

Financial Planning for Transition

Welcome to the Department of Defense Career Decision Toolkit, Financial Planning for Transition.

Goal

The Goal of this course is to provide you with the information and tools you need to make a smooth transition from your military career to a civilian career with minimal impact on your finances. You will organize and evaluate your current financial situation, examine your current salary and benefits, explore typical benefits offered by U.S. employers so you can evaluate a compensation package offer, and then create a projected plan to meet compensation changes and possible income gaps.

Plan

This course contains three modules.

Module 1: Constructing Your Financial Plan (pages 2 through 12)

In this module you will create a detailed net worth statement and cash flow plan (a budget) to assess your current financial situation.

Module 2: Compensation Comparison (pages 13 through 21)

In this module, you will explore your current salary and benefits package, compare it with the typical benefits offered by U.S. employers, and estimate your future out-of-pocket costs.

Module 3: Planning for Change (pages 22 through 28)

In this module, you will use the information from Modules 1 and 2 to create a realistic budget to plan for changes in income and expenses.

Succeed

You can download the Financial Planning for Transition Checklist for Success for this course on the main access page. Use it as a guide through the course topics.

Glossary and Frequently Asked Questions: There is a course glossary on pages 30 through 36. There is also a set of Frequently Asked Questions on pages 37 through 44.

Handouts: For this course you will need to use the Financial Planning Worksheet for Transition and the Compensation Comparison Worksheet. These can be found on the main toolkit accessibility page. The forms are complex. If you need in-person assistance, check with your local military community service center, or go to <http://www.nfcc.org/> to search for a nearby non-profit consumer credit counseling center that can help you with budgeting.

Module 1: Where are you now? Your Budget

Get Your Documents in Order

In this module you will use the Financial Planning Worksheet for Career Transition to evaluate your current net worth and cash flow. If you already have a written budget, whether on paper or on your computer, congratulations! You may still want to work through this section and follow along in your own budget, this module contains important information relating directly to transitioning service members.

If you've never done your budget before, you're going to need some important documents so you can be sure your net worth and cash flow are accurate.

Use the checklist at the beginning of the Financial Planning Worksheet for Career Transition to guide you through the documents you will need. If you already have a budget, this will be a great review, and it will help you make sure you haven't missed any important data. The items on the checklist are:

- Current LES (<https://mypay.dfas.mil/>)
- Other paycheck stubs or a listing of other sources of income
- Current Credit Report (<http://www.annualcreditreport.com/>)
- Listing of current living expenses (mortgage or rent amount, food, childcare, entertainment, personal care, subscriptions, etc.)
- Current bank and mortgage statements
- Investment and Retirement account statements
- Pencil and calculator
- Current Bills (monthly amount and total balance due), including utility bills, phone bills (home and cell) cable or satellite TV, internet, credit cards, car loans, insurance payments, personal loans, student loans and other debts.

Review Your Credit Report

It is good financial practice to review your credit report annually or during key life events. Getting your most recent credit report is absolutely critical for the transitioning service member. Don't skip this step: take the time to download your report at <http://www.annualcreditreport.com/> and thoroughly review all sections:

- Identification Information
- Employment Information
- Payment History
- Inquiries
- Public Record Information

A credit report is a detailed account of the credit, employment and residence history of an individual. It is routinely used by people and businesses with a legitimate business interest in the finances of a consumer. Credit reports are also routinely used by potential employers.

Why do employers look at credit reports? They want to know if you are a responsible person, and your credit history is one method they believe will help determine this. If you find you have “red flags” in your credit report that may cause concern to potential employers, now is the time to address these issues.

If the issues are correct (but unflattering), be prepared to answer questions about them, or to provide additional information to your potential employer to explain the issues. People have bad credit for many reasons, some of which have absolutely nothing to do with their ability to do their jobs. If your credit rating is poor because of a divorce, identity theft, illness in the family, or for another reason, be prepared to explain these reasons to a potential employer (in the most professional way possible).

If the issues are incorrect, you have an opportunity to correct them. Visit the Frequently Asked Questions at the end of the course for directions on how to correct wrong information in your credit report, and take time to correct it now.

A credit report is also a key document when doing your financial planning for any kind of transition, and especially career transition. When it comes to credit reports, an annual review can resolve problems before they ever happen.

An Overview of the Financial Planning Worksheet for Career Transition

The Financial Planning Worksheet for Career Transition is a tool that has been specially tailored for use by transitioning service members. There are five pages to the worksheet but really only three parts.

You should have already used part of the first page, your document checklist. The bottom part of the first page is where you will develop your statement of net worth. This is where you measure your wealth, and over time the value of your net worth increase.

Pages 2, 3 and 4 of the worksheet make up the budget portion. These forms are detailed so that you can plan down to the penny if you choose, but that is not necessary. A budget is simply an accounting of the money that comes in and the money that goes out ... income and expenses. Page 2 is where you list all of your monthly income. Page 3 is where you list the monthly amounts that regularly go to saving and investing, and all of your living expenses. Page 4 is where you list all of your monthly debt payments, including total amounts owed, and calculate your bottom line.

The final part of the worksheet is your planning page. Once you've developed your net worth statement and your budget, we'll use this page to help us plan for any changes necessary to maintain financial stability during your transition.

After you compile your worksheet by hand, we recommend you get in the habit of keeping it updated, and maybe even using a monthly expense tracker. There are excellent electronic versions of budgeting forms available for free on the Internet. Let's review each section of the worksheet. Follow along and complete your own worksheet as you learn.

Net Worth Page

Net worth is your assets minus your liabilities, what you own minus what you owe.

This is a measure of your wealth, and if you are running your finances according to good financial principles, this number should go up year after year.

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

If you have any assets or liabilities that are not in the lists below, cross out a line item you're not using and add your line item in, or add on to the bottom of the list.

Assets

It is important that you accurately estimate the value of what you own (items in the assets column).

List the total value of your assets in this column. If aren't sure about the values, some of these websites may help:

To find the value of savings bonds, go to the government's Treasury Direct site at <http://www.savingsbonds.gov/>.

If you don't know your home's value you can get an estimate of its value at the home gain website at <http://www.homegain.com/>.

To find your car's value check the Kelly Blue Book website at <http://www.kbb.com/> or the NADA Guide website at <http://www.nadaguides.com/>.

Real Estate

Enter the fair market value of any real property you own.

For rental property, only enter an amount if you own rental property on which you have a mortgage.

Life Insurance Cash Value

Many people make the mistake of putting the face value of their life insurance policy here, rather than the cash value. Face value is what the policy will pay should the owner die. For example, for SGLI, if you have full coverage, the face value is \$400,000.

Cash value is what the owner gets if they cash in the policy. Cash value *only* comes with a cash value-type policy, like a whole life policy. This is the amount you use to fill in this block, otherwise leave it blank.

If you aren't sure what the face value of your policy is, first check to determine if it is a term policy. If it is, there is no cash value. If you have a policy with cash value, read through your insurance policy document for a table listing the cash values.

Furniture, jewelry and other things you own

Estimate conservatively when valuing your furniture, household goods and other things you own, such as computers and stereo equipment. You may want to use "yard sale value" to be on the safe side ... overestimating the value of your "stuff" can give you a false reading on your net worth.

For jewelry and collectibles, list the appraised value when available, otherwise list a conservative value.

Total Assets

Add up all entries in the Assets column and enter on the bottom line marked "Total Assets."

Liabilities

List *total amounts owed* in the Liabilities column on the right, (not monthly payments).

Mortgages

List the total balance due on all mortgages and home-equity lines of credit. Check with your lender if you are unsure of the current balance due.

Total Liabilities

Add all of the entries made in the Liabilities column and enter the total on the "Total Liabilities" line.

Net Worth

Subtract the Total Liabilities from the Total Assets to get your current net worth. On the next page you will begin working on page two, the monthly income page.

Monthly Income Page

On the income page you will determine your total monthly net income. For this module, only complete the "Actual" column.

To complete this page you will need a current Leave and Earnings Statement (LES) and any other income records. This form will help you calculate three types of income:

Your gross income, which is your total pay and allowances (everything you earn in the military).

Your net income, which is your gross income less taxes only.

Your take-home pay, which is your net income less any other deductions or automatic allotments. This is the amount that is deposited in your account each payday.

The form starts with a listing of your military income in the Entitlements section.

In the Deductions section you will subtract any items that come out of military pay. This includes taxes, allotments, insurance premiums (SGLI, dental), TSP contributions, donations, advance pays, overpayments and relief society loans.

In the Calculate Net Income section, you will add in any additional income -- a second job, a spouse's income, rental property income, child support and alimony -- coming into the family.

Also in this section, you will add back in anything you subtracted in the Deductions section that isn't a tax ... your allotments, insurance premiums (SGLI, Dental), TSP contributions, donations, advance pays, overpayments and relief society loans. The reason we add these back in is so that we can get the true value of your net monthly income, that is, everything you and your family earn minus only taxes. You'll re-enter these amounts on the Living Expenses and Indebtedness pages to ensure you account for these expenses in the appropriate categories.

Military Entitlements

To determine your military entitlements, simply copy all of your pays and allowances from your LES, or use current pay scales available at the DFAS website, <http://www.dfas.mil/> (military pay tab).

Put all taxable items in a space with an asterisk (*).

If you have a pay or allowance that isn't listed on the form, cross out a line item you aren't using and add the amount in. Remember, this is for the military paycheck only.

Add up each line item and enter the total on the bottom line marked "Total Military Compensation (A)."

Deductions

In the Deductions section, use your current LES to list all of the deductions that come out of your paycheck.

For allotments, note the purpose of the allotment in the space provided in the left column.

When you are done listing your deductions, add up all of the line items and enter them in the bottom line of this section marked, "Total Deductions (B)."

FITW Filing Status

Your FITW Filing Status is the number of exemptions you claim for federal income tax withholding. Check your LES to determine your current withholding and make sure you are withholding at the right rate.

Your FITW is only calculated on your taxable pays (the pays you listed in the first section that have an asterisk next to them). As you know, military members get nontaxable benefits in the form of allowances ... these won't be available to you from a civilian employer, so you may experience a tax increase when you transition out of the service.

Calculate Net Income

In this section, you will first calculate take-home pay, which is the Total Military Compensation (A) line amount minus Total Deductions (B) line amount.

Next, you will add in any additional income to the family, and add back in any non-tax deductions taken out of the military paycheck. When you total the column, you will have calculated your monthly net income. This amount is used throughout the rest of the form.

Net Monthly Income

Add up all line items in the "Calculate Net Income" section and enter the total on the bottom line.

Next, go to Page 4 and enter the same amount in the Summary box at the bottom of the page, on the "Net Income" line ("Actual" column).

Directions for completing the Monthly Savings and Monthly Living Expense pages begin on the next page.

Monthly Savings and Living Expenses

Introduction

On this page of the worksheet you will list all of the money you "spend" on savings/investments and living expenses. Be sure to list monthly amounts only.

For this module, only fill in the "Actual" column. You will have a chance to work on the "Projected" columns in Module 3.

Savings

Money you put into savings and investment accounts is included here because they are considered money you spend on yourself.

There is room in this section to list any monthly amounts put into savings funds, as well as a line for monthly amounts going to investments and/or TSP.

Only list amounts you save monthly on a regular basis and amounts that result in an increase in your account balances. Sometimes people put money into savings but spend it as the month goes by. Do not count those amounts. Only list true savings and investment amounts that accrue.

There are three savings funds listed: emergency, reserve and "goal-getter." Check out the Glossary at the end of this course to learn about each one. Pay special attention to the emergency fund as you approach a career transition.

Include any TSP amount that was deducted from your paycheck, along with any other IRA or investment contributions made by you or your spouse.

When you total the monthly savings and investment amounts, copy it into the appropriate box in the Summary section at the bottom of Page 4 of the worksheet.

Monthly Living Expenses

This section lists the most common living expenses. Work down the page filling in the "Actual" column. If you know you spend money on an item but don't know how much, you may need to track your spending for a month.

Be sure to include all the living expense deductions that come straight out of your paycheck. Go back to the bottom section of Page 2 of the worksheet and transfer all of the deductions that are not debts to this page. This will include SGLI, FSGLI and dental insurance payments, charitable donations, MGIB payments, and any allotments that are not debt payments.

If there additional expenses that aren't listed here, just cross out a line you're not using and write your item in.

Total Monthly Living Expenses

After you have listed all of your living expenses, total the column and enter the amount on the “Total Monthly Living Expense” line at the bottom of the column, and also on Page 4 of the worksheet in the appropriate line in the Summary.

Housing

Your monthly rent or mortgage payment for the home you are currently living in should be entered on the Mortgage/Rent line on this page, not on the Indebtedness page. Next you will learn how to complete the Indebtedness page of the Financial Planning Worksheet for Transition.

Indebtedness

Introduction

On this page of the worksheet you will list all of your outstanding debt, the purpose for which you used the money, the annual percentage rate (APR), total balance and minimum monthly payment required.

The line items and balances you list should match the debts you listed in your Net Worth Liabilities column on Page 1 of the worksheet.

Be sure to include:

All debts paid by allotment (refer to the bottom section of Page 1 and transfer debt amounts to this page).

- Credit cards (bank, department store, gas, etc.).
- Car loans.
- Personal loans.
- Consolidation loans.
- Student loans.
- Advanced payments.
- Overpayments.
- Indebtedness to relief societies.
- Legal debts.
- Money owed to family and friends.

Check your credit report for any debts you may have forgotten about.

Do not include your mortgage on this page. For our purposes, your mortgage is a living expense. Do include any rental property you have that is not your primary residence.

Purpose

In the Purpose column, list what you used the money for, to the best of your ability.

APR %

In the APR % column, list the annual percentage rate you pay on the debt. The APR will be listed in any financial contract you have signed and on monthly bill statements.

This information will be important if you decide to use a "power pay" plan to pay down your debt (visit the Glossary for an explanation of what a power pay plan is) or if you consult with a nonprofit debt-management agency.

Balance

In this column you should list the total amount due for each of your debts. The amount you list here should match the amounts you filled in on Page 1 in the liability column.

Current Monthly Payment

In this column, list the monthly amount you pay on the debt. If you pay more than the minimum monthly payment, you may choose to list the minimum here because it will give you a more accurate debt-to-income ratio.

Total

Total two of the columns: the total outstanding balance of your debt, and the total monthly payment amount. Put the total amounts at the bottom of each column.

Summary

Transfer the Total Monthly Debt Payments to the appropriate space in the Summary section at the bottom of the Worksheet page. Next you will learn about calculating your budget's bottom line.

Calculating the Budget Bottom Line

Completing the Summary

You should have already transferred the amount of your Net Monthly Income, Monthly Savings, Monthly Living Expenses and Monthly Debt Payments to the corresponding line in the Summary. Now you can complete the Summary and assess your bottom line: Do you have a surplus (money left over), a deficit (more going out than coming in) or do you break even each month?

Amount Left to Pay Debts

In the Summary section of the Indebtedness page of the worksheet, subtract your Savings and Investments and Living Expenses from your Net Income to calculate how much you have left to pay your monthly debts.

Surplus or Deficit

Subtract your Total Monthly Debt Payments from the Amount Left to Pay Debts to get your budget's bottom line.

If you have money left over, you have a "surplus." It isn't unusual to have a surplus of up to a few hundred dollars. First, ask yourself if you really do have this much money left over each month. If the answer is no, then go back through your budget and fine-tune it. Did you miss an expense or debt? Did you make a mistake calculating your income? Do you need to track your spending for a month or two to get a more accurate accounting of your cash flow?

Because you completed a detailed budget, you can consider a surplus "lost money." Find that money and put it to work for you.

If you have a negative amount, you have a deficit. This could mean you are spending more than you bring in. First, ask yourself if you really do run short each month. If the answer is no, go back through your budget and recheck your income and expense calculations -- you may have made a math mistake.

If the answer is yes, however, and you are having trouble making ends meet, you will need to take some action. You have three options: cut living expenses, increase income or decrease your debts. Most likely, the best solution will be a combination of these three. We'll work on a plan to get your budget balanced in Module 3.

Debt-to-Income Ratio

This is a perfect time to calculate your debt-to-income ratio. A debt-to-income ratio tells you how much of your monthly income goes to pay your non-mortgage debt. It is an important part of avoiding excessive debt.

To calculate your debt-to-income ratio, divide your total monthly debt payments by your net Income (smaller number divided by larger number.)

For example, if a member has \$2,800 in monthly net Income (all pays and allowances minus taxes only), and pays \$532 each month to non-mortgage debt (car payments, credit cards, consumer loans, etc.), the debt-to-income ratio would be 19 percent (532 divided by 2800 equals .19, x 100 = 19%).

What does a 19 percent ratio mean? Here are the guidelines for safe levels of debt:

Guidelines for Safe Levels of Debt

- Less than 15 percent: Use caution when taking on more debt.
- 15 to 20 percent: Fully extended; refrain from taking on additional debt.
- 20 to 30 percent: Over-extended; do not take on additional debt and establish a plan to pay down existing debt.
- More than 30 percent: Seek help to reduce debt from a reputable debt-management source.

Using this scale, a 19% debt-to-income ratio would be fully extended and this person needs to refrain from taking on more debt. As debt-to-income ratios rise to more than 20 percent, financial problems begin to occur as more money is used to pay debt and less is available for regular living expenses and savings goals.

Use this scale to determine if you are carrying a safe level of debt. If your ratio is 15 percent or higher, it is a good idea to pay down some of your debt in preparation for your transition out of uniform.

When you are done with this page you will have completed Module 1. Module 2 begins on the following page.

Module 2: Compensation Comparison

Introduction

The goal of this module is to evaluate your current compensation package so you can easily compare and evaluate the salary and benefits that will come with a job offer. For our purposes, compensation is everything you get for the work you do ... both salary, or monetary compensation, and benefits, like health insurance, retirement benefits and vacation days.

Do you know what your entire military compensation package consists of? Do you know what you can expect from a new employer?

Part of financial planning for a career transition involves taking a look at your existing compensation so you will know what you will retain and what you will lose upon transition, and so you can make an educated evaluation of the benefits package that will come with a future job offer. Exploring your benefits in detail will clarify which benefits are necessities for you and your family, and which are nice to have but not critical to accepting the job offer.

The benefits you get from a civilian job will vary greatly. If you take a job with a smaller company, you may get very few benefits; larger companies may have more and better benefits to choose from. While benefits should not be your *only* concern when choosing a civilian job, it is important to consider them. Also realize that just because they are called “benefits,” it does not mean they are necessarily free. Sometimes a company will pay the cost (or a portion of the cost) of insurance for the employee, but you must often pick up the tab for the cost of insuring your family.

For this module you will use the Compensation Comparison worksheet. You will also need to have Internet access at some point so you can use the calculators and links provided. Be sure to check out the resource section of <http://www.turboTAP.org> for additional information and checklists for transitioning members of all the services.

Salary

Before you can make your budget projections for income after your transition, you need to have a good grasp of the differences between military and civilian compensation. You will need this figure for your budget and to help you determine the salary you will need from a civilian job.

Average National Salaries

You can explore standard salaries in your chosen career fields in a variety of locations. Use any one of these sites to determine your expected salary. You may want to use more than one website, because the numbers you get will vary from site to site. An average of the numbers will help you get an idea of what you can expect to be paid. Look up as many different position titles as you can think of, so you get a good feel for salaries in various positions and fields.

Start with the Bureau of Labor Statistics site, where you can research national wage averages by location or by occupation: <http://www.bls.gov/>

You can also check out these sites to help you find average salaries:

- Salary.com: <http://www.salary.com/salary/index.asp>
- Indeed.com: <http://www.indeed.com/salary>
- Simplyhired.com: <http://www.simplyhired.com/a/salary/search/q-lookup>

Civilian Equivalent to Military Pay

The Department of Defense's Military Compensation Calculator

(<http://militarypay.defense.gov/pay/calc/>) will calculate the approximate equivalent of your civilian salary based on your inputs to the calculator.

After you have calculated the equivalent salaries, enter it on your Compensation Comparison worksheet. You will need it to do your budget projects in Module 3.

Tax Issues

Unlike in the military, most of your civilian salary is taxable. There are some exceptions, such as money transferred directly to a retirement account or to a medical or dependent care spending account, but in general, most of your salary will be taxable. Take this into consideration when computing your budget and salary requirements, as it can significantly affect the amount of income you take home.

Depending on many factors, you may owe taxes on anywhere from 10 percent to 35 percent of your income. Because this information changes frequently, go to the IRS website (<http://www.irs.gov/>) and look up personal income tax rates for the year you are interested in to get an exact amount for your circumstances. The site also has a tax withholding calculator to help you make sure you withhold just the right amount of taxes ... not too much, not too little.

Separation Pay and Unemployment Compensation

You may be eligible for Separation Pay when you transition. Visit the TurboTAP website for information (<http://www.turbotap.org/>).

While you're there, check out the rest of the information on financial planning for transition, including information on whether you will qualify for unemployment compensation.

Unemployment compensation for Guard and Reservists being released from full-time active duty is referred to as Unemployment Compensation for Ex-Service Members (UCX). Service members being released from active duty may qualify for unemployment compensation if they are unable to find a new job. Unemployment compensation is handled by each state. Receiving separation pay may influence your receipt of unemployment compensation.

Spend some time on the TurboTAP website exploring these options, and if it looks like you'll have some money coming to you upon separation, be sure to factor that into your Projected Income column in the Financial Planning Worksheet for Transition.

Wounded, Ill or Injured

If you are a wounded, ill or injured warrior, a special website and tools exist to help you and your families ensure you receive all of your benefits and entitlements upon separating or retiring. Access electronic copies of the "Compensation and Benefits Handbook" at the TurboTAP website (www.turbotap.org).

This handbook is designed to help service members who are wounded, ill and injured, as well as the family members who are taking care of them, navigate through the military and veteran disability, evaluation, compensation and benefits programs. You will want to take all of your benefits and compensation into account when you begin to project your income and expenses for your post-military life.

Retirement Benefits

The Military Retirement Plan

The military retirement plan is a defined-benefit plan, which is a traditional company pension plan. It is called "defined benefit" because the ultimate retirement benefit is definite and determinable as a dollar amount or as a percentage of wages.

To determine these amounts, defined-benefit plans usually base the benefit calculation on a combination of years of employment, wages and/or age.

These plans are funded entirely by the employer, and the responsibility for the payment of the benefit and all risk on monies invested to fund that benefit rests with the employer.

Defined-benefit plans are a fantastic deal for the employee but an expensive benefit for the employer; therefore, fewer employers offer this type of benefit. As of March 2010, only 31 percent of civilian employers offered this type of plan.

The military currently has three defined-benefit retirement systems in effect depending on your date of initial entry into military service (DIEMS):

1. Final Pay
2. High-3
3. Career Status Bonus, also known as Redux

There are several excellent retirement benefit calculators available at the Department of Defense Military Pay website (<http://militarypay.defense.gov/retirement/calc/>). Even if you

aren't retiring from the military, using this calculator will help you compare retirement benefits that may come with a job offer. Take some time now to calculate your retired pay.

The Thrift Savings Plan

The Thrift Savings Plan (TSP) is a defined contribution plan. These types of plans, which are a lot like the civilian 401(k) and 403(b) plans, are qualified (meaning they have certain tax benefits) retirement plans in which the contribution is defined but the ultimate benefit to be paid is not.

Contributions come from the employee, and a portion may or may not be matched by the employer. In such plans, each participant has an individual account. The benefit at retirement depends on the amounts contributed and on the investment performance of that account through the years. In such plans, the investment risk may rest solely with the employee because of the opportunity to choose from a number of investment options.

Unlike the military retirement plan, where you have to serve for at least 20 years to get the benefit, you can join the TSP at any time. Because the money contributed is yours, you take it with you when you leave the service. If you move from military service to civil service, you will be able to continue contributing to the TSP. If your new employer has a retirement plan similar to the TSP, you may be able to put your TSP funds into the employer's plan and continue building wealth for your retirement.

Whether you contribute to the TSP or not, it is worth your time to visit the TSP website (<http://www.tsp.gov/>) and learn how it works, so that you'll have something to compare to retirement options that may come with a job offer. Be sure to factor contributions you will make to a defined-contribution plan into your projected budget.

Civilian Retirement Options

Retirement benefits vary greatly from employer to employer.

If you are less than a full-time employee, it's possible that no retirement benefits will be available to you.

As of March 2010, the U.S. Bureau of Labor Statistics reported that 71 percent of civilian employers provide retirement benefits, with 31 percent providing a defined-benefit plan, and 56 percent providing a defined-contribution plan. Based on these statistics, chances are that you will have access to a defined-contribution retirement plan which will require you to make out-of-pocket contributions.

Non-military retirement plans include tax-qualified plans like 401(k), 403(b), 457 and IRA-based plans. Learn more about them at the IRS website (<http://www.irs.gov/>). You can also learn about all types of retirement plan at the Department of Labor website (<http://www.dol.gov/dol/topic/retirement/typesofplans.htm>).

Individual Retirement Accounts (IRAs)

Individual retirement accounts, or IRAs, provide an opportunity for anyone to save and invest in a tax-sheltered vehicle for retirement. Even if you contribute to the TSP, you still can fund an IRA. Money contributed to an IRA grows tax-deferred; you will not pay tax on the money until you withdraw it. Depending on your annual income, the amount contributed to an IRA can be deducted from income taxes (a traditional deductible IRA). If you are above certain income levels, the contribution cannot be deducted (traditional non-deductible IRA), but the growth still is tax-deferred. In a Roth IRA, you never can deduct the contribution (therefore it is considered "after-tax" money), but you are never taxed on the growth.

Traditional IRA

If someone is covered by an employer-provided pension plan, a traditional IRA can be either deductible or non-deductible depending on the income level. Accounts are for individuals; there are no "joint" IRAs. You can, however, contribute funds to one for yourself and one for your spouse. Contributions for both traditional and Roth IRAs are limited to \$6,000 per person per year for 2010. Earnings grow tax-deferred, and the gains are taxed upon withdrawal. If the earnings are withdrawn before age 59½, there is a tax penalty assessed and taxes are due. Regular deductions must begin by age 70½. You choose the investments; in other words, the investments are "self-directed."

Rollover IRA

A rollover IRA holds money transferred from other retirement plans. If you have money in the TSP, one of your options for withdrawal is to "roll over" the money into an IRA. Money from 401(k)s and 403(b)s - in fact, from any qualified retirement plan that allows it - can be rolled into this type of IRA. You cannot make regular contributions to a rollover IRA, but you can add funds from other qualified retirement plans. It is important to separate tax-deferred funds into a rollover IRA so the money will maintain its tax-deferred status (co-mingling money is not allowed). A rollover IRA also is a self-directed IRA; you choose the investments.

Roth IRA

Funds in a Roth IRA grow tax-exempt. You cannot take a tax deduction on contributions to a Roth IRA; but at retirement, all of the funds can be withdrawn tax-free, forever. Although designed for retirement, some money can be taken out of a Roth IRA after as few as five years, with no taxes or penalties due. Traditional IRAs can be converted to Roth IRAs, but all taxes are due and payable in the year of conversion. Money in a Roth IRA easily can be passed to your heirs, as there are no distribution requirements. Roth IRAs are great deals for just about everyone.

Health Care Benefits

Introduction

You may not have realized it, especially if you have been in the military for your entire working life, but health care insurance is one of the most significant benefits you receive while working in the military.

Not only do you receive outstanding medical care, you get it free. Do you have any idea what medical insurance costs in the civilian world? Costs vary tremendously depending on how many people you insure, how good the insurance is, how high the deductible is, and depending on many other variables. It is not unusual for insurance to cost hundreds of dollars per month!

As of March 2010, 74 percent of U.S. employers offered some type of healthcare plan. The average monthly employee cost single coverage was \$89, and the average monthly employee cost for family coverage was \$347.

You can help defray future medical costs, and plan for any gap in insurance, by taking advantage of the benefits you have while you are still on active duty. Before leaving the military, get a physical, get all of your records, and get as many health issues addressed as you can. The same steps should be taken for any dependents, too. Fill prescriptions, and get your dental and vision care before your military insurance expires.

Health Care Transition Decisions

Whether retiring from active service or separating after less than 20 years, your military healthcare will be affected by your transition. Visit the TRICARE benefit portal (<http://www.tricare.mil/mybenefit/>) to learn what your options are.

During Preseparation Counseling, you should be advised about your options for continued coverage. Some will be eligible for a transitional health care benefit (<http://www.tricare.mil/mybenefit/ProfileFilter.do?puri=%2Fhome%2FLifeEvents%2FSeparating>), and others will have an option to purchase an additional 18 to 36 months of continuing health care coverage (<http://www.tricare.mil/mybenefit/home/overview/SpecialPrograms/CHCBP>) to cover any gap between when military benefits end and civilian employment benefits begin.

While it may be tempting to do without medical insurance during your transition, this is not recommended. You never know when you might need health insurance, and a single serious health issue could possibly wipe out your entire savings. Even prescriptions can be extremely expensive, particularly if you have to buy name-brand medications on a regular basis.

In addition to the security provided by health insurance, "continuous creditable coverage" should be a factor in your decision. If you are uninsured for 63 days or more and then get

health insurance, the insurer may not cover pre-existing conditions for a period of time (possibly up to 18 months). Maintaining health insurance during this period, or having continuous creditable coverage, will ensure you and your family are covered during transition.

Other resources:

VA Medical Care (<http://www.va.gov/healtheligibility/coveredservices/StandardBenefits.asp>)

Preseparation Guide for Active Duty and Transition Assistance Guide for Demobilizing Members of the Guard and Reserves (<http://www.turbotap.org/>)

Wounded, Ill or Injured Warriors

If you do not have Warrior Care bookmarked on your computer

(<http://warriorcare.dodlive.mil/>), do it now! Visit this site regularly to stay current on all the benefits available to you and your family.

Most likely your medical needs extend way beyond what can be covered in a resource like this, so be sure to learn all about what is available for you. Although Warrior Care will also refer you to the TRICARE website set up especially for you, we're including the link here for your convenience (<http://www.tricare.mil/mybenefit/home/LifeEvents/InjuredActiveDuty>).

Other sources of information and assistance include:

Veterans Affairs Disability Compensation (<http://www.vba.va.gov/VBA/>)

Veterans Affairs Pension Programs (<http://www.vba.va.gov/bln/21/pension/index.htm>)

Social Security Disability Benefits for Wounded Warriors

(<http://www.socialsecurity.gov/woundedwarriors/>)

Civilian Health Care Programs

There are three main types of health insurance that you may encounter, from health maintenance organizations (HMOs) to preferred provider organizations (PPOs) to point-of-service (POS) plans. With the passage of the national healthcare initiative in early 2010, we can expect the health insurance landscape to change over the next few years.

If you'd like to research health insurance in general, or if you have a job offer and would like to check out a specific type of plan, look for a nonprofit education organization, or go to your state's insurance website. The Department of Health and Human Services has an educational website on health care (<http://www.ahrq.gov/consumer/cc/cc060308.htm>), and you can also access health care information at <http://www.consumerworld.org/>.

Other Health Benefits

The Compensation Comparison worksheet section on health benefits includes statistics on how many employers provide additional benefits for dental, vision, prescription and other health

care options, along with comparable coverage as a service member. When evaluating a job offer, ask what the cost of the benefits are for single or family coverage so you can include any additional expense in your budget or develop contingency plans for when coverage is not available. For example, if there is no vision plan benefit, you may choose to increase the amount you put into your reserve savings fund to cover the cost of eye exams and glasses.

Insurance Benefits

Introduction

While on active duty, many of your insurance needs were either a regular, no-cost part of your benefits or were available at a low cost. As you transition to civilian life, you will need to explore the coverage you have and will need to replace based on your personal circumstances. These include:

- Life insurance.
- Short-term disability insurance.
- Long-term disability insurance.
- Long-term care (also known as nursing home insurance).

The Compensation Comparison Worksheet section on Insurance benefits shows what coverage is typically offered by U.S. employers, in the middle column, and what benefits you get from active duty in the right column. This data will help you make an informed decision. Whatever you decide to do, research to determine whether there will be an additional cost to you and factor it into your projected expenses in your budget.

Life Insurance

Life insurance is an expense you may need to plan for during transition and afterward. Nearly two-thirds of employers provide some form of life insurance coverage. Companies will often pay for a small amount of life insurance for their employees, and occasionally they allow you to purchase life insurance for your family members under their policies, but the amount is often far below what you should have.

Experts generally recommend life insurance coverage equal to approximately seven times your gross annual income, but there are many factors to consider that may alter this amount.

To determine the correct amount of life insurance for you and your family, try using one of the life insurance calculators available on the internet

(http://moneycentral.msn.com/investor/calcs/n_life/main.asp). When you have a job offer, you will be able to explore the life insurance options and determine any additional premiums to add to your budget.

SGLI, VGLI, TSGLI, S-DVI, VMLI

There are numerous life and disability policies available through the Department of Veterans Affairs, depending on your eligibility status

(<http://www.insurance.va.gov/miscellaneous/index.htm>).

Other Benefits

There are many other benefits that may be included in your new compensation package. When a job offer comes your way, compare the benefits package to what you currently have available through your military employment. Use the Compensation Comparison worksheet to compare and plan for the changes in both benefits and cost. Once again, you'll need to decide what are needs, what is negotiable, and what you can do without. If your decision affects your cash flow, make sure that is reflected in your projected budget. We'll work on that in the next module. Before we go there, let's look at one final aspect of your compensation.

Additional Military Compensation

Your military compensation package includes a wide array of additional benefits, most of which you will not have access to upon your transition. These include:

- Survivor benefits
- Commissary and Exchange benefits
- Education benefits
- Legal assistance
- Housing benefits
- Relocation assistance
- Savings deposit program
- Combat zone tax exemption
- Reenlistment and specialty bonuses
- Tax reparation assistance

Some employers may offer one or more of these types of benefits, so be sure to ask when you are negotiating your salary. You can research more about each of these benefits using the links provided in the footnotes of the Compensation Comparison worksheet.

You have now completed Module 2. Module 3 will begin on the next page.

Module 3: Planning for Change

The goal of this module is to create an action plan for dealing with the changes in your financial situation. You will have the chance to use all the work you've done in the first two modules to make some realistic projections for future income and expenses, and to set some financial goals for your transition.

After an overview of making budget projections, you'll learn about making income projections, realistic projections for savings and living expenses, and ideas and suggestions for decreasing debts.

Finally you'll use the last page of the Financial Planning Worksheet for Career Transition to develop an action plan and set transition goals for your personal finances.

Budget Projections: An Overview

Creating a realistic and useful budget project is both an art and a science. If you completed the "Actual" columns of your Financial Planning Worksheet for Transition in Module 1, you assessed your current income, savings, living expenses and indebtedness and measured your debt level.

In Module 2, you worked through the Compensation Comparison worksheet. First, you examined your current salary, measured the civilian equivalent and determined whether you would qualify for separation pay or unemployment compensation.

Next, you looked at your current benefits, which military benefits would extend into your post-military career and what employers typically offer in their compensation packages. By now, you should have made some determinations as to what benefits must be retained and what you can do without, and have an estimate of additional out-of-pocket expenses you can expect to have in a new job.

Now we'll take all the work you've done and use it to make some realistic, usable projections for your income and expenses. You'll work from the Financial Planning Worksheet for Transition again. There are two additional columns in the worksheet with which you make projections.

Perhaps you'll want to use the first projected column to make a gap budget, a budget that will allow you to deal with a decrease in income and benefits, and the second projected column to plan income and expenses with a new job. Or, perhaps you'll want to use both to plan for two different job offers and levels of compensation. If you need to, you can make additional copies of the document so you can have as many projections as you feel you need.

The key to financial planning for transition is the "planning" part. As difficult as it may be to make some estimates, do your best, because any level of future planning will help with your decision-making, it will assist you and your family with staying on an even financial level, and it will reduce the stress often associated with major life events like a career transition.

Also, as you begin to make your projections on paper, anyone who is involved in spending the money should be involved in planning for change. If you are married or have other family members ... get them involved in the financial conversation and decision-making. You'll be glad you did.

Adjustments to the Actual Column

Before you begin your projections, let's make sure your current budget is in good shape. We ended Module 1 with an assessment of your budget bottom line. Did you have a surplus? A deficit? Or did your budget break even, with about the same amount going out as comes in?

If your current, actual budget has a deficit, take action now to get it balanced. You may recall that we said there are three things you can do: increase your income, decrease your living expenses, or decrease your debt. Let's take a look at all of these options.

Planning for Change

Introduction

Use your Financial Planning Worksheet for Transition or other written budget system to make initial projections about changes in income and expenses. Use the Compensation Comparison worksheet to help you make realistic estimates of salary and benefit changes that will occur during your transition.

Step One: Projecting Income

After conducting salary research and using the Department of Defense pay calculator (<http://militarypay.defense.gov/pay/calc/>), you should be able to make some reasonable projections for an expected salary, given your occupation and the location where you will be living.

Visit your local Transition Assistance office, Veterans Affairs benefits adviser and/or the Retired Affairs office. Ask your preseparation counselor to assist you in determining any benefits and entitlements as you work through the Preseparation Counseling Checklist (DD Form 2648). This will help you be clear on exactly what income you can expect during transition. Wounded, ill or injured members should consult resources like the Handbook for Injured Members and their Families (<http://www.fallenheroesfund.org/family-resources.aspx>) for additional information.

Sources of income may include:

- Separation pay.
- Unemployment insurance
- Disability pay.

- Veteran's benefits.
- VA disability benefits.
- Social Security benefits.
- Spouse's income.
- Educational assistance.
- Alimony or child support.
- Interest income from investments.

If you had a deficit when you constructed your "Actual" budget, you may need to make some changes to your income while still in the military to improve your financial position *before* you transition out. Changes to income can take a while to happen. Evaluate each change carefully to determine if they are an option for you and your family. Consult a professional financial counselor at your local community support center or through Military OneSource for help (www.militaryonesource.com). Here are some tips for increasing your income:

- Get a second job.
- Get a job or second job for a spouse.
- Change your federal income tax withholding (<http://www.irs.gov/individuals/page/0,,id=14806,00.html>).
- Change state income tax withholding (<http://www.taxadmin.org/fta/link/>).
- Food Stamps (<http://www.fns.usda.gov/snap/>) or Family Subsistence Supplemental Allowance (<https://www.dmdc.osd.mil/fssa/owa/go>).
- Pay down debts (read Step 4 below).
- Sell assets, such as stocks, bonds or property.
- Sell unused or seldom-used personal items.
- Earned Income Tax Credit (<http://www.irs.gov/individuals/article/0,,id=130102,00.html>).
- Earning money from a hobby or skill.
- Refinance mortgage at a lower rate.

Extreme deficits may call for extreme steps, but consult a counselor at your local base community support center, Military OneSource or the National Foundation for Credit Counseling (<http://www.nfcc.org/>) before doing any of the following:

- Loans on collateral.
- Borrowing from whole life insurance policies.
- Second-mortgage (home equity) loans.
- Withdrawing money from retirement plans.

Important tax note: Many of these income options have tax implications. For example, if you receive unemployment compensation, it must be reported as income so you can pay taxes on it.

Ask your preseparation counselor what the tax implications are for ANY benefits and entitlements you receive upon transition, or consult with a tax professional.

For wounded, ill or injured warriors, Chapter 8 of the Handbook for Injured Members and their Families has an excellent summary of tax issues you need to know about.

Step Two: Savings

In a perfect world you would have a smooth transition to a new job, with a salary at or above what you were making in the military and a standard of living at or better than before. If things don't work out that way, be prepared to make changes to your monthly savings and investments. A decrease or temporary halt to regular savings and investing may be the right option for your situation.

Transition professionals and financial planners recommend that you have up to six months of living expenses in an emergency fund to tide you over during a transition. That is a large sum of money for most people, but knowing you have the money saved up to tide you over should a gap in income occur during your transition will provide peace of mind, and ensure food on the table and a roof over your head. As far in advance of your transition as possible, set a goal for a transition emergency fund and set that money aside.

Important tax note on liquidating investments: If you must sell some investments, your taxes will be affected in the form of capital gains or losses.

In addition, if you find you need to use your money from your Thrift Savings Plan or other tax-qualified retirement options (like your IRA), there may be penalties assessed.

Visit <http://www.irs.gov/>, or consult a financial planning or tax professional to make sure you understand the tax implications of using investment funds.

Step Three: Living Expenses

A career transition is a guarantee that you will have changes to your living expenses. In addition to your standard living expenses, you may have additional cost-shares for various benefits (added health insurance premiums, for example) and also have expenses related to finding work, all of which need to be factored into your projected budget.

While individually they may not be significant by themselves, they add up and may hurt your cash flow. Determine what expenses apply to your situation and plan for them so you can make an accurate transition budget. Changes may include:

- Clothing (interview attire, build up civilian work wardrobe).

- Travel (sometimes required to get to interview locations).
- Internet (essential for job searches and networking).
- Meals.
- Event fees (for networking events such as conferences, seminars, dinners).
- Relocation.
- Housing (possibly).
- Insurance (health and life).
- Training.

If you calculated your "Actual" budget and found you have an existing deficit, take steps now to cut living expenses so you can balance your budget. Decreasing your living expenses is easy to do and can have an immediate impact on your cash flow. Often decreases to living expenses are temporary. Work with your family to choose the best places to cut back.

Important tax note on job search expenses: Many job search expenses are deductible from your taxes if you itemize. Visit www.irs.gov, or consult a financial planning or tax professional to make sure you understand what you can deduct.

Step Four: Debts

Whether working with your actual or projected budget, if you have a deficit and have increased your income and decreased your living expenses but still have a deficit, you may need to work on decreasing your debt.

Your monthly debt payments are not as easy to adjust as your living expenses and your income. When you construct your projected budget, you may not be able to lower monthly debt payments any further as you try to stay current on your bills and keep negative marks off your credit report.

It is always a good idea to pay down your debts and keep your debt-to-income ratio below 20 percent. When you prepare for a career transition, you may want to get your ratio even lower and stop accruing more debt.

If you have enough money available, start by only paying the minimum monthly payment due to free up money for power savings, power payments on debts, or for living expenses. Talk with your creditors about your situation to determine what options are available. Make any debts owed to the government or any loans backed by collateral (like a home or a car) a priority debt.

To explore all of your options for indebtedness, read the "Recovering from Debt" in the Frequently Asked Questions at the end of this course. Consider all of your options for reducing indebtedness. The more serious your debt situation, the more serious the solution may be. If you are considering any of the options below, consult with a debt-management professional first. Check with your base community support center or defense credit union, get financial

counseling assistance through Military OneSource (<http://www.militaryonesource.com/>) or find a local nonprofit debt-management agency through the National Foundation for Credit Counseling (<http://www.nfcc.org/>).

Debt reduction options may include:

- Defer payments.
- Refinance.
- Consolidate credit cards.
- Loan alternatives (secured, home equity or personal loans).
- Liquidate assets.
- Refinance a mortgage.
- Borrow cash value from life insurance policies.
- Loan from retirement plans.
- Borrow from family and friends.
- Brokerage margin accounts.
- Repossession (voluntary or involuntary).
- Foreclosure.
- Bankruptcy.

Power Pay your Debts: Use a power payment plan to efficiently pay down your debts. You can develop these plans on your own with the assistance of the on-line calculator found at <https://powerpay.org/>.

Step Five: The Action Plan Page

The Action Plan page of your Financial Planning Worksheet for Transition (Page 5) is a planning page for all of your budget options (Increase Income, Decrease Living Expenses, Decrease Indebtedness). It includes a section for you to keep track of additional information you need to explore, and has a section at the bottom for listing your transition goals.

If you have determined that your current emergency fund is too low for an anticipated income gap, determine what amount will be sufficient and how long you have before you need to start using the money. Then, divide the amount needed by the number of months you have to save, and the result will be the additional savings you need each month.

For example, a member transitioning out in six months anticipates an income gap of four months. Monthly living expenses and debt payments are \$2,700, and the current emergency fund contains \$4,000. The member needs a total of $\$2,700 \times 4$ months, or \$10,800 in an emergency fund to cover expenses during the income gap. Since the member already has \$4,000 saved, he needs to save an additional \$6,800 over the next six months to meet the gap. That means he will need to save an additional \$1,133 per month for the next six months to have sufficient emergency funds if his stream of income were to go down to zero.

This, of course, is a worst-case scenario, and most people will find it difficult to increase savings by that much money on a monthly basis. You can understand the importance of having an established emergency fund account. Also, many people have other sources of income or can temporarily decrease living expenses and debts during a transition period.

Be conservative when you calculate your financial needs during a temporary gap in income, and set realistic financial goals for your transition period and beyond. If you have a family, ensure that all those who spend the money are involved in planning for changes, especially decreases in living expenses and increases to monthly amounts saved.

You have completed Module 3.

Course Conclusion

Congratulations and thank you for taking the time to learn about financial planning for transition. We hope you have found this information helpful. The course checklist for success can be found on the main toolkit accessibility page, along with the other course handouts. Check out the resource section of TurboTAP.org (<http://www.turbotap.org/>) for additional important resources that help you ensure a successful transition.

The following pages include the course glossary on pages 30 through 36, and some Frequently Asked Questions about financial planning for transition on pages 37 through 44.

Glossary

401(k) Plan

A 401(k) is a tax-free retirement savings financial plan offered by employers to entice workers to save for their retirement, often by matching an employee's deductions. A 401(k) plan may be part of an employee's compensation package, if there is an employer contribution, or an optional employee benefit, if the employer does not contribute to the plan.

Budget

Also known as a Spending Plan

A budget is a plan that shows the amount of money you receive each period and the amount of money you spend, save or invest each period. A common budget period is one month, but the period can be anything you choose. Budgets can be very basic or very detailed, and can be prepared with paper and pencil or a computer spreadsheet program. A budget, or spending plan, is the essential tool for managing your money as well as planning your financial future.

Compensation

Anything you receive from your employer in return for doing your job. Compensation can include money in the form of salary, a bonus or other cash incentive. It can also include other items of value. Examples of non-monetary compensation are vacation, sick leave, various types of insurance, tuition assistance, stock options and much more. All forms of compensation should be included when you calculate the total value of both your military compensation package and your civilian compensation package.

Continued Health Care Benefit Program

(CHCBP)

A health care insurance program intended to provide you with continuous coverage on a temporary basis following your loss of military benefits. It provides benefits comparable to the TRICARE Standard benefits; there will be costs involved. You can enroll up to 60 days after initial transitional health care ends. Coverage can last up to 18 months, 36 months in certain circumstances. It can be provided to:

- Service member (and family members).
- Certain former spouses who have not remarried.
- Certain children who lose military coverage.

For more information, read the CHCBP Handbook at <http://www.humana-military.com/south/bene/TRICAREPrograms/chcbp-handbook/toc.asp>

Continuous Creditable Coverage

Refers to in-place health insurance coverage, especially during transition from one job to another. If you are uninsured for 63 days or more and then get health insurance, the insurer may not cover pre-existing conditions for a period of time (possibly up to 18 months).

Cost of Living Allowance

(COLA)

A cash allowance intended to enable an equitable standard of living in areas where the cost of living is unusually high. Service members permanently assigned to designated areas receive this entitlement.

Credit Report

A report on the credit standing of a prospective borrower used to aid in the determination of creditworthiness. Information in your credit report can affect your ability to get a job, a mortgage loan or other types of loans, a credit card or insurance. Information on your credit report can include:

- Loan and credit card account information.
- Payment history.
- Other pertinent matters like foreclosures, repossessions and bankruptcies.

You should examine your credit report at least annually and definitely before beginning to search for a job. You are entitled to a free copy of your credit reports from the major credit reporting agencies once a year. Get your free credit reports at <http://www.annualcreditreport.com/>.

Emergency Savings Fund

These are cash reserves set up in a safe, easy-to-access savings account to provide money for unexpected financial situations such as emergency leave to visit a sick parent, car repairs, etc. The amount in the emergency fund is an individual decision, but a commonly used guideline for military members is to have one to three months of expenses set aside.

For members transitioning to the civilian world, a larger emergency fund may be needed if there will be an extended period of unemployment resulting in an income gap. Module 3 of this course includes suggestions on planning for an income gap.

Fixed Expenses

The amount of the expense payment does not change from payment to payment. Examples would be rent, mortgage payments and car payments.

Goal-Getter Savings Fund

This fund provides savings for short-term goals (money needed in less than 5 years) such as buying a car, putting a down payment on a house, or financing a special vacation. You could also include money set aside to cover an income gap or additional expenses due to an anticipated career transition. This money is best kept in a savings or money market account.

Income

Money you receive. Earned income is received for doing work of any kind. Unearned or interest income is received from interest earned on investments and savings.

Interest Income

Also known as Unearned Income

Money received as interest payments on savings or investments.

Liquid Asset

Assets that can be easily and quickly converted to cash with little or no loss of value. Examples include cash in bank accounts, money market mutual funds, United States Treasury bills.

Move In Housing Allowance

(MIHA)

An up-front, lump-sum payment covering average move-in costs.

Non-Service Connected Disability

Non-service connected means that the veteran is disabled due to injury or illness not related to military service.

Per Diem

A daily allowance for expenses like food and lodging. Standard rates are set by the government. Visit the Per Diem website (<http://www.defensetravel.dod.mil/site/perdiemCalc.cfm>) for information about rates.

Post-Traumatic Stress Disorder

(PTSD)

An anxiety disorder that can occur after you have been through a traumatic event. During this type of event, you think that your life or others' lives are in danger. You may feel afraid or feel that you have no control over what is happening. After the event, you may feel scared, confused, or angry. These symptoms may disrupt your life, making it hard to continue with your

daily activities. PTSD symptoms usually start soon after the traumatic event, but they may not happen until months or years later. They also may come and go over many years. If the symptoms last longer than four weeks, cause you great distress or interfere with your work or home life, you may have PTSD.

For more information and assistance, go to the VA PTSD website (<http://www.ptsd.va.gov/>).

Power Saving

Having an emergency fund to get you through the unexpected events in life is always a good idea. For the transition period between the military and civilian world, it is absolutely essential. If you don't have an emergency fund, or if your fund isn't large enough for you to meet your expenses during the transition period, you will want to "power save." Power saving is saving more than you usually save in a given period.

Pre-Existing Condition

A pre-existing condition is any condition for which you have received medical treatment over the past few months (usually six months, but this might depend on the insurer).

Reserve Savings Fund

A reserve fund is for money needed to cover expenses that are predictable but do not occur on a monthly basis, such as car insurance, regular maintenance, taxes, birthdays, anniversaries and holiday spending. Calculate the annual expense and divide it by 12, and put that amount aside monthly. Money set aside in a reserve fund is best kept in regular savings, checking or money market accounts.

Salary

Money that you are paid by your employer for doing your job.

Service-Disabled Veterans Insurance

Life insurance for veterans who have received a service-connected disability rating by the Department of Veterans Affairs. The basic Service-disabled Veterans Insurance program, commonly referred to as "RH Insurance," insures eligible veterans for up to \$10,000 of coverage. Veterans who have the basic program coverage and are totally disabled are eligible to have their premiums waived. If a waiver is granted, totally disabled veterans may apply for additional coverage of up to \$20,000 under the supplemental program. Premiums for supplemental Service-disabled Veterans Insurance coverage, however, cannot be waived.

You are eligible for this program if:

- You were released from service under other-than-dishonorable conditions on or after April 25, 1951, and
- The VA has notified you that you have a service-connected disability, and
- You are healthy except for your service-related disability, and
- You apply within two years of being notified of your service-connected disability.

You are eligible for the supplemental program if:

- You have an Service-disabled Veterans Insurance policy, and
- The premiums on your basic coverage are being waived due to total disability, and
- You apply within one year of being notified of the waiver, and
- You are under 65 years of age.

For more information, go to the program website at <http://www.insurance.va.gov/gli/buying/SDVI.htm>

Stock Options

A stock option is a contract that gives the buyer the right to buy or sell stock at a particular price on or before a certain expiration date; however, there is no obligation to do so. Stock options can be a part of an employee's compensation package.

Transitional Assistance Management Program

(TAMP)

Provides 180 days of transitional health care benefits to help certain uniformed services members and their families transition to civilian life. You and your eligible family members may be covered for health benefits under TAMP if you, the sponsor, are:

- Involuntarily separating from active duty under honorable conditions.
- A National Guard or Reserve member separating from a period of active duty that was more than 30 consecutive days in support of a contingency operation.
- Separating from active duty following involuntary retention (stop-loss) in support of a contingency operation.
- Separating from active duty following a voluntary agreement to stay on active duty for less than one year in support of a contingency operation.

If you qualify, the 180-day TAMP period begins the day after your date of separation from active duty. When you become eligible for TAMP, you and your family members are automatically enrolled under TRICARE Standard and TRICARE Extra. If you reside overseas, you receive the same coverage under TRICARE Overseas Program (TOP) Standard.

During TAMP, you and your family are covered as active duty family members (ADFM) and all rules for that beneficiary category apply to you, including any applicable deductibles, cost-shares, and copayments. For program cost information, visit <http://www.tricare.mil/mybenefit/home/overview/SpecialPrograms/TAMP>.

Traumatic Injury Protection

The Traumatic Injury Protection under Servicemembers' Group Life Insurance program is a rider to Servicemembers' Group Life Insurance. This rider provides for payment to service members who are severely injured (on or off duty) as the result of a traumatic event and suffer a loss that qualifies for payment under the program.

Traumatic Injury Protection payments are designed to help traumatically injured service members and their families with financial burdens associated with recovering from a severe injury. Payments range from \$25,000 to \$100,000 based on the qualifying loss suffered.

For more information, go to program website at <http://www.insurance.va.gov/sgliSite/TSGLI/TSGLI.htm>.

TRICARE Reserve Select

TRICARE Reserve Select

A premium-based TRICARE health plan available for purchase by qualified members of the Selected Reserve when not called to active duty. TRICARE Reserve Select offers comprehensive health care benefits similar to TRICARE Standard and TRICARE Extra. It is available to Selected Reserve members of the Ready Reserve (and their families) who are not eligible for or enrolled in the Federal Employee Health Benefits program.

To learn more, visit the TRICARE Reserve Select website at <http://www.tricare.mil/mybenefit/home/overview/Plans/LearnAboutPlansAndCosts/TRICAREReserveSelect>

Unemployment Insurance

Compensation and benefits for individuals who are unemployed through no fault of their own. There are conditions for eligibility and the length of time a person can receive benefits. Receiving separation pay may affect your receipt of unemployment compensation.

Veterans Affairs Disability Benefits

A benefit paid to a veteran for injuries or diseases that happened while on active duty or made worse by active duty. The benefits are paid from Veterans Affairs health care and are tax-free.

Variable Expenses

The amount of the expense varies from one payment period to the next. Examples include utilities, gas for your car and groceries.

Veterans Group Life Insurance

Veterans Group Life Insurance is a program of post-separation insurance which allows service members to convert their Servicemembers' Group Life Insurance coverage to renewable term insurance. Members with full-time Servicemembers' Group Life Insurance coverage are eligible for Veterans Group Life Insurance upon release from service. Coverage is issued in multiples of \$10,000 up to a maximum of \$400,000. However, a service member's Veterans Group Life Insurance coverage amount cannot exceed the amount of Servicemembers' Group Life Insurance coverage they had at the time of separation from service. Premiums are based upon the separating member's age.

For information, go to the program website at
<http://www.insurance.va.gov/sgliSite/VGLI/VGLI.htm>

To compare Veterans Group Life Insurance and other insurance products, visit
<http://www.insurance.va.gov/sgliSite/vgli/CompareVGLI.htm>

Veterans Mortgage Life Insurance

Provides mortgage life insurance to severely disabled veterans and service members. It is designed to pay off home mortgages of disabled veterans and service members in the event of their death, up to \$90,000 payable to the mortgage holder.

Only veterans and service members who have received a Specially Adapted Housing Grant from VA are eligible for Veterans Mortgage Life Insurance. This is a grant to help a disabled veteran or service member build or modify a home to accommodate for disabilities.

Visit the program website for more information at
<http://www.insurance.va.gov/gli/buying/VMLI.htm>

Frequently Asked Questions

Bankruptcy

Should I file for bankruptcy?

The right way to answer this question is to first make sure you understand what bankruptcy is and what the long-term implications of filing for bankruptcy can be. Second, make sure you have explored every other alternative before filing, including getting debt-management counseling from a reputable agency (Read the "Recovering from Debt" Frequently Asked Question).

Bankruptcy is a last-resort option for protection from bill collectors, lawsuits and foreclosures. Although legislative reforms have made it harder to use this option to get a fresh start, the law exists for a reason, and for a small minority of people bankruptcy is the right option. Visit the National Foundation for Credit Counseling (NFCC website) to fully understand bankruptcy (<http://www.nfcc.org/>).

Bankruptcy does not allow you to walk away from all of your financial problems free and clear, although it will relieve some, if not all, of your debt. It may severely affect your ability to get credit in the future, in addition to potential negative career implications.

There are so many other options that will work, and often the determining factor in deciding to file for bankruptcy is your own willingness to cut back on expenses and change your lifestyle.

Calculating a Debt-to-Income Ratio

What is a debt-to-income ratio and how is it calculated?

A debt-to-income ratio tells you how much of your monthly income goes to pay your non-mortgage debt. It is an important part of avoiding excessive debt.

Page 4 of the FPWT includes a simple formula for calculating this ratio: Divide your total monthly debt payments by your net Income (smaller number divided by larger number.)

For example, if a member has \$2,800 in monthly net Income (all pays and allowances minus taxes only), and pays \$532 each month to non-mortgage debt (car payments, credit cards, consumer loans, etc.), the debt-to-income ratio would be 19 percent.

What does a 19 percent ratio mean? Using the scale below, it should be clear that this person is fully extended and needs to refrain from taking on more debt. As debt-to-income ratios rise to more than 20 percent, financial problems begin to occur as more money is used to pay debt and less is available for regular living expenses and savings goals.

Use this scale to determine if you are carrying a safe level of debt. If your ratio is 15 percent or higher, it is a good idea to pay down some of your debt in preparation for your transition out of uniform.

Guidelines for Safe Levels of Debt

- Less than 15 percent: Use caution when taking on more debt.
- 15 to 20 percent: Fully extended; refrain from taking on additional debt.
- 20 to 30 percent: Over-extended; do not take on additional debt and establish a plan to pay down existing debt.
- More than 30 percent: Seek help to reduce debt from a reputable debt-management source.

Calculating a Savings Rate

How do I calculate my savings rate?

Most financial advisers suggest you save a total of 5 percent to 10 percent of net income. The average American saves less than 4 percent (Bureau of Economic Analysis, February 2010). However, the average millionaire saves 10 percent, and we recommend you set a goal of regularly saving of your net income.

As you head into your transition from military to civilian life, you may need to save more than usual to meet any gaps in income that could occur due to temporary unemployment ... calculate your current budget, determine whether you will have a gap in income, adjust your budget for the gap and save as much as you can to meet the gap if and when it occurs. Module 3 will walk you through this process.

Wondering what your savings rate is now? Simply divide the amount you save each month by your monthly net income for your savings rate. For example, someone who saves \$351 each month and has a monthly net income of \$3,900 has a monthly savings rate of 9 percent ... that's a great rate of savings!

Credit Clinics and Credit Repair Services

Do the credit clinics and credit repair services that advertise really work?

As a general rule, these outfits can't do anything for you that you can't do for yourself or with the help of a nonprofit debt-management agency.

Many of these services charge up-front fees and promise to "clean up your credit report" fast and get you out of debt. It actually is illegal for a company to charge a fee (up front) for this service. Violations should be reported to <http://www.ftc.gov>.

Also, beware of organizations that offer debt-management programs in the form of consolidation loans (read the "Consolidation Loan" Frequently Asked Question). Instead, seek the help of a non-profit debt-management program rather than taking on more debt. Organizations promoting consolidation loans for debt management make the solution sound attractive to financially stressed people, but in most cases these solutions end up being a bigger problem.

Credit Report Correction

How do I correct WRONG information on my credit report?

Under the Fair Credit Reporting Act, both the credit-reporting agency and the information provider (the person, company, or organization that provides information about you to a credit-reporting agency) are responsible for correcting inaccurate or incomplete information in your report. To take advantage of all or your rights under the Fair Credit Reporting Act, contact the credit-reporting agency and the information provider if there is inaccurate or incomplete information. Dispute forms are included on web sites or you can request a hard copy from the credit-reporting agency.

1. Tell the credit-reporting agency, in writing, what information you think is inaccurate. Include copies (*not* originals) of documents that support your position. Send your letter by certified mail, return receipt requested, so you can document what the credit-reporting agency received. Keep copies of everything.
2. Credit-reporting agencies must investigate the items in question - usually within 30 days - unless they consider your dispute frivolous. They also must forward all of the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the credit-reporting agency, it must investigate, review the relevant information, and report the results back to the credit-reporting agency. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide credit-reporting agencies so they can correct the information in your file.
3. When the investigation is complete, the credit-reporting agency must give you the written results and a free copy of your report if the dispute results in a change. (This free report does not count as your annual free report.) If an item is changed or deleted, the credit-reporting agency cannot put the disputed information back in your file unless the information provider verifies that the information is, indeed, accurate and complete. The credit-reporting agency also must send you written notice that includes the name, address, and phone number of the information provider.

4. If you request it, the credit-reporting agency must send notices of any correction to anyone who received your report in the past six months. A corrected copy of your report can be sent to anyone who received a copy during the past two years for employment purposes.
5. If an investigation doesn't resolve your dispute with the credit-reporting agency, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the credit-reporting agency to provide your statement to anyone who received a copy of your report in the recent past. Expect to pay a fee for this service.

Tell the creditor or other information provider, in writing, that you dispute an item. Be sure to include copies (*not* originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to a credit-reporting agency, it must include a notice of your dispute. And if you are correct - that is, if the information is found to be inaccurate - the information provider may not report it again.

The law allows you to add a 100-word statement to your credit report explaining identity theft, medical situations divorce or other issues that have affected a report but which were not the result of any action on your part. This is an important feature to help explain a poor credit history to a prospective employer.

Debt-Consolidation Loans

If I'm in over my head on debt, is it a smart move to get a debt consolidation loan?

Generally speaking, you cannot borrow your way out of debt. Although for a very limited number of consumers a debt-consolidation loan may work, these loans at best are a temporary fix.

In a consolidation loan, the borrower takes out one loan large enough to pay off several or all smaller loans. Consolidation loans may reduce the total amount of dollars expended each month on indebtedness, but the cost of credit (interest) will increase because the repayment time has been extended. Also, the interest could be at a higher rate.

If indebtedness can be managed without a consolidation loan, it usually will save money in the long term. Consolidation loans do not improve money-management skills and tend to be a "Band-Aid" solution.

If you are considering a consolidation loan not because you have a debt problem (read the "Calculating your Debt-to-Income Ratio" Frequently Asked Question) but because you can lower the interest rates you're paying, it may be an option. However, if you are considering a consolidation loan because you can't afford your current debt, you should consider other options.

Again, you cannot borrow your way out of debt. Note especially that behavior modification is critical for consolidation loans to work. Studies have shown that more than 70 percent of people who take out a consolidation loan have a higher debt-to-income ratio 18 months later than before they took out the loan. Read the "Recovering from Debt" Frequently Asked Question for other alternatives to a consolidation loan, especially the section on power payment plans and nonprofit debt-management counseling.

Debt Settlement Companies

Are debt settlement companies a good deal?

Probably not. Unfortunately, there are numerous companies that try to take advantage of someone else's misfortune. When you are in debt and collections companies are calling, you want to believe that what they say is true. This is rarely the case. Debt settlement companies promise that they will negotiate with your creditors, on your behalf, and get your debt reduced. Some of the advertisements for these companies promise that they can cut what you pay in half.

So how do these companies work? Debt settlement occurs when the company or lender holding a delinquent account offers to "settle" the amount. This basically means that they will take less than the actual amount owed and "charge off" or settle the rest. Debt settlement companies advise you to stop making payments on current debt and have you send them payments which they hold until they have enough that they can negotiate with your creditors - hoping to get them to settle. Meanwhile you are delinquent on debt and have collection agents contacting you.

This is rarely a viable option to resolving debt issues. In fact, it can have serious negative effect on your credit history and in many cases, your job. Since security clearances require credit checks, not paying your bills can cost you a security clearance and possibly your job.

A better option is to talk to a professional credit counselor. Check with these resources to locate a reputable company:

- National Foundation for Credit Counseling (<http://www.nfcc.org/>)
- Military OneSource (<http://www.militaryonesource.com/>)
- U.S. Trustees Office (<http://www.justice.gov/ust/>)

Identity Theft

What do I need to know about identity theft?

Identity theft is a serious problem that can ruin your credit and your good name. It comprised the majority of all the fraud complaints reported to the FTC in 2009. Most identity theft

happens via credit-card fraud. The availability of personal information has made it easy for thieves to steal your identity and use it to open credit accounts, bank accounts, and get loans. The results can be disastrous, affecting future credit worthiness, credit reports, and jobs - every single facet of your financial life. Many of the steps consumers should take to safeguard themselves in general apply very specifically to avoiding identity theft: Safeguard your mail and your financial information, guard your wallet and receipts, and check your credit report annually to verify your credit information.

Visit the FTC's Identity Theft website

(<http://www.ftc.gov/bcp/edu/microsites/idtheft/military/index.html>) for specific information on steps to take to deter identity theft, detect if you have been a victim, and defend against it in the future.

Recovering from Debt

What steps can I take now if I have too much debt?

If you are having trouble making ends meet, or are experiencing more serious financial problems due to too much debt, some of these options may work for you:

Take charge: Develop a realistic "bare bones" budget and a paycheck-by-paycheck spending plan to help you stick to your budgeted amounts. Do what is necessary to establish a positive monthly cash flow. Prioritize debts. Major items like your mortgage and car payment should normally be top priority.

Use a power payment plan: After budgeting to get a positive cash flow, ensure minimum payments are made on all monthly bills, and then apply all remaining available funds to whichever debt has the smallest balance. When the smallest balance is paid off, apply the money used for that payment to the next bill on your list and keep the others the same. Again, when that bill is paid off, apply all the money used for the payment to the next bill on your list. In this manner you will "power pay" down your debt. Visit PowerPay (<https://powerpay.org/>) for an excellent, automated, free power payment plan.

Your base community support center may have a financial education specialist to help you set up a debt-management plan. You can also check with any Defense credit union to determine if they offer debt management programs.

Talk to your creditors: Stay in contact with your creditors; let them know if there is a problem. Approach them with a plan, and be honest about what you can or cannot pay. Be careful of promising more than you can deliver.

Work with a nonprofit debt-management organization: Find a local, accredited nonprofit debt-management agency at the NFCC website (<http://www.nfcc.org/>). You can also access free financial counseling at Military OneSource (<http://www.militaryonesource.com/>).

Change your behavior: Spend time thinking about how you got into debt ... are you living beyond your means? Are you satisfying all of your wants and sacrificing all of your needs? Are you an emotional spender or an impulse shopper? Should you not use credit at all? Debt-management counseling can help you figure out what to change so that your behavior moves you in the direction of building wealth, not drowning in debt, and you can begin your new career on the right financial footing.

Resources for Help with Debt

Your community support center. Find out if there is one near you at Military OneSource (<http://www.militaryonesource.com/>). These centers often have information and educational classes as well as financial counselors available to help you while you are on active duty or retired.

Your base legal services office. Find out if legal assistance is available near you at Military OneSource as well. Legal services can provide assistance in a dispute over a bill or contract. They strongly encourage service members when making any major purchase to come in with a copy of the contract before signing it. They can also help you with any defenses you may have under federal or state laws, such as the Truth-in-Lending Act, the Servicemembers' Civil Relief Act, the Equal Credit Opportunity Act, FACTA, the Fair Debt Collections Practices Act, the Fair Credit Billing Act and the new Military Lending Act.

Your local Defense credit unions often have financial counselors available who provide a range of services to members, up to and including full-scale debt-management programs.

Nonprofit consumer credit counseling agencies also provide low- or no-cost financial counseling and debt management. Visit the NFCC website (<http://www.nfcc.org>) to find an agency near you.

Where can I learn more?

Where can I learn more about finances and financial planning for transition?

Here are some other websites you may be interested in exploring. The sites include information, interactive courses, podcasts, calculators and more. Also, be sure to check out the resources available at <http://www.turbotap.org/>.

- The Building Wealth website from the Dallas Federal Reserve Board (<http://www.dallasfed.org/ca/wealth/index.cfm>)

- Money Smart Interactive Course from the FDIC (<http://www.fdic.gov/consumers/consumer/moneysmart/>)
- “Me, Save” Interactive Course from www.feedthepig.org (<http://www.feedthepig.org/mesave>)
- FDIC’s Money Smart Podcast Network (<http://74.205.121.32/index.html>)