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Personal Finance for Military Families

Your One-Stop Guide to a Secure Financial Future

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INTRODUCTION

To U.S. Military Personnel and Their Families

We are pleased to present you with a personal-finance guide created especially for military families. While our troops carry out their difficult and dangerous missions, we know that they and their families are not immune to the financial turmoil that is impacting every household in America. Times are tough and it is harder than ever to make ends meet, let alone save money for future expenses such as college and retirement.

The financial strategies, rules and resources for military families are often very different from those for civilians.

That's where the **Kiplinger-BBB Personal Finance Guide for Military Families** comes in. On these pages you will find practical, easy-to-understand information about being financially prepared for deployment, buying a home, minimizing taxes, holding down insurance costs and avoiding financial schemes that too often target military families.

This guide is a collaboration between two organizations that have been helping consumers—including members of the military—for a long time. When the *Kiplinger Magazine* (now called *Kiplinger's Personal Finance*) was 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. Better Business Bureau, established in 1912, is the nation's oldest nonprofit organization in the field of advancing marketplace trust, and specializes in providing consumers with information that helps them make wise choices. It has long worked on behalf of military families, and BBB Military Line® specializes in consumer education and advocacy for them.

As you read the guide, you'll realize that two people spearheading this project have deep personal interest in the topic. Kimberly Lankford has been providing solid advice to readers of *Kiplinger's Personal Finance* and Kiplinger.com for more than a decade. Since 2004, Holly Petraeus has headed up the Council of Better Business Bureaus' BBB Military Line® program, where she provides financial education to military families. In addition to their expertise in personal finance, they have a very special credential: They're both military spouses. They know firsthand that the financial strategies, rules and resources for military families are often very different from those for civilians.

We hope you find this guide useful. Thank you for all you do in the service of our nation!

Knight A. Kiplinger
Editor in Chief
Kiplinger's Personal Finance
and Kiplinger.com

Steven J. Cole
President and CEO
Council of Better Business Bureaus

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Editor in Chief: Knight Kiplinger

Editorial Director: Kevin McCormally

Written by Kimberly Lankford

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Investing for Yourself and Your Future

Members of the military have special financial-planning needs. And, as a servicemember, you have access to many valuable investing programs that aren't available to the general public. You may qualify for a pension in your late thirties or forties, far earlier than any civilian, and could receive health benefits for life. But there's no "partial vesting." You won't get anything unless you stay in the military for 20 years, and, frankly, most people don't stick around that long.

Even if you do qualify for a pension, it's doubtful that the payments will cover all your bills. You're usually entitled to 50% of your base salary if you retire at 20 years (and an extra 2.5% for every year you stay beyond 20 years). Plus, and this is a real sweetener, the amount is increased each year after you retire to keep up with inflation. But special pay and allowances (such as your housing allowance) don't count toward your pension calculation, so you could end up with much less than half of the income you're earning at the time you retire.

It's essential to do some of your own saving. The younger you are when you start setting aside even just a little each month, the easier it will be to build a healthy nest egg. Fortunately, members of the military have some excellent retirement-savings plans available, and the options have recently improved. Uncle Sam helps, too, giving you tax breaks to help supercharge your savings. It's up to you to make the most of your retirement-saving options.

PHOTOGRAPH BY JASON WALLIS

Air Force fighter pilot Josh Andrews automatically contributes a few hundred dollars every month from his paycheck to his Roth IRA. It's a relatively painless way to build a tax-free retirement fund.

Thrift Savings Plan: An Easy Way to Invest for Retirement

Military personnel have access to the same retirement-savings plan—the Thrift Savings Plan—as do civilian federal employees. Similar to a 401(k), the TSP offers a low-cost, tax-advantaged way to save for the future.

You can invest up to $16,500 in the TSP in 2009, and even more if you receive tax-exempt pay while serving in a combat zone. You can contribute combat-zone pay up to a total of $49,000 in 2009. (Get this: $30,000 contributed this year would grow to more than $300,000 over 30 years if your investments grow at an average rate of 8% a year.)

Because contributions from your regular pay escape taxes, they don't lower your paycheck nearly as much as you might expect; contributing $10,000 cuts your take-home pay by just $7,500 if you're in the 25% tax bracket (and even less if your contributions also escape a state income tax).

The TSP makes it easy to save. Contributions are deducted automatically from each paycheck, and steady investing can pay off big time. Say you contribute $300 every paycheck, which lowers your take-home pay by just $225 in the 25% tax bracket. Do that twice a month and you'll save $7,200 for the year. 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, if your investments return 8% per year. And 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 $670,000 by age 55 (again, assuming an average return of 8%).

Reality check: Although 8% might seem outrageously high considering recent stock-market returns, the long-

term return of the stock market is even higher. Despite the devastating 37% loss of Standard & Poor's 500-stock index of large-company stocks in 2008, the average return over the past 82 years—a period that includes several lousy markets, including the Great Depression—stands at 9.6%.

The TSP offers five index funds that invest in large companies, small companies, international firms, bonds or government securities. Or you can opt for a lifecycle fund, which builds a diversified portfolio of the other funds to match your time horizon (see Q&A on page 3 for more information). Expenses for all of the funds are extremely low: about 15 cents a year for every $1,000 invested. So for a $100,000 portfolio, you'd pay just $15 a year in investment-management fees.

> Tax-free combat pay can go into a Roth IRA and that money—and all the earnings on it—come out tax-free in retirement. Now that's a sweet deal.

The TSP is a tax shelter, so you don't owe tax on earnings until you withdraw the money, and you won't ever be taxed on contributions from tax-exempt combat-zone pay. (A portion of every withdrawal will be tax-free to ensure that you never pay tax on that combat pay.)

You can keep the money in the Thrift Savings Plan after you leave the military, or you can roll it into an IRA or another employer's 401(k), where it can continue to grow tax-deferred. If you take the money and spend it, you'll face an immediate tax bill and, if you're younger than 55 in the year you leave the military and tap the account, you'll generally pay a 10% penalty to boot. For more information about the rules, visit www.tsp.gov, which also includes a calculator to help you project your future account balance.

Tax-Free Earnings From a Roth IRA

Unlike contributions to a traditional IRA, which can earn you a tax deduction and therefore lower today's tax bill, contributions to a Roth IRA offer no instant gratification. But the delayed gratification of doing without a tax deduction now is sweet indeed: All withdrawals from a Roth in retirement will be tax-free, whereas withdrawals from a regular IRA are taxed in your top tax bracket. Another advantage of the Roth is that you can withdraw Roth contributions at any time tax- and penalty-free if you get in a pinch.

You can contribute up to $5,000 to a Roth IRA in 2009 (or $6,000 if you're 50 or older) as long as your adjusted gross income is $105,000 or less; or $166,000 or less if married filing jointly (you can make a partial contribution if you earn $120,000 or less; or $176,000 or less if married filing jointly).

You need to have earned income in order to qualify for a Roth IRA, and tax-free combat-zone pay counts. In fact, the Roth can be a particularly good deal if you have tax-exempt deployment pay. Your money goes in tax-free and your contributions as well as your earnings come out tax-free, a double tax benefit that's tough to beat.

If you earn income but your spouse doesn't, you can contribute $5,000 to an IRA in his or her name, too.

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.

You can invest the maximum in both a Roth IRA and the Thrift Savings Plan in the same year. If you can't afford to invest in both plans, consider a Roth IRA first if you expect your income—and tax bracket—to increase by the time you plan to withdraw the money, especially if you had tax-free income in a combat zone. Because of other tax-free benefits, most military personnel are in a lower tax bracket now than they will be after they leave the service, so it makes sense to pay tax on Roth contributions now and enjoy tax-free income later.

You can invest either a lump sum or sign up to have money automatically shifted from your bank account or paycheck. Investing $416.67 per month will get you to the $5,000 annual limit. You have until April 15, 2010, to make

A Realistic Way to Plan for Your Military Pension

When it comes to pensions, a critical issue is how quickly your benefits are "vested"—that is, how quickly you really earn the right to a benefit. In the civilian world, for example, an employee might become 20% vested after two years on the job and 100% after seven years. But there is no partial vesting for military pensions. If you don't stay for 20 years, you generally get nothing. For that reason, it's usually best to avoid including the pension in your retirement-planning calculations until you're just a few years away from qualifying. "So many things can happen between start and finish that you just don't know what to bank on," says Patrick Beagle, a former Marine helicopter pilot who is now a certified financial planner in Fairfax Station, Va., specializing in military families.

For help figuring out how much you might receive if you do end up staying in the military, go to www.defenselink.mil/militarypay and click on "retirement."

your 2009 Roth IRA contributions, but the sooner the money is tucked into the account, the sooner tax-free earnings begin to grow.

Josh Andrews, a fighter pilot stationed at Creech Air Force Base in Las Vegas, automatically contributes a few hundred dollars to his Roth IRA and to a spousal IRA for wife Kelli every month. Investing the same amount at regular intervals, a strategy called dollar-cost averaging, buys you more shares when prices are low and fewer when prices are high. As a result, the average purchase price of your stock or funds will be lower than the average price in the market over the same length of time. "I see a market downturn as an opportunity to buy cheap," says Josh.

Dollar-cost averaging can also help eliminate the urge to try to time the market—which is virtually impossible to do successfully. Too often investors jump into the market to chase rising prices, then bail out when prices begin to fall, putting them in the unenviable position of buying high and selling low. Nobody knows which investment will do best next, so it's much more sensible (and less scary) to make regular investments in a well-diversified portfolio. If you're investing for a goal that is more than ten years in the future, like the Andrews are with their retirement fund, then it's best to start with most of your money in stock funds that include large companies, small companies and international firms. At age 32, Josh has plenty of time to weather the market's ups and downs before retirement.

U.S. NAVY PHOTO BY DAVID RUSH

No Scam: Get 10% Guaranteed

Too-good-to-be-true offers should usually send you running in the other direction. But this deal is for real: Servicemembers deployed in designated combat zones qualify for a savings program that guarantees 10% a year.

The Savings Deposit Program allows you to invest $10,000 from the time you are deployed until 90 days after you leave the eligible region. During that time, your savings earn a rate of 10% a year.

At the very least, plan to stash in the Savings Deposit Program the amount you'll save in a combat zone by avoiding federal taxes on your pay. If you're in the 25% bracket (with taxable income over $33,950 on an individual return), waiving the tax-free wand over $1,000 in combat-zone pay saves you $250; stick it in the 10% account. You can withdraw the money and all that sweet interest 90 days after you return.

For more information, go to **www.dfas.mil/militarypay.html** and type "Savings Deposit Program" in the search engine. ←

Q+A An Early Start . . . and a Simple Plan

My son is in the Army in Iraq. He has no investments to speak of and is single. He wants to put much of his income into some form of investment, most likely a mutual fund. Do you have any advice for him for selecting a fund?

The easiest way for him to get started is to invest in the Thrift Savings Plan, and he can open an account even while he is deployed. All he has to do is sign up to have a percentage of each paycheck go directly into the TSP. Troops can generally contribute up to $16,500 to the Thrift Savings Plan in 2009. But your son can also contribute all of his tax-exempt combat-zone pay, as long as his total contributions for the year don't exceed $49,000. He can start very small—the minimum contribution is just 1% of basic pay each period—but you should encourage him to set aside as much as he can.

The simplest investment choice is a lifecycle fund (the L Fund in the TSP). Lifecycle funds—sometimes called target-date funds—invest in a portfolio of other funds based on an investing time frame. They start out with more money invested in stock funds—when you have many years before you plan to touch the money—then gradually become more conservative as your goals get closer. The lifecycle fund automatically adjusts the investments every quarter, so you don't need to make any changes yourself.

You should pick the lifecycle fund with a target date closest to when you plan to withdraw the money. If your son is in his twenties and doesn't plan on tapping the account until he's in his fifties, then he'd pick the L 2040 fund. This fund starts with most of its money invested in an S&P 500 index fund (large U.S. companies), followed by an allocation to the international fund and small-company index fund, and just 15% of the money in the fixed-income fund. The allocation gradually changes through time, with most money invested in the government securities fund by 2040. Visit the L Funds page at www.tsp.gov to see how the allocation becomes more conservative as time passes.

Avoiding Scams That Target the Military

Military personnel are prime targets for shady sales practices of financial criminals who want a piece of the troops' regular paychecks and often take advantage of their frequent moves. "Whenever you have a major mobilization of the armed forces, there are opportunities for individuals to use very aggressive sales practices," says John Oxendine, Georgia's insurance commissioner, who led a multistate investigation into insurance-sales abuses targeting soldiers.

Crooks know when units return flush with extra cash from tax-free combat pay. "The sharks are circling the bases," says Kathy Graham, president and chief executive officer of the Better Business Bureau of Coastal Carolina. "Individually, our soldiers don't make a lot of money. Collectively, it's a big payroll."

Five years ago, *Kiplinger's Personal Finance* magazine revealed that soldiers had often been pitched investments that included a whopping 50% sales charge in the first year. That's right, half the money went into the pocket of the investment firm and salesman, not toward the servicemember's nest egg. This was followed by reports that young servicemembers were being sold expensive life-insurance policies they didn't need—and didn't even realize they were buying.

After a flurry of nationwide investigations and congressional hearings, several companies were ordered to pay multimillion-dollar fines and change their sales practices. And new laws and Department of Defense rules have been passed to help protect military personnel from the bad guys.

But you can't let down your guard: The problems haven't disappeared. Instead, abuses in the sale of insurance and investments—not to mention outright fraud—continue to surface. Con artists use military insignia to sell everything from bogus insurance to contaminated meat. And identity thieves are taking advantage of deployments and the military's ubiquitous use of Social Security numbers to find new victims.

Increasingly, though, state and federal regulators, local organizations and the military are on the alert. "We've seen the increasing costs of these personal-finance problems," says Holly Petraeus, director of BBB Military Line®, which provides consumer education to military families. "People were even losing their security clearances."

> Protect yourself from inappropriate sales practices and outright scams, and find better deals on the products and services you need.

Here's how to protect yourself from inappropriate sales practices and outright scams that target military families—and find far better deals on the products you need.

Affinity Fraud and Scams

Criminals have no qualms about fabricating an affiliation with the military to gain a family's trust. Often these are small-time operators who go door to door. In one case, a salesman was peddling phony life insurance just before deployment, preying on families' fears . . . and disappearing with hundreds of dollars in "premiums." In another case, a man claiming to be with the naval-base commissary in San Diego sold tainted meat to Navy families who lived on base.

Military spouses looking for a new job in a new town are susceptible to work-at-home scams, and they often shell out $50 to $200 or more for start-up kits and get nothing in return. And BBB recently uncovered a scam in which a con artist pretending to be a soldier about to deploy advertised a too-good-to-be-true price for a used car in an online ad. His touching story, combined with a promise to use an escrow account to protect the buyer, attracted immediate attention. But the escrow account was phony and there was no car.

Sometimes scams are on a larger scale, as when thieves target a tightly knit group by associating themselves with a respected member of the group. For instance, the Securities and Exchange Commission charged three promoters in 2008 with allegedly running a real estate Ponzi scheme that cost about 75 investors an estimated $10 million. Many of the victims were in the military and had been solicited by a member of the Air Force who had been sucked into the scheme.

Military families are also magnets for identity thieves because their Social Security numbers are everywhere, including military ID cards, dog tags and medical cards (the Department of Defense is gradually phasing out the use of full Social Security numbers on ID cards over the next two years). Plus, servicemembers may be hard-pressed to monitor their credit records and bills when they're deployed. In 2007, the Federal Trade Commission discovered a brazen ID-theft scam in which the thief, posing as a member of the Red Cross, called a soldier's family members to tell them their relative had been injured in Iraq. The caller then claimed that the family members would have to complete certain paperwork and provide personal information before they could get any more details, which would have been

PHOTOGRAPH BY MELISSA GOLDEN

Holly Petraeus, with Sergeant Major Rose Matthews, heads the BBB Military Line®, which focuses on consumer education and advocacy for military families.

enough for the crook to open accounts in the servicemember's name.

What You Can Do

Check out the company or salesperson with the base community-service office. For example, Army Community Service at Fort Hood, Tex., has a database that cross-references complaints made to the community-service, legal-assistance and housing offices on base, as well as the local BBB. The base's legal-assistance office will also help you review contracts before you sign.

The Armed Forces Disciplinary Control Board at each base can blackball certain salespeople or companies and prohibit anyone on base from doing business with them. Just the threat of being put on the banned list can often help resolve complaints.

Contact the Better Business Bureau. You can check a business's complaint record and get help resolving problems through the local BBB (www.bbb.org). BBB Military Line® focuses on information and resources specifically for servicemembers and their families (www.bbb.org/military).

Put an active-duty alert on your credit report. This free alert notifies creditors that you're on active military duty and asks them to take extra precautions to verify the identity of an applicant before extending credit. Include the phone number of a trusted friend or family member for creditors to call while you're deployed. To place the alert, contact Experian.com, Equifax.com or TransUnion.com.

Check your credit report. You can generally do this even while deployed by visiting www.annualcreditreport.com, where you can request a free copy of your report from each of the credit bureaus mentioned above once each year.

Predatory Lending

Payday lenders, which make short-term loans against the borrower's next paycheck (sometimes at interest rates surpassing 400%), used to line the commercial strips around many bases. But a recent law caps payday-loan rates at 36% for members of the military on active duty and their dependents, and has caused some lenders to close up shop. A few states now ban payday loans entirely.

That hasn't stopped some criminals from targeting cash-strapped military personnel with so-called advance-fee loans. Borrowers are told that they are severe credit risks and must make the first several months' payments in a lump sum in advance before the loan can be finalized. Of course, the advance payment simply disappears. "BBB gets hundreds of inquiries about this every month," says Petraeus.

What You Can Do

Get a 0% loan through a military emergency-relief fund. Contact the community-service office at your base for details. At Fort Hood, for example, soldiers can borrow up to $1,000 interest-free as often as twice a year through the commander's referral program. Car repairs and other basic needs generally qualify, and hardship cases may be eligible for more money.

Join a credit union. Credit unions on base often offer short-term loans at competitive interest rates. Some even offer small loans to members of the military with little or no credit check.

Boost your emergency fund. It's even better to avoid having to take a loan for unexpected expenses. Build up an emergency fund with at least six months' worth of expenses in a safe and liquid account, such as a money-market or savings account, so you won't have to go into debt to cover unexpected expenses.

Get credit counseling. If you have to take out loans to cover your expenses, you may be dealing with a bigger issue than a short-term emergency. Consider meeting with a financial-planning man-

ager on base or a credit counselor who can help you set up a budget, pay down debt, and prioritize your spending. You can get budgeting and debt help through the community-service office on base or find a credit counselor through the National Foundation for Credit Counseling (www.nfcc.org). Also, credit unions and other financial institutions that are on base are required to offer counseling services at no charge.

Beware of firms that ask you to pay a large upfront fee to reduce what you owe creditors; in many cases, the "credit counselor" runs off with the fee, and your debt remains the same. The only thing that's reduced is your ability to pay it.

High-Fee Investments

Over the past few years, state and federal regulators have cracked down on companies that targeted members of the military with high-fee investments. The Department of Defense and several organizations have also made a big push to help military families identify scams and learn more about legitimate financial-planning strategies.

But there are still salespeople who push high-fee investments near base and pounce on members of the military who receive a substantial windfall, whether at retirement or from a reenlistment bonus or deployment pay. The good news is that you have plenty of better legitimate savings options.

What You Can Do

Max out your Thrift Savings Plan. You can invest up to $16,500 in this low-fee, tax-deferred account in 2009. You can even add all of your tax-exempt pay while serving in a combat zone, as long as your total contributions don't exceed $49,000 for the year.

Make the most of a Roth IRA. You can invest up to $5,000 in 2009 (plus an extra $1,000 if you're 50 or older) even if all of your income is tax-exempt pay from a combat zone. You can withdraw contributions at any time tax- and penalty-free, and all withdrawals after age 59½ are tax-free, as long as you've had a Roth for at least five years.

ISTOCKPHOTO/SHELLY PERRY

Some salespeople push high-fee investments near base. But you have better savings options.

Take advantage of the military's Savings Deposit Program. Troops deployed in designated combat zones—such as Iraq, Afghanistan and most of the Persian Gulf region—can deposit up to $10,000 into a special account that pays 10% per year. The interest, which is taxable when withdrawn, stops accruing 90 days after you leave the eligible region.

Check the broker's record. Before doing business with a broker, use FINRA's BrokerCheck tool (http://brokercheck.finra.org) to get information on a broker's licensing status and any disciplinary actions. Also look up the broker and company through your state securities regulator (www.nasaa.org). State securities regulators offer programs to help military families, such as California's Troops Against Predatory Scams (TAP$) and Florida's Investor University on Base, in collaboration with the Investor Protection Trust (www.investorprotection.org).

Unsuitable Insurance

Regulators have levied multimillion-dollar fines against insurers that used high-pressure tactics to coerce servicemembers into buying expensive insurance they didn't need.

New rules now ban insurance agents from soliciting military personnel in barracks or at meetings at which attendance is not voluntary. In addition, agents aren't permitted to use superiors or officers to help sign up service members who are junior in rank or grade, and agents can't misrepresent insurance policies as investments.

The new laws are helping reduce inappropriate insurance sales on base. Now, however, "sales of inappropriate life-insurance products are occurring off base," says a report by the Inspector General's office at the Department of Defense.

What You Can Do

Max out your military life insurance first. Servicemembers' Group Life Insurance, or SGLI, costs only 6.5 cents per $1,000 of coverage per month, or $312 per year for the maximum $400,000, regardless of your age or health. You can also get $100,000 in coverage for your spouse. "SGLI is a phenomenal insurance product, and it's a great price," says Georgia's insurance chief Oxendine.

Check out insurers and agents with your state insurance department before you buy additional coverage. Ask about licensing, complaints and disciplinary actions. Make sure the policy you're being offered doesn't have a war exclusion. Report problems to insurance regulators and to the community-service office at the base. Find links to your insurance department, and insurance advice for military personnel, at the National Association of Insurance Commissioners Web site (www.naic.org). The NAIC's www.InsureUonline.org also offers insurance advice for members of the military.

Strategies Before and After Deployment

U.S. NAVY PHOTO BY JACOB SIPPEL

No matter how smart your investing decisions are throughout your life, an unexpected event could suddenly wipe out the savings you've taken years to build. Military personnel face unique risks—especially when they're deployed—but they also have access to special programs to protect their savings and their families. It's up to you to make the most of these resources.

Life Insurance

You need life insurance if anybody is depending on you and would be in financial trouble if you could no longer provide for them. Needless to say, the need becomes much more pressing if you're about to go into a combat zone. But members of the military can't just buy any policy: Some policies have specific war exclusions or charge high rates if you plan to travel to a foreign country, making the coverage worthless or very expensive if you're about to be deployed.

At the same time, U.S. troops have access to one of the lowest-cost life insurance programs available anywhere.

Servicemembers' Group Life Insurance (SGLI) covers all of those special needs and costs only 6.5 cents per $1,000 of coverage per month, or $312 a year for the maximum $400,000. The price is the same regardless of your age or your health. You can also get $100,000 in coverage for your spouse and up to $10,000 for each of your children. For a full price list, go to the U.S. Department of Veterans Affairs SGLI Web site (**www.insurance.va.gov/sgliSite/default.htm**). Because it's such a good deal, SGLI should be at the very top of your shopping list.

But you lose SGLI coverage when you leave the military, and you may need more than the maximum anyway—especially if you're the sole breadwinner for a large family with young children. Use a life insurance needs calculator (available at the **Kiplinger.com** Insurance Center or in the insurance-tools section of the SGLI Web site) to see how much insurance you need, then search for extra coverage to fill in any gaps beyond SGLI. If you're healthy, you can usually get an inexpensive term-insurance policy with a fixed premium for 20 or 30 years.

If you're still on active duty, make sure any policy you consider does not have a war exclusion or restrictions on foreign travel. Be upfront with the insurer about your job and the fact that you may be deployed. It's much better to get turned down in the beginning than to have a claim rejected because you didn't tell the whole story. Plenty of insurers offer coverage without a war exclusion.

Review your insurance options at least six months before you leave the military, recommends June Walbert, a certified financial planner with USAA and Lieutenant Colonel in the Army Reserves. You can convert your SGLI policy into a Veterans' Group Life Insurance (VGLI) policy as long as you submit your application within one year and 120 days after discharge from the military. During the first 120 days, you can qualify for VGLI without a medical exam; after that, an exam is required. If you're healthy, you may find a much better deal on your own. But VGLI may be your best bet if you have a medical condition that would cause private insurers to hike your premiums or reject your application.

Save on Taxes

Members of the military receive special tax benefits, such as a tax-free housing allowance and tax-free combat pay. Those breaks come automatically. But there is something you can do to lower your taxes even more: Take advantage of the leeway you have when it comes to choosing the state where you pay income taxes (or don't pay them, if you become a resident

of an income-tax-free state).

When you're in the military, you can keep your home state as your official domicile, even when you're stationed elsewhere; or you may be able to switch your residency and benefit from lower taxes. For example, many of financial planner Patrick Beagle's colleagues who went to flight school in Florida switched their residency to that state, which doesn't have a state income tax, while they were living there. And they continued to keep Florida as their domicile—and not pay state taxes—as long as they remained in the military, even if they moved to another state later.

You can't pick a state just because you like its tax climate. Otherwise, most servicemembers would likely gravitate to one of the seven states that don't have an income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) or one of the two that taxes only interest and dividends (New Hampshire and Tennessee). You generally have to be living in the state when you establish residency there, and intend to live there after you leave the military. Getting a driver's license, registering your car and registering to vote in that state are usually signs of intent, but the rules vary by state. The state department of revenue and the legal-affairs office on base can answer questions about the state's residency rules. If you switch residency, be sure to change your pay records, too, so you don't have taxes withheld for the wrong state.

One caveat: Military spouses are generally considered to be residents of the state where they are currently living and, if employed, must pay taxes there, even if the servicemember remains a resident of another state. This can add a level of complexity at tax-filing time, but most state tax forms have special instructions to help members of the military and their spouses figure things out.

After you leave the military, you'll generally need to file taxes in the state where you actually live. Keep this in mind when calculating your income needs for a post-military job, which may be subject to state income taxes that you didn't have to pay in the past.

Special Legal Rights

The Servicemembers Civil Relief Act—a 1940 law that was recently updated—grants special legal rights to reservists, members of the National Guard and active-duty military personnel.

For instance, 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 in some situations, the interest rate on a mortgage, credit card, car loan or other debt can be capped at 6% if military service affects your ability to pay—such as if you had to take a pay cut from a more lucrative job when being activated to the Reserve or National Guard. This rule applies only to debts incurred prior to military service or activation; it does not apply to debts taken on while on active duty. To qualify, you need to send your lender a written request and a copy of your mobilization orders.

For more information about your legal rights, visit the legal-assistance office on base (see the Armed Forces Legal Assistance Web site at **http://legalassistance.law.af.mil/index.php** for contact information) or the U.S. Department of Justice servicemembers' and veterans' rights page (**www.servicemembers.gov**).

Preparing to Deploy

Deployment can bring a lot of financial opportunities: Your paychecks will be

Q+A Protect Your Identity While You're Deployed

I am in the Army and am about to be deployed. Should I put an active-duty alert on my credit report?

That's a great idea. An active-duty alert can protect you from identity theft, which is particularly important while you are deployed and will have a tough time monitoring your mail and accounts.

An active-duty alert notifies creditors that you're on military active duty and asks them to take extra precautions to verify the identity of the applicant before extending credit. Include the phone number of a trusted friend or family member for creditors to call and verify your identity while you're inaccessible (be sure to give them a heads up that you've chosen them).

This alert stays on your credit file for one year and also lets you opt out for two years of promotional mail—such as preapproved credit-card offers that could leave you susceptible to ID theft while you're away from home. To place an active-duty alert, contact one of the three credit bureaus (Experian.com, Equifax.com or TransUnion.com), which will notify the other two. You'll generally find the information in the section of the bureaus' Web sites that focuses on fraud alerts.

The alert is free and will not affect your ability to use credit while you're deployed. It just helps to prevent ID thieves from taking out new credit in your name.

If you'd like extra protection, consider a credit freeze. The cost tends to be $10 per bureau ($30 for all three) to place and lift a credit freeze, but the freeze does prevent potential creditors from accessing your credit report without your permission.

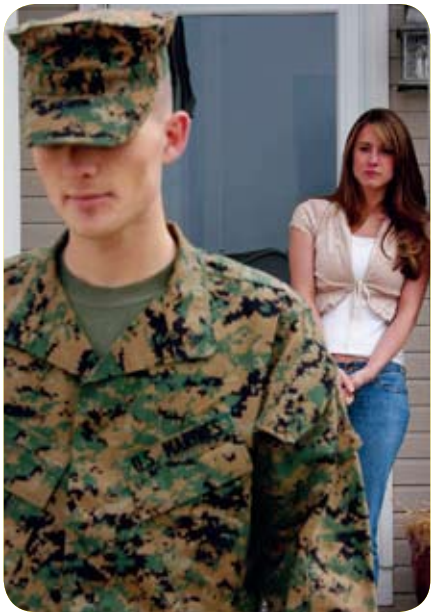
Also review your credit-card and bank accounts online if possible while deployed, so you can catch any suspicious activity before you return.

higher when you receive tax-free income in a combat zone, and you have access to extra savings programs that help you stretch your money even further. But it's also important to take some key steps to protect your money while you're gone—from identity thieves, unexpected events, and bills you can't control while away from home. The more you do to prepare ahead of time, the better you'll be able to protect your family and your finances while you are deployed.

Gather key estate-planning documents. Make sure your estate-planning documents are up to date. If you have children, it's important that you have a will that names guardians for your children as well as spells out what is to happen to your property. This becomes critical, of course, if you're about to deploy. You can draw up a medical directive, which authorizes a family member to make medical decisions on your behalf if you're incapacitated. The JAG legal-affairs office on base can handle most of the paperwork free and can help you go through a list of key estate-planning documents before you deploy. You may need additional help if you have children from a previous marriage, children with special needs or other complicating circumstances.

Grant a power of attorney. One of the most important documents to have in place when you're deployed is a power of attorney, which gives your spouse or another trusted family member or friend authority to handle your finances while you're gone.

You can grant a general power of attorney, which authorizes your representative to file your taxes and conduct financial transactions. Or you can use a power of attorney for specific transactions, such as if you're planning to buy a house or car while you're deployed. Since this document hands off control of your finances, be very careful about whom you name. 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. The legal-affairs office on base can draft this document, too.



ISTOCKPHOTO/SHERRI NEWILL

Deployment can bring financial opportunities. But it's also important to take some key steps to protect your money while you're away.

Update beneficiary designations. The beneficiary designations on insurance policies and retirement accounts supersede your will. So, if your will says your spouse gets everything, but your mother is the beneficiary on a life-insurance policy, Mom will get the proceeds from the policy. Double check to be sure the beneficiaries for your life insurance, IRA, Thrift Savings Plan and other retirement accounts are up to date, especially if you've gotten married, remarried or had a child in the past few years.

Automate your bills. If you don't have a spouse or family member at home to pay your bills, make it as easy as possible to pay them yourself. Sign up to have them paid automatically from your checking account or to pay them online. Find out how to access your bank account and credit-card records while deployed, so you can catch any errors before you return home.

Contact your service providers. If your family won't be using your cell phone, cable, Internet, phone or other services while you're gone, be sure to let the service providers know. Many have special rules for deployed servicemembers. For example, some cell-phone companies allow customers in the military to suspend service for up to 18 months, with no suspension fee, if they are sent to an area not served by that provider. They can then have their cell-phone number and rate plan reinstated when they return. The rules vary by company, so contact your provider for details.

Make sure bills don't accidentally pile up while you're away, which can build up late fees and cause serious credit problems when you return home.

Adjust your auto insurance. Tell your insurer that you're being deployed and let the company know if other family members may be driving your car while you're gone. You may get a discount if the car isn't used for commuting.

If you're putting your car in storage, your state may not allow you to drop auto-insurance coverage unless you hand in your license plates. But you can cut your premiums in half—or more—by lowering your liability coverage to the state minimum and dropping collision coverage, says USAA's Walbert. Call your insurance company or ask your state insurance department (go to **www.naic.org** for contact information) about the specific rules in your state. Keep comprehensive coverage, which will pay out if your car is damaged or stolen while in storage. You can lower the rate by raising your deductible.

Get the right insurance on your home or apartment. If your family remains

in your home, then you don't need to change your homeowners insurance. But if you're renting out the house while you're gone, contact your insurer and ask about your options. If you aren't keeping your possessions there, then you may be able to switch to a less expensive policy that covers only the structure, and let your tenant get renters' coverage to cover his or her stuff. Your mortgage lender may have specific coverage demands, though, so check with the lender, too.

Also let your insurer know if you're putting possessions in storage while you're gone; you may be able to buy an inexpensive renters' insurance policy to cover the items if they are damaged or stolen while you are away.

Know the tax-filing rules. You don't need to file an income-tax return while you're deployed to a combat zone. In fact, you and your spouse can file up to 180 days after you leave the eligible combat zone. Your deadline is also extended for six months after the last day of any continuous qualified hospitalization for injury from service in the combat zone. Both deadlines can be extended even more days if you entered the combat zone between January 1 and April 15.

Even though the tax-filing deadline can be extended, you may want to file on time—or even early—if you are due a refund. You can give a spouse or trusted family member or friend a power of attorney to file your taxes while you're gone. In addition to the general power-of-attorney form, you can also use IRS Form 2848, "Power of Attorney and Declaration of Representative," specifically for tax filing (available at **www.irs.gov**). For more information, see IRS Publication 3, *Armed Forces Tax Guide*, at the IRS Web site. The family-support center and legal services on base can help with tax issues.

Build up an extra emergency fund. It's always important to have an emergency fund so your family won't land in debt if they have unexpected expenses. But it's even more important to prepare for these possibilities if you are about to deploy. Try to build up at least six months' worth of expenses in a safe and accessible account, such as a money-market or savings account. You want the money somewhere that is easily available to your spouse for any emergency home improvements, car repairs or other unexpected costs.

U.S. AIR FORCE PHOTO BY AMN JENNIFER ROMIG

Sign up for the Savings Deposit Program and earn 10% per year in interest, guaranteed, while you're deployed and for 90 extra days.

Sign up for the Savings Deposit Program. Servicemembers have access to one of the best savings deals when they're deployed. You can invest up to $10,000 in the Savings Deposit Program and earn 10% per year in interest, guaranteed, until three months after you leave the eligible region. You can only sign up for the Savings Deposit Program after you are deployed, but you can plan ahead to determine how much money you can afford to invest and find out the steps you'll need to take. The tax-free status of income in a combat zone means your paychecks will increase by the amount *not* going to the IRS. Consider dedicating that boost in take-home pay to the Savings Deposit Program.

For more information, go to **www.dfas.mil/militarypay.html** and type "Savings Deposit Program" in the search engine.

Create a "brain book." Financial planner Beagle recommends putting together a "brain book"—a compilation of key information that might be needed in your absence. Inventory your financial accounts and how to get access to them, plus your online accounts and passwords. Include a copy of your will, power of attorney, medical directive and a letter of instruction should anything happen to you. Also include a set of keys for things such as storage units you may have rented to hold your belongings while you're away. Since this book has such sensitive financial information, only give it to a very trusted family member or friend.

For help getting your information together, see the "Organize Yourself" worksheet at the back of this booklet.

Smart Home-Buying Tactics

For many families, their largest investment is their home. But home buying is extra complicated for military families, who tend to move frequently and sometimes with little notice. At the same time, servicemembers have access to special mortgage programs and tax breaks to help them afford a home. Be sure you make the most of these special benefits and protect your investment.

PHOTOGRAPH BY COLIN TODD

Gary and Regina Bartels, with son Sammy, used a no-down-payment VA loan to buy their home, and used their cash to pay down high-interest credit-card debt.

Should you buy or rent? Members of the military receive a tax-free housing allowance to cover all or part of their monthly rent or mortgage payment. And if you own a home, you can deduct 100% of your mortgage interest, even if you're paying it with tax-free money. Nonetheless, it can still be tough to decide whether to rent or buy a house when you may only be stationed in an area for a few years.

When home prices were rising quickly, many servicemembers bought homes even if they only expected to live in an area for a relatively short period of time, with the hope that they could sell for a profit (or rent it out for more than their monthly payments) when they were transferred. But you can't count on either outcome in this economy.

Patrick Beagle, a certified financial planner who specializes in helping military families, recommends renting for at least a few months when you move to a new area, so you'll learn about the neighborhoods and can pick the best place to live. Then, he recommends buying a house only if you plan to live in the area for at least three years—five years is even better. (Remember, the home will probably have to appreciate in value by 6% or more just to cover the costs associated with buying and selling.) He also recommends limiting housing costs to no more than 30% of your take-home pay, so you won't struggle with monthly expenses. Don't forget to include the cost of homeowners insurance, property taxes, utilities and regular maintenance when toting up the real cost of owning. The housing calculators in the tools section of **Kiplinger.com** can help you run the numbers.

Also remember that your Basic Allowance for Housing (BAH) will vary depending on the cost of living in your location; if you move to a new area, your housing allowance may be more or less than you're currently receiving. To check on the BAH for your rank and zip code, use the tool at the Department of Defense Web site (**http://perdiem.hqda.pentagon.mil/perdiem/bah.html**).

When deciding how much house you can afford, be particularly careful if you'll be leaving the military soon. After you leave, you won't get the tax-free housing allowance anymore, you may have to

pay state income taxes for the first time, and your job may not be as stable (a potential layoff becomes much more of a concern when you're in a civilian job). Keep these realities in mind when calculating your expenses, and build up a bigger emergency fund to help you pay the bills for at least a few months if you or your spouse lose your job.

Should you take advantage of special mortgage options? Active-duty military personnel, as well as certain veterans, reservists and National Guard members, are eligible for Veterans Administration loans, which generally allows them to borrow up to $417,000 with no down payment or private mortgage insurance (the cap is higher in certain high-cost counties; go to www.homeloans.va.gov for a full list of the current limits).

VA loans are made by private lenders and interest rates may vary. But they can be particularly valuable for people who don't have the money to make a 20% down payment, would otherwise have a tough time qualifying for a loan, and who would be required to buy private mort-

Q+A How a Home Fits into the Financial Puzzle

I am currently serving in Iraq and will be coming home soon. I recently reenlisted in the Army and received a bonus of $29,000, and I have extra money from my tax-free income and combat pay while deployed. Where is a good place for the money? I'm paying 7.9% in interest on a $9,000 credit-card balance, but my main goal is to support an upcoming down payment for a home and long-term investments.

It's such a great idea to plan for the bonus while you're still deployed. That way, you can take advantage of the military's Savings Deposit Program, which lets you invest up to $10,000 in an account that earns 10% per year. Interest stops accruing 90 days after you leave the combat zone, and the interest is taxable when the money is withdrawn.

Try to keep the maximum in that account as long as it continues to earn interest, which will give you a much better return than any other short-term savings option.

Meanwhile, use $9,000 of the bonus to pay off your credit-card debt. Getting rid of those interest payments will make it easier to reach your other goals—and having a lower balance could also improve your credit score and help you qualify for a better mortgage rate.

Then use some of the remaining money to build up your emergency fund, which can help you avoid landing in more debt if you have any unexpected expenses. Advisers generally recommend keeping at least six months of expenses in a money-market or savings account that you can access in an emergency—or more if you can afford it, especially when you buy a home.

After the money in the military Savings Deposit Program stops earning interest, you can put some of it toward the down payment on a house. You can buy bank or credit-union certificates of deposit or other short-term investments to match your home-buying time frame. But don't risk the money you want to spend on a house in the next few years in the stock market. "Investing in the stock market is just for money that you won't need for at least three to five years," says Brooke Salvini, a CPA and financial adviser in San Luis Obispo, Cal.

If you take a VA loan and don't need a down payment, add some of the money to your emergency fund—you'll probably need cash for an earnest-money deposit on the home and closing costs, and it's a good idea to have extra money for unexpected costs, because you won't have home equity to tap in emergencies. Homeowners with VA loans can always add money to their payments to pay extra principal without penalty—a good way to build instant equity.

Once you have a cash cushion, add some of the extra money to your retirement nest egg, investing either in your Thrift Savings Plan or a Roth IRA. Since part of your income for the year was from tax-free combat pay, the Roth will give you extra tax benefits—making the money tax-free going in and tax-free coming out. You can invest long-term money in a diversified portfolio of stock and bond funds. Or you can put it in a target-date fund, which invests your money in a portfolio of funds to match your time frame, then gradually shifts to more conservative investments as your withdrawal date gets closer.

If you're worried about timing your investments during a volatile market, consider using dollar-cost averaging to invest a portion of the extra money with each paycheck; dollar-cost averaging buys more shares when prices are low and fewer when they're high. Or you could break your investments into three sections and invest one-third of the bonus money every six months, a strategy that Dan Joss, a certified financial planner in Fairfax, Va., calls "diversifying by time." Joss's reasoning: You won't know whether stock prices have bottomed until sometime after the fact, so hedge your bets.

gage insurance, which usually costs 0.5% to 1% of the loan amount each year. For more information about VA loan eligibility and rules, visit the Department of Veterans Affairs Web site (**www.homeloans.va.gov**).

If you have a good credit rating and enough money to make a down payment, however, you might get a better deal on a standard mortgage. To improve your chances of getting a good rate, check your credit report for errors. You can get one free copy of your credit report each year from each of the three credit bureaus at **www.annualcreditreport.com**. Active-duty servicemembers and their spouses can also get a free BrightScore report, which includes a summary of your credit report and an action plan to improve your credit score. Contact the Personal Financial Manager on base or your base community-service office for more information and resources. And you can learn about strategies for improving your credit score at **www.MyFico.com**, a consumer-information site run by Fair Isaac, which developed the credit score most lenders use.

Deciding whether to take the VA loan or a standard loan also depends on your family's circumstances and other potential uses for your cash.

Captain Gary Bartels, 32, left the Army in June 2008 to start a job as a production supervisor at Mitsubishi Caterpillar, and moved his family to Houston from Sackets Harbor, N.Y., near Fort Drum, where he had been stationed. Gary and his wife, Regina, were anxious to buy their first home so they could settle in with 2-year-old son, Sammy, and new baby, Joe.

Although Gary qualified for a VA loan with no down payment, he also considered other options. Just before he left the Army, he was earning extra money at Fort Bragg, in Fayetteville, N.C., by training National Guard troops for deployment in Iraq. He wondered whether he should use the additional income to pay down $18,000 in credit-card debt or save for a down payment on a traditional loan.

Gary ended up getting a VA loan, and because he didn't need to make a down payment, he used the extra cash to attack his high-interest credit-card debt. He also kept some extra money on hand for moving expenses, closing costs, maintenance and other unexpected costs that come with a move.

Opting for the no-down-payment route makes it particularly important for the Bartelses to plan to stay put for a while. A dip in home values could put the family in the unenviable position of being "upside down"—that is, owing more on their home than they could get by selling it. The bigger the down payment you make, the more cushion you have against that happening to you.

> Special tax rules are designed to help military families who decide to rent out their homes when they are transferred to their next duty station.

Once the credit-card debt is paid off, Gary and Regina should focus on building up their emergency fund to hold at least six months' worth of living expenses. Then they can put extra money toward retirement savings, college funds for the kids or paying extra principal on the mortgage. "One thing I learned at West Point," says Gary, "is that when you accomplish small goals, it increases your confidence and momentum."

Should you rent or sell? What do you do when you're transferred after buying a home: sell the place or hold on to it and rent it out? Special tax rules help military families who do plan to rent their homes after they move.

Most homeowners need to live in a house for two of the five years leading up to the sale in order to claim tax-free profit on the deal (up to $250,000 if you're single, or up to $500,000 tax-free profit if you're married filing a joint return). But because they move frequently, military families need to live in the house for just two of the preceding *ten* years in order to qualify for the tax break. For more information on this and many other tax rules, see IRS Publication 3, *Armed Forces Tax Guide*, at **www.irs.gov**.

If you do rent your house after you move, set aside an emergency fund to help cover your mortgage and other expenses if you don't receive rental income for a few months—a lesson that many families are learning in a tough economy.

A San Diego military family recently called on financial planner June Walbert for help. The family had bought a big house in the midst of the housing boom and rented out their old home. The rent arrived on time for two years, but then hard times hit their tenant, and the payments stopped.

Housing values in San Diego had plummeted by that time, flooding the rental market with other homes and making it tough to maintain the level of rental income the couple had counted on to afford their bigger house. The family put the small house on the market but had no luck selling it. Because they lived in the same area (which isn't an option for military families who have moved), Walbert recommended that they downsize: "My advice was to go back to the house they knew they could afford and sell the bigger house."

Walbert says that building an emergency fund for their original house before they started renting it would have been a smart move. Then, if it wasn't rented out 100% of the time, "they could still afford the mortgage payment without throwing their finances into a tailspin." That emergency fund becomes particularly important if you're stationed in a new city and don't have the option of returning to your old home.

Time to Become a Civilian Again

The shift from military to civilian life demands a lot of decisions. The Transition Office at your installation will help explain the bureaucratic procedures you must go through, the specific benefits you'll receive and resources available to help.

But you'll also need to make some important personal-finance decisions to replace some of your benefits, adjust your post-military budget and protect your investments for the future. You want to make a smooth and financially sound transition.

Replace your health insurance. If you stay in the military for at least 20 years, then you qualify for health care in retirement, although you may still want to buy supplemental medical insurance. But if you leave before then, your health-insurance bills can be surprisingly steep. Even if you get a new job that provides health insurance, you'll probably have to pay for part of the premiums yourself, in addition to out-of-pocket expenses you didn't have before, such as deductibles, co-payments and medications.

If you need to buy health insurance on your own, you can lower your premiums by buying a high-deductible policy and pairing it with a health savings account. To qualify for an HSA in 2009, your policy must have a deductible of at least $1,150 for single coverage ($2,300 for family coverage); people with single coverage can make tax-deductible contributions of up to $3,000 in 2009 ($5,950 for family coverage). The money grows tax-deferred inside the account and you can use the funds tax-free to cover out-of-pocket medical expenses—including that big deductible on your health plan. Money you don't use remains invested in the account. You can always use the money tax- and penalty-free for medical expenses, or you can use it penalty-free for anything (you'll owe taxes) after age 65.

If you have a preexisting condition that makes it tough to find health coverage on your own, you can sign up for the Continued Health Care Benefit Program for up to 18 months. This is similar to the COBRA benefits available to civilians who leave their jobs. You have 60 days after you leave the military to enroll in CHCBP, which has similar coverage to TRICARE, the health-care system for members of the military and their families. The coverage costs $933 per quarter for individuals or $1,996 per quarter for families. If you're healthy, however, you may well find a better deal on your own. Plus, go to the Department of Veterans Affairs Web site (**www.va.gov/healtheligibility**) to find out if you are eligible for VA health care.

Find new life insurance. Your Servicemembers' Group Life Insurance (SGLI) expires 120 days after you leave the military. You have one year and 120 days after discharge to convert your policy to Veterans' Group Life Insurance (VGLI). Again, if you're healthy, you may find a much better deal on your own. But VGLI may be your best bet if you have medical conditions. You can qualify for VGLI without a medical exam if you apply for coverage within 120 days of discharge. Shop around for other coverage at least six months before you leave the military, so you have time to get VGLI coverage if you don't find a better option. For quotes on individual policies, check out **Accuquote.com** and **Insure.com**. For more information on VGLI, go to **www.insurance.va.gov/sgliSite/vgli/vgli.htm**.

Make smart decisions about your Thrift Savings Plan. You can keep the money growing tax-deferred in the account even after you leave the military, which can be a good deal because the expenses are so low. Or you can roll it into a new employer's 401(k) or an IRA after you leave the military, which you may prefer if you'd like different investing options.

If you do roll your TSP into another plan, keep track of any TSP contributions that had been made with tax-free combat pay, so you don't end up paying tax on that amount when you withdraw the money in retirement. A portion of each withdrawal will be tax-free to account for the tax-free contributions.

Get ready for state income-tax changes. If your state of residency while you are in the military is a tax-free state, be prepared for a state tax bite if you move to a state that imposes income taxes after your leave the service. Be sure to crank the extra cost into your post-military budget.

Prepare to lose your tax-free housing allowance. You'll no longer have a tax-free housing allowance after you leave the military, which means you'll need to earn a higher income to end up with similar take-home pay. Keep those lost benefits in mind when negotiating your salary at a new job and calculating how much of a mortgage you can afford.

Build your emergency fund. A stash of safe and accessible cash is even more important once you leave the military and take a civilian job, which may be much more susceptible to layoffs. Keep at least six months' worth of expenses in a money-market or savings account.

Reassess your retirement savings. When you're close to leaving the military, you'll have a much better handle on how much of a pension and other benefits you'll receive. Gather those numbers, then calculate how much more money you'll need to save to reach your retirement goals (the savings calculators in the tools section at **Kiplinger.com** can help).

PHOTOGRAPH BY MARK PETERSON/REDUX

Robert Parsons's military pension from 26 years as a Navy air-traffic controller is providing critically needed buoyancy as he works to protect his other savings.

Doing this calculation right before the transition can be a quick reality check about how much money you need to earn from a post-military job.

Get advice on the transition. Talk with someone who has already left the military and ask about unexpected expenses, lost benefits, and other financial surprises.

The military community-service office on your base and the Army Career and Alumni Program (**www.acap.army.mil**), or similar programs for the other branches, offer valuable resources to help with the transition and new-job search. Make the most of free counseling and information several months — or more — before you leave the military.

How to Invest After Retirement

Even if you have a military pension, you'll need to decide how to invest the rest of your money after you retire — a point that was driven home with a vengeance by recent stock-market volatility.

Robert Parsons, 67, retired in 1985 after 26 years as a Navy air-traffic controller, then spent several years in law enforcement before he retired for good. He and his wife, Judy, now live in Edenton, N.C. After watching the value of his IRA shrink from $130,000 to $98,000 in just a few weeks during the 2008 market meltdown, he was confronted with the need to protect his nest egg.

As scary as it is to see a retirement nest egg take a beating in your sixties, it is still a mistake to pull all of your money out of the market. You could live 20 or 30 more years, so it's no time to panic and abandon the fundamentals. You need cash for your immediate needs, but you also need growth via the stock market over the long term, says Stuart Ritter, a certified financial planner in Baltimore. "You are not going to use all of your money in the next two years." Even if you're 65 or older, Ritter recommends keeping about 55% of your retirement savings in a diversified portfolio of stocks and stock mutual funds.

The first step, though, is for retirees to keep as much as two years' worth of expenses in cash, such as in a money-market account or short-term CD.

You might not need quite that much if you have sources of guaranteed income (such as Robert Parsons's military pension and the couple's Social Security checks). In fact, they don't plan to tap their IRA until they're required to at age 70½. And because Robert is a retired member of the military, TRICARE for Life helps fill the gaps in Medicare and lowers the couple's out-of-pocket costs.

Retirees who aren't as fortunate can bolster their depleted savings by withdrawing less money than they had originally planned. One common guideline recommends withdrawing 4% of your savings in the first year of retirement, then bumping up withdrawals by about 3% of the first-year amount each year to keep pace with inflation. But in a down market you may need to base your 4% withdrawals on the reduced value of your nest egg, rather than the original balance, and temporarily discontinue those 3% increases.

You won't need to dip as deeply into your retirement savings if you can boost your income. And combining part-time work with a hobby — such as working at a golf course or veterinary clinic — might also get you an employee discount.

In addition, working at an extra job for a few years after retirement could help you delay taking Social Security. And for each year after your normal retirement age that you hold off, your benefits will be increased by 8% for the rest of your life.

If you qualify for $1,600 a month at age 66, for example, delaying the start of benefits until 70 could bump up your benefits by about $500 a month (see the Retirement Estimator at **www.socialsecurity.gov**). Future cost-of-living increases would add to that higher base.

Financial Resources for Military Families

Better Business Bureau (www.bbb.org) can help you check out businesses in your new town. BBB Military Line® (www.bbb.org/military) focuses on information specifically for members of the military.

Investor Protection Trust (www.investorprotection.org). The site is packed with information about investing and protecting your money, including resources specifically for the military.

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

The Securities and Exchange Commission's military site (www.sec.gov/investor/military.shtml) tracks enforcement actions regarding military sales practices and affinity fraud, and provides general investor education.

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

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

MilitarySaves.org focuses on strategies for building savings and reducing debt, and includes success stories from servicemembers who made savings a priority. The site also highlights special programs during Military Saves week (the last week in February).

Department of Veterans Affairs SGLI (www.insurance.va.gov/sgliSite/default.htm). Visit this site for in-depth information about Servicemembers' Group Life Insurance.

Defense Credit Union Council (www.dcuc.org) includes contact information for credit unions on base, and other financial information for servicemembers.

Kiplinger.com covers all personal-finance topics, from saving and investing to insurance, taxes and financial planning.

MyMoney.gov includes helpful information from a variety of government resources about budgeting, taxes, homeownership, credit and avoiding scams.

TSP.gov features details about the Thrift Savings Plan for military personnel.

MilitaryPay (www.dfas.mil/militarypay.html) includes information about military and retired pay, benefits and savings.

ClearPoint Credit Counseling Solutions offers budget, housing and debt counseling. You can reach a financial specialist at 877-465-2227 or go to www.ClearPointCCS.org/military, or meet in person at their offices near military bases in Illinois, Maryland, Missouri, North Carolina, Tennessee, Virginia and Washington.

National Association of Insurance Commissioners' military site (www.naic.org/consumer_military_insurance.htm). This site focuses on special insurance considerations for members of the military, and includes contact information for state insurance regulators.

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

Armed Forces Legal Assistance (http://legalassistance.law.af.mil) explains the special legal rights of members of the military and includes contact information for legal-assistance offices at nearby bases.

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

MyArmyBenefits (http://myarmybenefits.us.army.mil), includes information about military pay and benefits, transition information, tax rules and other military benefits by state and life event.

***Armed Forces Tax Guide*, IRS Publication 3** (at www.irs.gov) explains special tax rules for military personnel.

U.S. Department of Justice servicemembers' and veterans' rights page (www.servicemembers.gov) provides information about special legal rights of members of the military and veterans.

Military.com/deployment helps active-duty personnel, reservists and members of the National Guard and their families prepare for deployment.

National Military Family Association (www.nmfa.org) features resources to help military families prepare for deployment and deal with other financial issues.

Department of Veterans Affairs VA loan site (www.homeloans.va.gov) includes detailed information about VA loans.

Additional Resources

The following sites include information about benefits and support for military families:

Army (www.MyArmyLifeToo.com)

Air Force (www.afcrossroads.com, www.afcommunity.af.mil)

Navy (www.nffsp.org)

Marine Corps (www.usmc-mccs.org)

ORGANIZE YOURSELF

Believe it or not, a key step toward protecting your financial life is to organize it. This worksheet is a good place to start. Complete this "executive summary" of key details, 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 it's needed.

Emergency Contact Info	Personal Contact	Employer Contact
Name:		
Street Address:		
City, State, Zip:		
Phone:		
E-mail:		

Banks

Bank Name	Checking Account Number	Savings Account Number	Location of Statements	Login for Online Banking

Loans

Bank Name	Account Number	Monthly Payment	Due Date	Location of Statements

Credit Cards

Issuer Name	Account Number	Payment Due Date	Location of Statements

Investments

Financial Institution	Type of Investment	Account Number	Location of Statements

Insurance Policies

Company/Agent	Type of Policy	Premium Due Date	Policy Number	Location of Policy

Legal Information

	Location, including additional information such as the executor or attorney
Will	
Power of Attorney	
Passport	
Marriage Certificate	
Divorce/Separation Papers	

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Kiplinger's Personal Finance magazine has been providing millions of Americans with down-to-earth advice on managing their money and achieving financial security since 1947. Along with **Kiplinger.com**, it is a highly trustworthy source of information on saving and investing, taxes, credit, homeownership, paying for college, retirement planning, car buying and many other personal-finance topics.

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ClearPoint Credit Counseling Solutions is a national 501(c)(3) nonprofit offering budgeting, housing and credit-counseling services in all 50 states. ClearPoint is a member of the National Foundation for Credit Counseling and a system-wide member of the Better Business Bureau. **www.ClearPointCCS.org/military**

The Defense Credit Union Council is a nonprofit association, supporting the interests of defense credit unions that operate on military installations worldwide. By maintaining a close and constant liaison with the Pentagon, DCUC assists the Department of Defense and its member credit unions in coordinating policy, procedures and legislation, as it relates to financial readiness, morale and welfare, and the delivery of quality financial products and services to the troops and their families. **http://www.dcuc.org**

The Arkansas Securities Department is a state agency that promotes an environment in which the securities and financial markets within the department's jurisdiction function efficiently and without unnecessary regulatory impediments and in which the department ensures the financial well-being of Arkansas citizens through effective consumer protection and education.
www.securities.arkansas.gov