Kiplinger's PERSONAL FINANCE PRESENTS

THE FINANCIAL FIELD MANUAL

A Personal Finance Guide for Military Families

FINANCIAL READINESS IS **MISSION READINESS**

INCLUDES NEW 2018 RETIREMENT PLAN RULES!

Matt M. Rosendale CSI Montana Commissioner of Securities & Insurance

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Investor Protection Trust

Investor Protection Institute

Help for U.S. Military Personnel and Their Families

Members of the military face financial challenges most people don't experience. They have to move frequently—sometimes on short notice—and may have to deploy to combat zones for months or years.

But they also have access to valuable benefits and investing options not available to the general public, including special tax breaks, low-cost investments, legal protections, educational opportunities, insurance programs and other resources. Learning how to make the most of these opportunities can help secure your family's financial future.

To help make sure that military families make the most of these opportunities, we are pleased to present the third edition of *Kiplinger's Financial Field Manual*, our popular personal finance guide for the men and women who serve our nation. In addition to comprehensive information and advice on critical issues, this edition explores valuable new benefits. The military retirement system will change significantly in 2018, and many servicemembers will have to choose whether to remain in the current system or opt for the new program.

In these pages, you will find practical, easy-to-understand information to help you make decisions about the new retirement plan, make the most of other new savings opportunities, prepare financially for deployment, take advantage of special benefits and tax breaks, protect yourself from scams that target servicemembers, and get ready for a smooth transition to civilian life when you leave the military.

Kiplinger has been helping consumers for many years. When *Kiplinger Magazine* (now called *Kiplinger's Personal Finance*) launched in 1947, a driving motivation was to provide sound, unbiased personal finance advice to military personnel returning to the workforce after World War II.

The Investor Protection Trust and the Investor Protection Institute are similarly committed to helping military personnel. These nonprofit organizations are devoted to innovative investor education and proudly support several programs to help members of the military make smart financial decisions. This new edition of the guide for military families would not be possible without their generous support.

Kimberly Lankford, the author of the guide, has years of first-hand experience with these issues. A longtime columnist for *Kiplinger's Personal Finance* magazine, she is also a military spouse. Her husband recently retired after serving as an Army doctor for 21 years during which he was deployed three times to Afghanistan and Iraq.

Many of the strategies, resources and benefits discussed in this guide have helped Kimberly's family over the years. Our goal is that they can help bolster your family's financial security, too.

Thank you for all you do in the service of our nation.

KNIGHT A. KIPLINGER
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Find more information to help you manage your personal finances at **Kiplinger.com** and at **InvestorProtection.org** and **iInvest.org**.

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Investing in Your Future

MAKE THE MOST OF SPECIAL SAVINGS PLANS AND NEW RULES

It's easy to focus only on day-to-day issues when you're in the military and miss out on valuable benefits that can improve your financial situation over the long run.

But servicemembers have access to special savings opportunities that aren't available to most people, so it's important to take advantage of these programs while you can.

Many servicemembers overlook the importance of saving because they hope to retire from the military after 20 years and receive pension income for life. However, fewer than 18% of servicemembers stay long enough to qualify for military retirement pay. The rest get nothing.

Unlike civilian jobs, there is no partial vesting under the current system if you leave before 20 years. Even if you do end up getting the pension, your retirement income could be as little as 50% of your base pay (more if you stay longer than 20 years), leaving you to fill in the gaps yourself. And major changes are coming soon to the military retirement system, which will provide new opportunities for servicemembers who don't stay for 20 years. But the new system could also reduce your lifetime income and make it even more important to save on your own. Because of these changes, many servicemembers will need to make key decisions about their financial futures in 2018 (see **"What You Need to Know about the New Retirement System"** on page 3).

No matter which retirement system you choose, it's essential to save on your own, too. The younger you are when you start setting aside money for your future, the easier it will be to build a healthy nest egg. While you are in the military, you can take advantage of special investing programs and tax breaks to help you supercharge your savings—even if you can only afford to set aside a little money now. It's up to you to make the most of your options.

NO MATTER WHAT RETIREMENT SYSTEM YOU CHOOSE, IT'S ESSENTIAL TO SAVE ON YOUR OWN, TOO.

Begin with the Thrift Savings Plan

The government's Thrift Savings Plan is a great place to start saving. Members of the military can invest in this tax-advantaged retirement savings plan for federal employees, which is similar to a private company's 401(k) plan but with extremely low fees. You can invest up to $18,000 in the TSP in 2016, and even more if you're receiving tax-free income while deployed—boosting the limit to $53,000 this year.

The TSP provides valuable tax advantages, no matter how much you can afford to invest, and a new rule gives you the option to take the tax breaks now or build up tax-free income for the future.

If you choose to make traditional contributions, the money you set aside reduces your taxable income now and grows tax-deferred until retirement. For example, contributing $10,000 cuts your take-home pay by just $7,500 if you're in the 25% federal tax bracket (even less if your contributions also escape state income tax).

Alternatively, you now have the option to make Roth TSP contributions, which don't provide a tax break now but do let you withdraw the money tax-free in retirement. This is similar to a Roth IRA but without any income limits to block contributions. (Note that contributions from tax-free pay in a combat zone will never be taxed.)

With either version of the TSP, your contributions can grow significantly over the years if you start early. Say you contribute $300 each paycheck to a traditional TSP. Your take-home pay will only shrink by $225 if you are in the 25% tax bracket. And if you start at age 25 and contribute for the next 30 years, you could end up with more than $900,000 by the time you're 55! Even if you leave the military at age 40 after 15 years of contributions and never add another dime to your TSP account, you could still end up with about $700,000 by age 55. These examples assume your investments return 8% per year, which has been a typical average for long-term investments.

As mentioned above, if you forego the tax break on your contributions now and instead contribute to the Roth version of the TSP, your withdrawals will be totally tax-free in retirement. If your taxable income is lower now than it will be in the future, you'll come out ahead with the Roth.

"For most people relying primarily on military income, the Roth is generally the way to go," says Patrick Beagle, a certified financial planner in Springfield, Va., who is also a former helicopter pilot who retired from the Marines

CONTRIBUTE TO THE ROTH VERSION OF THE TSP, AND YOUR WITHDRAWALS WILL BE TAX-FREE IN RETIREMENT.

and specializes in helping military families with their finances. "They are generally in the lowest bracket they will ever be in, because of all of the non-tax compensation."

Take Advantage of Low-Cost Investing

You have several low-cost investing options in the TSP. You can choose from five index mutual funds investing in large companies, small firms, international firms, bonds or government securities.

Or you can choose a lifecycle fund (called the L fund), which builds a diversified portfolio of the other funds to match your time horizon. The fund invests primarily in stock funds at the start, when you have more than a decade before you plan to tap the money. And it gradually becomes more conservative as your retirement date draws near. Choosing the L fund is an easy way to invest.

Expenses for all of the funds are extremely low—about 29 cents a year for every $1,000 invested—making the TSP one of the lowest-cost investing options available. For a $100,000 portfolio, for example, you'd pay just $29 a year in investment management fees.

You can keep the money in the TSP after you leave the military, or you can roll it into an IRA or another employer's 401(k), where it will continue to grow tax-deferred. Just be aware that if you take the money from a traditional TSP and spend it, you could face an immediate tax bill. What's more, you'll generally face a 10% penalty if

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What You Need to Know About the New Retirement System

You may need to make a major decision about your financial future in 2018 because the military is introducing a new retirement system.

While the new system reduces the guaranteed income available after 20 years, it provides matching contributions to your Thrift Savings Plan, which you can keep after just two years of service. Your options depend on the year you entered the military.

BEFORE 2006. If you joined the military before January 1, 2006, you're covered under the original system. You need to stay for at least 20 years to qualify for the military pension, which can be worth 50% (more if you stay longer) of your basic pay. See the section below for more information about how retirement pay is calculated.

FROM 2006 TO 2017. If you joined from January 1, 2006, to December 31, 2017, then you'll need to make a big choice. You can stay with the old system, or you can sign up for the new "blended retirement system" that reduces your pension but also provides matching Thrift Savings Plan contributions. (The timing for members of the Reserves is based on the number of retirement points.)

AFTER 2018. If you join on January 1, 2018, or later, you'll automatically be enrolled in the blended retirement system.

How is the system changing?

Under the current military retirement system, you'll receive income for life if you serve for 20 years or longer. Your retirement pay, which starts right away, is based on 2.5% times the number of years you served times your retired base pay (generally calculated by averaging the highest 36 months of basic pay). This works out to be 50% of your retired base pay if you stay for 20 years, and more if you stay longer. The payouts are adjusted each year for the cost of living.

The new system changes the formula to figure retirement income as 2% times the number of years served times your retired base pay. This works out to 40% of your base pay at 20 years. (Note that both systems adjust payouts for the cost of living.)

But under the new system, you'll also get something if you leave before then. The Department of Defense will automatically contribute 1% of your basic pay to the Thrift Savings Plan after 60 days of service. It will also match your contributions up to the next 4% of your pay. That's up to 5% each year in free money that you can keep in your plan (along with the earnings) after completing two years of service.

You may also receive a cash bonus after 12 years of service, in return for a commitment of four more years of service, called "continuation pay."

As with any TSP contributions, the money grows tax-deferred for the future (or tax-free in a Roth TSP). In addition, you generally can't withdraw money from the TSP while you are still in the service, and will need to pay a 10% penalty for withdrawals before age 59½.

For more information about the new system, see the Department of Defense's Blended Retirement System Web page (**militarypay.defense.gov/BlendedRetirement**). You'll find information and FAQs (including special calculations for members of the Reserves) and other resources.

You'll have from January 1, 2018, to December 31, 2018, to opt in. If you don't do anything, you'll remain in the current retirement system.

How do you choose?

If you don't plan to stay for 20 years, then you'll come out ahead with the blended retirement system. If you're not sure whether or not you'll be staying, it pays to do the math. Estimate what your monthly income is likely to be under the old and new pension system, and figure out how much you'd need to save in the TSP to make up the difference.

"We're doing some analysis to understand the probability of retirement and if they can save enough to make up for the gap," says Josh Andrews, a certified financial planner and advice director for Military Life for USAA, and former Air Force pilot.

If you choose the blended system, be sure to contribute at least the 5% needed to get the full match in your Thrift Savings Plan; otherwise, you're giving up free money. Under either system, it helps if you can afford to contribute even more—the more money you contribute when you're young, the longer it has time to grow and the less you'll need to set aside later to reach the same goals.

you withdraw the money from the account before age 59 ½ (unless you leave your job after age 55).

See **tsp.gov** for more information and a calculator to help you project your future account balance and see the power of long-term compounding of earnings.

An extra incentive to save: If you're having a tough time putting aside money for retirement, consider that your contributions can also earn you an extra tax break. The Retirement Savings Contribution Credit is worth 10% to 50% of the first $2,000 you contribute for the year to the TSP, an IRA or another retirement savings plan. The lower your income, the higher your credit.

It's worth $1,000 per person at the lowest income levels. But it drops to $200 if you are near the cutoff—$30,500 for single filers; $45,750 for filing head of household; or $61,000 if married filing jointly. These limits are based on adjusted gross income, which doesn't include your tax-free housing allowance or any tax-free pay received while in a combat zone.

Tax-free earnings from a Roth IRA

A Roth IRA can be a great way for anyone to supplement their retirement savings—you generally don't get a tax break for Roth contributions, but you can withdraw your earnings tax-free in retirement (and can withdraw contributions at any time without taxes or penalties). And deployed servicemembers get an extra perk: If you're receiving tax-free pay in a combat zone, your money goes into the Roth tax-free, and your contributions as well as your earnings come out tax-free in retirement.

You can contribute up to $5,500 to a Roth IRA in 2016 (or $6,500 if you're 50 or older) as long as your modified adjusted gross income is less than $117,000 for single filers, or $184,000 if married filing jointly. (The opportunity to make contributions gradually phases out as income rises above those levels.)

You can open a Roth IRA with a brokerage firm, mutual fund company, credit union or bank. When selecting an IRA administrator, look for low fees and a range of investment choices. If you have 20 or 30 years until retirement, it's usually best to invest the money in a diversified portfolio of mutual funds. (See the Investor Protection Trust's series of investor education booklets at **investorprotection.org** for more information about creating a portfolio.)

Note that you can invest the maximum in both a Roth IRA and the Thrift Savings Plan in the same year. And you have until April 15 of the following year to make an IRA contribution (or a few days later if the 15th falls on a weekend). For example, April 17, 2017, is the deadline for 2016 contributions.

Finally, if you have a spouse who doesn't earn income, you can contribute to an IRA on his or her behalf. And children who earn income from a job also can contribute to a Roth IRA, which can be a great way to get them started saving for the future.

Guaranteed return on savings

It sounds almost too good to be true—10% interest guaranteed. But in this case it's no scam: The military's Savings Deposit Program lets servicemembers invest up to $10,000 in the program each time they are deployed. You receive 10% annual interest, compounded quarterly, and can keep the money in the account while you're deployed and up to three months after you return.

For more information, see the SDP page at the Defense Finance and Accounting Web site (**www.dfas.mil/militarymembers/payentitlements/sdp.html**). ★

Your Military Benefits

DISCOVER ALL THE ADVANTAGES AND PROTECTIONS TO WHICH YOU'RE ENTITLED

Members of the military have access to special benefits and legal protections that can make a huge difference in your family's personal finances. Learn how to make the most of them.

Free college for you or your family

One of the most exciting benefits for servicemembers and their families is the expansion of the GI Bill. This can provide valuable benefits for you, your spouse and even your children.

The Post 9/11 GI Bill covers the full cost of in-state tuition and fees at public colleges for up to 36 months (four academic years). Alternatively, it covers up to $21,970 for the 2016-17 school year for private colleges and foreign schools. You can also receive a housing stipend and money for books and tutoring. And you can use the money for undergraduate or graduate programs at college and universities, or for certain programs at vocational, trade and distance-learning schools.

Eligibility is based on the length of time you serve in the military. For maximum benefits, you must serve at least 36 months or serve on active duty for at least 30 continuous days and be discharged because of a service-connected disability. You'll earn partial benefits if you serve at least 90 days on active duty.

And the Post 9/11 GI Bill offers valuable flexibility: After serving for several years, you may be able to transfer your benefits to your spouse or children. To make the transfer, you generally need to have served for at least six years on active duty or selected reserve and agree to serve four more years. Spouses can use the transferred benefits right away; children must wait until you've served at least 10 years. Servicemembers and veterans (and their spouses) must use the benefits within 15 years after leaving the military. Children aren't subject to the 15-year limit, but they must use the transferred benefits by age 26.

If you have more than one child or want your spouse to have the option to use the benefits, you can transfer 35 months of benefits to your children and one month to your spouse. You can always adjust the allocation later on, but you can't add new beneficiaries after leaving the military.

For more information about transferring benefits, see the GI Bill transfer page at **benefits.va.gov/gibill/post911_transfer.asp**.

If you (or your spouse or children) are attending a private college, going to graduate school or paying out-of-state tuition at a public college, your benefits may

not cover the entire bill. But you may qualify for extra help from the Yellow Ribbon program. Hundreds of colleges provide scholarships for a specified number of students each year, and the Department of Veterans Affairs matches the school's contribution.

To qualify for the Yellow Ribbon scholarship, you must be eligible for the maximum GI Bill benefits (children or spouses using transferred benefits may also qualify). Yellow ribbon funding varies widely by school and program, and you apply for these scholarships directly through the college.

Harvard University, for example, provides up to $5,000 for an unlimited number of undergraduate students and up to $18,000 for business school students for the 2016-17 school year. Clemson University provides $3,500 scholarships for up to 45 undergraduates, and up to $5,000 for five graduate students. See the VA's Yellow Ribbon Program page (**benefits.va.gov/gibill/yellow_ribbon.asp**) for more information about each school's offerings.

For more information about the Post 9/11 GI Bill and the earlier Montgomery GI Bill, go to the Veterans Affairs GI Bill page (**gibill.va.gov**). See the U.S. Department of Veterans Affairs publication, "Factors to Consider When Choosing a School: A Guide Before Using the GI Bill" at **benefits.va.gov/gibill**, and the Federal Trade Commission's "Choosing a Vocational School" at **ftc.gov**.

LOW-COST LIFE INSURANCE

Life insurance is always important if someone is depending on you financially, and it's particularly important if you're heading to a combat zone. Active-duty members of the military have access to special low-cost term life insurance. Servicemembers' Group Life Insurance (SGLI) costs only 7 cents per $1,000 of coverage per month, or $336 per year for the maximum $400,000. And it is available regardless of your age, health or likelihood of being deployed.

Servicemembers can also get $100,000 in coverage for a spouse for as little as $60 a year if the spouse is under age 35 (coverage costs more for older husbands and wives). See **benefits.va.gov/insurance** for details.

What's more, there's now an extra benefit for SGLI beneficiaries. The HEART Act, enacted in 2008, permits surviving spouses who receive SGLI death benefits to invest some or all of that money into a Roth IRA, without being subject to the standard $5,500 limit.

If a spouse receives the maximum $400,000 death benefit, plus a $100,000 death gratuity, he or she can contribute up to $500,000 to a Roth IRA, where it can grow tax-free for the future. Surviving spouses have one year after receiving the death benefits to roll them into a Roth.

"We wish younger surviving spouses knew that they could let the money grow in a ROTH because they may not need the money right away," says Bonnie Humphrey, chief fiduciary officer for AAFMAA Wealth Management and Trust, which manages money for military families.

Interest-rate reductions and other special rights

The Servicemembers Civil Relief Act (SCRA) gives members of the military special legal rights and financial protections if they have to move unexpectedly or are deployed. It even applies if they must leave a civilian job to go on active duty with the Reserves or National Guard.

One of the most valuable SCRA benefits is the interest-rate cap. In some situations, the rate on a mortgage, credit card, car loan or other debt can be reduced to 6% if military service affects your ability to pay—as it may if you take a pay cut when activated to the Reserve or National Guard. Note that this rule applies only to debts incurred prior to military service or activation, not to debts taken on while on active duty.

YELLOW RIBBON SCHOLARSHIPS VARY WIDELY BY SCHOOL AND PROGRAM . . . AND YOU APPLY DIRECTLY THROUGH THE COLLEGE.

You usually need to send the lender a written request for the rate reduction and prove that your income has been reduced. You may be asked to submit copies of your military orders, earnings statements and tax returns. Be aware that help is available from an Armed Forces Legal Assistance Office; go to **legalassistance.law.af.mil** to find an office near you.

SCRA provisions can also help servicemembers terminate contracts. Specifically, you have the right to terminate an apartment lease if you have orders for a permanent change of station or are deployed to a new location for 90 days or more. You can terminate a car lease without an early-termination fee if you are deployed for 180 days or longer. And you can terminate your cell-phone contract without penalty if you receive orders to relocate for more than 90 days to an area that is not supported by your contract.

See the U.S. Department of Justice's Servicemembers and Veterans Initiatives page (**servicemembers.gov**) for more information about SCRA protections.

Special tax breaks

Members of the military and their families get a lot of tax breaks that can help them stretch their paychecks. If you don't live in base housing, your pay will include a Basic Allowance for Housing (BAH) that provides a tax-free housing allowance to help cover your rent or mortgage. Look up the amounts by rank and zip code at **defensetravel.dod.mil/site/bah.cfm**.

You also receive tax-free pay while in a combat zone and can contribute more money to a Thrift Savings Plan while deployed—boosting the limit from $18,000 to $53,000 in 2016. For more information about federal tax rules for members of the military, see IRS Publication 3, Armed Forces Tax Guide at **irs.gov**.

You may also benefit from special rules for state income taxes. Civilians generally have to pay state income taxes in the state where they live. But servicemembers and their spouses are allowed to maintain legal residence (called "domicile") in one state even if they are stationed in another. This can simplify your tax situation and maybe even save you money. For example, if you establish residency while stationed in Florida or Texas, which don't have a state income tax, you can maintain that domicile while you're on active duty, even if you move to another state that does have an income tax.

Your domicile begins as your home state when you join the military and can remain the same, regardless of where you are stationed. Or if you are transferred to another state and decide to make it your home, you can establish that state as your legal residence. You'll want to register to vote in that state, register your car and get your driver's license there, and plan to return once your service is completed.

Keep in mind that after you leave the military, you'll have to pay taxes in the state where you live. Factor this in when calculating how much money you'll need to earn as a civilian to end up with comparable take-home pay. ★

ACTIVE-DUTY SERVICEMEMBERS CAN MAINTAIN LEGAL RESIDENCE IN ONE STATE EVEN IF THEY ARE STATIONED IN ANOTHER.

Before and After Deployment

TAKE SMART STEPS TO PROTECT YOUR FAMILY AND YOUR FINANCES

You and your family already have enough on your mind when you are preparing for deployment. You don't want to worry about financial issues, too. Fortunately, you do have access to some special programs while deployed that can help your finances long after you return.

Your paychecks grow when you receive tax-free income in a combat zone, and you can take advantage of special programs that help you stretch your money even further. It's also important to protect yourself from identity thieves while you're gone and be ready for unexpected bills. The more you prepare, the better you'll be able to protect your family and your finances.

Sean Michael Pearson, a certified financial planner with Ameriprise in Conshohocken, Pa., has been in the Pennsylvania Air National Guard for 19 years. He recommends doing a periodic "financial exercise," similar to a military exercise, to make sure you and your family are prepared financially for deployment. That way you don't have to scramble if you get a last-minute call to deploy—as he did when he went to Iraq in 2003.

Here are some steps you can take well in advance of deployment, and a few immediately before:

1 Organize legal documents

The legal assistance office at your base can help you create a will, as well as a power of attorney and healthcare proxy, which let someone handle your finances and healthcare decisions if you are unable to do so yourself.

The power of attorney can be particularly important while you're deployed. You can grant a general power of attorney, which gives your representative broad powers over financial transactions. Or you can use a power of attorney for specific transactions, such as buying a house or car while you're deployed. A power-of-attorney document generally has a time limit, so make sure yours is still up to date if you're about to be deployed again.

Also, check your beneficiary designations on your life insurance, IRAs, Thrift Savings Plan and other retirement savings because these directions supersede any information in your will. If you designated a beneficiary when you first joined the service and haven't changed it since you got married, for example, your original beneficiary could inherit your account.

WHAT'S IN YOUR 'BRAIN BOOK'?

A key step toward protecting your financial life is to organize it. Here's a checklist of important details to record in one place. Once you have collected the information, put it in a safe place and make sure your loved ones either have a copy or know how to put their hands on one if needed.

- ☐ **CHECKING/SAVINGS ACCOUNTS.** For each account, record the name of the bank or credit union, the account number, location of statements and any login for online banking.
- ☐ **LOANS.** For each loan, record the name of the lender, the account number, the monthly payment, the due date, location of statements and any online logins.
- ☐ **CREDIT CARDS.** For each card, record the issuer name, the account number, the payment due date, location of statements and any online logins.
- ☐ **INVESTMENTS.** For each investment, record the name of the financial institution, the type of investment, the account number, location of statements and any online logins.
- ☐ **INSURANCE.** For each policy, record the company/agent, the type of policy, the premium due date, the policy number, the location of the policy and any online logins.
- ☐ **LEGAL INFORMATION.** For relevant documents, record the location and additional information such as an executor or attorney for your will, power of attorney, passport, and marriage certificate or any divorce or separation plan.

See **legalassistance.law.af.mil** to find a legal assistance office near you.

2 Prepare financial records

Put together a "brain book"—a compilation of key information that might be needed in your absence, recommends Patrick Beagle, a former Marine helicopter pilot and now a financial planner. Give a *trusted* family member or friend information about your financial accounts and how to access them, as well as a copy of your will, power of attorney, medical directive and a letter of instruction should anything happen to you.

3 Establish an emergency fund

It's always important to have an emergency fund, and it's particularly crucial if you are about to deploy. Try to build up enough cash in an accessible account to cover at least six months' worth of expenses, and add extra money to help your spouse pay for help while you're gone, such as for yard work or childcare.

4 Create a bill paying plan

If you don't have a spouse or family member at home to pay your bills, sign up to have your bills paid automatically from your checking account. "You need to have a system that's going to work no matter where you are," says Pearson. "Easy is better."

It's also a good idea to notify your bank, credit union, credit card companies and other financial institutions about your deployment. You don't want them to freeze your account temporarily if they can't reach you with questions about charges from an unexpected location.

5 Save on auto insurance

Let your auto insurance company know if you're about to be deployed and won't be using your car. You may be able to lower your premiums by up to 75% while deployed by eliminating liability and collision coverage on the stored car, if permitted. But keep any comprehensive coverage, which will pay if your car is damaged or stolen.

6 Cancel contracts

As mentioned previously, the Servicemembers Civil Relief Act provides special rights while you are deployed. You have the right to terminate an apartment lease without penalty if you have orders for a permanent change of station or are deployed to a new location for 90 days or more. You can terminate a car lease without an early termination fee if you are deployed for 180 days or longer. And you can terminate your cellphone contract without penalty if you receive orders to relocate for more than 90 days to an area that is not supported by your contract.

Go to **servicemembers.gov** for more information. ★

EXTRA SAVINGS OPPORTUNITIES

Your take-home pay will increase while you're receiving tax-free income in a combat zone, making it the perfect time to take advantage of special savings opportunities that are only available while you're deployed. Here are three special breaks:

HIGHER THRIFT SAVINGS PLAN LIMITS. Instead of the usual $18,000 limit, you can contribute up to $53,000 when receiving tax-exempt pay while serving in a combat zone. It can be tough to reach those limits, but you may be able to boost your contributions at least a little when your take-home pay rises. Any tax-free pay that goes into the TSP can also be withdrawn tax free. For more information, see **tsp.gov**.

TOTALLY TAX-FREE INCOME IN A ROTH IRA. If you're receiving tax-free pay in a combat zone and contributing to a Roth IRA, both your contributions and your earnings come out tax free. You can contribute up to $5,500 to a Roth IRA in 2016 (or $6,500 if 50 or older).

GUARANTEED 10% RETURNS ON SAVINGS. Invest up to $10,000 in the military's Savings Deposit Program and receive 10% annual interest, compounded quarterly, while you're deployed and up to three months after you return. You can't contribute to the plan until you're deployed, so brush up on the rules in advance. That way, you can act promptly when the opportunity arises. Also consider saving some money beforehand, so you can contribute as much as possible. See **www.dfas.mil/militarymembers/payentitlements/sdp.html** for more information.

THE SERVICEMEMBERS CIVIL RELIEF ACT PROVIDES SPECIAL RIGHTS WHILE YOU ARE DEPLOYED.

Buying and Selling a Home

BENEFIT FROM SPECIAL PERKS AND RESOURCES TO EASE MILITARY MOVES

Military families tend to move often, sometimes with little notice, which can make it tough to decide whether to buy a home or rent. But you also have access to some special perks that can help homebuyers.

Members of the military receive a tax-free Basic Allowance for Housing (BAH) to cover all or part of your rent or mortgage payment. If you buy a home, you can deduct mortgage interest, even if you use your tax-free housing allowance to pay for it. And you can qualify for a VA loan, which doesn't require a down payment or private mortgage insurance.

Even with these special benefits, the rent-versus-buy decision is a difficult one, especially when you consider that you may be stationed in an area for only a few years. "You need to consider how long you anticipate being the owner of the home, how much debt are you willing to take on and can carry responsibly, and what is the expected appreciation," says Mike Greene, senior vice president for financial advice at Ameriprise Financial, who served as a combat engineer in the Army. "For many people, buying a home is the biggest decision they will make, and it's important to have someone run the numbers and run the scenarios and really understand your goals."

Fortunately, help is available from the Personal Finance Management program on your base. You can also search for a Certified Financial Planner in your area at **letsmakeaplan.org**. Click on "government and military" to find an adviser who specializes in helping military families.

Steps to take before buying

All families must carefully weigh the decision about whether they can afford to buy a home. Military families, however, have additional factors to assess.

FOR MANY PEOPLE, BUYING A HOME IS THE BIGGEST DECISION THEY WILL MAKE.

1 CONSIDER THE POTENTIAL FOR A MILITARY MOVE. Could you afford to keep the house even if you have to move to another city? It's important to evaluate the home's rental potential because that can be another option if you have to move.

Familiarize yourself with the rental market in the area, so you can identify how much you could potentially receive in rent. Then compare this amount to your mortgage payments.

Some families try to limit their monthly mortgage payment to a few hundred dollars less than the BAH for someone of similar rank in the area. That way, they're more likely to have a pool of potential renters who could afford to pay enough to cover their mortgage and any other costs (such as property

management fees, which can run about 10% of the monthly rent) they would have to carry if they couldn't sell when they have to move.

It helps if you eventually plan to move back to the area, either before or after you leave the military, so you'd only need to rent out the house for a limited number of years.

2 COMPARE SEVERAL TYPES OF MORTGAGES.

Servicemembers can qualify for a VA loan, which lets you buy a home with zero money down and no private mortgage insurance (see **benefits.va.gov/homeloans** for details). Interest rates on VA loans tend to be comparable to other mortgages, but fees are sometimes higher. If you have a good credit score and can make a down payment, the VA loan may not be the best deal, says Andy May, chief operating officer for AAFMAA Mortgage Services, which specializes in helping military families with a variety of types of mortgages.

"Only one in three people we work with select a VA loan when they're presented with all of the options," he says. Veterans with a disability rating, however, get a break on VA loan fees, usually making that their best deal. If you do get a VA loan with no down payment, recognize that if prices fall even modestly, you could wind up underwater, which means you'll owe more than the house is worth.

3 BOOST YOUR EMERGENCY FUND.

Keep extra money in a safe and accessible account that you can use to cover your mortgage, utilities and other expenses for a few months if you can't find a new renter right away. The Servicemembers Civil Relief Act makes it easy for members of the military to get out of leases when they're deployed or receive orders to move—which can be great when you're the renter, but tougher when you're the landlord and lose your tenant with little notice.

4 UNDERSTAND SPECIAL TAX RULES FOR HOME SALE PROFITS.

If you eventually sell your home for a profit after renting it out, there are special tax rules that can minimize the bite. To claim tax-free profit (up to $250,000 for singles or $500,000 if you're married filing a joint return), civilian homeowners must live in a house for two of the five years leading up to the sale. Military families, however, must live in the house for just two of the preceding 10 years to qualify for this tax break. See IRS Publication 3, Armed Forces Tax Guide, at **irs.gov** for details.

5 TAKE ADVANTAGE OF AVAILABLE MORTGAGE HELP.

For more information about special programs that help servicemembers who are struggling with mortgage payments, see Fannie Mae's advice at **knowyouroptions.com/military**.

You also can find a housing counselor approved by the U.S. Department of Housing and Urban Development at www.hud.gov, or by calling 800-569-4287 or 888-995-HOPE. And learn about government programs to help with loan repayment at **makinghomeaffordable.gov**.

The Consumer Financial Protection Bureau (**consumerfinance.gov/servicemembers**) has resources to help servicemembers with mortgage issues as well. ★

A VA LOAN LETS YOU BUY A HOME WITH ZERO MONEY DOWN AND NO PRIVATE MORTGAGE INSURANCE.

Financial Fraud Watch

PROTECT YOURSELF FROM SCAMS THAT TARGET SERVICEMEMBERS

Members of the military have a regular paycheck. They move frequently. And they are often inaccessible while deployed, which makes it difficult to keep tabs on their financial accounts. All of these factors make them prime targets for scam artists.

State and federal regulators and the Department of Defense have cracked down on the crooks, and new laws and resources help protect members of the military from being pressured into high-fee loans, investments and insurance. Still, ever-creative scam artists scheme to stay a step ahead of new laws. The following steps can help protect yourself and your family from financial fraud.

Predatory lending

Commercial strips around many bases used to be lined with payday lenders that would offer you a short-term loan against your next paycheck, often for outrageous interest rates—sometimes more than 400%. The Military Lending Act capped payday-loan rates at 36% for members of the military on active duty and their dependents, which led many lenders offering payday loans to disappear.

Some lenders discovered ways around the law, however, by offering varieties of high-rate loans that weren't subject to the cap. For example, they may have offered loans with initial terms longer than 91 days or for amounts larger than $2,000. And some Web-based lenders skirted the rules by structuring loans as open-ended lines of credit. New regulations are closing some of those loopholes, but it's still a good idea to learn more about your rights. Go to the Consumer Financial Protection Bureau's servicemembers' page (**consumerfinance.gov/servicemembers**) for information.

You'll also want to investigate other options for short-term loans and financial assistance. Consider these sources:

- **0% loans via a military emergency-relief fund.** Each branch of the military has an emergency-relief fund that offers small interest-free loans for emergencies. And these loans are becoming even more accessible: Army Emergency Relief changed its policy last year to allow soldiers to ask AER directly for assistance and apply for loans online without having to go through their chain of command. For more information, contact the community service office at your base, or visit Army Emergency Relief (**www.aerhq.org**), Navy-Marine Corps Relief Society (**nmcrs.org**), Air Force Aid Society (**afas.org**) or Coast Guard Mutual Assistance (**cgmahq.org**).
- **Credit unions.** Credit unions on base often offer short-term loans at reasonable interest rates. Some even offer small emergency loans to members of the military with little or no credit check.

A word of caution: If you have to borrow to cover regular expenses, you may be grappling with a bigger issue than a short-term emergency. Consider meeting with a Personal Financial Manager on base or a credit counselor who can help you set up a budget, pay down debt and prioritize your spending.

You can find a credit counselor through the National Foundation for Credit Counseling (**nfcc.org**). Note that credit unions and other financial institutions on base are required to offer counseling services at no charge. And beware of "credit repair" firms that charge high upfront fees with a promise to get you out of debt.

Identity theft

Identity thieves often prey on servicemembers because they move frequently and may have a tough time monitoring their credit records and bills while deployed. And military families can be particularly susceptible to phishing calls or emails that purport to be from financial institutions regarding a deployed servicemember's account.

HOW TO PROTECT YOURSELF:

- **Monitor your accounts online.** Check your bank, credit union and credit card accounts regularly. And establish a plan for you (or a trusted family member) to review accounts while you're deployed, so any suspicious activity is spotted quickly.
- **Notify your credit-card company about your deployment.** Let your financial institutions know if you're about to travel or be deployed. That way, they'll be better able to distinguish between legitimate charges and suspicious activity while you're away.
- **Check your credit report.** You can request a free copy of your credit report from each of the three major credit bureaus every year through **annualcreditreport.com**. You can also put an active-duty alert on your credit report. This will signal lenders to take extra steps to verify your identity before granting credit in your name. See the military information at the Federal Trade Commission consumer resource (**consumer.ftc.gov**) for more information.

High-fee investments

Several years ago, state and federal regulators cracked down on companies that targeted members of the military with high-fee investments and inappropriate insurance. But there are still salespeople who prey on members of the military, especially if they have recently received a substantial windfall, whether from retirement, a reenlistment bonus, or deployment pay.

Don't fall for these tactics. You have plenty of solid and legitimate savings alternatives and resources for help—resources like these:

- **Special savings programs for the military.** As mentioned previously, servicemembers have access to an excellent, low-cost savings opportunity with the Thrift Savings Plan. The TSP should be your first saving priority. You can also open a Roth IRA through a financial institution and should make the most of guaranteed 10% annual returns while deployed through the military's Savings Deposit Program. See "Investing in Your Future" on page 1 for more information on these programs and more.

AFFINITY FRAUD

Criminals have no qualms about fabricating an affiliation with the military to gain a family's trust. So remember, you have several ways to check out a company before handing over your money.

CONTACT THE BASE COMMUNITY SERVICE OFFICE. Some have databases that cross-reference complaints made to the community service, legal assistance and housing offices on base. They may even link into the local Better Business Bureau database. The base's legal-assistance office also can help you carefully review contracts before you sign.

CONTACT THE BETTER BUSINESS BUREAU. You can check a business's complaint record and get help resolving consumer problems through the local BBB (**bbb.org**). BBB Military Line focuses on providing information and resources specifically for servicemembers and their families (**bbb.org/military**).

- **Military insurance.** Members of the military have access to low-cost life insurance through the Servicemembers Group Life Insurance program (also mentioned previously). You can get up to $400,000 in coverage on yourself while on active duty for just $336 per year, and up to $100,000 in coverage on your spouse for $60 per year if your spouse is under age 35 (coverage costs more for older spouses). If you want to buy extra coverage, check out insurers and agents through your state insurance department (find links at **naic.org**). The National Association of Insurance Commissioners' **insureuonline.org** also offers insurance advice for members of the military.
- **Verifying a broker's record.** Before doing business with a broker or investment adviser, check out the Financial Industry Regulatory Authority's (FINRA) BrokerCheck (**brokercheck/finra.org**) and the SEC's **Investor.gov** databases. You can learn more about an adviser's experience, licensing and any complaints or disciplinary action. Also check out the broker through your state securities regulator (**nasaa.org**). State securities regulators offer programs to help military families, such as California's Troops Against Predatory Scams (TAP$), which is offered in conjunction with the Investor Protection Trust (**investorprotection.org**).
- **Financial planning assistance.** You can get help from the Personal Financial Management office on base and search for a Certified Financial Planner in your area at **letsmakeaplan.org**. Click on "government and military" to find an adviser who specializes in helping military families. ★

Leaving the Military

PLAN A SMOOTH RETURN TO CIVILIAN LIFE WITH THIS CHECKLIST

When you decide to leave the military, you'll face a series of financial challenges. One of the most significant? Because valuable benefits and tax breaks you receive on active duty will disappear, you may need to earn more as a civilian just to match the buying power of your military pay and benefits.

"You need to see what you're losing and how it will affect you financially," says Josh Andrews, advice director for Military Life with USAA. "Earning $70,000 in the military is not the same as it is in civilian life."

In addition, if you're retiring from the military after 20 years or more, you'll need to make important decisions about your pension that can affect your benefits for the rest of your life.

Here are some steps to take that will ease the transition:

Prepare for a bigger tax bite

If you qualify for military retirement pay, find out how your state taxes military pensions. Some exempt the payouts from state income taxes; others do not. You'll also want to consider the overall tax picture (and cost of living) when deciding where to retire. "So many times [servicemembers] want to retire to a state that doesn't tax military pensions, but they don't look at the other taxes," says Patrick Beagle, a CFP in Springfield, Va. and retired Marines helicopter pilot.

Compare tax rates for income taxes, military pensions, Social Security, sales and property taxes for each state at Kiplinger's retiree tax map (**kiplinger.com/retirement**).

Plan for your Thrift Savings Plan

Decide whether to keep your money in the TSP after you leave or roll it into an IRA. You'll have more investing choices with an IRA but may have higher fees. If you roll TSP money into another plan, keep track of any contributions you made with tax-free combat pay, so you aren't taxed on that portion of the withdrawals.

Replace your life insurance

You'll lose the low-cost Servicemembers Group Life Insurance when you leave the military. But you will have up to 120 days to convert your policy to Veterans' Group Life Insurance with no medical exam, which can be a good deal if you have health issues.

Still, the premiums are higher than SGLI and the price rises with age. So if you're healthy, you may find a much better deal on your own and be able to lock in a fixed rate for 20 or 30 years. Shop for coverage well before your VGLI eligibility expires.

Prepare for higher healthcare costs

One of the biggest financial benefits of the military is premium-free healthcare for you and your family while you are on active duty. If you retire from the military, you can get low-cost Tricare coverage (see **tricare.mil**). But if you leave before 20 years and don't qualify for Tricare, you'll need to budget extra money for health insurance premiums, deductibles and co-payments, even if you have good coverage through a new job.

Also check the Department of Veterans Affairs Web page (**va.gov/healtheligibility**) to determine if you are eligible for VA health care.

Put aside more cash for emergencies and transition expenses

Josh Andrews, USAA's advice director for Military Life, recommends setting aside six to nine months' of living expenses as a "transition fund." This will cover your expenses if it takes a while to find a new job or if you have extra expenses related to a move.

Take advantage of transition and education resources

You should also make the most of resources available through the military community service office to help with your transition and job search. The Department of Labor's Veterans' Employment and Training Service (**dol.gov/vets**) program is packed with resources to help veterans find jobs, and Veterans.gov can help you find job search, training and other resources in every state. The Small Business Administration's Veteran-Owned Businesses page (**sba.gov/veterans**) includes information to help veterans start businesses.

Make key decisions about your military pension

The "survivor benefit plan," or SBP, lets your beneficiary continue to receive up to 55% of the amount of coverage you elect for his or her lifetime (after you die), adjusted for inflation. For your spouse to receive this benefit, you'll generally pay 6.5% of the portion of the monthly pension payout you want your spouse to receive, which is deducted pretax from your retirement pay (it can cost more to make your children your beneficiaries, depending on their age). For more information about the costs and eligible beneficiaries, see the Defense Finance and Accounting Service's Survivor Benefit Plan page at **www.dfas.mil/retiredmilitary/provide/sbp.html**.

Note: If you're comparing this benefit to the cost to buying life insurance for your beneficiary, make sure you compare it to a permanent policy—a term policy might expire before you die, leaving your beneficiary with nothing. The SBP almost always comes out ahead.

"The majority of people should take the survivor plan," says Andrews of USAA. "It's an important benefit for financial security, and it makes sure that your spouse will always be covered." ★

THE SURVIVOR BENEFIT PLAN . . . MAKES SURE YOUR SPOUSE WILL ALWAYS BE COVERED.

Financial Resources for Military Families

Armed Forces Legal Assistance (legalassistance.law.af.mil) includes a search tool to help you find legal-assistance offices at nearby bases.

Better Business Bureau (bbb.org) helps you check out businesses and works to resolve complaints. BBB Military Line (bbb.org/military) specializes in consumer alerts, financial education and resources for members of the military.

Consumer Financial Protection Bureau servicemembers' section (consumerfinance.gov/servicemembers) provides resources to help members of the military plan for the future and protect their finances, including information about payday loan rules, links to state consumer protection resources for servicemembers, fraud protection and help for homeowners.

Defense Finance and Accounting Service (dfas.mil) includes information about active military and retiree pay, benefits and savings programs.

Department of Defense's Military Compensation page (militarypay.defense.gov) includes information about military pay and benefits, including detailed information about the new blended retirement system and calculators to help you estimate your military retirement pay.

Department of Veterans Affairs VA loans page (benefits.va.gov/homeloans) includes detailed information about VA loans and other housing resources to help members of the military and their families.

Department of Veterans Affairs life insurance page (benefits.va.gov/insurance) offers in-depth information about Servicemembers' Group Life Insurance and other life insurance programs for members of the military, veterans and their families.

Investor Protection Institute (iInvest.org) provides information to help you save and invest for your future and features brochures covering many "need to know" investing and saving topics.

Investor Protection Trust (investorprotection.org) provides information about investing and protecting your money, including an excellent guide to help you get started in investing (investorprotection.org/learn-about-investing). Look for special educational resources for the military.

IRS Publication 3, Armed Forces Tax Guide (irs.gov) explains special tax rules that can benefit military personnel.

Kiplinger.com provides timely advice and information to help with all areas of personal finance, from saving and investing to insurance, taxes, homeownership and financial planning.

Military.com focuses on pay and benefits, financial issues, preparing for deployment and transitioning out of the military.

Military Homefront (militaryhomefront.dod.mil). This Department of Defense Web site highlights resources and benefits for military families.

MilitaryMoney.com offers advice on all aspects of personal finance for military families, plus links to discount and support programs.

MilitaryOneSource.com is a clearinghouse for information related to all things military, including deployment, legal rights and finances.

MilitarySaves.org focuses on strategies for building savings and reducing debt, and includes inspirational stories from servicemembers who make saving a priority.

MyArmyBenefits (myarmybenefits.us.army.mil) includes information about Army pay and benefits, transition information and tax rules.

National Association of Insurance Commissioners (naic.org/consumer_military_insurance.htm). This site focuses on insurance issues for members of the military, and includes contact information to find insurance regulators in your state.

National Military Family Association (militaryfamily.org) features resources to help families make the most of their benefits, prepare for deployment and cope with financial issues.

North American Securities Administrators Association (nasaa.org) includes links to state securities regulators, tips on avoiding scams and other helpful information for investors.

Saveandinvest.org alerts military families to active scams, includes advice on saving and investing, and provides resources for checking out advisers.

TSP.gov features details about the Thrift Savings Plan for military personnel, including information about investments, enrollment, and managing your account during key life changes.

U.S. Department of Justice Servicemembers and Veterans Initiative (servicemembers.gov) provides details on special legal rights for members of the military and veterans, including information about the Servicemembers Civil Relief Act.

U.S. Securities and Exchange Commission's military site (sec.gov/investor/military.shtml) offers warnings about scams targeting members of the military, as well as general investor education and tips on how to check out a broker.

Veterans Benefits Administration (benefits.va.gov/benefits) includes information about many types of benefits available from the VA, including the GI Bill, VA loan, life insurance, disability benefits, and other programs.

ADDITIONAL RESOURCES

You can find additional resources about the benefits and programs for each branch of the military at these sites:

Air Force (www.afcommunity.af.mil)
Army (myarmyonesource.com)
Army Reserve (arfp.org)
Coast Guard (uscg.mil/worklife)
Marine Corps (usmc-mccs.org)
Navy (www.ffsp.navy.mil)
National Guard (www.nationalguard.mil, jointservicessupport.org)
Reserve Affairs (ra.defense.gov)

Kiplinger's

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