against you.

- You have the right to know what is in your file.
- You have the right to dispute incomplete or inaccurate information.
- Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information.
- Consumer reporting agencies may not report outdated negative information.
- Access to your file is limited.
- You must give your consent for reports to be provided to employers.
- You may limit the “prescreened” offers of credit and insurance you receive based on information in your credit report.
- You may seek damages from violators.
- Identity theft victims and active-duty military personnel have additional rights.

For more information, including information about additional rights, go to <https://www.ftc.gov/about-ftc>.

IMPROVING YOUR CREDIT SCORE

The best way to improve your credit score is to pay your bills on time. Other ways to improve your credit are to maintain low balances and only apply for credit you need.



Although your life during transition may be hectic and in flux, it is critical that you remember to pay your bills.

- create a spreadsheet in the months leading up to transition to ensure all bills are being paid
- utilize online bill pay
- set up auto pay for bills through the biller's website
- set up an email account to use specifically for bills
- forward your mail to a family member who you trust to pay a bill for you

CORRECTING CREDIT REPORT

If you find incorrect or inaccurate information on your credit report, start the process to have it corrected immediately. It is best to contact both the credit reporting agency and the creditor that provided the information. The fastest and easiest way to resolve an inaccuracy on your credit report is through the online credit report dispute process. Listed below are the dispute websites for the three credit agencies:

TransUnion: <https://www.transunion.com/credit-disputes/dispute-your-credit>

Experian: <https://www.experian.com/disputes/main.html>

Equifax: <https://www.ai.equifax.com/CreditInvestigation/home/getStarted.jsp>

If the inaccurate information is more complicated, the Federal Trade Commission (FTC) has detailed instructions and sample letters for both the credit company and the information provider at: www.consumer.ftc.gov.

You can also submit a complaint to the CFPB and they can assist you in resolving the errors.

For information on how to Submit a Complaint:

<https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13034>

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 the 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.

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.

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.

NEGATIVE AND OLD INFORMATION LONGEVITY

When negative information in your report is accurate, only the passage of time can assure its removal. But some does have a time limit:

- Accurate negative information for 7 years
- Bankruptcy information for 10 years
- Information about an unpaid judgment against you for 7 years or until the statute of limitations runs out, whichever is longer

There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date the event took place.

There is no time limit on reporting:

- Criminal convictions
- Application for jobs that pays more than \$75,000 a year
- Application for more than \$150,000 worth of credit or life insurance

IT IS BEST TO AVOID

Credit Repair 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. These 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. The installation financial counselor is also a free resource while you are on active-duty. After transition, seek financial assistance at the American Job Centers. Many AJCs have certified financial counselors to assist with financial issues and telephonic financial counseling is also available at all sites.

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 that your account was 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. Contact the Consumer Financial Protection Bureau and file a complaint at: www.cfpb.gov

Know your rights when it comes to debt collection agencies. For information visit: <https://www.consumerfinance.gov/f/CFPB-Servicemembers-Know-Your-Rights-Handout-Debt-Collection.pdf>

FINANCIAL WELL-BEING

Both the debt-to-income ratio and the credits scores are indicators of financial well-being. However, when analyzing both scores, it is important to note that no single score accurately reflects your current financial situation.

Everyone has different expectations when it comes to finances. Some feel they can never have enough in savings, while others are good with a small amount. Others want their IRA and 401(k) to be extremely robust, while other are perfectly fine with a more modest amount. Some will drive a car that is older because they don't want the car payment, while others buy a new car every few years. There is no right or wrong in any of these situations, only what makes you comfortable.

Acknowledge the need to look at your entire financial situation and gain a good understanding of it as you enter into transition. Determine if there are any numbers you

would like to change. Start making those changes now, while understanding that change may be slow. It is recommended that during and after your transition, you revisit this activity to ensure your financial situation has remained steady.

WRAP UP QUESTIONS

- How important is the DTI for obtaining more credit? What other factors are used in the decision-making process?
- What is the FCRA? Will this have an impact on your transition?
- Name the two most important factors which affect your credit score?

ASSETS

COMPETENCY

Evaluate different types of retirement assets and understand options available during and after transition.

LEARNING OBJECTIVES

- Define assets and calculate value of personal assets
- Calculate net worth as it pertains to assets and evaluate current financial situation
- Illustrate the difference between a defined-benefit plan and a defined-contribution plan
- Analyze options available for the Thrift Savings Plan (TSP) when transitioning
- Recognize the reasons a savings account is essential during transition

ASSETS

An asset is anything of value that you own that can be converted into cash. Examples include savings, real estate, personal property, and investments such as IRAs, mutual funds, etc. Even a retirement pension can be considered an asset. During transition, it is important to know what your assets are and the current value.

SAVINGS, INVESTMENTS, AND RETIREMENT PLANS

Three types of assets are savings, investments, and retirement plans. During transition, you will need to make financial decisions concerning your existing savings and retirement accounts. After transition, it becomes important to understand the nuances of each type of retirement plan so when you are confronted with a decision as a new employee, you will have the basic underlying knowledge to be able to ask specific questions and make informed decisions.

SAVINGS AND INVESTMENTS

Savings and investments are an important part of the financial picture. Savings will help in a financial emergency, such as when the car breaks down or when unexpected unemployment occurs, and investments are for long-term savings and planning for retirement.

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

- Emergency Savings (two-weeks' pay or \$1,000, whichever is greater)
- Reserve (three-to-six months of pay)
- Goal (items you want)
- Mutual Funds, Stocks, Bonds, TSP, and other investments

Savings shouldn't be an afterthought once bills have been paid, groceries are in the refrigerator, and rent is covered. Instead, savings should come first. "Pay yourself first" is a phrase popular in personal finance and retirement planning literature that means automatically routing your specified savings contribution from each paycheck before you pay your monthly living expenses and make discretionary purchases. Instead of saving what is left after spending, you are spending what is left after saving.

Many personal finance professionals and retirement planners tout this idea as a very effective way to ensure that you continue to make your chosen savings contributions month after month. It removes the temptation to skip a contribution and spend the funds on expenses other than savings. Regular, consistent savings contributions (even if a small amount) go a long way toward building your savings and investment portfolio.

RETIREMENT PLANS

No matter what your age or life situation, it is never too early or too late to begin thinking and planning for retirement. To assist with this, employers may offer some

type of retirement plans to help you save, such as a 401(k) or other similar plans. Many of these plans provide tax advantages, including a deferred tax liability or lowering your taxable income. Some employers offer matching funds up to a certain percentage. Pensions, savings accounts, money market accounts, mutual funds, investment funds, and IRAs are popular options that may be used to grow and fund retirement. To begin, it is important to understand the two basic categories of retirement pension plans which may be provided by an employer: defined-benefit and defined-contribution.

Defined-Benefit Plan: A defined-benefit plan is the traditional company pension plan. If you are under the Legacy Retirement System, this is your current retirement pension plan. The Legacy Retirement System is a “defined-benefit” plan 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. Characteristics of a defined-benefit plan include:

- Funded mostly by the employer
- Employer assumes all responsibility for the payment of the benefit and all the risk on funds invested to pay out that benefit
- Considered a type of compensation (similar to separation and unemployment pay)



For specific information on this plan, visit Military Compensation:

ACTIVE-DUTY: <http://militarypay.defense.gov/Pay/Retirement/>

RESERVES: <http://militarypay.defense.gov/Pay/Retirement/Reserve.aspx>

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), Thrift Savings Plan (TSP), Savings Incentive Match Plan for Employees (SIMPLE) IRA, Simplified Employee

Pension (SEP) IRA, Employee Stock Ownership (ESOP), and profit sharing. Characteristics of a defined-contribution plan include:

- Considered portable, as all contributions made by the employee and employer remain property of the employee (after vesting)
- 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 amount contributed, the investment performance of that account through the years, and any applicable management fees
- Investment risk rests solely with the employee because of the opportunity to choose from a number of investment options

BLENDING RETIREMENT SYSTEM (BRS)

Until December 31, 2017, the retirement plan was the High-36, which is now referred to as the Legacy Retirement System. In addition, there was also the option of contributing to a Thrift Savings Plan (TSP) fund.

The new retirement plan currently in effect is the Blended Retirement System (BRS), which is a combination of a defined-benefit pension plan with a TSP account.

The defined-benefit portion is 2%, with the government automatically contributing to the TSP account. The amount contributed is equal to 1% of the basic pay and includes a matching contributions up to an additional 4%. This change is intended to ensure the military retirement plan is more closely aligned with the civilian sector and to provide those individuals who do not complete a full 20-year career some portable retirement benefits when they separate from the Service.

For more information on BRS or for a BRS comparison calculator, go to:

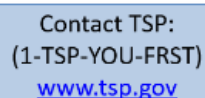
<http://militarypay.defense.gov/BlendedRetirement/>

THRIFT SAVINGS PLAN (TSP)

Regardless of whether you are in the Legacy Retirement System or BRS, participation in the TSP is a benefit of Service. Provided you have at least \$200 in your TSP account when you separate from Service, you can continue to participate in TSP.

BENEFITS OF STAYING IN TSP

- Low administrative expenses
- Move money into your account from an IRA or eligible employer plan
- Change your investment mix with interfund transfers
- Leave your money in the TSP until you reach age 70½
- Avoid paying current federal income taxes on any taxable amounts (and possibly avoid penalties)



Contact TSP:
(1-TSP-YOU-FRST)
www.tsp.gov

If you are in the BRS, the TSP is meant to be part of your military retirement. Members receive a smaller pension from their Service in exchange for Service contributions to their TSP accounts throughout their military careers. Keeping your money in the TSP rather than withdrawing it will help you to have more money available to assist you during your retirement years.

A new video called *The TSP for BRS Members: What's It All About?* gives an overview of the TSP for uniformed Service members covered by the new BRS. The video can be found at: <https://www.youtube.com/watch?v=h7n-sWNrz1I>.

For more information about staying in TSP, go to www.tsp.gov/staywithus/.

TRANSFER OPTIONS

- If you open a civilian TSP account, you may be able to combine it with your military account
- Transfer all or part of your withdrawal to an IRA or eligible employer plan

WITHDRAWAL OPTIONS

You can:

- Take a partial withdrawal, if you are eligible
- OR
- Choose one of the full withdrawal options:
 - Single payment
 - Monthly payments
 - Life annuity
 - Combination of above options

Warning! Some types of TSP withdrawal payments are subject to federal income tax; however, different tax rules apply to the different withdrawal options, as well as to the type of money (traditional, tax-exempt, or Roth) that is included in your payment. You may also be subject to state taxes.

Also, depending on your age when you leave federal service, and your withdrawal option and its timing, you may be subject to the IRS 10% early withdrawal penalty tax on the taxable portion of your withdrawal. (Go to <https://www.youtube.com/watch?v=1e4Zs4suGWS> for more information on this tax.) 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 the TSP, call the ThriftLine at 1-TSP-YOU-FRST (1-877-968-3778) or visit www.tsp.gov

TIP: Seek a tax advisor or financial planner if you have questions about taxes and the TSP. The installation personal financial counselor can provide you with basic information on the tax implications.

RETIREMENT PLAN FROM EMPLOYERS

Most employers will offer a 401k or other similar plans intended to help you save for retirement. Some employers may even match up to a certain percentage. Pensions and

investment funds are popular options employers may offer to assist you with funding your retirement.

Understand, a company may require what is known as a vesting period. A vesting period is the waiting period required before an employee can keep benefits provided by the employer. For example, any money you contribute from your paycheck is 100% yours. But the company's matching funds may vest over a period of time. It is common for vesting to occur incrementally, for example, at 25% per year up to a full vesting at 4 years. Some have a cliff vesting schedule that includes full vesting after a specified period of employment. This means, if you leave the company for any reason prior to the full vesting period, you forfeit the matching company funds.

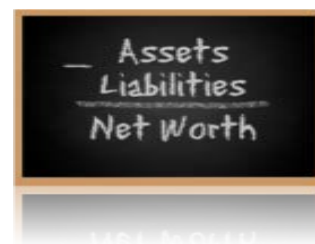
NET WORTH AND ASSETS

Having discussed different types of assets, you can determine your net worth by understanding which types of assets you need to include in your calculations.

One of the challenges in calculating the value of your assets is assigning accurate values to each item. It is important to make conservative estimates when placing value on certain assets in order to avoid inflating your net worth (i.e. having an unrealistic view of your wealth).

As you prepare to make a list of your assets and the value of each, here are some categories of assets to consider:

- Your home: probably your most valuable asset; there are various websites which help determine the value of your home
- Vehicles
- Checking and savings accounts
- Investments, TSP, IRA, mutual funds
- Annuities, life insurance policies
- Personal property: high-value jewelry, electronics, artwork, rare coins, collectibles



- Retirement pension: to determine value, use the current amount (at retirement) of the pension you will be receiving to add to your net worth

Your net worth is the amount that your assets exceed your liabilities. In simple terms, net worth is the difference between what you *own* and what you *owe*. If your assets exceed your liabilities, you have a positive net worth. Conversely, if your liabilities are greater than your assets, you have a negative net worth.

HOME AS AN ASSET OR LIABILITY

A home can be your largest asset or your biggest liability during transition. Deciding where to live and if relocation will be necessary can be one of the biggest decisions made during transition. If you are renting and plan to stay in the area, it may be a good time to buy. However, if you own a home and now find yourself relocating, renting out your current home, or renting in the new location may be an option.



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

- http://www.freddiemac.com/singlefamily/service/mha_modification.html
- <http://www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx>
- <http://www.knowyouroptions.com/>
- <http://myhome.freddiemac.com/resources/calculators.html>
- <https://www.realtor.com/mortgage/tools/rent-or-buy-calculator/>

For information on buying a home, attend the Home Buyers course available on most installations. Ask the personal financial counselor for more information if the course is not available.



ACTIVITY: Determine Net Worth

DIRECTIONS:

1. Determine the value of all your assets that could have a cash value
2. Determine the total of your liabilities (debt owed)
3. Subtract liability from asset to find your Net Worth

NET WORTH

| | |
|-------------|--|
| Assets* | |
| Liabilities | |
| Net Worth | |
| NOTES: | |

*Be conservative in your estimates of worth.

You have arrived at a number. Now what? Your net worth can tell you many things. If the figure is negative, it means you owe more than you own. If the number is positive, you own more than you owe. A negative net worth does not necessarily indicate that you are financially irresponsible; it just means that - right now - you have more debt than assets.

Like the stock market, your net worth will fluctuate. However, also like the stock market, it is the overall *trend* that is important. Ideally, your net worth continues to grow as you age if you pay down debt, build equity in your home, and acquire more assets. At some point, it is normal for your net worth to fall, such as when you begin to tap into your investments for your retirement income.

Financial situations and goals are unique; it is difficult to establish a generic "ideal" net worth that applies to everyone. Instead, you will have to determine your ideal net worth - where **you** want to be in the near-term and long-term.

How do you improve your net worth?

If you want to see your net worth increase you must either increase your assets or decrease your liabilities (debts). The most effective way to increase net worth is to reduce your debt. As your liabilities decrease your net worth rises.

SPENDING PLAN UPDATE - ASSETS



Now is the time to review the ASSETS section of the budget tool. Follow the directions provided by your facilitator and fill in the appropriate areas.

SOCIAL SECURITY AND RETIREMENT INCOME

Social Security describes full retirement as the age at which a person may first become entitled to full or unreduced retirement benefits. This is on a sliding scale and depends upon the year of your birth. For those born after 1960, full retirement age is currently 67. You can choose to receive benefits earlier, however, the amount of your benefit will be reduced by as much as 30% at age 62, 25% at age 63, and so on.



The amount of benefit you receive is based on your age and the amount withheld from your paycheck over the course of your working life. The Social Security Administration

provides retirement planning assistance with an online social security estimator and a retirement planner.

Social Security Estimator: <http://www.socialsecurity.gov/estimator/>.

Retirement Planner: www.socialsecurity.gov/retire2

For all other annuities, such as TSP and 401(k), the earliest age to begin withdrawal is generally 59½, and the oldest age to begin is 70 – 70 ½.

For more information, visit: <https://www.ssa.gov/planners/retire/retirechart.html>

WRAP UP QUESTIONS

- Define asset, liability, and net worth.
- What type of retirement plan is the Legacy Retirement System? What type of plan is the Blended Retirement System?
- Why is the higher salary not always the better choice?

ACTION PLAN

COMPETENCY

Understand the entirety of the financial situation and create a financial plan leveraging resources available during and after transition.

LEARNING OBJECTIVES

- Create a plan containing next steps in the financial journey to prepare for transition
- Identify ways to decrease debt
- Determine other sources of income during and after transition
- Identify reliable financial resources after transition
- Interpret information to discover possible scams

FINANCIAL ACTION PLAN

There are some basic steps to take when working through and creating your financial action plan. This presentation and work you have done today will provide most of the information you need to create your action plan for financial success during your transition.

1. **Analyze current financial situation**

During this course you have completed the following: reviewed your current income; determined your civilian equivalent; created a list of your expenses and debts; determined your assets; and figured your debt-to-income ratio. Transfer the information from the previous exercises into the boxes below or review the summary page on the spend plan:

CURRENT FINANCIAL SITUATION

| | |
|------------------------------------|--|
| Current income with BAH, BAS, etc. | |
| Civilian Equivalent Salary | |
| Monthly Expenses | |
| Total Debt | |
| Debt-to-Income Ratio | |
| Total Assets | |
| Net Worth | |
| NOTES: | |

2. Re-examine your financial goals

At the beginning of this course, you determined your financial goals. They may have included paying down debt, saving money for a down payment on a house or car, or even saving for a vacation. Take a minute and review the goals you wrote at the beginning of this class. Are those goals still valid? Are they reasonable with your current financial situation? Or should these be changed to reflect a more prudent goal. Take a minute to determine if your previous goals are SMART with your in-depth knowledge of your financial situation. If your previous financial goals are still valid, excellent, but if you need to revise your goals, write your new goals below or update the goals in your spend plan:

FINANCIAL GOALS

| | |
|------------------|--|
| Short-Term Goal: | |
| Med-Term Goal: | |
| Long-Term Goal: | |
| NOTES: | |

3. Determine ways to work toward your goals

Regardless of your goals, there are three main ways to achieve them quicker:

- Increase income
- Decrease expenses
- Decrease debt

If your financial situation is acceptable, why should you review ways to decrease your expenses or decrease indebtedness?

As you transition, there is a good chance your finances will fluctuate. There may be a need to understand how to decrease your expenses when this happens. Also, it may be a good idea to build your savings as much as you can, while you have a consistent paycheck, to make your spending plan more accurate. During this time, extra income may be beneficial to ensure all debts are paid and more debt is not accrued.

While decreasing living expenses will produce the quickest results, it is not always the best choice for your family. However, everyone can have a well-managed spending plan that will decrease stress associated with any financial situation.

Below are a few suggestions on ways to increase income, decrease expenses, and decrease indebtedness.

| 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 • Seek out temporary or seasonal work • Review and change tax filing status and exemptions • Enroll in federal or state programs • Use eBay, Craigslist, or a garage sale to sell items you no longer use • Use internet to research the best prices for more expensive purchases • Apply for unemployment entitlement | <ul style="list-style-type: none"> • Down grade the cable package or eliminate • Bundle packages for cable, Internet, and cell phone • Re-shop for auto, home, and life insurance • Eliminate your land line; use cell phone • Review current cell phone plan to determine if any extras can be removed • Check books/ebooks/movies out from library • Use public transportation or carpool • Turn off lights & appliances when not using. Check with your utility company for more tips • Ask for veteran and military discounts • Send e-mail rather than calling • Find friends who can trade services; babysitting, pet-sitting, etc. | <ul style="list-style-type: none"> • Pay off debts by paying the debts with the highest interest first • Pay lowest balance first and roll payment into next debt • Stop using credit cards • Pay down debt using a power pay plan. Take advantage of websites that explain various methods of power paying; such as PowerPay.org • Pay more than the minimum payment • If you get a raise, use the additional money to pay down a debt • Shop for the lowest interest rates, refinance when possible • Consider consolidation loans • Contact credit card companies and negotiate a lower interest rate |

| | | |
|--|--|--|
| | <ul style="list-style-type: none"> • Cook at home and pack your lunch; plan menus around foods on sale • Use coupon/Groupon for shopping, dining out, and recreational activities • Shop at thrift stores • Ask utility companies about a budget plan for consistent utility bills • Cancel underutilized subscriptions such as gaming services, Hulu, Netflix, Amazon Prime that are a “want” not a “need” | <ul style="list-style-type: none"> • Seek help if you are in serious debt. • Ask if accrued interest and late fees can be waived by your creditors if you enroll in a non-profit debt management program |
|--|--|--|

Ask yourself which of the above changes can be made starting today, three months from now, or even next year. Small changes in your day-to-day life can result in big changes for your financial situation.

4. Create your post-transition budget (Career Readiness Standard for this module)

You have now researched all the information required to complete your budget. Consider the following:

- Civilian equivalent salary
- Location after separation/retirement
- Sources of income (spousal income, retirement, investment income, alimony, child support)
- Transition expenses/debts
- Debt-to-income ratio
- Net worth

TRANSITION RESOURCES

IMPORTANCE OF PREPARING FOR TRANSITION

Take advantage of free services available on the installation while you are still on active-duty.

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.

After you retire or separate, there are certain programs which provide protections or advantages which will no longer apply. Understand the implications of losing the following protections:

- Servicemember Civil Relief Act (SCRA): While on active-duty, you were entitled to protection under this law for areas of financial management, rental agreements, security deposits, evictions, installment contracts, credit card interest rates, mortgages, civil judicial proceedings, income tax payments, and more. Once you are no longer active-duty, these protections no longer apply.
- Military Lending Act (MLA): Ensures Service members aren't charged more than 36% interest rate, does not allow mandatory waivers of consumer protection laws, or mandatory allotments from Service member's paycheck. A creditor cannot charge a penalty for prepayment of loans.
- Internal Revenue Service (IRS): While on active-duty there were special tax breaks and incentives for which you were entitled. After transition, these benefits may no longer apply. One of the most important is the automatic deadline extensions for filing your taxes. In addition, the uniform deduction, reservist travel deduction, and the moving expenses deduction may no longer be applicable.



ACCESSING myPAY AFTER TRANSITION

As you prepare to leave Service, it is important to update your myPay and payroll accounts so you can easily access your pay and tax information without your Common Access Card (CAC).

- If you are separating from active-duty or the Reserves, you will maintain access to your myPay account for 13 months.
- If you are retiring from active-duty, you will have continued access with the Login ID and Password you established on active-duty Service; however, your active component pay statements will only be available for 13 months. Once your retired pay account is established, the options to manage your pay and your retiree pay statements will become available.
- If you are a retiring reservist, you will not have continued, uninterrupted myPay access. You will be mailed a new myPay password once you reach retirement age and your retired pay account is established.

NOTE: Be sure to access myPay at least 30 days prior to transition using your personal device.

1. Update your email address

- Select “Email Address” on the main screen
- Under “Personal Email Address,” enter and then re-enter your personal email address
- Select the “Primary” bubble to the right of your newly entered email address
- Select “Accept/Submit” to save the change

2. Update your mailing address

Active-duty Army and Navy members, contact your respective Personnel or Finance Office to update your correspondence (mailing) address. All others

- Select “Correspondence Address” on the main menu
- Enter and Save your new correspondence address
- Click “Save”



NOTE: Address changes will take 3-7 days to become effective.

3. Update your “Security Questions for Password Resets”

- Select “Security Questions for Password Resets.” Keep in mind that your eight questions and answers will be used should you ever need a new myPay Password.

4. Review your “Personal Settings Page” for accuracy and outdated information

- Select “Personal Settings Page.” Remember, you will not have your CAC card after you separate so establish or update your passwords **NOW** because this is how you will access your account after you leave Service.

5. Save/Print a copy of all your W2s and LES statements within 13 months of separation. *

- Retirees will receive all future tax statements in your account.

6. Review and update your direct deposit information.

- The account you enter will be used to send any outstanding pay due to you at separation.
- When reviewing myPay, it is a good idea to make sure your Net Pay, Travel Pay, and Misc. EFT accounts are all up to date.

For assistance with myPay contact:

DFAS: <http://www.dfas.mil/militaryseparations.html>

myPay: <https://mypay.dfas.mil/mypay.aspx>

Customer Service: 1-888-DFAS411 or 1-888-332-7411

Travel Voucher Status: 1-888-332-7366 (option 1)

Online Customer Service askDFAS: <http://go.usa.gov/g4Q>

NOTE: Military Retirees that are in a non-pay status due to a VA Waiver or Combat Pay can still access myPay but will have limited options available.

FRAUDS AND SCAMS

Scams change over time to become more effective in parting you from your money. But you can learn to protect yourself by identifying the red flags that signal a scam.

Protect yourself by being alert to the fact that scam and scammers exist. Always know who you are dealing with and take the time to thoroughly research an idea or individual.

CPFB has provided more information on Spotting Frauds and Scams. View the pdf in the Appendix or at: <https://www.sgbconline.com/assets/files/wu1HjCek/2016/12/21/>

PRE- AND POST-TRANSITION RESOURCES

Just as 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. If you are retiring, you will have access to financial assistance on the installation. But if you are separating, you will need to understand the resources available off the installation for after your transition. In addition to the installation family service center financial professional, there are other resources for assistance:

- American Job Centers (AJC)
- Non-profit, financial education organizations
- Military OneSource

**The does not constitute a formal DOD endorsement of any company, its products, or services.*

The Consumer Financial Protection Bureau (CFPB) has contracted to place financial coaches in select Department of Labor AJCs and also provides a tele-coaching line to assist veterans with the financial aspects of their transition. For locations, go to: http://files.consumerfinance.gov/f/201505_cfpb_financial-coaching-delivery-sites.pdf

WRAP UP QUESTIONS

- Name one way to increase income, decrease expenses, and decrease debt? Why is this important during/after transition?
- Do you have an alternative plan if the current plan is not effective for a successful transition?
- Where can you seek financial assistance while still in the military? After you transition?

SUMMARY

You now have additional tools and resources to facilitate your successful financial 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. Your CRS is completion of the post-transition budget. You have already begun the process of creating your budget, and you have a strong foundation of knowledge to complete this CRS requirement.

ITP UPDATE: BLOCK 1: SECTION C

TRANSITION GPS PARTICIPANT ASSESSMENT

www.dmdc.osd.mil/tgpsp/

Please take a few minutes to complete the Transition GPS Participant Assessment located at the website above. The Participant Assessment is an integral part of our curriculum review process. Every answer and comment provided by a Service member is taken into consideration when reviewing the curriculum. Please take the time to complete the assessment, provide any necessary feedback, knowing that your comments will make a difference in improving the Financial Planning for Transition course.

YOUR FEEDBACK IS IMPORTANT

TELL US WHAT YOU THINK



The Transition GPS (Goals, Plans, Success) Participant Assessment, located at:

<https://www.dodsurveys.mil/tgpsp/>

Is a critical evaluation tool to gain Service member feedback on Transition GPS facilitators, facilities, and course curriculum and materials. This feedback is read by an actual person and is used to determine if modifications are needed within a module/track or to the overall program. Participant feedback is essential to ensure a high-quality Transition Assistance Program (TAP).

- Transition Overview and Resilient Transition
- MOC Crosswalk
- Financial Planning for Transition
- Department of Labor Employment Workshop
- VA Benefits and Services
- Accessing Higher Education Track
- Career Exploration and Planning Track
- Entrepreneurship Track

Examples of updates made to the curriculum based on Service member feedback from the assessment include:

- Providing a list of website resources after each module.
- Removing unnecessary or obsolete information.
- Providing examples of a completed Gap Analysis and more time to complete the Gap Analysis during class.
- Adding information on healthcare and life insurance options after transition.
- Adding more hands-on activities and enhanced content on American Job Center resources, social media, and resume examples.



TAKE A PICTURE OF OR SCAN THE QR CODE BELOW WITH YOUR MOBILE DEVICE OR TABLET TO BEGIN THE ASSESSMENT NOW



PLEASE NOTE:

- Each assessment should be completed at the end of each module.
- Participation in the assessment is anonymous; therefore you will be asked to re-enter your background information for each assessment (such as component and time until separation).





FINANCIAL PLANNING FOR TRANSITION

Financial Planning for your Future



APPENDIX

| | Roth IRA | Traditional IRA | Roth TSP | Traditional TSP |
|------------------------------|---|---|---|---|
| Contributions | Contributions are NOT tax deductible. IRS limits annual contribution amts. IRS also set 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. | Roth contributions were taxed prior to going into the TSP and are therefore no longer subject to Federal (and where applicable) state and local income taxes. | Contributions are deducted from pay before Federal taxes are withheld. Federal taxes are computed and withheld only from the reduced salary |
| Earnings | Earnings may be withdrawn tax free provided account has been open at least 5 years and you are at least 59 ½ yrs. old at time of withdrawal. | Earnings are taxed upon withdrawal. | Tax-free earnings if five years have passed since 1 Jan of the year of first Roth contribution AND age 59 ½ or older, permanently disabled, or deceased | Earnings are taxed upon withdrawal. |
| Transfers | Not authorized for tax deferred accounts. | The TSP will accept all or a portion of a distribution from a traditional IRA except a distribution that: <ul style="list-style-type: none"> • is a minimum distribution required by IRC § 401(a)(9); or • consists of after-tax balances (i.e., money that has already been subjected to Federal income tax). (transfers do not count against annual contribution limits). | Transfers allowed from Roth 401(k)s, Roth 403(b)s, and Roth 457(b)s. Transfers out allowed to Roth 401(k)s, Roth 403(b)s, Roth 457(b)s, and Roth IRAs. | TSP accounts may be transferred into an employer provided 401(k), 403(b), 457(b) or a traditional or Roth IRA. TSP accounts over \$200 may also be left in TSP until the Participant must begin required minimum distributions retirement, even after member leaves federal service. Other employer 401(k) 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 for a general purpose or residential loan. | 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. | By April 1st of the year following the year you become 70½, you must begin to take required minimum distributions from the aggregate of all of your Traditional IRAs. | By April 1st of the year following the year you become 70½ and are separated from service, you must begin to take required minimum distributions from your TSP account, to include Roth balance | By April 1st of the year following the year you become 70½ and are separated from service, you must begin to take required minimum distributions from your TSP account, to include Roth balance |

Choosing a financial professional



1. Decide the type of help you need

Money and debt management

A credit counselor or money coach can help you set up a budget, review your expenses and track your spending so you can achieve your goals. These service providers usually do not provide investment advice or do comprehensive financial planning.

Free assistance may be available through your installation family support center, Reserve or Guard center, a local non-profit consumer credit counseling service (nfcc.org), or online at Military OneSource (militaryonesource.mil).

Financial planning

Financial planners can help you with a single issue or map out a comprehensive financial plan to meet your goals. They can also help you plan for retirement, college saving, tax planning, insurance, and estate planning.

A financial planner should have an advanced educational degree and experience. You may want to look for a financial planner with a certification that is accredited, as well as one from an organization that subjects its members to strict ethical and disciplinary standards. This will allow you to research the financial planner's history and determine whether he or she has ever been subject to a disciplinary action. This is important because financial planners generally don't have to register with state or federal regulators, unless they are also investment advisers or broker-dealers, or also sell insurance products.

Financial planners may charge an hourly or fixed fee, a percentage of the assets they manage, a commission on products they sell, or a combination of these, depending on how they are registered.

Investment advice and trades

Discount brokers, full-service brokers, broker-dealers and investment advisers provide investment services that range from do-it-yourself online trading to full-scale investment advice and money management. Fees and commissions vary depending on the types of services you want. Generally, investment advisers and broker-dealers must be registered with the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and/or state regulators, depending on the business they conduct. Help soon enough—often called a loss mitigation application—new CFPB rules require your servicer to evaluate you for options that may be available to you to avoid foreclosure.

2. Check your adviser's background

The SEC recommends asking these questions to check an adviser's background:

- How will I be charged and how much will I be charged?
- What experience do you have, especially with people in my circumstances?
- Where did you go to school? What is your recent employment history?

- What licenses do you hold? Are you registered with the SEC, a state, or FINRA?
- Are the firm, the clearing firm, and any other related companies that will do business with me members of Securities Investor Protection Corporation (SIPC)? (SIPC protects customers of broker-dealers as long as the broker-dealer is a SIPC member.) What products and services do you offer?
- Can you recommend only a limited number of products or services to me? If so, why?
- Have you ever been disciplined by any government regulator or certifying organization for unethical or improper conduct or been sued by a client who was not happy with the work you did?

3. Proceed with caution

Avoid enticing offers and too good to be claims about low risk investment opportunities. Watch out for:

Free seminars

Any time you see a financial seminar advertised as “educational” or as a “workshop,” exercise caution. The true goal may be to sell investment, insurance, or financial products at the seminar or in follow-up calls. Also, don’t assume military expertise just because they say they are military experts. The claim may be nothing more than a marketing pitch.

Freebies

Financial salespeople may use freebies like lunch and dinner invitations, golf trips and country club outings to get you to come to marketing and sales events. They give you something knowing you’ll be more likely to give them something in return.

High-pressure sales tactics

You may be asked to make a quick investment decision, or be warned that “opportunities are limited.” Don’t fall for these techniques. Good financial advisers won’t rush you. They know it takes time to make good investment decisions.

Exaggerated claims

If you are told about investments that make a lot of money without much risk, don’t believe it. If you think an adviser made exaggerated or unrealistic claims about investment risk or returns, report this to your state securities or insurance regulator. Like all other consumer issues, if it sounds too good to be true, it probably is.

Resources

If an adviser is regulated by state or federal government, you can check the status of their license and find information about their professional history using these online resources:

SEC Investment Adviser Public Disclosure Database
adviserinfo.sec.gov

Your state insurance regulator
naic.org

Your state securities regulator
nasaa.org

FINRA Broker Check
brokercheck.finra.org/Search/Search.aspx

For helpful tools and good information on investing
investor.gov

CFPB has over 1,000 questions and answers for consumers, some specifically for servicemembers. Check out “Ask CFPB” at consumerfinance.gov. For additional information for servicemembers, email us at military@cfpb.gov.

How to spot frauds and scams

You've heard the saying "If it sounds too good to be true, it probably is." Common scams change, but you can protect yourself by learning how to spot the red flags that can signal a scam.

1. Promises of guaranteed riches

Scammers dangle the prospect of wealth to convince you to put your money into their deals. When the seller focuses only on how much money you can make, beware.

What you'll hear

"You never have to work again." "No risk."
"You're guaranteed to make money."

The truth

All real investments carry risk. Ask questions about where the profits come from, and what the risks are.

2. Pressure to act right now

Be cautious when you hear a sales pitch urging you to act immediately before an opportunity disappears.

What you'll hear

"This is your chance to get in on the ground floor."
"If you don't take this, someone else will."



The truth

The fraudster may be trying to keep you from thinking carefully, researching, and talking to your family or a trusted adviser.

3. Special opportunity just for you

Be careful when someone claims to have inside information that's not available to others. Keeping information secret is a sign there's something the scammer doesn't want others to see.

What you'll hear

"This product is top secret." "I have inside information that no one else knows."

The truth

A legitimate adviser gives you written disclosures, answers your questions, explains risks, and

discourages you from buying anything you don't understand.

4. You've won!

Scammers say you've won the lottery or another big prize, but to collect, you have to pay an up-front fee or tax. Or, you'll be invited to a "free lunch" seminar that's marketed as educational, when in fact it's a staged sales event.

What you'll hear

"Congratulations, you've won the lottery!"
"Come to a free dinner."

The truth

You can't win a lottery you didn't enter, and you never have to pay to collect a real prize. Some companies offer "free lunch" seminars because they hope giving you something small will make you feel obligated to buy from them.

5. I'm just like you

Promoters sometimes target a particular faith community, social group, or ethnic group and work hard to be accepted, so you're more likely to trust them. They'll ask you personal questions, then use your answers to figure out what sales pitch will most appeal to you.

What you'll hear

"Everyone is making money on this deal."
"Our church friends have all agreed."

The truth

Hucksters know you're less likely to ask questions if you trust them, so they use association with your friends, faith community, or social group as a shortcut to earn your trust.

6. I'm specially trained

To earn your trust, salespeople tell you they have special certifications, qualifications, or credentials. They want you to think they're experts who know what's best for you.

What you'll hear

"I'm an expert adviser." "I've been managing these kinds of investments for two decades."
"I'm a certified specialist."

The truth

Credentials alone don't guarantee expertise or the quality of someone's training. It's up to you to find out if a qualification is valuable.

WEBSITE GUIDE

INCOME

RMC Calculator: <http://militarypay.defense.gov/Calculators/RMC-Calculator/>

Best Places: www.bestplaces.net

Bank Rate: <http://www.bankrate.com/calculators/savings/moving-cost-of-living-calculator.aspx>

Kiplinger: www.kiplinger.com

Money CNN: www.money.cnn.com/calculator/pf/cost-of-living

PayScale: www.payscale.com/cost-of-living-calculator

Taxes: <https://smartasset.com/taxes/income-taxes>

Retirement Taxes: <https://smartasset.com/retirement/retirement-taxes>

Retirement Pay: <http://militarypay.defense.gov/Calculators/Active-Duty-Retirement/High-36-Calculator/>

EXPENSES

Healthcare for Transitioning Service Members: www.healthcare.gov/veterans

Healthcare Market Place: <https://marketplace.cms.gov>

Healthcare.gov: www.healthcare.gov/

Tricare: www.tricare.mil

Tricare Reserve: <http://www.tricare.mil/reserve/>

Healthcare Video, You Tube: <https://youtu.be/7uZHcoPN530>

SGLI/VGLI: <http://www.benefits.va.gov/insurance/vgli.asp>

DEBTS

Annual Credit Report: <https://www.annualcreditreport.com/cra/index.jsp>

FICO: www.myfico.com

Federal Trade Commission - Credit: www.ftc.gov/credit

Consumer Reporting Agencies: http://files.consumerfinance.gov/f/201501_cfpb_list_consumer-reporting-agencies.pdf

Federal Trade Commission - Complaint: <https://www.ftccomplaintassistant.gov/>

Consumer Financial Protection Bureau: www.cfpb.gov

Consumer Financial Protection Bureau – Know your rights: <https://www.consumerfinance.gov/f/CFPB-Servicemembers-Know-Your-Rights-Handout-Debt-Collection.pdf>

Consumer Financial Protection Bureau – How to file complaint – PDF: <https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13034>

ASSETS

Retirement Pay: <http://militarypay.defense.gov/Pay/Retirement/>

Reserve Retirement Pay: <http://militarypay.defense.gov/Pay/Retirement/Reserve.aspx>

To find the value of savings bonds check: www.savingsbond.gov

You can estimate your home value at www.zillow.com

<https://www.chase.com/mortgage/mortgage-resources/>

To find your car's value check: www.nada.com or www.kbb.com

To find the value of your TSP account: www.tsp.gov

TSP: www.tsp.gov

TSP –Stay with Us: www.tsp.gov/staywithus/

TSP Withdrawal – YouTube: <https://www.youtube.com/watch?v=1e4Zs4suGWs>

Freddie Mac: <http://myhome.freddiemac.com/resources/calculators.html>

Freddie Mac: http://www.freddiemac.com/singlefamily/service/mha_modification.html

Realtor.com: <https://www.realtor.com/mortgage/tools/rent-or-buy-calculator/>

Bank Rate: <http://www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx>

Fannie Mae: <http://www.knowyouroptions.com/>

Blended Retirement System: <http://militarypay.defense.gov/BlendedRetirement/>

Social Security Account: <http://www.ssa.gov/myaccount/>

Social Security Estimator: <http://www.socialsecurity.gov/estimator/>

ACTION PLAN

Power Pay: <https://powerpay.org>

DFAS: <http://www.dfas.mil/militaryseparations.html>

MyPay: <https://mypay.dfas.mil/mypay.aspx>

DFAS Questions: <http://go.usa.gov/g4Q>

BAH: <https://www.defensetravel.dod.mil/site/bah.cfm>

CFPB – Financial Coaching Delivery Sites: http://files.consumerfinance.gov/f/201505_cfpb_financial-coaching-delivery-sites.pdf

CFPB – Choosing a financial professional: <https://www.consumerfinance.gov/practitioner-resources/financial-coaching/financial-coaching-initiative/>

CFPB – How to spot fraud and scams: <https://www.sgbconline.com/assets/files/wu1HjCek/2016/12/21/>

CFPB – Things to do to avoid fraud: <https://www.consumer.ftc.gov/articles/0060-10-things-you-can-do-avoid-fraud>

MILITARY PROTECTIONS AND CONSUMER AWARENESS RESOURCES

Service members Civil Relief Act (SCRA): <https://scra.dmdc.osd.mil/>

SCRA and Bankruptcy: <http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics/SCRA.aspx>

Consumer Financial Protection Bureau: <http://www.consumerfinance.gov/>

CFPB for Service members: <http://www.consumerfinance.gov/servicemembers/>

COUNSELING and ASSISTANCE

Navy-Marine Corps Relief Society: <http://www.nmcrs.org/>

Military One Source: <http://www.militaryonesource.mil/>

OTHER FINANCIAL RESOURCES

Navy – Personal Financial Management (PFM):

http://www.cnic.navy.mil/ffr/family_readiness/fleet_and_family_support_program/personal_finances/pfm_overview.html

Military Saves: <http://www.militarysaves.org/>

FINANCIAL EDUCATION

Investor Education Foundation: <http://www.finrafoundation.org/programs/>

FDIC- Money Smart – Financial Education Program:

<http://www.fdic.gov/consumers/consumer/moneysmart/index.html>

Consumer Protection Basics: <http://www.consumer.gov/>

TRANSITION GPS PARTICIPANT ASSESSMENT

www.dmdc.osd.mil/tgpsp/

FINANCIAL PLANNING FOR TRANSITION PARTICIPANT GUIDE (FILLABLE PDF)

<https://go.usa.gov/xQGf3>