

Chapter 9 – Personal Finances

Your financial situation can change drastically during your transition. Without proper budgeting and planning you could find yourself in deep financial trouble. The following section will give you the information and resources you need to plan for your financial transition from the military.

A. Family Centers Offer Financial Planning Assistance

When you take off your uniform once and for all you might be living on a reduced budget for a while. Careful financial planning is the key to successful management of a limited income. The earlier you look at your financial needs and come to terms with them, the more time you will have to lessen their impact.

If you are having financial problems now or think you may have them in the future, go to your Family Center for assistance. Help can range from individual counseling on money matters to emergency loans. In addition, the Family Center usually offers group seminars and workshops on several topics:

- Financial planning for transition
- Family budgets and spending plans
- Recordkeeping
- Insurance
- Credit
- Debt liquidation
- Consumer rights
- Taxes
- Investments

B. Your Crash Course in Financial Management

Among the most popular courses offered by the Family Centers are the financial planning seminars. The content of these courses varies from place to place, but you are almost certain to walk away having learned some basic financial planning guidelines.

Here is an eight-step crash course in financial planning. Get a pencil and paper, and pull out your checkbook and recent bank account statements. Find your credit card statements, auto loan payment books or other loan coupons, your federal tax return from last year, and any other relevant documentation.

As you go through the "course," use conservative figures and time frames when planning for periods of unemployment. A healthy dose of pessimism is useful here. Should things ultimately turn out much better than you had planned, you will be pleasantly surprised.

Once you understand your budget clearly, you can then concentrate on getting it under control. This will help to make your transition less stressful.

Step 1. List Your Income

Make a list of all the sources of income you expect to have during your transition and when you expect to receive the income (weekly, monthly, quarterly, etc.). Include your pay, if any, as well as any unused vacation, severance pay, and unemployment compensation. Also list any interest income (interest from a bank savings account, for example), spouse's income, alimony or child support, and other income you expect to receive on a regular basis.

Next, compute all of the sources on a monthly basis: If the income is weekly, multiply it by four. If it is quarterly, divide it by three.

Be conservative. Estimate the lowest amount you expect to receive from each source of income.

Step 2. List Your Expenses

On a separate list, write down all of your expenses: mortgage; rent; taxes; utilities; food; clothing; insurance (life, health, automobile, homeowners or renters, etc.); car or motorcycle expenses (payments, insurance, registration, gas, maintenance, and repairs); credit card bills; other loans; magazine subscriptions; cable TV; club dues; gifts; job-hunting costs (stationery, printing, drycleaning, etc.); entertainment and hobby expenses; children's spending money; alimony or child support payments; groceries; personal items; and all other expenses. When listing expenses, take time to think of everything—all the way down to medicines and toothpaste.

Next, list the expense for each item and an average monthly cost. When figuring your average, keep in mind that this is your transition budget. Assume that you will be temporarily unemployed. If the cost is not "fixed" (such as rent or mortgage payments that cannot be avoided), plan on the smallest realistic amount you can get by on.

Step 3. Prioritize Your Expenses

After listing all of your expenses, rate them as high, medium, or low priority. High-priority items are things you and your family cannot do without: food, shelter, clothing. Medium-priority items are important to you, but you can exist without them. Low-priority items should be weeded out of the budget process.

Example: Rent or mortgage is an "H"(high priority), while piano lessons for your 10-year-old daughter may be an "M" (medium priority), and cable TV fits into the "L" (low-priority) range.

Step 4. Assign Budget Responsibilities

If you are married, determine who is going to be in charge of staying within the budget for each item on the expense list.

Example: You may take responsibility for the rent and clothing, while your spouse may be responsible for the food budget and music lessons.

Step 5. Establish a Monthly Budget

Subtract your total monthly expenses from your monthly income. If you have more income than expenses, put the extra money in a savings account for emergencies.

If your monthly expenses are more than your income, look over the low- and medium-priority items. Work to reduce some and eliminate others.

Step 6. Identify Additional Sources of Income

If, after all possible cuts have been made, expenses are still greater than income, consider ways to bring in additional money. If your spouse does not currently work, he or she may need to begin working at least part time.

Step 7. Seek Help

Even after you have cut your expenses to the bone and uncovered additional income possibilities, you may still be unable to make ends meet. This is sometimes due to outstanding loan amounts and heavy credit payments. As a final measure, talk to the free Consumer Credit Counseling Service in your area to find ways to work with your creditors to delay payments or extend the time for loan repayment. This will assure your creditors that you do intend to pay them off over time, and it will help prevent you from going into bankruptcy.

Step 8. Obtain an Up-to-Date Credit Report

It is important to have an up-to-date credit report on you and your spouse. You should obtain one at least six months before separation or retirement. Go to <http://www.annualcreditreport.com/> to get your credit report. Through this website you can receive one free credit report from each of the credit reporting companies every 12 months. (See page 76 for further information)

C. You May Get Separation Pay

You may be eligible for additional separation pay. The Finance Office at your installation can compute the actual amount, if any, owed you.

This benefit is computed on the basis of 10 percent of your yearly base pay when you separate, multiplied by the number of years active service you have.

Requirements

- If you have finished your first term of enlistment or period of obligated service
AND
- You have at least six years of service
AND
- You are separating involuntarily
AND
- You are not yet eligible for retirement
AND
- You are not separating under adverse conditions
THEN
- You may be eligible for separation pay.

Separation pay must be listed on the separation orders to be payable. The type of separation and conditions under which you are being separated will determine if you qualify for separation pay. To find out if you qualify, talk with your unit Commander and local personnel and finance offices.

Separation pay is taxable - Example: \$10,000 base pay x 6 years x 10% = \$6,000.
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D. Separates May Qualify for Unemployment Compensation for Military

Unemployment compensation for separates is referred to as Unemployment Compensation for Ex-Service Members (UCX). Service members separating 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.

The unemployment compensation program provides a weekly income check for a limited period of time.

Administration

The program is administered by your state employment office. The requirements and benefits vary from state to state. Because of this, only the office where you apply will be able to tell you the amount and duration of your entitlement. The nearest state employment office is listed in your local telephone directory.

How to Apply

You must apply for UCX shortly after separation. The best time to do this is when you register for work through your state employment office. To speed the process, have the following information available:

- Your DD Form 214, "Certificate of Release or Discharge from Active Duty"
- Your Social Security card
- Your civilian and military job history or resume

E. Social Security Provides Protection

Everyone in the military pays into Social Security. Social Security provides protection in four areas:

- **Retirement income:** Retirement benefits may be paid as early as age 62.

Checking Your Account Status

Transition is a good time to ensure that your Social Security account has been properly posted. Check your account now, and check it again every few years. Here's how:

Information on Social Security benefits is available from any local Social Security office; these are listed in the telephone book under "U.S. Government." You can also go to <http://www.ssa.gov/> or call 1-800-772-1213. Explain that you would like to check your account balance. The Social Security office will send you a form. Fill it out and mail it back. You will receive your account information in a few weeks. Read the statement closely. If there are errors, this is the time to get them corrected.

- **Disability insurance:** Disability benefits are paid at any age to those who qualify.
- **Medicare medical insurance:** Medicare coverage is available at age 65. If you're disabled, then you may be eligible earlier.
- **Survivors' insurance:** Upon your death, benefits are paid to your survivors at any age, assuming they qualify.

F. Uncle Sam Offers Special Loan Programs

Several government agencies help veterans get loans for homes, farms, and businesses. Although the loans are generally made by commercial lenders, government programs make it easier for veterans to borrow the money.

Note: Loan amounts are usually based on highest income being earned at the time of loan approval; therefore, you may want to consider making large purchases (home, farm, or business) prior to separation if your active duty income would be higher than your post-Service income.

VA Home Loans

Eligible veterans, including active duty veterans, discharged veterans, and reservists, may obtain loans guaranteed by the Department of Veterans Affairs (VA) to purchase or refinance homes, condominiums, and manufactured homes. Unmarried surviving spouses may also be eligible. VA home loans feature a negotiable interest rate, choice of loan types, limited closing costs, no monthly mortgage insurance premium, and no down payment is required in most cases.

- **Down payment:** A traditional feature of VA home loans is that they typically require no down payment. A down payment is required if the home's purchase price exceeds the reasonable value of the property, the property being purchased is a manufactured home not permanently affixed, or the loan type is a Graduated Payment Mortgage.
- **Verification:** You will find many lenders to choose from, since most mortgage companies, banks and credit unions participate in this program because the VA guarantees a portion of the loan amount, which protects them from loss if the loan should ever go to foreclosure. The lender will ask you to provide evidence, in the form of a Certificate of Eligibility (COE), that you are eligible to apply for a VA home loan. In many instances your lender will be able to obtain your COE online in seconds. However, since not all COE requests can be processed online, there will be instances in which the veteran needs to apply for a COE through the Winston-Salem Eligibility Center. To obtain a COE in that manner, VA Form 26-1880, "Request for Certificate of Eligibility," would need to be completed. The form and specific instructions can be accessed at <http://www.vba.va.gov/pubs/forms/26-1880.pdf>.
- **Realtors:** Most real estate agents are also familiar with the VA home loan program and would be happy to answer your questions.

This benefit may be used more than once. More detailed information on VA Home Loans is available on the Internet at <http://www.homeloans.va.gov/veteran.htm> .

FHA Mortgage Insurance

The Federal Housing Administration (FHA) of the Department of Housing and Urban Development (HUD) insures mortgage loans for the construction, purchase, and improvement of homes. FHA-insured mortgages allow veterans to borrow with minimum down payments and over longer periods of time. Application is made directly to any FHA-approved lender; the lender usually serves as the homebuyer's contact with FHA throughout the loan approval process.

Any local HUD field office can provide additional information; look in your local telephone directory for the office nearest you.

Business Loans

Business loans are available to veterans through programs of the Small Business Administration (SBA). In addition, SBA offers loans specifically to Vietnam-era and disabled veterans. Contact the nearest SBA office for details.

Rural Loans

The Farmers Home Administration is the rural credit agency of the Department of Agriculture. This agency has both direct and guaranteed loan programs that give preferential processing to veterans' loan applications.

To obtain information and applications, contact the nearest office of the Farmers Home Administration. Most are located in rural county seats.

Bad Credit Reports

Before you separate or retire, obtain a copy of your credit report. Review it thoroughly. This can be accomplished—for free—by going to <http://www.annualcreditreport.com/>, calling 1-877-322-8228, or writing to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

If you find any mistakes on your credit report, resolve them before you leave the military. Once you leave the military, you should obtain a copy of your credit report, and review it thoroughly, at least once a year.

Here is additional information on each of the National Credit Reporting Companies:

Experian National Consumer Assistance
(Address can be found on credit report)
1-888-397-3742
<http://www.experian.com>

EQUIFAX Credit Information Service
P.O. Box 740241
Atlanta, GA 30374
1-800-685-1111
<http://www.equifax.com>

TRANSUNION
PO Box 2000 Chester,
PA 19022-2000
1-800-916-8800
<http://www.transunion.com>

After receiving your credit report, take steps to correct any incorrect information and to add any omitted favorable information. You can do this by pointing out the errors and providing the credit agency with supporting documentation that it may not have in your file.

G. The Thrift Savings Plan and Savings Deposit Program

Thrift Savings Plan Participants - If you participated in the Uniformed Thrift Savings Plan (TSP) while you were in the service, then you have several options:

- *Leave your money in the TSP.* If your money remains in the TSP, it will continue to accrue earnings. Although you will not be able to make additional contributions, you will be able to make interfund transfers. You must begin withdrawing from your account no later than April 1 of the year following the year you turn age 70.
- *Receive a single payment.* All or a portion of your account can be transferred to a traditional IRA or eligible employer plan (e.g., a 401(k) plan or your civilian TSP account)*
- *Request a series of monthly payments based on a dollar amount or your life expectancy.* All or a portion of certain monthly payments can be transferred to a traditional IRA or eligible employer plan;*
- *Request a TSP annuity.* You must have at least \$3,500 in your account in order to purchase an annuity;

*Tax-exempt contributions to the TSP are eligible for transfer to a traditional IRA or eligible employer plan only if the financial institution or plan will accept the funds. Funds not accepted will be paid directly to

you. If you transfer balances from your uniformed service TSP account to your civilian TSP account, the TSP will not accept tax-exempt money.

Savings Deposit Plan participants - If you participated in the Savings Deposit Program (SDP), your funds may be left in an SDP account indefinitely, however, the account will stop accruing interest 90 days after you return from the combat zone. Generally, withdrawals may only be made upon termination of eligibility for the program.

To make arrangements for withdrawing SDP funds send a request to the Defense Finance and Accounting Service (DFAS) at:

- Email: ccl-sdp@dfas.mil
- Fax: (216)-522-6924
- or Mail at:
DFAS-Cleveland
Code PMMCCB
ATTN: Savings Deposit Program
1240 E. 9th St.
Cleveland, OH 44199-2055

Be sure to include your name, social security number, branch of service, eligible tour start and stop dates, and the amount requested.

H. Legal Assistance for Separates

If you have legal problems, either on or off the installation, help is available at your place of separation. Contact your installation's Transition Office for referral to a Legal Assistance Officer.

This service is not available to you once you leave the military. Use it while you have it.

Depending on local installation guidance, Legal Assistance Officers can help you with:

- Will preparation
- Power-of-attorney arrangements
- Loan contract review (home mortgage, auto loan, etc.)
- Debt/credit problems
- Landlord/tenant issues
- Family law
- Tax law
- Estate planning

You may think that you have little or no "estate." However, you may not realize that your car, household goods, and GI insurance are all part of your estate. Talk to your Legal Assistance Officer about reviewing your will, if you have one. If you do not already have a will, now is a good time to make one. Legal Assistance Officers are well-versed in the special issues of military separates and their families. Ensuring the financial security of your loved ones before you leave the military will not be time wasted.

Retirees can use the base legal office on a space available basis. Depending on the location, there could be a lengthy wait to see a legal representative. Retirees should contact the base legal office as far in advance as possible to ensure services will be available.

I. Federal Income Tax: Notes for Service Members

Almost everyone has to pay federal income taxes, but special considerations apply to those in the Service.

Filing Extensions

Any U.S. citizen outside the United States or Puerto Rico on April 15 (the tax filing deadline) is allowed an extension until June 15 for filing a federal income tax return for the previous calendar year. This includes filing a joint return by a Service member and spouse. However, the Internal Revenue Service charges interest on any unpaid amount due on the April 15 deadline.

Where to Obtain a W-2 Form

You can view and print your W-2 from the MyPay website at <https://mypay.dfas.mil/mypay.aspx>

You will be able to access myPay and view your W-2 for one (1) year after you are no longer in a pay status or separated.