



Financial Tips for Service Members

Quick
Reference Guide



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FINANCIAL READINESS FOR LIFE

DEVELOP FINANCIAL GOALS

- Written financial goals help keep you focused, help prioritize needs, and provide a tool to measure progress and keep on track
- Goals must be Specific, Measurable, Attainable, Realistic, and Timebound; e.g., save \$10,000 for down payment on home by (date) by saving \$500/month
- Include short term (< 3 years), medium (3-10 years), and long term (> 10 years) goals; e.g., short term: pay off credit card, establish emergency fund; medium: save for car/home/college, become debt free; long term: save for retirement, pay off mortgage

DEVELOP/IMPLEMENT A FINANCIAL PLAN

- Financial plan is needed to achieve financial goals; provides roadmap indicating where you want to be by when, and how to get there
- Identify and track assets and liabilities
 - Assets can include home, real estate, investment and bank accounts, autos, valuable collections, etc.
 - Liabilities can include mortgages, auto loan, credit card balances, etc.
 - Ideally, your assets should be greater than your liabilities
- Review and update insurance needs, important documents, beneficiaries, etc.

CREATE A BUDGET AND CONTROL EXPENSES

- A budget allows you to monitor progress on financial goals and stick to financial plan
- List, categorize (essentials/discretionary), prioritize, and reduce expenses
- Use 50-30-20 rule of budgeting as guide
 - 50% for essentials/"needs" (groceries, housing, utilities, transportation, etc.)
 - 30% for discretionary/lifestyle choices/"wants" (meals out, entertainment, shopping, etc.)
 - 20% for insurance, savings, investments
- Track and update annually at minimum, but also upon significant life or career change—childbirth, promotion, PCS, deployment, etc.

DEVELOP SAVINGS PLAN

- Saving money helps pay unexpected expenses, avoid debt, pay for large purchases, obtain greater sense of financial freedom, and reduce stress
- Automatic savings: set up allotment/direct deposit to automatically pay 10% of each paycheck into savings account, and/or set up bank account to automatically transfer funds from checking account into savings account monthly

- Put large part of “extra” income: bonuses, income tax overpayments, etc., into savings (you can spend some too!)
- Maintain emergency savings (at least 3 to 6 months of expenses) for unplanned expenses
- DoD Savings Deposit Program: if deployed to designated area, you may invest up to \$10,000 of tax-free income and receive 10% annual interest, compounded quarterly, for up to three months after return

MANAGE CREDIT

- Review credit report at least annually
 - Free annual credit report:
AnnualCreditReport.com
 - Free credit score is available through the 3 major credit reporting agencies and some other sources; you may have to establish an account
- Keep credit utilization ratio (amount of credit used divided by credit limit) below 30%
- Pay off entire balance on credit cards monthly
- Set up automatic payments directly through service providers or bank’s online bill-pay

ELIMINATE OR REDUCE DEBT

- Debt creates significant obstacle to achieving financial goals
- Live below your means; don't try to maintain a lifestyle you can't afford
- Never borrow nor owe more than 20% of net annual income; monthly debt payments shouldn't exceed 10% of net monthly income
- Keep Debt/Income ratio (used by creditors to evaluate debt load) (gross monthly income divided by gross monthly expenses) at 36% or lower; 43% if applying for home loan
- Avoid payday loans and loans involving cash/check/income tax advances/car title
- If overloaded with debt, consider assistance to manage debt

INVEST FOR THE LONG TERM

- Take advantage of compounding to grow investments and reach long-term savings goals
- Divide 72 by anticipated rate of return to determine number of years to double money, e.g. $72 \div 6\% = 12$ years; divide 72 by desired number of years to determine needed rate of return to double money, e.g. $72 \div 9 \text{ years} = 8\%$ return
- Participate in Thrift Savings Plan

PLAN FOR RETIREMENT

- Active duty members eligible for pension after 20 years of service; Reserve/National Guard after 20 “good” years
- Blended Retirement System (BRS) includes service contributions, service matching contributions, and opportunities for continuation pay and pension
- Thrift Savings Plan is low-cost retirement savings plan element of BRS

TAKE ADVANTAGE OF MILITARY TAX OPPORTUNITIES

- Invest tax-free pay in TSP, IRA, etc.
- Use income tax filing extension and tax payment deferral while serving in combat zone
- Claim residence in income tax-free state

OPTIMIZE USE OF OTHER MILITARY BENEFITS

- Servicemembers Group Life Insurance (SGLI): low cost life insurance coverage for service members at 6.5 cents per \$1,000 of coverage/month or \$300/year for maximum \$400,000
- Family Servicemembers Group Life Insurance (FSGLI): up to \$100,000 in life insurance coverage for spouse for as low as \$54/year if under age 35; no cost for child dependents

- Survivor Benefit Plan (SBP): provides retirees opportunity to leave portion of retired pay to survivors at reasonable cost; without SBP survivors of deceased retirees would not receive any portion of retiree pension from the service
- Montgomery GI Bill/Post-9/11 GI Bill: up to 36 months of education benefits; members can transfer benefits to dependents
- VA Home Loan Program: home loan guaranty to service members, veterans, and eligible surviving spouses
- Call upon service financial counselors for assistance in budgeting, understanding credit, loans, investing, etc.



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