



## Forum Wealth Management

Office: 623-236-9263

Fax: 623-242-9814

learnmore@forumwealthmgt.com

www.forumwealthmgt.com



# Members of the Military: Personal Financial Planning



**Service branches offer campaigns and educational programs to servicemembers and their families. The Air Force, Navy, and Army each require that respective members receive financial education, training, and counseling. Also, the Department of Defense established [MilitarySaves.org](http://MilitarySaves.org) to help servicemembers and their families plan for their financial futures.**

### **Special Savings Program**

*If you're deployed in a designated combat zone or in support of a contingency operation, you have a unique chance to earn a high interest rate by participating in the Defense Department's Savings Deposit Program (SDP). The SDP pays 10% annual interest on account balances up to \$10,000. Contact your local military office for more details.*

Financial planning is the process that can help you pursue your goals by evaluating your whole financial picture, then outlining strategies that are tailored to your individual needs and available resources. Just as the success of a military mission is dependent upon proper planning, your financial success may be dependent upon creating a sound financial plan as well.

## **Why is financial planning important?**

While being tasked with the burdens of protecting our country, members of the military also need to be aware of how their military service impacts their personal finances. In addition, servicemembers have sources of income and savings options that aren't available to civilians. Understanding these benefits and taking advantage of them could not only help you to work toward financial goals for you and your family, but you may be able to focus better on the demands of your service commitment.

## **The financial planning process**

Developing a comprehensive financial plan and putting it in place generally involves the following steps:

- Take account of your income, assets, taxes, regular monthly expenses, and liabilities; evaluate your insurance (life, health, property and casualty, etc.), your investments and savings, and your estate plan
- Establish and prioritize your financial goals and set a time frame for each
- Identify areas of financial concern and financial strengths
- Familiarize yourself with specific financial products available to you and incorporate them into your financial plan where appropriate
- Monitor your plan and make adjustments as your goals, time frames, and circumstances change
- Use the services of financial professionals such as financial planners, accountants, and estate

attorneys who have the expertise necessary to provide objective information and help you implement your plan results

## **Set and prioritize financial goals**

Determining financial priorities and goals is ultimately the responsibility of you and your family. Start by making a list of your short-term goals (e.g., new car, vacation) and your long-term goals (e.g., home purchase, child's education, retirement). Then try to prioritize those goals. How important is each goal to you and your family? How much will you need to save in order to reach each goal? Once you have a clearer picture of your goals, you can work toward establishing a budget that can help you pursue them.

## **Establish a budget**

Creating and maintaining a budget may not only help you target your financial goals, but regularly reviewing and updating your budget can help keep you on track, particularly when your circumstances change. To develop a budget that is appropriate for your lifestyle, you'll need to identify your current monthly income and expenses. Start by adding up all your income. A servicemember's income can come in several forms of monetary and nonmonetary compensation. In addition, some forms of income are taxable while other types of income are nontaxable.

Understanding whether income is taxed is very important because disposable income, or income that's left after paying taxes, is what you have available to pay bills and save for future goals. Taxable basic pay varies with rank and time of service, so changes in base pay should be factored into your budget. Several forms of military compensation are nontaxable, such as Basic Allowance for Subsistence, Basic Allowance for Housing, uniform and clothing allowance, hostile fire pay, basic pay and occupational incentive pay during periods of deployment to a hostile theater, and family separation allowance.

In addition to your military income, be sure to include



other types of income, such as dividends, interest, a spouse's civilian pay, and child support. Next, add up all your expenses. It helps to divide them into two categories: fixed expenses (e.g., housing, food, clothing, and transportation) and discretionary expenses (e.g., entertainment, vacations, and hobbies). You'll also want to make sure that you have identified any out-of-pattern expenses, such as holiday gifts, car maintenance, and home repair.

Once you've added up all your income and expenses, compare the two totals. If you find yourself spending more than you earn, you'll need to make some adjustments. Look at your expenses closely and cut down on your discretionary spending.

## Saving starts with an emergency fund

A sound financial plan could help ensure that you are protected when financial emergencies arise. Having a cash reserve or emergency fund may help you avoid taking on additional debt when you don't want to. The amount of your reserve depends on your own personal situation, but it's generally suggested that your cash reserve should equal three to six months of ordinary living expenses.

## Choosing your savings vehicles

The savings vehicles you use should depend on two factors: your time horizon and risk tolerance. Generally, the longer the time horizon, the more risk you may be able to assume. Bank savings options include savings accounts, money market accounts, and certificates of deposit. These are typically more stable choices with the lower risk; other alternatives include investments that can go up or down in value and may or may not pay interest or dividends.

**Note:** All investing involves risk including the loss of principal. Before investing, carefully consider its investment objectives, risks, charges, and fees, which can be found in the prospectus available from the fund. Read the prospectus carefully before investing.

## Saving for retirement

One of the most important financial goals is saving for retirement. Even if you expect to qualify for a military pension, it probably won't provide all of the retirement income you'll need. A retirement savings option available to members of the military is the government's Thrift Savings Plan (TSP).

The TSP is like the government's version of the

private-sector 401(k) plan. Your contributions are deducted directly from your paycheck before taxes (which can lower your current taxable income), and your contributions and earnings accumulate tax deferred until withdrawn, at which time you'll generally pay income taxes on the amount you take out of the TSP. There are limits on how much you can contribute each year. You can also contribute after-tax dollars to a Roth TSP account, from which qualified withdrawals are generally received tax free.

## Safeguard with insurance

Insurance programs are often a vital part of a sound financial plan. Auto insurance, homeowners or renters insurance, health insurance, and life insurance should be investigated, with the cost of each type of coverage factored into your budget.

Life insurance provides financial protection for your family and loved ones. Servicemembers' Group Life Insurance (SGLI) is part of a servicemember's benefit package. Basic SGLI coverage is provided automatically when you join the military (although you can opt out or elect lesser coverage amounts), and premium costs are deducted from your pay.

Active-duty servicemembers, retired servicemembers, their qualified family members and certain survivors may receive health-care coverage through TRICARE, the medical program for the U.S. military. Depending on your status, the availability of medical care at military facilities, and the TRICARE option you choose, you may receive care either through military or civilian providers.

## Tips to help you stay on track

- Stay disciplined: Make budgeting a part of your daily routine
- Distinguish between expenses that are "wants" (e.g., new golf clubs) and expenses that are "needs" (e.g., groceries)
- Avoid using credit cards to pay for everyday expenses: It may seem as though you're spending less, but your credit-card debt may continue to increase.

### Other survivor benefits

- *Death Gratuity pays a one-time lump sum to eligible beneficiaries of a servicemember who dies within 120 days of retirement, or as a result of non-hostile action, or as a result of hostile action in a designated combat zone or while training for combat or while performing hazardous duty*
- *Survivors' Pension, also referred to as a Death Pension, is a tax-free benefit payable to qualifying surviving spouses of a deceased Veteran with wartime service*
- *Potential VA benefits include Dependency and Indemnity Compensation, and survivors' education benefits through the Survivors' and Dependents' Educational Assistance Program*

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