2024 TAP CURRICULUM

FINANCIAL PLANNING FOR TRANSITION

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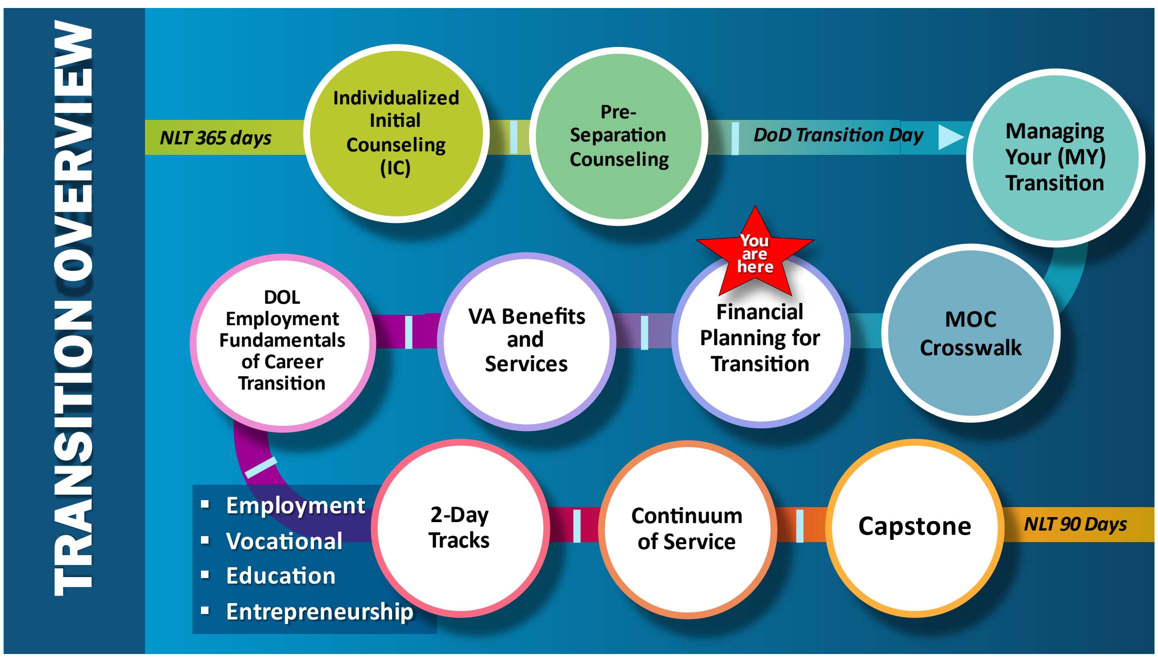


Financial Planning for Transition

Module Competency

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

This Financial Planning for Transition module builds on what you have learned from previous financial readiness courses that you attended throughout your military life cycle. Knowledge from previous courses and the content covered in this course will enable you to complete the Career Readiness Standard (CRS) associated with this module, a post-transition spending plan.

Why a Spending Plan for Transition?

In previous financial courses, your spending plan focused on where you are now and maybe how to improve your financial situation. Now it is time to re-examine your spending plan with a focus on post-military life. If you have not previously created a spending plan, now is the time. Either way, the intent of this courses is to:

- Understand your current financial situation.
- Determine the financial changes which may occur due to transition.
- Ways to plan for financial changes throughout transition.

During this course, you will learn how to develop a spending plan (also known as a budget) or update the one you previously developed. This will provide you with an understanding of how transition will affect your financial situation through discussion of income, debt, expenses, and assets. Within each of these topics are subtopics to encourage awareness of changes, which will affect your financial situation during transition. During this course, you are encouraged to add the pertinent information to the spending plan to create a complete financial picture for now and for the future. At the end of this course, you should understand how transition can affect your finances, what to expect financially as you transition, and know the income required to maintain your current lifestyle.

Income

Competency

Evaluate current military salary to determine salary requirements after transition.

Learning Objectives

- Determine current military income and compensation.
- Compare current military income and compensation to civilian equivalent to predict future salary compensation requirements.
- Determine the difference in tax liability between current military compensation and projected civilian salary.

Income

Review of the common terms used when discussing income:

- **Gross Income:** Wages (pay and allowances) before any deductions (e.g., taxes, Social Security, insurance premiums, retirement plan contributions, etc.)

- **Net Income:** Wages after any federal/state tax deductions (e.g., taxes, Social Security, retirement plan contributions, savings allotments, insurance premiums, and other deductions, etc.)

For example, the Leave and Earning Statement (LES) or Payslip (for USCG) shows an income of $2,000 per month (i.e., gross income), but the amount deposited into your bank account is only $1,500 per month (i.e., net income).

Total pay + allowances = **Gross Income**

Gross Income – tax/insurance/ Retirement and other deductions = **Net Income**

Net income is the amount of money you take home from each paycheck

Total Compensation

Gross and Net income refer to your total salary, which includes Basic Allowance for Housing (BAH) and Basic Allowance for Subsistence (BAS). There are other benefits which need to be considered.

While in the military, you receive your salary and additional benefits. These benefits may include health insurance (i.e., TRICARE), dental insurance, Servicemembers' Group Life Insurance (SGLI), Family Servicemembers' Group Life Insurance (FSGLI), death benefits, commissary, gym, base childcare facilities, etc. Some of these require a small payment (e.g., SGLI, family dental, or FSGLI), while others are completely free (e.g., commissary, gym).

The civilian sector also provides benefits in addition to your salary. This could include scheduled bonuses, commissions, paid time off, profit sharing, insurance, tuition assistance, childcare assistance, retirement plans, etc.

Total Compensation is the total of your salary and all benefits.

When accounting for these within the salary equivalent, whether in the military or civilian sector, it is difficult to assign a cost or benefit amount, but it is important to understand these lower cost or free benefits will affect your finances post-transition.

Leave and Earning Statement (LES) or Payslip

Just as before, when developing your spending plan, you used the information from your LES or Payslip. Now when updating your spending plan prior to transition, the information on the LES or Payslip is even more important to understand your current salary and compensation. For this section, focus on the entitlements for LES and earnings for Payslip.

Entitlements: This includes the amounts of money you receive in your paycheck, such as base pay, BAS, BAH, Basic Needs Allowance (BNA), Dive Pay, Jump Pay, Cost of Living Allowance (COLA)—what is important to remember is that only SOME of these entitlements are taxable.

Leave and Earnings Statement

DEFENSE FINANCE AND ACCOUNTING SERVICE MILITARY LEAVE AND EARNINGS STATEMENT

ID	NAME (Last, First,MI)	SOC. SEC. NO.	GRADE	PAY DATE	YRS SVC	ETS	BRANCH	ADSN/DSSN	PERIOD COVERED
		XXX-XX-XXXX	E7	220505	27	200731	ARMY	6411	1-31 MAY 22

	ENTITLEMENTS		DEDUCTIONS		ALLOTMENTS		SUMMARY	
	Type	Amount	Type	Amount	Type	Amount	+Amt Fwd	.00
A	BASE PAY	5291.40	FEDERAL TAXES	143.79	DISCRETIONARY ALT	111.11	+TOT ENT	6111.09
B	BAS	369.39	FICA-SOC SECURITY	328.07	TSP LOAN	177.72		
C	BAH	.30	FICA-MEDICARE	76.73	INSURANCE ALLOT	37.50	-TOT DED	3333.05
D	SPEC DUTY PAY	450.00	SGLI	29.00	INSURANCE ALLOT	100.00		
E			AFRH	.50	BANK ACCT ALLOT	603.50	-TOT ALMT	1049.83
F			SGLI FAM/SPOUSE	5.00	BANK ACCT ALLOT	20.00		
G			TRADITIONAL TSP	574.14			=NET AMT	1728.21
H			ROTH TSP	446.90				
I			MID-MONTH-PAY	1728.92			-CR FWR	.00
J								
K							=EOM PAY	1728.21
L								
M								
N							DIEMS	RET PLAN
O								
	TOTAL	6111.09		3333.05		1049.83	0	

FED TAXES	Wage Period	Wage YTD	M/S/H	Mult Jobs	Dep 17 Under	Other Dep	Add'l Tax	Other Deds	Other Income	Tax YTD
	5167.26	25836.30	M				.00			759.40

FICA TAXES	Wage Period	Soc Wage YTD	Soc Tax YTD	Med Wage YTD	Med Tax YTD	STATE TAXES	St	Wage Period	Wage YTD	M/S	Ex	Tax YTD
	5291.40	26457.00	1640.35	26457.00	383.65		NY	5167.26	25836.30	N	00	.00

PAY DATA	BAQ Type	BAQ Depn	VHA Zip	Rent Amt	Share	Stat	JFTR	Depns	2D JFTR	BAS Type	Charity YTD	TPC	PACIDN
	W/DEP	SPOUSE	00000	.00	0			0			.00		ASWDMAAA

	Base Pay Rate	Base Pay Current	Spec Pay Rate	Spec Pay Current	Inc Pay Rate	Inc Pay Current	Bonus Pay Rate	Bonus Pay Current
TRADITIONAL PLAN (TSP)	10	.00	10	.00	0	.00	0	.00
ROTH PLAN	7	.00	17	.00	17	.00	17	.00

CONTRIBUTIONS TOTALS	YTD Deductions	YTD TSP Deferred	YTD TSP Exempt	YTD ROTH	YTD TSP AGCY-AUTO	YTD TSP AGCY-MATCH
	5105.20	2870.70	.00	2234.50	.00	.00

CM AGCY CONTR	AGCY-AUTO	AGC-MATCH	LEAVE	BF Bal	Ernd	Used	Cr Bal	ETS Bal	Lv Lost	Lv Paid	Use/Lose
	.00	.00		60.0	20.0	0	80.0	145.0	30.0	45.0	30.0

REMARKS: **YTD ENTITLE 30555.45** **YTD DEDUCT 8061.10**

IF TSP ELECTION AMT EXCEEDS NET AMT
DUE, TSP WILL NOT BE DEDUCTED.
-MIL MBRS SHOULD CONFIRM THAT THEIR AND THEIR
FAMILY'S SSNS ARE CORRECT IN DEERS TO ENSURE
INFO FOR THE ACA IS CORRECTLY REPORTED TO THE
IRS. GO TO HTTP://WWW.TRICARE.MIL/DEERS/
-THE FIRST IN A SERIES OF BLENDED RETIREMENT
SYSTEM (BRS) COURSES IS NOW AVAILABLE: LEADER
TRAINING TO INTRODUCE BRS FOR THE UNIFORMED
SERVICES (.5 HOUR), COURSE NUMBER: J3OP-1330
VIA JOINT KNOWLEDGE ONLINE (JKO) LOCATED AT
HTTPS://JKODIRECT.JTEN.MIL/. ANY INTERESTED
MILITARY OR FAMILY MEMBER CAN ALSO TAKE THE
COURSE VIA MILITARYONESOURCE AT HTTP://WWW.
MILITARYONESOURCE.MIL/
MEMBER'S SGLI COVERAGE AMOUNT IS $400,000
FAM/SPOUSE SGLI COVERAGE AMOUNT IS $100,000
BANK VISIONS FEDERAL CREDIT UNIO

WWW.DFAS.MIL

DFAS Form 702. Jan 02

Coast Guard Payslip

U.S Department of Homeland Security
U.S. Coast Guard
CG-5209-ACT (Rev 01/2015)

United States Coast Guard / NOAA
Active and Reserve
Statement of Semi-Monthly Income

COMMANDING OFFICER (CCB)
COAST GUARD PPC
444 SE QUINCY ST
TOPEKA, KS 66683-3591 PHONE 1-866-772-8724

Pay Group:	USCG Active Duty
Pay Begin Date:	2023-03-16
Pay End Date:	2023-03-31

Member DOB:	1983-07-07
Spouse DOB:	1982-12-17
Youngest Child DOB:	2015-06-04

Monica Geller
90 Bedford St
New York, NY 10014

Employee ID:	1234567
Rank:	PERS2
Pay Grade:	W2
Department:	PPC CALL CENTER SECTION
Retirement Plan:	Legacy

TAX DATA:	Federal	GA State
Marital Status:	Married	S
Allowances:	1	0
Addl. Percent:	0	0
Addl. Amount:	25	0

EARNINGS

Description	Current
BAH WITH DEP	849.00
BAS - OFF	155.84
BASIC PAY	3069.30
TOTAL:	4074.14

TAXES

Description	Current	YTD
FICA-MEDICARE	44.51	267.03
FICA-OASDI	190.30	1141.78
FITW	275.80	1654.80
SWT	154.60	927.60
TOTAL:	665.21	3991.21

DEDUCTIONS

Description	Current
AFRH	0.25
FSGLI 10	3.50
SGLI 8	12.00
TRICARE DEP	15.52
TSGLI	0.50
TSP ROTH-BASIC	276.24
TSP TRAD-BASIC	30.69
TOTAL:	338.70

ALLOTMENTS

Description	Current
CG ASSOC	1.00
TOTAL:	1.00

	OASDI WAGES	MEDICARE WAGES	FED TAXABLE GROSS	STATE TAXABLE GROSS	NET PAY
Current	3069.30	3069.30	3038.61	3038.61	3069.23
YTD	18415.80	18415.80	18231.66	18231.66	18415.43

LEAVE SUMMARY

Begin Regular Leave Balance	53.5
+ Regular Leave Earned	2.5
- Regular Leave Used	0.0
- Regular Leave Lost	0.0
- Regular Leave Sold	0.0
End Regular Leave Balance	56.0
End Reserve Leave Balance	0.0
End Combat Exempt Balance	0.0
End Special Leave Carryover Balance	0.0
Regular Leave Sold (Career-to-date)	0.0

NET PAY DISTRIBUTION

Account Type	Account Number	Deposit Amount
Checking	******5013	3069.23
TOTAL:		3069.23

** Pay records are computer matched with other federal government and benefit records for debt purposes. **

REMARKS:
-- TSP TRADITIONAL ELECTION: 1 % BASIC PAY, 0 % SPECIAL PAY, 0 % BONUS, 0 % INCENTIVE PAY.
-- TSP ROTH ELECTION: 9 % BASIC PAY, 0 % SPECIAL PAY, 0 % BONUS, 0 % INCENTIVE PAY .
-- YTD TSP TRADITIONAL CONTRIBUTION IS $184.14.
-- YTD TSP ROTH CONTRIBUTION IS $1657.44.
EFFECTIVE 23MARCH2023 SGLI COVERAGE AUTOMATICALLY INCREASES TO 500 THOUSAND DOLLARS. YOUR MONTHLY PREMIUMS REMAIN AT 6 CENTS PER 1,000 DOLLARS OF COVERAGE. STARTING APRIL 2023 MBRS WILL PAY 30 DOLLARS EACH MONTH, PLUS 1 DOLLAR FOR TRAUMATIC INJURY PROTECTION. TO AVOID PAYING HIGHER PREMIUMS IN APRIL YOU MUST REDUCE OR DECLINE THIS INCREASE IN MARCH VIA THE SGLI ONLINE ENROLLMENT SYSTEM IN MILCONNECT.

As you review your LES/Payslip, realize that income is any source that provides a regular supply of money, such as employment, investments, pension, etc.

Additional Sources of Income

Consider the following additional income sources, not included on your LES or Payslip:

- Does your spouse have an income?
- Do you have a second job?
- Are you receiving income from investments or rental property?
- Do you receive child support or alimony?
- Do you receive financial support from Women, Infants and Children (WIC) or Supplemental Nutrition Assistance Program (SNAP)?

To have an accurate picture of your finances during transition, all sources of income need to be included in the spending plan.

ACTIVITY: Update the Income section of your Spending Plan

Review the income section of the spending plan. Follow the directions provided by your facilitator and fill in the appropriate areas of the spending plan. Remember to include:

- Income from LES or Payslip to include all entitlements
- Spouse income if applicable
- Income from additional sources (e.g., investments, child support, second job, etc.)

Civilian Salary Equivalent

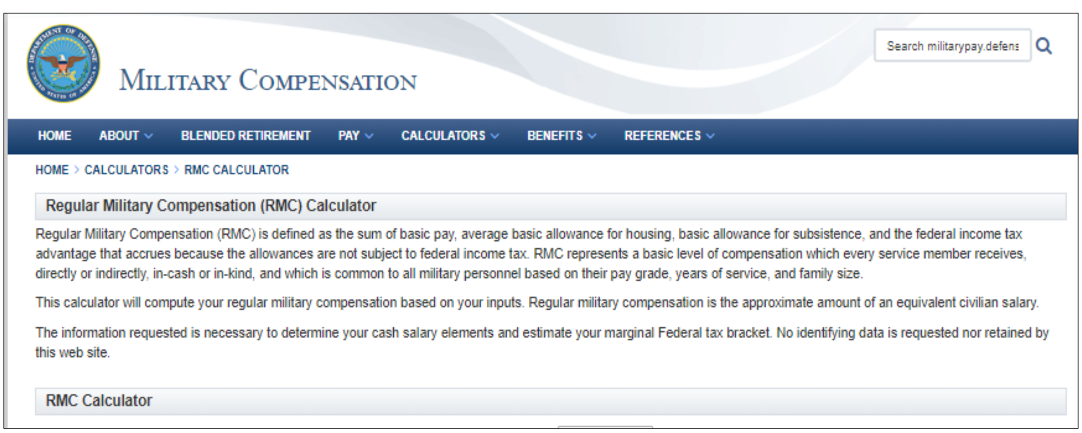
Now that you know your current income, we can determine the approximate civilian equivalent based on your current salary in the military.

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

Be aware the RMC calculator does **NOT** include special pays.

The RMC does not include special pay (COLA, flight, language, etc.). If you receive special pay, it is necessary to add the total amount of special pay to the civilian equivalent amount to provide a more accurate representation of your civilian equivalent salary need.

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



Two scenarios are included as examples for use of some of the websites.

Scenario 1	Scenario 2
• E-4 • Separating after 4 years • Single • Washington, DC; 20002	• 0-5 • Retiring after 20 years • Married with family • San Antonio, TX; 78150

Scenario 1: RMC Calculator

Annual basic pay is $34,977 adding in BAH and BAS brings compensation (without special pays) to $65,895.

Grade	E-4
Years of Service	4
Tax Filing Status	Single
Family Size, including Yourself	1
Living OCONUS or Not Receiving BAH	○ Yes ● No
ZIP Code of your Permanent Duty Station	20002

Grade	E-4
Years of Service	4
Tax Filing Status	Single
Living OCONUS or Not Receiving BAH?	No
Living OCONUS?	N/A
ZIP Code of your Permanent Duty Station	20002
Annual Basic Pay	$34,977.60
Annual Basic Allowance for Housing	$25,488.00
Annual Basic Allowance for Subsistence	$5,430.72
Non-Taxable Allowances (BAH + BAS)	$30,918.72
Number of Exemptions for Previous Calendar Year	1
Personal Exemption Amount	$0.00
Standard Deduction	$13,850.00
Total Deductions	$13,850.00
Taxable Income (Annual Basic Pay - Total Deductions)	$21,127.60
Tax Rate	12%
Gross Up	$35,134.91
Tax Advantage	$4,216.19

Total Regular Military Compensation (RMC) $70,112.51

This Service member will need an **approximate** salary of **$70, 112** to meet their current financial obligations and maintain their current lifestyle in Washington, D.C.

Scenario 2: RMC Calculator

This Service member lives in San Antonio, TX; base pay is approximately $126,536 bringing compensation with BAH and BAS is approximately $160,444.

Grade	O-5
Years of Service	20
Tax Filing Status	Married Filing Jointly
Family Size, including Yourself	4
Living OCONUS or Not Receiving BAH	○ Yes ◉ No
ZIP Code of your Permanent Duty Station	78150

Grade	O-5
Years of Service	20
Tax Filing Status	Married Filing Jointly
Living OCONUS or Not Receiving BAH?	No
Living OCONUS?	N/A
ZIP Code of your Permanent Duty Station	78150
Annual Basic Pay	$126,536.40
Annual Basic Allowance for Housing	$30,168.00
Annual Basic Allowance for Subsistence	$3,740.16
Non-Taxable Allowances (BAH + BAS)	$33,908.16
Number of Exemptions for Previous Calendar Year	4
Personal Exemption Amount	$0.00
Standard Deduction	$27,700.00
Total Deductions	$27,700.00
Taxable Income (Annual Basic Pay - Total Deductions)	$98,836.40
Tax Rate	22%
Gross Up	$43,472.00
Tax Advantage	$9,563.84

Total Regular Military Compensation (RMC) $170,008.40

This Service member will need an **approximate** salary of **$170,008.40** to meet their current financial obligations and maintain their current lifestyle in San Antonio TX.

ACTIVITY: Determine the Civilian Salary Equivalent

1. Use the RMC Calculator below to determine the approximate civilian salary equivalent based on your current location: http://militarypay.defense.gov/Calculators/RMC-Calculator/
2. Provide the information requested on the RMC Calculator
    - Rate/rank (when transition occurs)
    - Years of Service
    - Tax filing status (single, married filing jointly, married filing separately, head of household)
    - Family size (type 1, if it is only you)
    - Living OCONUS or Not Receiving BAH
    - ZIP code of where you are currently living or where you plan to relocate
3. Click Calculate
4. Write the amount in the box below
5. If applicable, determine amount of special pay (COLA, flight, language) and write in the box provided
6. Provide additional notes as needed

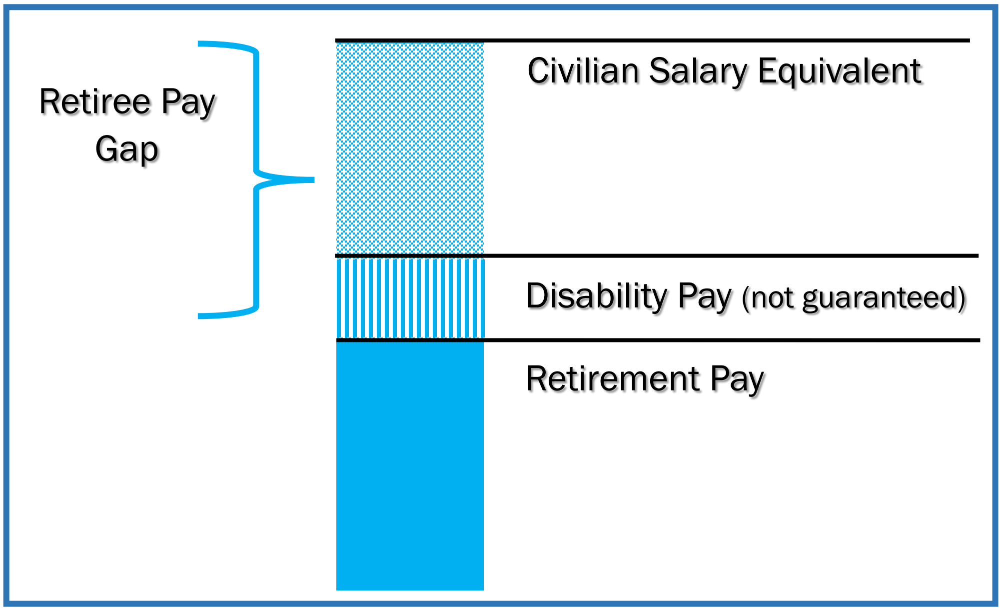
Civilian Salary Equivalent (Yearly)

Current Location (zip code)	
Civilian Salary Equivalent	
Amount of Special Pay	
NOTES:	

Adding the basic pay, BAH, and BAS calculates the civilian equivalent. The calculator then figures, based on the information you provided, the taxes owed if all three were taxed (tax advantage). All four combined, base pay, BAH, BAS, and tax advantage, determine the final civilian equivalent.

Retiree Pay Gap

For those entering military retirement and anticipate receiving retirement pay, there is an additional calculation that is needed. As a retiree, you will receive retirement pay; this amount may partially meet the civilian salary equivalent. However, there will most likely be a gap between the retirement pay and civilian salary equivalent. To determine the pay gap or the actual amount needed to earn in retirement to meet the civilian salary equivalent, use militarypay.defense.gov.



Civilian Salary Equivalent – Retirement Pay and Disability Pay (if applicable) **= Retiree Pay Gap**

Retirement pay calculations are further complicated by the possibility you may receive Disability Pay. As this is not guaranteed and the amount is not known until the disability rating is determined by the VA, it is recommended to view this pay as a bonus and not guaranteed. It is added for knowledge. You may also choose to not include any potential retirement pay when estimating future civilian salary.

ACTIVITY: Estimate Pre-Tax retirement Pay and Retiree Pay Gap

1. Use http://militarypay.defense.gov/Calculators/High-3-Calculator/
2. Follow the directions on the website
   a. Active or Reserve
   b. Personal information (must first add year to Pay Entry before month)
   c. Retirement information
   d. Career progression
   e. Roll over the first full High-3 Pension bar to see the yearly amount

Retirement Pay Gap

Civilian Salary Equivalent	
Retirement Pay	
Pay Gap (Civilian Salary Equivalent – Retirement Pay)	
Notes:	

The Pay Gap is the actual amount you will need to earn to keep your current lifestyle using retirement pay as a paycheck.

Now that there is a clear understanding of the salary needed post-transition, let's look at the changes in taxes which occur due to transition.

Taxes After Transition

Service members often cite taxes as one of the most surprising changes encountered after transition. To understand how your taxes may be affected, it is necessary to utilize various websites.

IRS, Smart Asset, Nerd Wallet, and Turbo Tax are examples of websites that may be helpful.

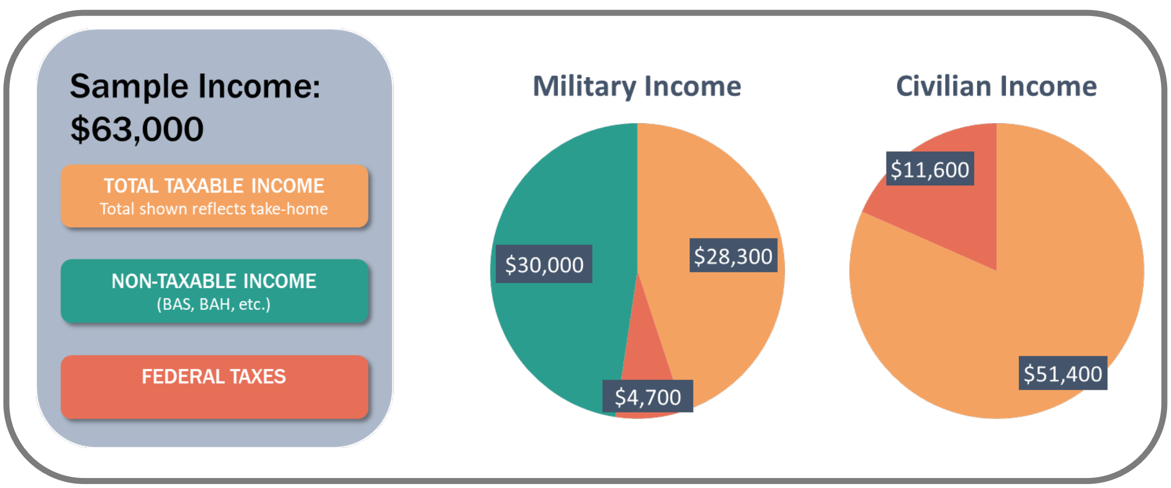
While these websites provide valuable information, they are for research purposes only and do not provide tax advice or a tax bill.

Salary Difference: Military vs. Civilian Income

The RMC provided an amount for the civilian equivalent salary, which is higher than your current salary. This is due to many military entitlements or allowances, which are not taxable while you are in the military.

BAH, BAS, and special pays are examples of non-taxable income. In the civilian sector, all your salary and some of your benefits could be taxable. Therefore, the civilian equivalent calculation adds the BAH and BAS into your base pay and determines the taxes based on this amount. The salary equivalent is higher due to additional taxes paid on these previously non-taxable items.

The graphic below visually explains the difference between the taxes paid for a military salary of $63,000 and a civilian of the same amount.



For this example, federal tax includes federal income tax and Federal Insurance Contributions Act (FICA); it does **not** include state or local taxes. The amounts were determined using SmartAsset (https://smartasset.com/taxes/income-taxes)

To sum it up, you will need to make <u>MORE</u> in the civilian sector than you did in the military if you want to maintain your current lifestyle.

Tax Considerations After Transition

The following are additional changes that you need to prepare for post-transition:

- **Taxable Income:** As previously discussed, not all military income is taxable. When working in the civilian sector, ALL your civilian salary is taxable at the federal level and possibly at the state levels depending on the state tax laws. In addition, some areas will add county and city taxes based on your income. Also, you may need to account for income tax payments on benefits, like stock options if included in your compensation package.

- **Federal Taxes:** Federal taxes are progressive, meaning as your taxable income increases so does the tax rate. Current marginal tax rates range from 10% to 37%. Your marginal tax rate is determined by your filing status and your taxable income.

- **State Income Tax:** Depending on the state you listed as your state of residency (e.g., Florida or Texas), you may not have been paying state income tax while in the military. As a civilian, you may start paying state income tax depending on your location and change in military status. Location matters for income taxes because some states do not have state income tax while others do not tax retiree pay.

- **County and City Tax:** Some counties, as well as cities, collect taxes to fund local government services on top of federal and state taxes. Examples of this type of tax are the sales tax on goods and services and personal property tax for car or home. As military, you may have been exempt for some of these or as a retiree, the state may waive these in certain circumstances.

- **No Automatic Extensions:** You may no longer receive an automatic extension on the April 15 tax filing deadline unless you specifically request it directly from the IRS.

- **Property Taxes:** You may have been exempt from certain property taxes or received a discounted rate for vehicle registration while you were serving. Tax breaks, exemptions, and discounts offered to Veterans vary from state to state.

NOTE: As a veteran, there are still a few income streams which are not taxable. This may include such items as disability pay and/or housing funds received from the GI Bill.

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

Let’s review the new tax liability using the previous scenarios.

Scenario 1	Scenario 2
• E-4 • Separating after 4 years • Single • Washington, DC; 20002	• 0-5 • Retiring after 20 years • Married with family • San Antonio, TX; 78150

Scenario 1: Tax Estimate After Separating

Estimated civilian equivalent — $65,895

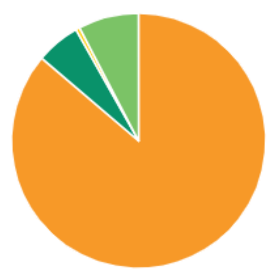
Household Income	Location	Filing Status
$ 65,895	Washington, DC	Single

Total Estimated 2022 Tax Burden

Income Tax	$15,347
Sales Tax	$1,017
Fuel Tax	$91
Property Tax	$1,389
Total Estimated Tax Burden	$17,845

Percent of income to taxes = 27%

$17,845



ACTIVITY: Estimate Your Taxes After Transition

1. Use https://smartasset.com/taxes/income-taxes to determine your Federal, State, and Local taxes
2. Enter your Civilian Salary Equivalent (with special pay, if applicable) as the household income
3. Enter a location
4. Indicate filing status
5. Write the information in the space provided below
6. Provide additional notes as needed

Taxes for Civilian Salary Equivalent

Civilian Salary Equivalent	
Location (city, state, zip)	
Location - Taxes based on civilian salary equivalent	
Notes:	

Scenario 2: Tax Estimate When Retiring

When retiring, there are other considerations, such as how tax friendly a state is for retirement pay. Some states do not tax retirement pay, others offer a sliding scale, while others fully tax, but provide alternate benefits. The following is a tax estimate for a retiree in San Antonio, Texas.

Annual Social Security - $0
Annual Retirement Account Income (Retirement Pay) - $55,000
Annual Wages (Pay Gap) - $103,790

Annual Social Security Income	Annual Retirement Account Income	Annual Wages
$ 0	$ 55,000	$ 103,790
Location	**Year of Birth**	**Filing Status**
San Antonio, TX	1973	Married

Your Tax Breakdown

Federal	$28,120
State	$0
Local	$0
Total Taxes	$28,120

Quick Guide to Texas Retirement Income Taxes

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

Resources for State Retirement Tax Information:

- https://smartasset.com/retirement/retirement-taxes
- https://www.military.com/money/personal-finance/state-tax-information.html

ACTIVITY: Determine Your Taxes with Retirement Pay

1. Go to: https://smartasset.com/retirement/retirement-taxes
2. Choose the state where you wish to retire
3. Complete the following information:
    a. Annual Social Security Income = $0 (if not drawing Social Security)
    b. Annual Retirement Account Income = military retirement (DO NOT put in Pension)
    c. Annual Wages = pay gap or amount you expect to earn upon retirement (estimate using your civilian salary equivalent)
    d. Location = zip code
    e. Year of Birth
    f. Filing Status
4. Write the information in the space provided
5. Provide additional notes as needed

Taxes for Retirement

Retirement Pay	
Pay Gap	
Location for Retirement (city, state, zip)	
Location Tax Amount	
State Tax Benefits	
NOTES:	

As you continue through your transition process, have a better sense of what annual income you will earn and where you plan to live, return, and use this information and activities to improve your knowledge and accurately plan for your finances after transition.

Wrap Up Questions

- What is the difference between Gross and Net income?
- Why is the civilian equivalent salary higher than the military pay?
- What may change about the tax liability? Federal? State? Changes to Local?

Expenses

Competency

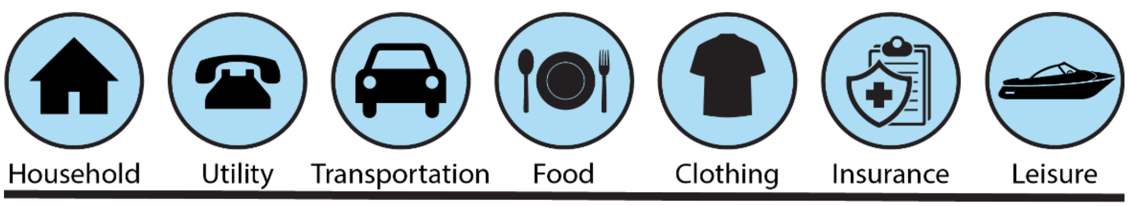
Evaluate your current expenses and understand how your expenses might change and affect your standard of living after transition.

Learning Objectives

- Create or update list of current expenses
- Compare cost of living at current and 2nd location
- Describe the basics of health insurance
- Specify the basics of life insurance

Living Expenses

Expenses are the daily, weekly, and monthly items you pay to live – groceries, utilities, clothing, childcare, entertainment, etc. This includes ALL items where cash, debit, credit, or any other method of payment used to make a purchase or pay a bill.



Types of Expenses

Some expenses, such as internet, cable, phone, and insurance are easy to know because they tend not to change from month to month. There are also variable expenses that change depending upon the time of year. For example, your electricity bill may be more expensive during the summer if you use an air conditioner.

Living expenses generally account for most of your income, while a portion is intended for leisure, also known as disposable income.

Included in the leisure category are items such as eating out, going to the movies, making in-app purchases, stopping by the coffee shop, hobbies, and/or using the vending machine.

Take a minute to consider how you spend your money.

- Do you stop for coffee every morning?
- Do you use vending machines for something to drink or eat?
- How often do you eat out for lunch or dinner?
- How many streaming or gaming accounts do you have?

ACTIVITY: Update the Expenses section of your Spending Plan

Follow the directions provided by your facilitator and fill in the appropriate areas of the spending plan. Note: Rent/Mortgage is under debt. Do your best to accurately estimate the following:

- Utilities
- Grocery expenses
- Personal grooming
- Other expenses

Tracking Spending

Monthly expenses are generally known and easily identified; however, the daily spending where it is easy to lose track. Even if you have a good idea of where you are spending your money, it is wise to track your expenses for a few weeks or a month prior to transition. This will provide detailed knowledge of where you are spending and, more importantly, provide where you can adjust, if needed.

There are many ways to track your expenses. Use what works best for you. The following are a few suggestions:

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

How you track your expenses is not as important as the tracking itself. Just be sure to include ALL purchases.

Changes to Expenses After Transition

As you transition, many things will change including your current expenses. How will transition affect your expenses?

- Will your expenses decrease?
- Will your expenses increase?
- Will there be new types of expenses?

Depending on where you live, expenses for groceries, gas, utilities, and housing may decrease – especially if you are moving to an area with a lower cost of living or moving in with family, friends, or roommates. However, the opposite can also be true that these same expenses may increase if you are living in the barracks and now must find a place to live or are moving to an area with a higher cost of living.

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

Expense of Relocation

As you transition, you may have one move provided by the military. Visit your transportation office to ensure you are aware of all requirements pertaining to your final move, such as deadlines or how to request an extension. Even if the military pays for your final move, there are still expenses associated with relocation that need to be considered.

Changes to Cost of Living

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

- Housing (rent or mortgage)
- Utilities
- Taxes (including tax benefits for Veterans)
- Food, childcare, commuting costs, clothing, entertainment, school or college costs, climate, insurance, home, or car repair

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

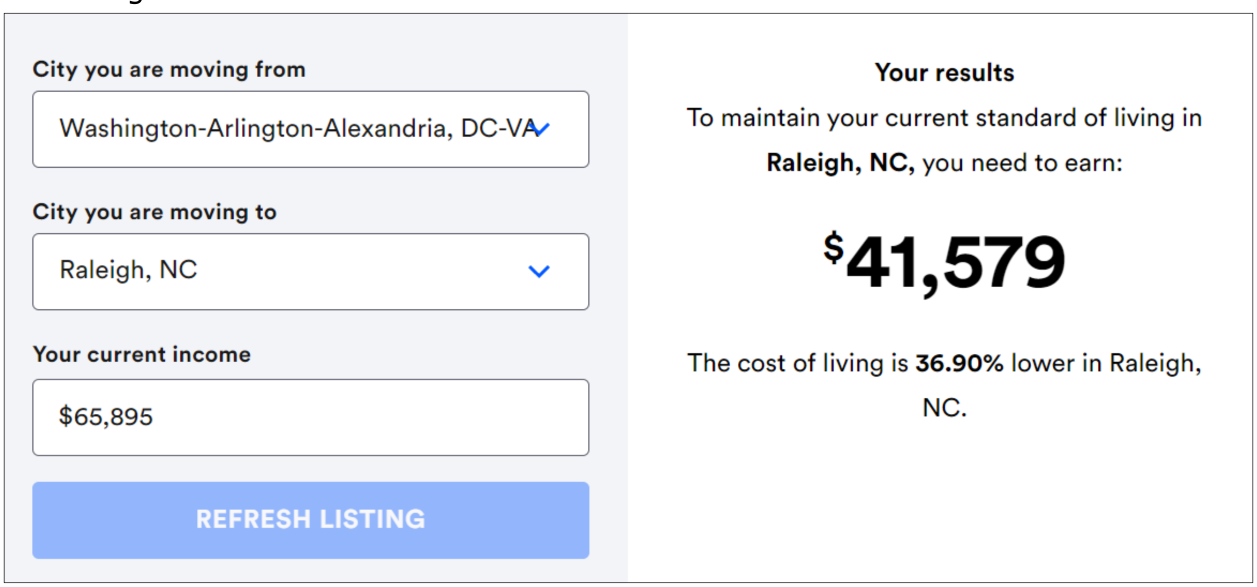
- http://www.bestplaces.net/cost-of-living
- https://www.bankrate.com/calculators/savings/moving-cost-of-living-calculator.aspx
- https://money.cnn.com/calculator/pf/cost-of-living/index.html
- https://www.payscale.com/cost-of-living-calculator
- https://www.expatistan.com/cost-of-living

Scenario 1: Cost of Living Comparison

Scenario 1	
• E-4 • Separating after 4 years • Single	Washington, DC; 20002 • Salary CE: $65,895 Moving to Raleigh, NC

Salary requirements in Washington, D.C. compared to Raleigh, NC, to maintain current lifestyle.

According to BankRate.com:



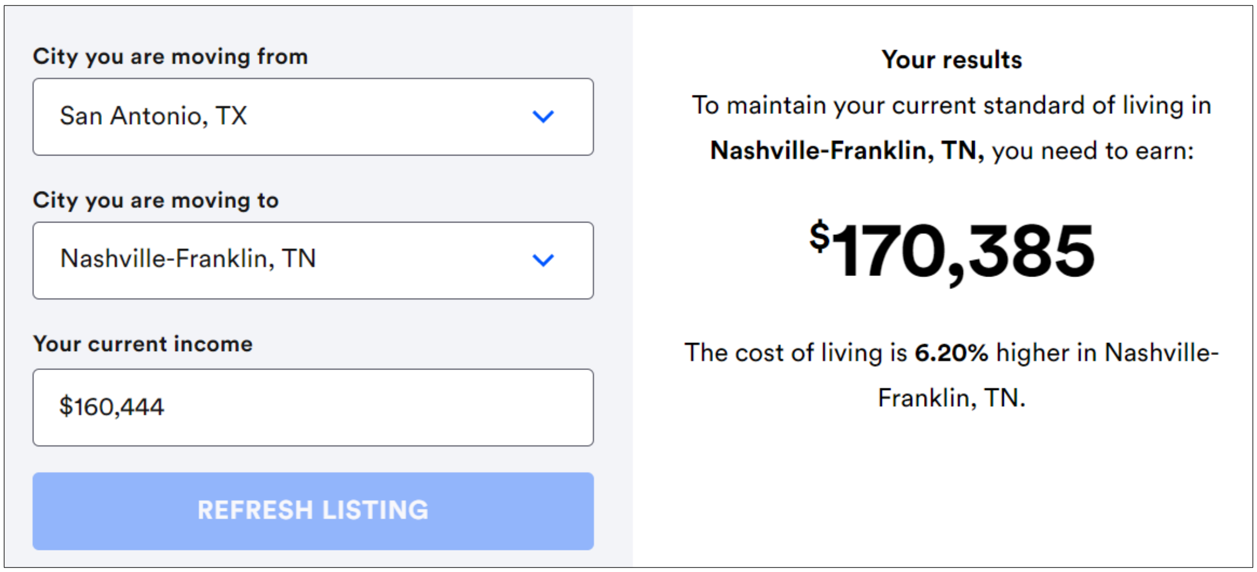
Many expenses would go down, along with salary requirements, which is what would be expected when moving out of the Washington, D.C. area.

Scenario 2: Cost of Living Comparison

Scenario 2	
• 0-5 • Retiring after 20 years • Married with family	San Antonio, TX; 78150 • Salary CE: $160,444 Moving to Nashville, TN

Salary requirements in San Antonio, TX, compared to Nashville TN, to maintain current lifestyle.

According to BankRate.com:



Income requirements in Nashville are slightly higher than San Antonio due to the higher cost of living in Nashville.

These are not the only considerations to be made when viewing cost-of-living information. Information provided by different cost-of-living calculators may vary. Take time to research the area before determining if a particular location will fit your personal and financial needs after transition.

ACTIVITY: Determine the Cost of Living for a New Location After Transition

1. Use the BankRate.com website http://www.bankrate.com/calculators/savings/moving-cost-of-living-calculator.aspx or a different cost-of-living calculator to find the location-based salary equivalent

2. Write your new location in the box provided
3. Determine your new salary based on location using civilian salary equivalent
4. Write the amount in the box below
5. Review housing adjustment.
6. Provide additional notes as needed

Cost of Living

Location (city, state)	
Salary adjustment for location	
Housing difference for location	
Notes:	

Healthcare After Transition

Healthcare and health insurance could be considered two of the best benefits provided by the military. While in the Service, you most likely used TRICARE for your healthcare needs. While using TRICARE, you may have become accustomed to having your health/medical benefits completely covered, with little to no out-of-pocket expenses. There was no need to worry about the cost of medicines, co-pays, or if the doctor is in your network.

However, decisions about healthcare and health insurance are very important and should be considered carefully. Even with insurance, you will still have medical expenses. Be prepared, know your options, and make informed decisions.

When preparing to transition your healthcare, be sure you have received a complete copy of your medical records prior to transition, as well as those of your spouse and/or children. These records will be necessary for continuity of care to a new medical provider or when applying for disability. The VA will provide further information on obtaining your medical records during the VA Benefits and Services brief.

Immediately After Transition

Health insurance is different for those separating from the military and retirees.

Retirees:
If you are retiring and you would like to enroll in **TRICARE for RETIREES**, it is strongly recommended that you sign up for TRICARE and pay the premium as soon as your orders are reflected in DEERS. For more information on enrollment go to www.tricare.mil.

If you plan to use a Military Treatment Facility (MTF) after retirement for your health care needs, it is important to note that not all MTFs have availability to receive Retired Service members and eligible family members. Check directly with TRICARE to find out what services are available in the area where you plan to live.

Separatees:
Depending on your type of separation and if you meet eligibility requirements, you ***may*** qualify for transitional healthcare insurance. **Transitional Assistance Management Program (TAMP)** offers the same coverage available under TRICARE, but it is only available for 180 days after your date of separation.

For those who do not qualify for TAMP, TRICARE offers **Continued Health Care Benefit Program (CHCBP)**, which can offer coverage for up to 18 months upon separation from Service. There are up-front quarterly premiums, co-pays, and deductibles associated with CHCBP. You must purchase the CHCBP within 60 days of loss of TRICARE eligibility.

A helpful website to determine the TRICARE plan you may be eligible for is https://tricare.mil/Plans/PlanFinder.

For more information, to determine eligibility, or to apply for TAMP, CHCBP, or TRICARE for Life, go to www.tricare.mil. VA Benefits and Services brief will provide additional information.

For members of the National Guard and Reserve, the TRICARE eligibility requirements are different. For more information, to determine eligibility requirements, and to apply for TRICARE programs, go to www.tricare.mil.

Civilian Healthcare Options

For those who are not eligible for other TRICARE plans or choose not to use CHCBP, the alternate option is to use insurance from an employer or purchase health insurance off the Marketplace (i.e., https://www.healthcare.gov/) through an insurance company.

This next section will provide the basics of health insurance, terminology, and options available to you.

Healthcare Plans and Considerations

When choosing a plan, it is good to know the basics.

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

Individual or Group Insurance

Healthcare is generally provided as either individual or group health insurance. For individual coverage, there may be greater options available, but at a higher cost premium. Group health insurance may provide fewer choices at a discount.

- Greater number of options
- Higher cost

- Limited options
- Less expensive

Group insurance is generally the option used by employers. This type of insurance is a financially feasible way for the company to provide health insurance for each employee, possibly paying for some or all the premiums. Your future employer can provide details on each of the coverage plans they offer and can answer any questions you might have.

Individual plans are between you and the insurance company. These plans may be more expensive, and there may be a questionnaire or physical exam involved before you receive coverage. The results of the questionnaire or exam may be used to determine costs. However, there may be more choices to individualize a plan.

A growing trend is for companies to provide a healthcare stipend by adding a set amount to the paycheck each pay period. The intent is for the employee to use this stipend to purchase his or her own health insurance. You may also have the choice of paying premiums through your employer from your pre-tax income. Remember to ask your employer about your options.

Healthcare Terms

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

Premium	Amount you pay for health insurance, usually every month (per paycheck, quarterly or yearly payments are also possible)
Deductible	Amount you are responsible for paying before your insurance starts cost sharing o EX: if you have a $1500 deductible, you pay all costs up to the $1,500
Co-Insurance	The percentage of medical costs that you are required to pay after reaching your minimum deductible o EX: After reaching your deductible, if a visit to the doctor is $100 and your co-insurance is 20%, you owe $20
Co-Payment	A flat fee service providers charge based on the health plan o EX: a $20-$40 co-pay every time you visit your primary care physician

In-Network Cost	Cost to see a doctor who is in your network and has an agreement with the insurance company
Out-of-Network Cost	Cost to see a doctor or receive services from a provider who is not in your healthcare plan; cost is usually greater than in-network and can be up to the full cost of the service
Out-of-Pocket Cost	Deductibles, co-payments, and co-insurance not covered by the insurance provider; does not include premiums
Out of Pocket Maximum/Limit	Most you will pay for covered services in one year; after this amount is reached, insurance covers 100%; does not include premiums
Flexible Spending Account (FSA)	An arrangement through your employer that lets you pay for many out-of-pocket medical expenses with tax-free dollars
Health Savings Account (HSA)	Pre-tax savings account for those with high deductible plans to pay for deductibles, co-payments, co-insurance, and some other expenses
Qualifying Life Event (QLE)	A significant change in your life (e.g., marriage, birth of a child, or change in employment). A QLE may allow you to make enrollment changes outside of the annual open enrollment period.

Types of Plans

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

Preferred Provider Organizations (PPO)	Health plan where you pay less if you use providers in the plan's network. You can use doctors, hospitals, and providers outside of the network without a referral for an additional cost.
Point of Service (POS)	Health plans where you pay less if you use doctors, hospitals, and other health care providers that belong to the plan's network. POS plans require you to get a referral from your primary care doctor to see a specialist.
Exclusive Provider Organization (EPO)	A managed care plan, like an HMO, where services are covered only if you use doctors, specialists, or hospitals in the plan's network (except in an emergency).
Health Maintenance Organization (HMO)	Health plan that usually limits coverage to care from doctors who work for or contract with the HMO. Out-of-network care is generally not covered except in an emergency. An HMO may require you to live or work in its service area to be eligible for coverage.
Catastrophic Plan	You must be under 30 years of age to qualify for a Catastrophic Plan. This plan has lower premiums and allows the greatest amount of flexibility on the choice of provider. However, the deductible for the catastrophic plan is very high, generally equal to the out-of-pocket maximum.

Considerations When Reviewing Health Care Plans

If you can choose a healthcare plan from your post-transition employment or through another option, consider the following questions when choosing your plan.

- Estimate your yearly medical needs.
    - How often do you visit the doctor? Is there a medical condition requiring regular visits (e.g., young children needing well-baby checks, pregnancy, and new baby)?
    - For reoccurring or existing medical conditions, consider the number of doctor office visits, procedures, and/or hospitalizations in the past year to determine total possible out-of-pocket expense as well as the number of covered beneficiaries.

- Decide which plan type best meets your needs.
    - Consider all types of plans — PPO, POS, EPO, or HMO — and determine which will fit you and your family's needs.

- Size up the cost.
    - Compare the total cost, not just the monthly payment or deductible – also consider the cost of hospitalization and prescriptions, and balance this with your overall health and expected medical needs.

- Don't get lured in by freebies.
    - Do your research to be sure that what is being touted as free isn't something that is already covered by the plan.
- Check the quality of the plan.
    - The National Committee for Quality Assurance ranks healthcare plans across the country based on their clinical performance, member satisfaction, and surveys.

- Consider a flexible spending account.
    - If your employer offers a healthcare flexible spending account, save money by setting aside pre-tax money into a healthcare flexible spending account (FSA). These accounts can be used to pay for prescriptions, contacts, and other out-of-pocket medical expenses, but generally not the premium.
    - Review your yearly medical needs when considering this option, since FSAs require that all funds be used in the current year, or a

limited amount can be rolled over into the next year as some of these accounts have annual spending requirements.

- Check out the prescription coverage.
    - Not all prescription drugs are covered. If you have medications you take on a regular basis, be sure your prescription is included in the coverage or check with your physician or pharmacist for options that are covered.

- Ask about dental and eye coverage.
    - Not all plans include coverage for dental or eye exams; be sure to ask, especially if you or a member of your family wears glasses and will need yearly eye Exams.

- Family coverage vs Individual coverage.
    - Some plans charge premiums based per persons covered versus a family (multiple person coverage) plan. Premiums can add up quickly. Be sure to understand who and what is covered and at what cost.
    - Special consideration/additional research might be needed if you have a young adult in college or an adult dependent with special needs.

If you don’t know or aren’t sure, ASK! Healthcare is complicated. Call the member services department of the health plan you are considering or the Human Resources (HR) department at your future employer. You can also find help with Marketplace healthcare plans by speaking with a Healthcare Navigator, an individual or organization that's trained and able to help consumers, small businesses, and their employees as they look for health coverage options through the Marketplace, including completing eligibility and enrollment forms. Navigators are required to be unbiased, and their services are free to consumers.

Estimating Healthcare Costs

When estimating the cost of healthcare, assume that you will be paying the entire premium and associated costs, like deductibles, for you and your family. If you obtain employment where your employer pays for a portion of your insurance, your healthcare costs will be less than estimated. If you get healthcare though the Healthcare Marketplace, you may qualify for tax credits that help pay for part of the cost of coverage.

There are many different websites available to assist in comparing plans and estimating the cost of healthcare insurance. It is recommended to use two or three different sites when attempting to estimate your health insurance costs.

One example is the Healthcare Marketplace (https://www.healthcare.gov/see-plans/). This website will estimate the out-of-pocket expense of different plans with varying levels of coverage. While this will not provide the exact cost, it will provide a good estimation of the cost of individual health insurance.

ACTIVITY: Estimate the Cost of Health Insurance

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

Cost of Healthcare Estimates

Website Used			
Plan Name			
Company			
Monthly Premium			
Annual Premium			
Deductible			
Co-pays			
Co-insurance			
NOTES:			

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

Veteran Specific Site on Healthcare Marketplace

As a transitioning Service member, you will not be required to wait until the open enrollment period to obtain health insurance through the Healthcare Marketplace. Leaving the military qualifies as a life event and entitles you to a Special Enrollment Period. For more information, visit the following websites:

- https://www.healthcare.gov
- www.tricare.mil
- http://www.tricare.mil/reserve/

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

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

Life Insurance

HOW MUCH LIFE INSURANCE DO YOU ACTUALLY NEED?

The purpose of life insurance is to replace the loss of income upon the death of the insured and to be able to pay debts, funeral expenses, future expenses, education costs, etc. How much is necessary? That fully depends on your current life situation. A family with young children will have different life insurance needs than a couple nearing retirement.

When considering life insurance, the first step is to evaluate your life insurance needs. This is to ensure you have enough coverage, the right type of coverage, and the correct beneficiaries.

To ensure you have enough coverage, use a simple acronym, **LIFE**, to calculate your life insurance needs.

- **L**iabilities – mortgage, debt, etc.
- **I**ncome – annual salary X years to replace that income
- **F**inal Expenses – burial, estate, etc.
- **E**ducation – college/certifications for survivors

From that total, subtract your current savings, existing college resources, and current life insurance policies. The difference provides the amount of life insurance coverage needed. In addition to this simple calculation, there are many online calculators to help you determine your insurance needs. The VA provides one such calculator: https://insurance.va.gov/NeedsCalculator

Next is to determine the right type of coverage.

Types of Life Insurance

While in the Service, the Servicemembers' Group Life Insurance (SGLI) provided you low-cost life insurance. There was also an option to cover your family with Family Servicemembers' Group Life Insurance (FSGLI). After transition, SGLI coverage continues for 120 days (or up to two years of coverage by applying for the SGLI Disability Extension if a Service member is disabled and unable to work). After that time, SGLI is no longer an option. The following are other available options:

Veterans Group Life Insurance (VGLI)—allows Service members one year plus 120 days, from the date of separation, to convert their SGLI coverage to term life insurance https://www.va.gov/life-insurance/options-eligibility/vgli/

- Once enrolled in VGLI, coverage remains if the premiums are paid.
- Rates are determined using a sliding scale based on age.

Term Life Insurance: provides coverage at a fixed rate of payments for a limited period of time or term.

- Generally, coverage expires after the limited period of time.
- Renewing the policy may result in a higher rate or have added conditions.
- Often the least expensive way to purchase substantial death benefits.

Permanent Insurance: covers you until your death, while the payments are made, and provides a cash value.

- Under the Permanent Life Insurance umbrella, there are several types:
    - Whole Life, Variable Life, Universal Life, Variable Universal Life, and Indexed Universal Life.
- Payments are made until the coverage matures, generally around age 100 of the insured.
- Payments are generally less expensive the earlier the insurance is purchased and as long as the payments continue to be made.
- Frequently more expensive than term life insurance.
- Ensures a guaranteed financial support if premium payments continue to be made.

Determining if you and your family need life insurance and the type of life insurance is a decision you need to make. It is also a decision that should be based on the research you have conducted.

Finally, ensure you have identified a designated beneficiary. This is the only way to ensure the life insurance is paid to whomever you choose. A beneficiary designee will supersede any designations made in your will.

Final thoughts on Life Insurance:

- Finding the right life insurance coverage takes time and there are hundreds of companies competing for your business.
- Shop around and get life insurance quotes from a few different companies. However, realize that you may be required to provide them basic information including your contact information to obtain a quote. This may lead to phone calls or emails from the company.
- By comparing quotes, you can discover the differences in cost and in coverage, as well as how much premiums will increase as you age.
- Depending on how long you wait to find life insurance coverage, and the life insurance company you choose, you may be required to take a physical. The results of the physical can affect the cost of the premium.

If you intend to purchase life insurance, it is recommended that you do so within 240 days after date of discharge. Within this window of time, proof of good health may not be required for converting from SGLI to VGLI. Companies may offer life insurance with similar policies, but with different time frames and requirements.

Do your research and be an informed consumer before inquiring or purchasing life insurance. Also, your new employer may offer life insurance options while you are an employee. For any questions, the Personal Financial Manager on your installation can provide additional information and guidance.

Disability Insurance

One other type of insurance to consider is disability insurance. When an Active-duty Service member becomes ill or injured, he or she continues to receive pay and benefits. This type of coverage is not automatic in the civilian sector. Generally, an employee must elect to have disability insurance to receive some or all their pay while in recovery. Many employers offer some type of disability insurance as part of the compensation package, or it can be purchased separately.

Wrap Up Questions

- Why would tracking your expenses for a period of time prior to transition benefit you?
- What is a co-pay?
- What is a deductible?

Debt and Credit

Competency

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

Learning Objectives

- Understand debt and credit
- Analyze the impact of credit score on transition
- Identify ways to decrease debt prior to transition

What is your current Debt?

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

Items that fall into the debt category generally include:

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

ACTIVITY: Update the Debt section of your Spending Plan

Follow the directions provided by your facilitator and fill in the appropriate areas. Remember to include the following:

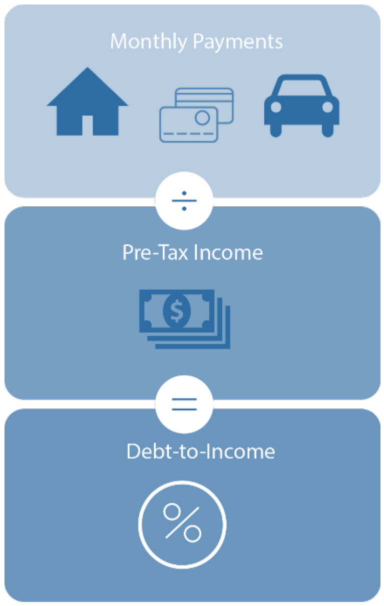
- Mortgage or Rent
- Car Payments
- Credit Cards – bank, department, Military Star Card
- Loans – personal, student, car, home

NOTE: Mortgage or rent while in the military is sometimes categorized as an expense due to housing allowance being provided to cover your mortgage or rent. However, after transition, financial institutions categorize mortgage or rent as a debt. As this course is about finances post transition, mortgage and rent are included within debt.

Debt-to-Income Ratio (DTI)

As you transition, it is good to know the amount of debt you have in relation to your income. This is your debt-to-income ratio (DTI). This ratio is one way to measure how financially solvent you are. Lenders will determine your DTI and use this, along with other factors, to decide your ability to repay. Any DTI calculated is a snapshot of your current situation, so it needs to be recalculated regularly as your income and/or debt change. The following are the steps needed to calculate your debt-to-income ratio.

Calculating Your DTI Ratio



Step 1: Add up all your required **minimum** monthly debt payments. This may include:

- Rent/mortgage
- Monthly minimum credit card payments
- Loans: student, personal, auto, etc.
- Child support or alimony

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

Step 3: The result is your DTI.

Example: Calculated total monthly **MINIMUM** debt payments (including rent, car loan, credit card payments) as $2,050; gross monthly income (pre-taxes) is $5,495.

The DTI calculation is:

- 2050 ÷ 5495 = 0.37
- 0.37 x 100 = 37%

DTI ratio is 37%.

DTI Ratio – What Does This Mean? Why is this important?

Since a lender will use your DTI to determine your credit worthiness, it is good for you to know yours and understand what it says about your financial situation. The generally accepted percentages are:

- Less than 33%: Acceptable – debt is manageable.
- 34% - 49%: Work to lower your DTI – it would be better to be below 33%.
- Over 50%: Seek financial assistance immediately. With over half your income going to debt, any life event requiring additional funds could cause serious financial hardships.

Generally, a DTI of 41-43% is typically the top end for approval for a mortgage. This DTI limit is also true of VA loans.

Consumer Finance provides an explanation as to why this is important, located within this link: https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-to-income-ratio-why-is-the-43-debt-to-income-ratio-important-en-1791/

It is highly encouraged for you to seek assistance with developing a debt management plan prior to transition, especially if your DTI is 49% or higher. Having control of your debt as you enter transition will allow for more financial flexibility during the transition period.

Managing Your Credit for Transition

Just as it is necessary to understand your debt prior to transition, it is just as important to understand and manage your credit.

This section will be a review of information provided during previous financial literacy courses on your credit report and score. The purpose of this section and information are to ensure you are aware of how a credit score and report can affect your transition—positively and negatively.

What is a Credit Score?

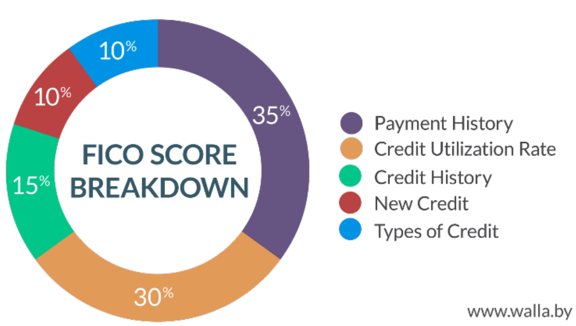
Credit Scores are widely available to consumers from sources such as banks and credit card companies. Credit scores generally range from 300 to 850; the national average for a FICO score is 695 – 700, with most in between 660 and 720. Remember, higher credit scores may result in better credit terms such as lower annual percentage rates (APR).

Credit Scoring Factors

The biggest credit scoring company with over 90% of the market is—Fair Isaac Corporation (FICO). Most creditors and credit bureaus either use FICO scores or have a system based on the FICO system. More information is available online at http://myfico.com.

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

- **Payment history** (about 35% of the score)
    - Previous credit accounts paid on time.
- **Amounts owed on credit accounts** (about 30% of the score)
    - Amount of credit used compared to your credit limits.
- **Length of credit history** (about 15% of the score)
    - Length of time your credit accounts have been established and the length of time it has been since you used certain accounts.
- **New credit** (about 10% of the score)
    - The number of new accounts that have been recently opened (i.e., number of new requests for credit).
- **Credit mix** (about 10% of the score)
    - FICO scores will consider the mix of credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans.



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

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

How Does the Credit Report and Score Affect Your Transition?

During transition, your credit report may be viewed for various reasons.

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

Why Should I Care?

- Influences on hiring, home loans, insurance, applying for government assistance
- Higher score = favorable ability to be hired, to be approved to rent, to be granted a loan, or to be insured

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

Prior to transition, check your credit report so you know what it contains, and that the information is correct and accurate. It is important to note that potential employers or insurance companies are required to notify you if a credit report review is part of background screening. If you are denied credit, a job, or insurance based on your credit report, you have the right to request a copy of the report for FREE from the credit reporting agency that provided the employer/company your credit report.

Analyze Your Credit Report and Score Before Transition

To check your credit report, request a report from each of the three crediting agencies, **Equifax, Experian,** and **TransUnion,** which is located at www.annualcreditreport.com.

Closely review the reports, and if married, review them with your spouse. Check the following items:

1. **Review all personal information**

   Review to ensure that all personal information is accurate. Closely check your name, first, last, and middle to include spelling. Check to ensure the address is correct, and spelled correctly, as well as previous addresses. Finally check to see if the current employer is correct.

2. **All open accounts are yours**

   Review every open account. Is this one you opened? Also look at closed accounts. Should there be an account open that you did not open, take the necessary steps to close it.

3. **Inquiries for credit you applied for**

   Your credit report will also list all credit you have applied for such as a car, home, or other credit such as a credit card. Review these applications for credit to ensure you are the one who applied.

4. **Account history listed for your accounts**

   Look at the account history for each account. Ensure payments were captured and reflected accurately. On time payments are one of the largest determining factors for a credit score.

5. **Negative information**

   Review any negative information listed. Is it accurate? Is this you? A credit reporting company generally can report most negative information for seven years; some negative items can stay on longer in certain circumstances. Some negative information will be removed after a determined period of time; other negative information will remain indefinitely.

6. **All debts discharged in bankruptcy are listed that way**

   Should you have any bankruptcy, ensure all debts that were cancelled due to bankruptcy are listed accurately.

Most major creditors subscribe to one or more credit bureaus. Therefore, it is important to request and analyze a report from each credit bureau. It is your responsibility to review information on your credit report and to request corrections. Use www.AnnualCreditReport.com to print your credit reports.

If you have already used the free credit report from one or all three agencies, an installation personal financial manager or counselor (PFM or PFC) may be able to assist you with obtaining a current report.

Correcting Credit Report

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

- TransUnion: https://www.transunion.com/credit-disputes/dispute-your-credit
- Experian: https://www.experian.com/disputes/main.html
- Equifax: https://www.equifax.com/personal/credit-report-services/credit-dispute/

If the inaccurate information is more complicated, the Federal Trade Commission (FTC) has detailed instructions and sample letters for both the credit company and the information provider at www.consumer.ftc.gov. You can also visit your local installation PFM to assist you in understanding your options.

Additionally, you can submit a complaint to the Consumer Financial Protection Bureau (CFPB), and they can assist you in resolving the errors. Use the following website https://www.consumerfinance.gov/complaint/.

Clean Up Inaccurate Public Record Information

The most damaging information on your credit record is sometimes sourced from public records, such as arrests, judgments, foreclosures, tax takings, and liens. The best way to remove the inaccurate information from your file is to do so at the source. This requires contacting the government agency supplying this information to the credit bureau, and then ensuring the corrected information is updated in the credit bureau's files.

Explain Damaging Items

It can be helpful to send a statement to the credit bureau explaining damaging items. Credit bureaus are required to accept these statements if they relate to why information in the report is inaccurate.

Another approach, often more effective, is to explain the delinquency to the lender from whom you are applying for credit, rather than to the credit bureau. Federal law requires that creditors at least consider your explanation.

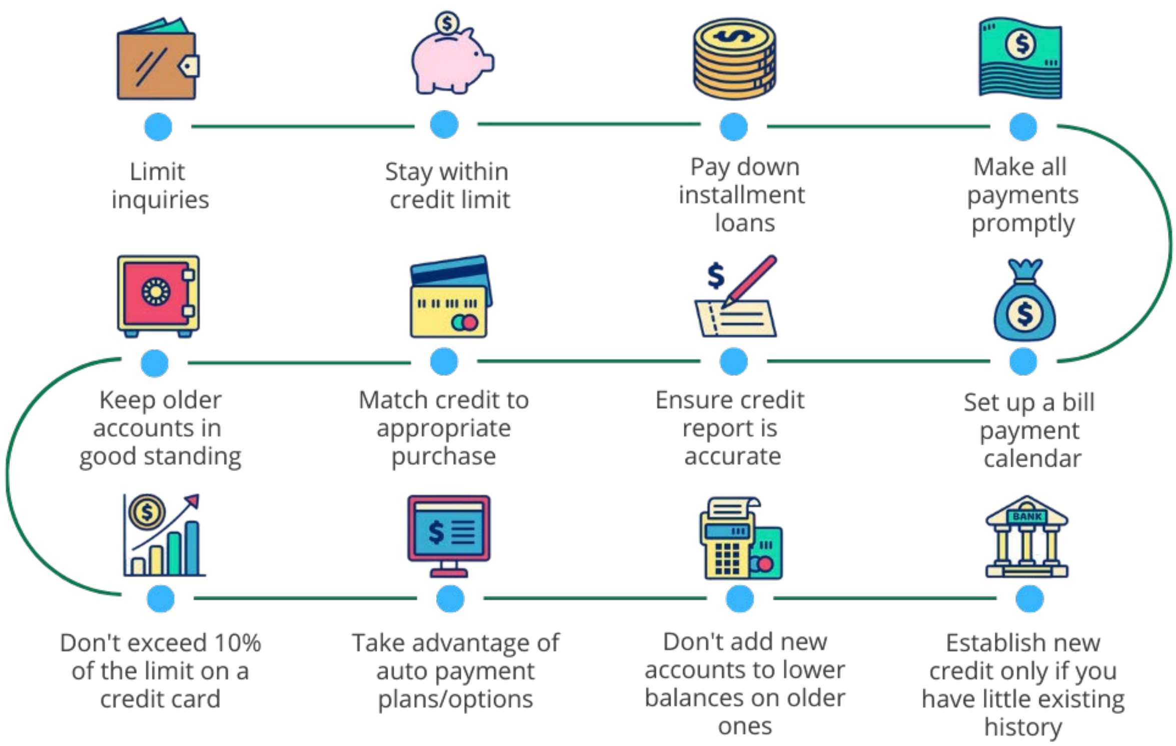
Negative Information

When negative information on your report is accurate, only the passage of time can assure its removal.

Ways to Improve Your Credit Score

The best way to improve your credit score (and keep your credit healthy) is to pay your bills on time and keep balances on credit cards below 10% of the credit limit (credit utilization).

Below are suggested ways to keep your credit healthy:



Although your life during transition may be hectic and in flux, it is critical that you remember to pay your bills. The following are suggestions on ways to track your bills:

- Create a spreadsheet in the months leading up to transition to ensure all bills are being paid on time
- Utilize online bill pay
- Set up auto pay for bills through the biller's website or your bank
- Set up an email account to use specifically for bills
- Forward your mail to a family member, who you trust to pay a bill for you

Caution with Credit Repair Agencies and Debt Relief Companies

Credit Repair Agencies

- These companies promise to fix your credit record for a fee. They usually call themselves credit repair, credit service, credit clinic, or similar names. These agencies usually cannot deliver what they promise.

Debt Relief Companies (aka settlement)

- Debt settlement programs often involve a company negotiating with your creditors to allow you to pay a "settlement" to resolve your debt. Typically, this settlement is a lump sum that is less than the full amount you owe. Settling a debt for less than the full amount owed can affect your credit and security clearances. Debt settlement programs work to get monies owed; they do not necessarily work in YOUR best interest.
- If you MUST use a debt settlement program, look for a non-profit agency or options at your bank/credit union.

For more information on debt relief:
https://consumer.ftc.gov/articles/how-get-out-debt

Threats to damage your credit rating from Debt Collection Agencies
Debt collectors may threaten to report negative information to a credit bureau, but the threat is meant only to pressure you to pay. Creditors automatically report that your account was sent to a collection agency.

Practices that are abusive, unfair, or deceptive from collection agencies may be illegal under the federal Fair Debt Collection Practices Act (FDCPA). You may have other legal ways of challenging the debt collection agency's conduct. Contact the Consumer Financial Protection Bureau and file a complaint at Consumer Financial Protection Bureau (consumerfinance.gov).

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

The installation financial counselor is a free resource available to Service members, their families, and retirees. After transition, you can also seek financial assistance at the American Job Centers (AJCs). Many AJCs have certified financial counselors to assist with financial issues and telephonic financial counseling is also available at all sites.

You can generally do a better job cleaning up your credit record on your own, at no cost. While you are still in service, take advantage of the free credit monitoring available to you: https://consumer.ftc.gov/consumer-alerts/2019/10/free-electronic-credit-monitoring-coming-soon-military

Fair Credit Reporting Act

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

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

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

Assessing Your Financial Readiness

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

Everyone has different expectations when it comes to finances. Some feel they can never have enough in savings, while others are good with a small amount. Others want their IRA and 401(k) to be extremely robust, while others are perfectly fine with a more modest amount. Some will drive a car that is older because they do not want the car payment, while others buy or lease a new car every few years. A financial situation is very personal and involves your personal financial choices.

Look at your entire financial situation and gain a good understanding as you enter transition. Are there any numbers you would like to change? Start making those changes now. However, it is important to remember that change may be slow. During and after your transition, revisit this activity to ensure your financial situation has remained steady.

Wrap Up Questions

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

Assets

Competency

Evaluate your assets and understand options available during and after transition.

Learning Objectives

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

Assets

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

Savings, Investments, and Retirement Plans

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

Saving and Investments

Savings and investments are an important part of the financial picture and can ease the financial burden that might occur during transition to civilian life. Savings will help to retain your financial stability should you have a gap in employment during transition. It can also be used in a financial emergency, such as when the car breaks down or if the roof leaks. Savings (savings, emergency savings, and goal savings) are generally used for short term, while investments are for longer-term savings and when planning for retirement.

Consider setting goals for each of these areas:

- Savings - equivalent two-weeks' expenses or $1,000, whichever is greater
- Emergency Savings - minimum three-to-six months of living expenses, rent/mortgage, and debt
- Goal – funds specified for items you want
- Investments - Mutual Funds, Stocks, TSP, 401(k), or other investments

Savings should not be an afterthought, reserved for after the bills have been paid, groceries are in the refrigerator, and rent is covered. Instead, savings should be considered a part of a spending plan, just like any other recurring expenses. Regular, consistent contributions (even if a small amount) go a long way toward building your savings and investment portfolio.

Retirement Plans

No matter what your age or life situation, it is never too early or too late to begin thinking and planning for retirement. To assist with this, employers may offer some type of retirement plan to help you save, such as a 401(k) or other similar plan. Many of these plans provide tax advantages, including a deferred tax liability or lowering your taxable income. Some employers offer matching funds up to a certain percentage. Employer provided retirement plans, mutual funds, investment funds, and IRAs are popular options that may be used to grow and fund retirement. To begin, it is important to understand the two basic categories of retirement plans, which may be provided by an employer: defined-benefit and defined-contribution.

Defined-Benefit Plan: A defined-benefit plan is the traditional company pension plan. If you are under the legacy retirement system, this is your current retirement pension plan. The legacy retirement system is a "defined-benefit" plan because the ultimate retirement benefit is definite and determinable as a dollar amount or as a percentage of wages. To determine these amounts, defined-benefit plans usually base the benefit calculation on a combination of the employee's salary and years of employment. Characteristics of a defined-benefit plan include:

- Funded mostly, if not entirely, by the employer
- Employer assumes all responsibility for the payment of the benefit and all the risk on funds invested to pay out that benefit

For specific information on this plan, visit Military Compensation:
ACTIVE-DUTY: http://militarypay.defense.gov/Pay/Retirement/
RESERVES: http://militarypay.defense.gov/Pay/Retirement/Reserve.aspx

Defined-Contribution Plan: A defined-contribution plan is a qualified retirement plan in which the contribution is defined, but the ultimate benefit to be paid is not. These plans take many forms and include 401(k), 403(b), Roth 401(k), TSP, Savings Incentive Match Plan for Employees (SIMPLE) IRA, Simplified Employee Pension (SEP) IRA, Employee Stock Ownership (ESOP), and profit sharing.

Characteristics of a defined-contribution plan include:

- Considered portable, as all contributions made by the employee and employer remain property of the employee (after vesting)
- Contributions come from the employee
- A portion may or may not be matched by the employer
- Each participant has an individual account
- The benefit at retirement depends on the amount contributed, the funds selected, the investment performance of that account through the years, and any applicable management fees
- Investment risk rests solely with the employee because of the opportunity to choose from several investment options

Military Retirement Plans

From the military, there are two retirement plans currently in use, the Legacy and Blended Retirement System (BRS). Which one you are eligible for is determined by your initial date of entry. If you are unsure of which plan you fall under, check your LES.

Legacy:

- Serve 20 or more qualifying years to earn a lifetime monthly payment
- Available for those with an initial entry date before January 1, 2018
- Defined-benefit plan – calculated at 2.5% times years of services times the highest 36 months of basic pay.
- TSP account is available for Service member contribution, but with no government matching contribution
- Additional Information: https://militarypay.defense.gov/Pay/Retirement/

BRS:

- Combines elements of the legacy retirement system with benefits like those offered in many private-sector 401(k) plans
    - Defined-benefit plan – calculated at 2% times years of services times the highest 36 months
    - Defined-contribution – Service member contributes, and the government matches funds up to 5%

Additional information:
https://militarypay.defense.gov/Portals/3/Documents/BlendedRetirementDocuments/A%20Guide%20to%20the%20Uniformed%20Services%20BRS%20December%202017.pdf?ver=2017-12-18-140805-343

BRS and TSP

Since BRS is a combination of a defined-benefit, or pension, plan and a defined-contribution plan, TSP is an important part of your retirement planning, regardless of how long you serve in the military.

As a defined contribution plan, both you and the government contribute to your TSP.

- Service member contributions to TSP taken directly from pay
- Government matches up to 5% of basic pay contributions

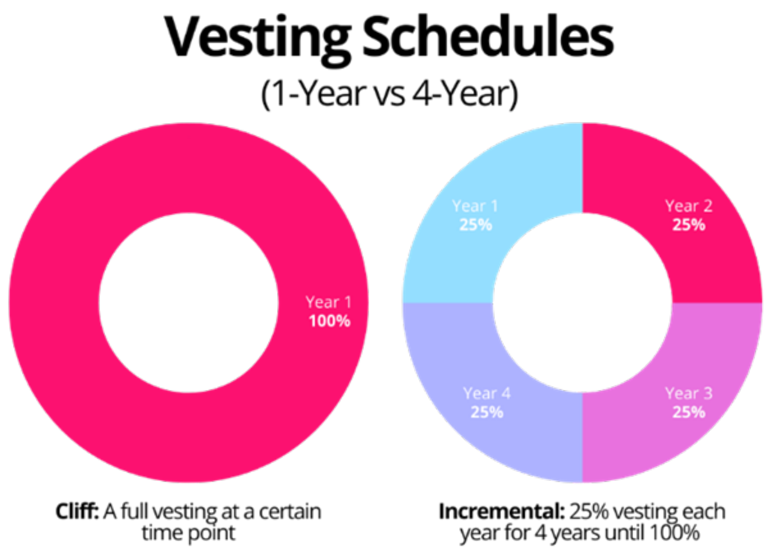
It is important that you access your TSP account prior to transition to prepare for the options available for your TSP post-transition.

Access your account at https://www.tsp.gov/

Retirement Plans for Employers

Many employers offer a 401(k) or other similar plans intended to help you save for retirement. Employers may also offer matching contributions into your company retirement plan to assist you with funding your retirement. However, many companies require what is known as a vesting period. A vesting period is the waiting period required before an employee can keep funds contributed into their account by the employer. For example, any money you contribute to your retirement fund from your paycheck is 100% yours. The company's matching funds may vest (or change ownership from the employer to you) over a period of time.

Vesting can occur in many forms, such as incremental vesting. For example, at year one you will be vested at 25%, year two at 50%, year three at 75%, until full vesting of 100% at 4 years. Some employers have a cliff vesting schedule that includes full vesting after a specified period of employment. This means, if you leave the company for any reason prior to the full vesting period, you forfeit the matching company funds. The Blended Retirement System requires a period of 2 years before the Service 1% contribution is considered vested and wholly owned by the Service member.



Thrift Saving Plan (TSP)

Regardless of whether you are in the legacy retirement system or BRS, participation in the TSP is a benefit of Service and enables you to help build retirement wealth. When you retire or separate from the military, you have multiple options for your TSP account.

- **Stay:** if you have at least $200 in your TSP account, you can continue to participate in the TSP by leaving your current money in TSP.
- **Roll over:** you can transfer your funds from the TSP to an IRA or another eligible employer retirement plan.
- **Distribution:** withdrawal your funds as cash from TSP and not rollover into another similar account; however, withdrawal or distribution could trigger negative tax consequences.

For more information on making TSP contributions go to:
https://www.tsp.gov/making-contributions/contribution-limits/

Potential Benefits of Staying in TSP

- Low administrative expenses
- Ability to rollover to a Traditional IRA, Roth IRA, or eligible employer plan
- Option to change your investment mix with reallocations and fund transfers
- Defer federal income taxes on any tax-deferred amounts remaining in the TSP

After you separate or retire, you will still have access to your TSP and the ability to review your TSP balance and prior contributions, and to rebalance your investment mix. In addition, you will be able to rollover contributions from an eligible employer plan to your TSP. While you can rollover, you are not able to contribute directly into TSP from your non-military paycheck, even as a federal employee. Federal employees have a separate TSP account, separate from the military TSP account. Make any adjustment or changes through the TSP Mobile App and TSP website, www.tsp.gov.

Rollover Options

- If you become a federal civilian employee, you have the option of combining your two TSP accounts by rolling over the military TSP account with your federal civilian TSP account. Be sure to find out the options.
- Transfer some of your TSP account into an IRA or eligible employer plan, allows you to remain with TSP.

Rolling over funds is an option for those who do not want to stay in TSP and do not want the IRS early withdrawal penalty of a distribution. Done correctly, funds rolled over directly to an IRA or eligible employer plan with no immediate tax or early withdrawal penalties. Another option is to rollover your contributions from eligible employer plans into your TSP account. To avoid an unintended taxable event and IRS early withdrawal penalty, contact the financial institution you want to move over to and have them start and process the paperwork for the rollover or transfer. You can create unintended tax obligations and incur penalties by withdrawing it and moving it yourself.

Distribution Options

- Take a full or partial distribution **AND**
- Choose one of the distribution options:
    - Single payment
    - Monthly, quarterly, or annual payments
    - Life annuity
    - Combination of above options

TSP recently updated their distribution options. For more on these options, visit: https://www.tsp.gov/living-in-retirement/withdrawal-options/.

Retirement funds are intended for retirement. However, withdraw is an option. If you have determined you will withdraw your TSP balance, make sure you are aware of the implications beforehand. There are IRS rules that govern taxes and penalties for withdrawing retirement funds before certain ages and criteria are met.

Warning! Some types of TSP distribution payments are subject to federal income taxes, fees, and potential IRS withdrawal penalties, which can amount to over 30% of the distribution; different tax rules apply to the different distribution options, as well as to the type of money (traditional, Roth, a combination of both, or tax-exempt) that is included in your payment. In addition, you may also be subject to state taxes.

TSP Considerations Prior to Transition

- **Beneficiaries** – Before you transition, be sure to check that your TSP beneficiaries are updated and are aware of the TSP death benefits, account number and how to access.

- **Loans** – outstanding loan, you'll be able to continue making loan payments by check, money order, or direct debit. You will not be able to apply for a new loan after you leave the Service
    - https://www.tsp.gov/new-tsp-features/summary-of-changes/#Loans

- **Update address** – update your address in "My Account" on TSP website and TSP mobile app.
    - www.tsp.gov

For Guard and Reserve members – be sure to visit the TSP website listed below for information on USERRA and TSP as you change status:
Career changes | Thrift Savings Plan (tsp.gov)

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

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

Contacting TSP
ThriftLine Service Center:

- 1-877-968-3778 (United States, toll-free)
- 1-404-233-4400 (Outside the United States, not toll free)
- 7 a.m. – 9 p.m. EST, Monday through Friday

Download the official TSP Mobile App for on-the-go access to your TSP account 24/7 secure access to a virtual assistant AVA on tsp.gov and in the TSP Mobile App.

TSP Resources

- TSP Distributions Booklet
- TSP Tax Booklet
- USERRA Fact Sheet
- TSP YouTube Channel: TSP4Gov
- TSP Online Learning: https://www.tsp.gov/online-learning/

Survivor Benefit Plan – SBP

The Survivor Benefit Plan (SBP) is an elected benefit, which provides designated, eligible dependents of military retirees' monthly payments for the lifetime of the beneficiary. This benefit is an option available only by election and is generally enacted at the time of retirement. Since the monthly payment continues after the death of the retiree, there is a monthly payment in the form of a deduction taken from the Veteran's pre-tax retirement pay.

When electing SBP, the amount of coverage is chosen by the military Service member retiring; however, there is a minimum level of coverage. If you are married and choosing to decline SBP or choose less than full SBP coverage, it is required for your spouse to show concurrence with this decision. For those who are not married, there are other eligible beneficiaries such as children, former spouse, or a natural interest person.

Once enrolled, you do have the ability to cancel or terminate your SBP election beginning on the 25th month and ending on the 36th month - or the third year - of your retirement. During this time, you can only cancel, not enroll. As with declining at retirement, spousal concurrence is required.

For more detailed information, consult the websites listed below or make an appointment with your PFM on the installation.

Defense Finance and Accounting Services (DFAS) – SBP: https://www.dfas.mil/retiredmilitary/provide/sbp.html

DFAS – Spouse Coverage: https://militarypay.defense.gov/Benefits/Survivor-Benefit-Program/Costs-and-Benefits/Spouse-Coverage/

DFAS - Eligible Beneficiaries: https://www.dfas.mil/retiredmilitary/provide/sbp/coverage.html

Financial Readiness SBP: What is the Survivor Benefit Plan? https://finred.usalearning.gov/planning/SurvivorBenefitPlan

Military Compensation SBP Overview: https://militarypay.defense.gov/Benefits/Survivor-Benefit-Program/Overview/

Assets and Worth

Your net worth is the amount that your assets exceed your liabilities. In simple terms, net worth is the difference between what you *own* and what you *owe*. If your assets exceed your liabilities, you have a positive net worth. Conversely, if your liabilities are greater than your assets, you have a negative net worth. Calculating your net worth annually is a great way to track financial progress over the years.

To determine your net worth, you first need to calculate the value of your assets. It can be challenging to assign accurate values to each item. To avoid inflating your net worth (i.e., having an unrealistic view of your wealth), it is important to make realistic estimates when placing value on certain assets. You might need to work with an appraiser or other professional.

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

- Your home: there are various websites which help determine the current value of your home
- Vehicles
- Checking and savings accounts
- Investments, TSP, IRA, mutual funds
- Annuities, life insurance policies

- Personal property: high-value jewelry, electronics, artwork, rare coins, collectibles
- Retirement pension: To determine value, use the current amount (at retirement) of the pension you will be receiving to add to your net worth. For military members, if you will not complete 20 years of Service, this number will be $0.

ACTIVITY: Determine Net Worth

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

Net Worth

Assets*	
Liabilities	
Net Worth	
NOTES:	

*Be conservative in your estimates of worth.

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

While your net worth will fluctuate, it is the overall *trend* that is important. Ideally, your net worth continues to grow as you age if you pay down debt and acquire more assets. At some point, it is normal for your net worth to decrease (e.g., when you tap into your investments for your retirement income).

Financial situations and goals are unique; it is difficult to establish a generic "ideal" net worth that applies to everyone. If you have not calculated your net worth before, it is best to create an honest evaluation of where you stand today and create a reasonable goal to see it increase over time.

How Do You Improve Your Net Worth?

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

Estate Planning

No matter your net worth, it is important to have a plan for your estate to make sure all your assets are transferred as you wish. An estate plan isn't just a will, but a few more documents which together fully present your wishes and preference, not only in the event of your death, but should you become incapacitated in some way.

Common documents included in an estate plan:

- **Will or Trust:** ensures all property is distributed according to your wishes
- **Beneficiary Designations:** designates who will receive certain items upon your death, common for 401(k) or TSP; also include a contingent beneficiary should the initial beneficiary no longer be available
- **Durable Power of Attorney:** assigns someone to act on your behalf when you cannot do so prior to your death; ends upon death
- **Healthcare Power of Attorney:** assigns another individual to make healthcare decisions on your behalf, should you become incapacitated
- **Guardianship Designations:** ensures any children under the age of 18 are given into the care of your preferred guardian
- **Letter of Intent:** defines what you want done with a particular asset, may also contain funeral details

It is important to have made arrangements for your estate, yourself (should you become incapacitated), and any minor children, otherwise these decisions will be made by the state. Remember, your legal office can provide you with more information and/or assistance prior to your transition.

Wrap Up Questions

- What are assets?
- What are liabilities?
- What is your net worth?
- What is the difference between the defined-contribution and defined-benefit retirement plan?
- Why should you have a plan for your estate?

Action Plan

Competency

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

Learning Objectives

- Create a plan containing next steps in the financial journey to prepare for transition
- Identify ways to manage credit and debt
- Identify reliable financial resources after transition
- Interpret information to discover possible scams

Financial Action Plan

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

1. Analyze current financial situation

During this course, you completed the following: reviewed your current income, determined your civilian equivalent salary, created a list of your expenses and debts, and determined your assets. Transfer the information from the previous exercises into the boxes below or review the summary page on the spending plan.

Current Financial Situation

Gross Income	
Net Income	
Monthly Expenses	
Monthly Debt Payments	
Total Assets	
NOTES:	

2. Determine ways to better your financial situation

To improve your financial situation, adjustment may need to be made on how you spend your money or changes in your spending plan. Below are three ways adjustments can be made:

- Increase income
- Decrease expenses
- Decrease debt

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

As you transition, there is a good chance your finances will fluctuate.

Understanding how to decrease your expenses when this happens can increase financial stability and success. In addition, building your savings while you have a consistent paycheck can open you to more options and make your transition easier, should the unexpected occur. While lower debt is ideal for transition, increasing your savings can help you continue to make your payments on time and protect your credit. If everything goes as expected during transition, you can pay down debts or add to your savings with the extra money you saved. During transition planning, extra income may be beneficial to ensure debts are paid and more debt is not accrued.

While decreasing living expenses may produce the quickest results, it may not be the best choice for your family. However, a well-managed spending plan which accounts for the needs of the family situation can decrease financial stress.

The following table contains a few suggestions on ways to increase income, decrease expenses, and decrease indebtedness.

Ways to increase income:	**Ways to decrease expenses:**	**Ways to decrease debt:**
• Spouse gets job • Active-duty person gets part-time job • Seek out temporary or seasonal work • Review and change tax filing status and exemptions • Sell items you no longer use • Use internet to research the best prices for more expensive purchases • Apply for unemployment entitlement	• Down grade or eliminate the cable package • Bundle packages for cable, Internet, and cell phone • Re-shop for auto, home, and life insurance • Eliminate your land line; use cell phone • Review current cell phone plan to determine if any extras can be removed • Check books/eBooks/movies out from library • Use public transportation or carpool • Turn off lights & appliances when not using. Check with your utility company for more tips • Ask for veteran and military discounts • Find friends who can trade services (e.g., babysitting, pet sitting, etc.) • Cook at home and pack your lunch, plan menus around foods on sale • Use coupon/discounts for shopping, dining out, and recreational activities • Shop at thrift stores • Ask utility companies about a budget plan for consistent utility bills • Cancel underutilized subscriptions such as streaming and gaming services	• Stop using credit cards • Pay off debts by paying the debts with the highest interest first • Pay lowest balance first and roll payment into next debt • Pay down debt using a power pay plan. Take advantage of websites that explain various methods of power paying, such as PowerPay.org (Power Pay | USU) • Pay more than the minimum payment • If you get a raise, use the additional money to pay down a debt • Shop for the lowest interest rates, refinance when possible • Consider consolidation loans • Contact credit card companies and negotiate a lower interest rate • Seek help if you are in serious debt • Ask if accrued interest and late fees can be waived by your creditors if you enroll in a non-profit debt management program

Ask yourself which of the above changes can be made starting today. Small changes in your day-to-day life can result in big changes for your financial situation.

ACTIVITY: Ways to Improve and Prepare Finances for Transition

Determine the next step and identify ways in which you could improve or prepare your financial situation for transition by increasing income, decreasing expenses, and decreasing debt. Use your Spending Plan for reference.

Action Plan

Increase Income	
Decrease Expenses	
Decrease Debt	
NOTES:	

3. Create or Update your post-transition spending plan (Career Readiness Standard for this module)

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

- Civilian equivalent salary
- Location after separation/retirement
- Sources of income (spousal income, retirement, investment income, alimony, child support)
- Transition expenses/debts
- Assets

Transition Resources

Take advantage of free services available on the installation while you are still in the Service. The Personal Financial Management Program staff (i.e., PFM, CFS and PFC) are available.

Military OneSource continues to be available to you one year after your transition. It is a 24/7 connection to an accredited financial counselor. You can also get support evaluating savings programs, learn how to talk to creditors and get help weighing your financial options through this resource.

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

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

- Servicemembers Civil Relief Act (SCRA): While on active duty, you were entitled to protection under this law for areas of financial management, rental agreements, security deposits, evictions, installment contracts, credit card interest rates, mortgages, civil judicial proceedings, income tax payments, and more. Once you are no longer on active duty, certain protections may no longer apply.

- Military Lending Act (MLA): Ensures Service members aren't charged more than 36% Military Annual Percentage Rate, does not allow mandatory waivers of consumer protection laws, or mandatory allotments from Service member's paycheck. A creditor cannot charge a penalty for prepayment of loans in certain circumstances.

- Internal Revenue Service (IRS): While on active duty, there are special tax breaks and incentives for which you were entitled. After transition, these benefits may no longer apply. One of the most important is the automatic deadline extensions for filing your taxes. In addition, the uniform deduction, reservist travel deduction, and the moving expenses deduction may no longer be applicable.

Fraud and Scams

As you transition, you become more enticing to those trying to commit fraud or scams. Frauds and scams change over time to become more effective in separating you from your money, but you can learn to protect yourself by identifying the red flags that signal a scam.

- Sounds too good to be true
- Pressures you to act "right away"
- Guarantees success
- Promises unusually high returns
- Requires upfront investment – even for a "free prize"
- Requests overpayment for an item and asks you to send the difference

Protect yourself by being alert to the fact that scams and scammers exist. Understand that even though someone claims to be part of a Veteran Service Organization or a Military Service Organization, still conduct due diligence. Take the time to thoroughly research and vet any product, idea, or organization. *Especially if it sounds too good to be true!*

The Consumer Financial Protection Bureau (CFPB) has provided more information on Spotting Frauds and Scams (https://www.consumerfinance.gov/consumer-tools/fraud/

Accessing and Applying for Retirement Pay

As you prepare for retirement, visit the DFAS website (www.dfas.mil/retiredmilitary.html) for information on retirement pay.

For information on the steps to applying for retirement pay, go to https://www.dfas.mil/retiredmilitary/apply/how-to-apply.html.

Accessing Pay Information After Transition

As you prepare to leave Service, it is important to update your personal information in myPay and payroll accounts or in Direct Access for the Coast Guard. This will allow you to easily access your pay and tax information without your Common Access Card (CAC).

To ensure access, 30 days prior to transition, log on to myPay using your personal device. Follow the steps listed below to review your personal information for accuracy for AFTER transition. If any information is incorrect, it can cause delays in access to your W2 or retirement payments.

1. Update your email address

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

2. Update your mailing address

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

All others

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

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

3. Update your "Security Questions for Password Resets"

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

3. **Review your "Personal Settings Page" for accuracy and outdated information**
   - Select "Personal Settings Page." Remember, you will not have your CAC after you separate so establish or update your passwords **NOW** because this is how you will access your account after you leave Service.

4. **Save/Print a copy of all your W2s and LES statements within 13 months of separation.**
   - Retirees will receive all future tax statements in your account.

5. **Review and update your direct deposit information.**
   - The account you enter will be used to send any outstanding pay due to you at separation.

myPay After Transition

- If you are separating from active-duty or the Reserves, you will maintain access to your myPay account for 13 months.

- If you are retiring from active duty, you will have continued access with the Login ID and Password you established on active-duty Service; however, your active component pay statements will only be available for 13 months. Once your retired pay account is established, the options to manage your pay and your retiree account statements will become available

- If you are a retiring reservist, you will not have continued, uninterrupted myPay access. You will be mailed a new myPay password once you reach retirement age and your retired pay account is established

For assistance with myPay contact:

DFAS: http://www.dfas.mil/militaryseparations.html
myPay: https://mypay.dfas.mil/mypay.aspx
Customer Service: 1-888-DFAS411 or 1-888-332-7411
Travel Voucher Status: 1-888-332-7366 (option 1)
Online Customer Service askDFAS: https://www.dfas.mil/dfas/AskDFAS/

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

Direct Access for Coast Guard After Transition:

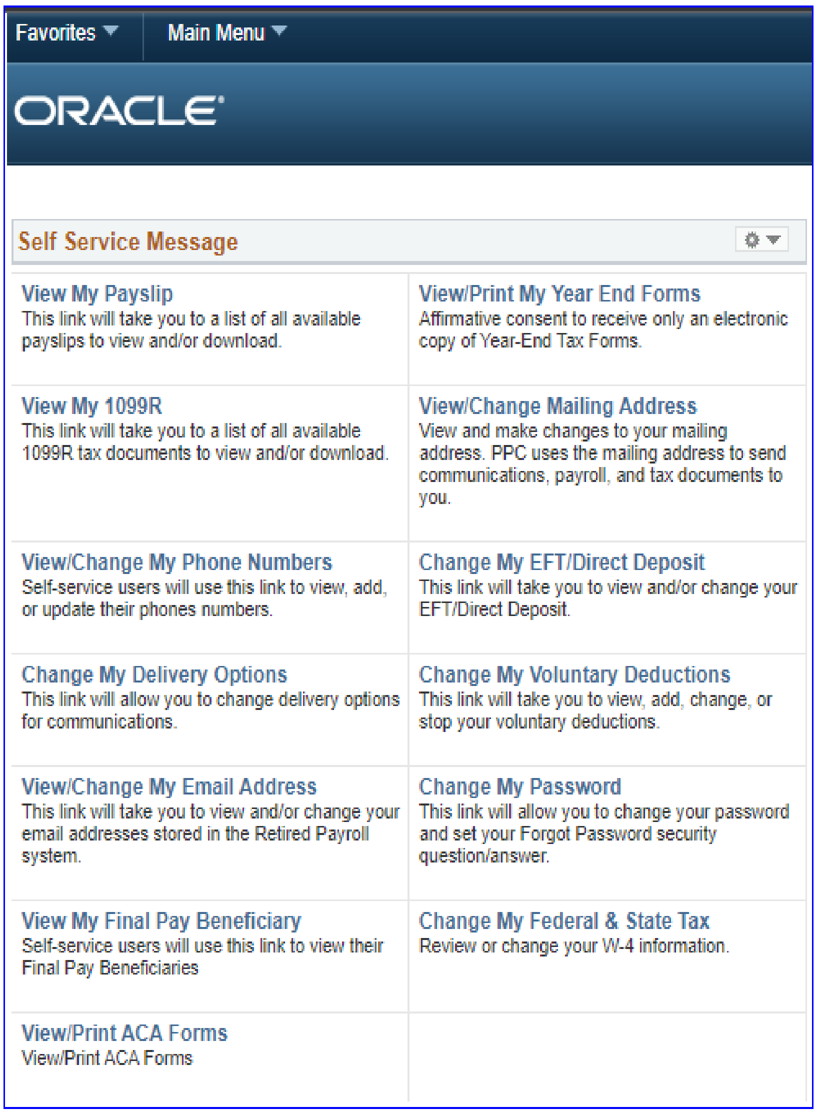
- Visit U.S. Coast Guard Pay & Personnel Center (PPCs) webpage or https://www.dcms.uscg.mil/ppc/ras/
- Enter your 7-digit Employee ID (Emplid) in the **User ID** field
- If you have **never** logged into Direct Access (DA), your default password will be set up for you initially.
    - The formula default password is: THeUSCG + last four digits of your SSN + @ + four-digit birth year
    - For example, if the last 4 of your SSN is 1234 and you were born in 1966, your default password will be THeUSCG1234@1966.
    - The password is case sensitive, so be sure to capitalize where appropriate when you enter it.
- You will be prompted to change your password upon your initial login.

Trouble accessing your account:

- Call PPC at 1-866-772-8724 to speak to a Customer Service Representative.
- E-mail to ppc-dg-customercare@uscg.mil

Prior to Transition:

- Visit the Self-Service page review and update if necessary:
    - Mailing address
    - Phone number (should be a personal number)
    - Email address (to a personal email)
    - Delivery options
    - Password
    - Federal and State Tax



Pre- and Post-Transition Resources

If you need assistance creating a spending plan or financial strategy for transition, or if you are having financial difficulties, ASK FOR HELP. If you are retiring, you will have access to financial assistance on the installation. However, if you are separating, you will need to understand the resources available off the installation for after your transition. In addition to the installation financial professionals, there are other resources for assistance:

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

This does not constitute a formal DoD endorsement of any company, its products, or services.

Action Plan Wrap Up Questions

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

Summary

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

One of your Career Readiness Standards (CRS) is the completion of the post-transition spending plan. You have already begun the process of creating or updating a spending plan, and you have a strong foundation of knowledge to complete this CRS requirement.

TAP Interagency Website Guide

TAP INTERAGENCY WEBSITE GUIDE

The TAP Interagency Website Guide is a comprehensive document that contains all websites referenced in TAP courses.

THE WEBSITE GUIDE IS LOCATED AT:
https://www.tapevents.mil/Assets/ResourceContent/TAP/TAP_Interagency_Website_Guide.pdf

OR

SCAN THE QR CODE BELOW WITH THE CAMERA ON YOUR PERSONAL DEVICE TO ACCESS THE GUIDE

Features of the Website Guide include:

- Single source for websites referenced in TAP courses
- Searchable
- Includes URL and description of each resource
- Updated biannually

TAP Interagency Website Guide categories include the following:

- TAP Resources
- Military Services
- Career Planning
- Disability/Wounded, Ill, & Injured
- Education
- Employment
- Entrepreneurship
- Family & Caregiver Support
- Federal, State, & Local Resource Locators
- Finance – Personal & Family
- Healthcare
- Housing
- Insurance
- Mental Health
- Sexual Assault and Military Sexual Trauma
- Social Media & Networking
- Volunteer Opportunities
- Additional Information and Resources

Transition Assistance Participant Assessment (TAPA)

YOUR FEEDBACK IS IMPORTANT

The **Transition Assistance Participant Assessment (TAPA)** is a critical evaluation tool used to gain feedback on TAP, facilities, facilitators, curriculum, and materials. Feedback is reviewed quarterly and used to make improvements to TAP. Participant feedback is essential to ensure a quality program.

THE TAPA IS LOCATED AT: HTTPS://WWW.DODSURVEYS.MIL/TAP

OR

SCAN THE QR CODE BELOW WITH THE CAMERA ON YOUR PERSONAL DEVICE TO BEGIN THE ASSESSMENT

PLEASE NOTE:

- An assessment should be completed at the end of each course.
- Participation in the assessments is anonymous. You will be asked to re-enter your background information for each assessment (such as component and time until separation).

Assessments are available for the following:

CORE CURRICULUM

- Managing Your Transition
- MOC Crosswalk
- Financial Planning for Transition
- VA Benefits and Services
- Employment Fundamentals of Career Transition

2-DAY TRACKS

- Employment: DOL Employment Workshop
- Education: DoD Managing Your Education
- Vocational: DOL Career and Credential Exploration
- Entrepreneurship: SBA Boots to Business

Examples of curriculum updates made based on Service member feedback include:

- Created a comprehensive resource guide that lists all TAP-related websites in one document.
- Removed unnecessary or obsolete information.
- Added information related to finding purpose, healthcare, and life insurance after transition.
- Added more hands-on activities and enhanced content on American Job Center resources, social media, and resume examples.