

# MILITARY PAY ISSUES



PERSONAL FINANCIAL MANAGEMENT STANDARDIZED CURRICULUM - 2010

# MILITARY PAY ISSUES

## MODULE DESCRIPTION

*Military Pay Issues* is a 60- to 75-minute program designed to familiarize learners with military compensation so that they will be able to verify information on their Leave and Earnings Statement (LES) and correct common pay problems. Also discussed is the value of the complete military compensation package.

**Trainer's note:** *If possible, ask learners to bring their most current LES to this class. Be sure to review the module content and update any changes in dollar amounts. Be prepared to provide the name and contact information for local Disbursing/Personnel Support Detachment (PDS)/Customer Service Desk (CSD).*

## LEARNING OBJECTIVES

**Terminal:** Upon completion of this course, the learner should be able to successfully manage their total compensation package across their career to build wealth and maintain financial readiness.

### Enabling:

- During the *LES Match* activity, learners will correctly identify at least five components of an LES.
- During the *Military Compensation* activity learners will correctly identify 10 examples of cash and non-cash compensation.
- During the *I've got a problem!* activity, learners will identify at least five common pay problems and suggest viable sources of assistance.

## REFERENCES

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Print Module

Print Module Handouts

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## MODULE PREPARATION

### Handouts:

- *Military Compensation Checklist*
- *LES Match*
- *Understanding Your LES*
- *Military Compensation Note Cards*
- *Pay and Compensation Calculator (Example--John Dough)*
- *The Military Pay Check*

### Materials (varies depending on activities chosen):

- Chart paper
- Markers and tape

- Internal Revenue Service Form W-4, Employee's Withholding Allowance Certificate
- Pay and Allowances Tables, available from [www.dfas.mil](http://www.dfas.mil)
- Tax Tables, available from [www.irs.gov](http://www.irs.gov)
- Classroom Internet connection
- Prepared Military Compensation cards

## SUMMARY OF LEARNER ACTIVITIES

**LES Match:** Matching activity in which learners identify the sections of an LES.

**Military Compensation:** Matching activity in which learners identify different examples as cash or non-cash compensations included as part of military pay.

**I've Got a Problem:** Brainstorming exercise in which learners propose solutions to common pay problems.

**Pay and Compensation Calculator** (optional): The value of the military compensation package is explained to the class using the Pay and Compensation Calculator from the Stay Navy Career Tools website. If classroom Internet is unavailable, the activity can be done manually using a hard-copy printout of the calculator.

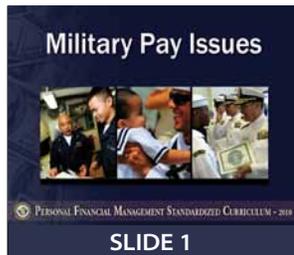
**Military Pay Check Review Game** (optional): A review of all session content using a PowerPoint game package or with the handout.

## CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
  - a. Agenda
  - b. The Importance of Military Compensation
2. Military Pay (15 minutes)

- a. When You Are Paid
  - b. Direct Deposit System
  - c. Changes in Pay
  - d. Split Pay and Navy Cash Card
  - e. myPay
  - f. Learner Activity: *LES Match*
  - g. Understanding your Leave and Earnings Statement
3. Cash Compensation (5 minutes)
  - a. Learner Activity: *Military Compensation*
  - b. Pay
  - c. Allowances
  - d. Allotments
  - e. Deductions
4. Non-Cash Compensation (15 minutes)
  - a. SGLI and FSGLI
  - b. Thrift Savings Plan
  - c. Survivor Benefit Plan
  - d. Survivor Benefits
  - e. Medical and Dental
  - f. Education
  - g. Leave
  - h. Retirement
5. Military Tax Issues (5 minutes)
  - a. FICA Deductions
  - b. Federal Income Taxes

- c. State Income Taxes
- d. Volunteer Income Tax Assistance Program
- 6. Common Pay Problems and Options to Correct Them (10 minutes)
  - a. Learner Activity: *I've Got a Problem*
  - b. Repayment Options
  - c. Sources of Help
- 7. Summary (5-20 minutes)
  - a. Optional Learner Activity: *Pay and Compensation Calculator*
  - b. Optional Learner Activity: *Military Pay Check Review Game*



## WELCOME AND INTRODUCTION

### AGENDA

The purpose of this class is to help you to understand the military compensation system by focusing on the components of the Leave and Earnings Statement (LES) and the use of the myPay website. We will also discuss the complete military compensation package, going above and beyond the “dollar bills.” Finally, we will take a look at how to correct common pay problems and repay government debts.

### THE IMPORTANCE OF MILITARY COMPENSATION

Why is it important that we know about the elements of military compensation?

- **To know what you are currently entitled to receive.**
- **To know what you need to do as your circumstances change.** Financial hardships can occur when you do not understand how much pay you are entitled to and what to expect. Frequently, such hardships occur because you are not aware of the need to inform your pay office about certain events.
- **To keep current on changes in the pay system.** Military pay is governed by many rules that change in order to recruit and retain qualified personnel. The changes mean that the military needs to know a lot about you to be able to pay you correctly. If key information is missing or inaccurate, you pay may be getting paid incorrectly. Mistakes occur, and knowledge of pay will help correct them quickly when they do, ensuring that you are getting your full entitlements — no more, no less.
- **To encourage you to pay more attention to your pay.** A steady paycheck is a double-edged sword in that service members have a tendency to get complacent about their pay and benefits. They know it just will keep coming, payday after payday. As you learn more about your pay, benefits and LES, you will be better able to manage them. Fluctuations in pay can complicate your financial situation and perhaps catch you off-guard. Many events occur in your life that necessitate pay and benefit changes, from going to sea or transferring, to getting married or re-enlisting, and everything in between. Awareness of how

**Trainer’s note:** As an option, this class can be taught using the *Military Pay Check* review game, because most learners will already know much of the content included in this module. The game can be done using the PowerPoint version, or with the paper and pencil version.

**Trainer’s note:** Distribute the *Military Compensation Checklist* to learners and tell them they can mark items they may need to review or do, now or in the future. Most of the items on the *Checklist* will be discussed during the program. The *Checklist* can serve as an excellent financial guide throughout their career.

the military pay system works, knowledge of your entitlements and the ability to check your LES for accuracy can stave off many problems.

## MILITARY PAY

### WHEN YOU ARE PAID

All Navy members are paid on the 1st and 15th of each month. If the date falls on a holiday or weekend, you will normally receive your pay on the workday before the holiday or weekend.

### DIRECT DEPOSIT SYSTEM

With the Direct Deposit System, net pay amounts are sent to the financial institution designated by you. These payments are sent via electronic funds transfer from Defense Finance and Accounting Service Cleveland (DFAS-CL). It is your responsibility to ensure that the account selected for direct-deposit payments is open and in good standing.

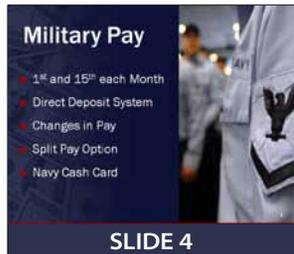
### CHANGES IN PAY

There are many events that will cause changes in pay. These must be made by you on myPay or reported to the local pay and personnel offices:

- Allotment changes, starts or stops.
- Tax changes, including changes in exemptions, state of legal residence, or additional withholding.
- Assignment or termination of government quarters for members with dependents.
- Marriage, divorce or other change in dependency status.
- Relocation.

### SPLIT PAY AND NAVY CASH CARD

Ships have a Split Pay option in which you can designate a portion of your pay to be deposited to the ATM aboard ship, with the remainder going to the designated direct-deposit financial institution. If you elect the Split Pay option, a portion of your pay will be sent to your Navy Cash account each



**Trainer's note:** For more information on the Navy Cash card, visit the Treasury's Financial Management Service website at: <http://www.fms.treas.gov/navycash/index.html>.

payday. Cashless ATMs aboard ship provide 24-hour-a-day, seven-day-a-week access to Navy Cash accounts. Cashless ATMs also provide 24/7 offline access to bank and credit union accounts ashore, and the ability to move money electronically to and from Navy Cash accounts and bank and credit union accounts. With Navy Cash, everyone on the ship receives a Navy or Marine Cash Debit MasterCard®. The card combines a chip-based electronic purse with the traditional magnetic strip. The electronic purse replaces bills and coins for purchases on the ship. The magnetic strip, with its branded debit feature, provides access off the ship to funds in Navy Cash accounts at more than 23 million locations in more than 210 countries and territories globally and at more than 1 million ATMs in more than 120 countries worldwide. By providing electronic access to all pay and allowances, Navy Cash improves on the traditional financial services available aboard ship.

**myPAY**

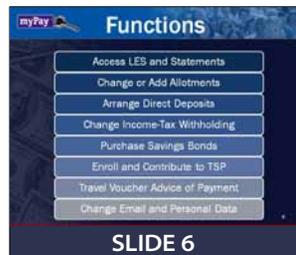
**What is myPay?**

myPay is an automated system that puts you in control of your pay account. You can access your account anytime day or night to change or review your current information or to check your LES. You are provided an initial PIN for your first visit that must be changed to a private PIN for continued access. If you are not able to access myPay, you should address this issue immediately with your local disbursing office.

What can I do on myPay?

myPay has these functions to allow members to manage their money better, and to make the pay system more efficient:

- Access LES and statements.
- Add or change allotments.
- Arrange direct deposit.
- Purchase savings bonds.
- Change income-tax withholding.
- Enroll in and contribute to the Thrift Savings Plan.
- Get travel voucher Advice of Payment.



- Change e-mail address and other personal settings.

**Learner Activity:** LES Match

Purpose: To reinforce information on the LES by matching information with the correct LES section.

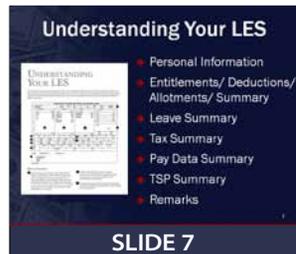
Time: 10 minutes

Materials: *LES Match* and *Understanding Your LES* handouts

Procedure: Distribute both handouts and instruct learners to match the 15 descriptions on the *LES Match* handout with the correct LES sections on the *Understanding Your LES* handout. Review answers once the learners have completed the activity.

Answers:

- |      |      |       |       |
|------|------|-------|-------|
| 1. A | 5. L | 9. C  | 13. D |
| 2. I | 6. F | 10. L | 14. B |
| 3. E | 7. J | 11. E | 15. L |
| 4. G | 8. K | 12. H |       |



**UNDERSTANDING YOUR LEAVE AND EARNINGS STATEMENT**

**What is the LES?** The Leave and Earning Statement (LES) is a monthly statement showing all pay changes and information for the month including entitlements (pays and allowances), deductions and allotments, and pay-related remarks.

**Who is responsible for LES information?** Your pay is your responsibility. You should verify information on your LES each month. If your pay varies and you do not understand why, see your local disbursing office or go to myPay to check and investigate the changes. If you need to contact DFAS directly, contact information can be found on the myPay website.

**Sections of the LES:** The LES contains the following information sections:

- Personal information
- Entitlements/deductions/allotments/summary



**Trainer’s note:** Ask learners to look at their own LES, if they brought it, and review the sections as you provide the information on each. If they do not have their LES, they can follow along with the *Understanding Your LES* handout.

- Leave summary
- Tax information summary
- Pay data summary
- Thrift Savings Plan summary
- Remarks

**Section A — Personal Information:** Contains information that specifically identifies you, such as your full name, Social Security number, pay grade, pay base date, years of service and ETS.

**Sections B, C, D, E — Entitlements/Deductions/Allotments/Summary:** Lists the other figures that make up your monthly compensation, such as pay, allowances, taxes, deductions, garnishments (if any) and allotments. This section allows you to see exactly how your take-home pay is calculated. Date of initial entry into military service (DIEMS) is the date you signed your contract committing to the military. The type of military retirement plan for which you are eligible is shown in the RETPLAN box.

**Section F — Leave Summary:** This is your beginning leave balance, the leave you have earned from the beginning of the fiscal year (Oct. 1) and the leave you have used, cashed in or lost as a result of exceeding the maximum balance. Be certain to check “leave used” to make sure it is correct. Also check the “use/lose” block so you do not exceed the maximum allowable accrued leave.

**Sections G, H, I — Tax Summary:** This is the tax paid for the period and for the year. It shows the number of exemptions you claim for tax withholding. It is important to keep your December LES as a backup for other IRS documents (such as a W-2) to use when doing your income-tax preparation. Also, check the M/S and EX block listed in sections G and I. This shows the marital status and number of exemptions you currently are claiming. Most military members enter the service S00 (single claiming zero), and many forget to change this once they marry or have children. Changing this to the correct status can have a big effect on the amount of pay you receive. Many members find a big increase in their monthly check when they adjust these items.

**Section J — Pay Data Summary:** The specific information used to determine the allowances you are entitled to receive. The data includes dependent information, the ZIP code of your duty station, the amount you pay in rent if living “out-in-town” and unit identification numbers. Verify the ZIP code information to ensure that you are receiving the proper BAH for the area in which you are living.

**Section K — Thrift Savings Plan Summary** Information on TSP contributions. The rate boxes show percentage of pay specified for contribution. The current boxes show the amount contributed this pay period, while the YTD shows the amount for the year. You also can view your TSP account at <<http://www.TSP.gov>>.

**Section L — Remarks:** Notes from DFAS regarding your monthly statement or other information, such as the starting or stopping of allotments or direct deposit, use of leave, garnishments, or general notes regarding pay, allowances, deductions or other military benefits.

## CASH COMPENSATION

**Learner Activity:** Military Compensation

Purpose: To allow learners to apply content material by identifying different examples of cash or non-cash compensations included as part of military pay.

Time: 10 minutes

Materials and preparation: Using the 30 military compensation topics on the *Military Compensation Note Cards* handout, prepare 30 index cards with one term on each. Provide each learner with a piece of tape. On the class board or on three separate sheets of newsprint, write “Cash Compensation,” “Non-Cash Compensation” and “Neither.”

Procedure: Choose the method of presentation. (See below.) Explain that before you look at specific pays and allowances, now is a good time to talk about the military compensation package in general. SAY: Often when we think of military compensation we think of “military pay,” or what we get in our paycheck. But the full range of military compensation stretches beyond just our monthly salary. To illustrate this point, let’s play a matching game.



**Trainer’s note:** Unless taught to recruits, most learners are already aware of much of the information on military compensation in this section. Use the Military Compensation activity to introduce and cover much of the material, then follow up with appropriate content to fill in any information gaps or answer questions.

You see three categories on the board; let's take these commonly known terms and determine if they are "cash compensation," "non-cash compensation" or "neither." Our goal is to place the cards in the appropriate category.

Individual method: Pass out one or more cards to each learner, and have them tape the card under the appropriate category.

Group method: Divide the class into three groups, and provide each group with 10 cards. Allow the groups to tape the cards to the appropriate category paper.

Instructor-assisted method: Call out each item and ask the learners in which category the item belongs. Write each item on the appropriate newsprint page or post the cards in the appropriate category.

Once all cards have been posted, review the correct categories and move the cards as necessary. Ask the class for the correct name for each acronym. Specific information on compensation benefits follows this activity and can be reviewed after the activity or explained during the activity itself.

**Military Compensation Answers:**

Cash Compensation:	Non-Cash Compensation	Neither
<ul style="list-style-type: none"> <li>● BAH   ● FSA</li> <li>● BAS   ● OHA</li> <li>● COLA ● TLE/TLA</li> <li>● CRA   ● MIHA</li> <li>● CSP   ● Base pay</li> <li>● DLA</li> </ul>	<ul style="list-style-type: none"> <li>● MWR   ● SBP</li> <li>● NEX   ● TSP</li> <li>● Paid   ● Vacation</li> <li>  Holidays   ● Legal</li> <li>● SGLI   ● TRICARE</li> <li>● MGIB</li> <li>● AFRH</li> </ul>	<ul style="list-style-type: none"> <li>● WMD (Weapons of Mass Destruction)</li> <li>● FICA (taxes)</li> <li>● DHS (Department of Homeland Security)</li> <li>● FAA (Federal Aviation Administration)</li> <li>● CFC (Combined Federal Campaign)</li> <li>● LES</li> <li>● IRS</li> <li>● CNO</li> <li>● DoD</li> </ul>



## PAY

Items listed as “pay” are taxable unless received in a designated combat zone or imminent-danger area. There are three basic types of pay in your military compensation package.

- Base pay
- Special
- Incentive pays

**Base pay:** This taxable pay is determined by rank and years of service. This is the portion of pay on which your military retirement is calculated. Raises are earned upon promotion or advancement for years of service.

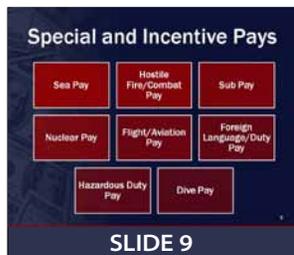
**Special and incentive pays:** These pays are given to qualified members who possess specific or unique skills, or skills determined to have critical shortages. They can be based on an annual lump-sum bonus, monthly pay or pay when the duty is performed. These types of pays come in three main categories:

- Special recognition pays are monthly cash payments for duty performed.
- Skill incentive pays are retention tools that are paid monthly on a long-term basis.
- Critical skill and re-enlistment bonuses are a retention tool that usually requires an additional service obligation and are lump-sum annual cash bonuses.

### Special pays you may see on your LES include:

- Sea Pay.
- Submarine Pay.
- Career Enlisted Flier Incentive – enlisted.
- Aviation Career Incentive Pay– officers.
- Hazardous Duty Incentive Pay.
- Hostile Fire Pay/Imminent Danger Pay/Combat Pay.
- Diving Duty Pay.

**Trainer’s note:** Briefly review the different types of military compensation from the Military Compensation activity. You do not have to cover every subtopic in detail as you covered basic information during the exercise. Additional information is included for instructor information in case questions arise.



- Special Assigned Duty Pay.
- Foreign Language Pay.
- Various professional pays for doctors, dentists, nurses, etc.
- Wounded Warrior Pay.

Pays may be based on pay grade, years of service, years of sea service, years of aviation experience, billet (or NEC), location of billet, qualifications, or any combination of these. Some of these entitlements must be recertified annually to verify that you still qualify for them.



### ALLOWANCES

You may receive allowances to cover living expenses, housing, travel and moving expenses. These are non-taxable items. Allowances are based on many different circumstances and criteria, varying from whether you have dependents to whether you are authorized to live off-base. If you have received pay(s) or allowance(s) that you are not entitled to, notify the disbursing office immediately and put the money into savings until the Navy comes to collect it. They will collect it at some point. Never take anything you do not have coming to you.

#### There are three basic types of allowances:

- Housing allowances
- Living expense allowances
- Moving or travel expense allowances

#### Housing Allowances:



**Basic Allowance for Housing (BAH):** BAH is paid to those authorized to live off base. It is based on rental costs by pay grade, location and dependency status, and is designed to reflect comparable civilian housing costs for those with similar salary and location. BAH is designed to allow a standard quality of housing regardless of where you live in the U.S. Members assigned suitable government quarters are not entitled to BAH. BAH offers two rates, one with dependents and one without. BAH rates are published on the Per Diem Committee website <<http://www.defensetravel.dod.mil/perdiem/bah.html>>.

**BAH-DIFF:** If you are paying court-mandated child support, you may be entitled to BAH-DIFF.

**BAH PARTIAL:** Paid to members without dependents who live in government quarters.

**COLA:** There is a cost of living allowance (COLA) for overseas and certain U.S. locations designed to offset the additional expenses of being assigned to a high cost of living area.

**MIHA:** There is a move-in housing allowance (MIHA) for those overseas designed to assist with covering the costs of setting up a household overseas.

**OHA:** Overseas housing allowance (OHA) is paid to service members who live in private housing at their overseas duty station.



**BAS:** Basic Allowance for Subsistence (BAS) is designed to offset costs for your meals. It is paid to all active-duty personnel except those in boot camp or initial entry training. All enlisted service members are paid the full monthly rate, but those required to eat in the mess hall will have most of the allowance automatically withdrawn from pay to cover the cost of their meals (meal deduction). Officers collect BAS and then pay cash for meals, including those eaten in government dining facilities.

**FSA:** Family Separation Allowance (FSA) provides compensation for added expenses incurred because of an enforced family separation under certain conditions. FSA is payable in a monthly amount of \$250 (2010). You should refer to the DoD Financial Management Regulation Volume 7a for specific restrictions and qualifications for receipt of FSA. Types of FSA are:

- **FSA-R (Restricted):** Transportation of dependents, including dependents acquired after effective date of orders, is not authorized at government expense, and the dependents do not live in the vicinity of the member's homeport/permanent duty station. Transportation of dependents is authorized at government expense, but member elects an unaccompanied tour of duty because a dependent cannot accompany the member to that homeport/permanent station due to certified medical reasons, regardless of the date on which the member first made the election to serve an unaccompanied tour.

- **FSA-S (Ship):** The member is on duty aboard a ship, and the ship is away from the homeport continuously for more than 30 days.
- **FSA-T (Temporary):** The member is on temporary duty (TDY) or temporary additional duty (TAD) away from the permanent station continuously for more than 30 days, and the member's dependents are not living at or near the TDY station. This includes members who are required to perform a period of the TDY before reporting to their initial station of assignment.
- **CRA:** Clothing replacement allowances (CRA) may be issued to help you pay for your uniforms. There are four main types of clothing allowance:
- **Initial Clothing Allowance:** Officers and enlisted members of the armed forces are entitled to an initial clothing allowance. Officers, however, are entitled to the allowance only once (with a few exceptions).
- **Cash Clothing Replacement Allowance:** This allowance is payable only to enlisted members annually following initial clothing allowance on the anniversary month. This is for the replacement of uniforms based on normal wear and tear.
- **Extra Clothing Allowance:** This allowance is for situations in which service members may need additional uniforms or are required to have civilian clothing to perform their duties.
- **Military Clothing Maintenance Allowance:** This allowance is for replacement and maintenance of military items during and after three years of active duty. If service members have a break in service, they start over with the initial clothing allowance upon returning to the service. The Cash Clothing Replacement Allowance and Military Clothing Maintenance Allowance will be distributed as applicable.

### Travel or Moving Expenses:

**Travel allowances:** The government pays for expenses associated with orders requiring travel, usually after the travel is completed. A government issued travel charge card is usually used while you are traveling and to obtain funds from an ATM.

### Types of travel allowances:

- Mileage/transportation: based on the distance traveled, where you have been ordered to go, and how you were directed to travel.

**Trainer's note:** For more information about clothing allowances and other living expenses, refer learner to <http://www.dfas.mil/navy2/militarypay/clothingallowance.html>.

**Trainer's note:** For current rates, refer to <http://www.defensetravel.dod.mil>.



- Per diem: based on the normal costs for meals and other incidental expenses during travel and at your destination.
- Miscellaneous: baggage handling fees, tips and other authorized expenses associated with your travel.

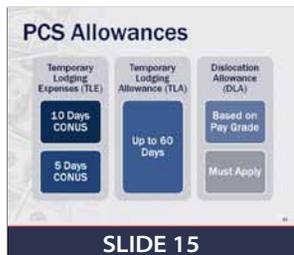
With travel orders you can get advance payment of per diem and prepaid transportation tickets. You must fill out a travel claim of your expenses and any advance payments that you received.



**Moving Allowances:** Under PCS orders which require you to move; you are entitled to moving allowances to cover expenses such as:

- Shipment of personal goods.
- Temporary lodging.
- Vehicle mileage and highway tolls.
- Meals during the move.

You may have your goods shipped by a commercial moving company or move your things yourself. The Personally Procured Move (PPM) pays you directly for up to 95 percent of what it would cost the government to move you. Any money you earn above the actual cost is taxable. Shipments arranged by the transportation office are paid directly by the government to the carrier and are not taxable, since you do not receive any compensation.



**Permanent Change of Station allowances:** Provided for members who are moving their household. This includes:

- Temporary Lodging Expenses (TLE): provides for the temporary cost of housing while in transition. It is payable for 10 days in CONUS and five days when going OCONUS.
- Temporary Lodging Allowance (TLA): payable up to 60 days OCONUS.
- Dislocation Allowance (DLA): varies by pay grade and dependency status. DLA is not an advance and does not have to be repaid.



**Advance pay:** Members are authorized certain advance pay when moving; however, it is necessary to apply for it. You can get up to three months of advance pay and you can receive up to three months advance

BAH (CONUS) and 12 months OHA (OCONUS) when moving into non-government housing.

**TDY:** While on TDY you can receive per diem. Per diem meal rates are based on location and the availability of meals at authorized dining facilities. Per diem rates for lodging are based on the location.



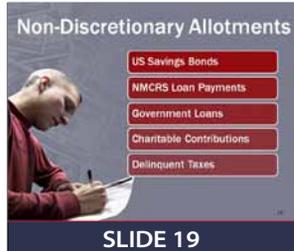
**ALLOTMENTS**

The allotment of pay is provided to help you adjust your personal and family finances to military service. It is a convenience and privilege not to be exploited or abused. Allotments are a definite portion of your pay and allowances and are authorized to be made payable to a qualified person or institution. Some allotments can have an indefinite time-frame, while others can have a specified time-frame. Some restrictions apply to allotments; see the DFAS website for details. Discretionary and non-discretionary are two types of allotments. The maximum amount that can be allotted is the total of all pay and allowances less standard withholdings (for example, federal and state taxes).



**Discretionary allotments:** For discretionary allotments, members specify the individual, institution or business to receive the allotment. No more than six discretionary allotments are allowed. Examples of discretionary allotments include:

- Payments of premiums for commercial life insurance on the member or the member’s spouse or children.
- Voluntary payments to dependents or other relatives.
- Deposits to financial institutions, mutual fund companies or investments.
- Mortgage or rent.
- Car-loan payments.
- Payments to repay a loan from a loan or finance company.
- Deposits into the savings deposit program.



**Non-discretionary allotments:** Non-discretionary allotments are made to a specifically designated agency or purpose. There is no limit to the number of nondiscretionary allotments a member can have. Non-discretionary allotments are limited to the following:

- Purchase of U.S. savings bonds.
- Relief repayments (Navy-Marine Corps Relief Society and American Red Cross).
- Government indebtedness.
- Charity (Navy-Marine Corps Relief Society).
- Child and spousal support.
- Debts for non-discretionary allotments (payment of delinquent federal, state or local income or employment taxes; commercial debt; delinquent travel charge card debt).

## DEDUCTIONS

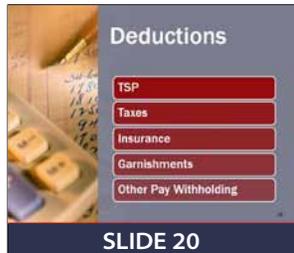
Deductions are amounts that are taken out of your paycheck. Most deductions are automatic. There are four types of deductions:

**Taxes:** Includes state and federal income tax and Social Security and Medicare tax (FICA). Some military members do not have to pay state income tax, because some states do not have income tax and some states “exempt” residents serving in the armed forces. This is based on your “home of record.” Even though the military assigns you to a different state, you are allowed to maintain your original home of record if you choose.

**Insurance:** Includes Servicemembers’ Group Life Insurance (SGLI and FS-GLI) and the dental health plan.

**Garnishments:** An involuntary deduction taken from your pay as a result of legal action against you. When a garnishment is ordered, the government is required to withhold money from your check to pay your debts.

**Other pay withholding:** You also can choose to have pay withheld from your check for things like educational assistance programs or the Thrift



Savings Plan. You choose the amount to be deducted. This also is where you will see advance pay and BAH or OHA paybacks.

**Additional deductions:**

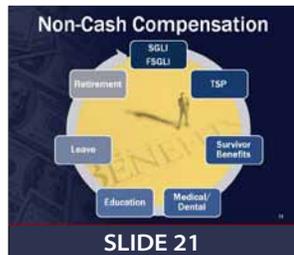
- Meal deduction
- Armed Forces Retirement Home Assessment

## NON-CASH COMPENSATION

There is more to your pay than just the dollars showing up in your account each month. In fact, the military has one of the best compensation systems available from any employer in this country. We're going to take a few moments to briefly review other key compensation benefits.

Other compensation includes:

- Commissary and Exchange privileges.
- Chaplain and religious services.
- Legal services.
- Base gym and workout facilities.
- Morale, Welfare and Recreation services and programs.
- Fleet and Family Support Center educational programs and resources.
- The tax advantage resulting from the tax-free status of allowances.
- Medical care for members and dependents.
- Two retirement programs.
- Death gratuity payments.
- Dependency and indemnity compensation; survivor benefits.
- Life insurance plans.
- Professional education and training.
- Veteran's education assistance .
- Reimbursable items, including clothing allowances.



- Family separation allowances.
- Overseas allowances.
- Travel and transportation allowances.
- Dislocation allowances.
- CONUS cost of living allowance (COLA).

### SGLI AND FSGLI

Servicemembers' Group Life Insurance (SGLI) is a term insurance policy with coverage of up to \$400,000 per member. You can determine the amount of your coverage by checking your LES in the "deductions" section. If there is no deduction listed for SGLI, then you are not covered. When you leave the service, coverage ends after 120 days or it can be converted to another type of insurance.

FSGLI is life insurance coverage for your whole family. Providing you are covered by SGLI, your children will be automatically covered at \$10,000 per child at no cost to you. Your spouse may be covered up to \$100,000 or the dollar amount of your coverage, whichever is less. The cost for this coverage varies by age.

Make sure that the beneficiary designated for your policy is accurate. Funds will be paid to whomever you have listed as your beneficiary, so be certain to update this information if you have a change in your family member status. A will does not affect the beneficiary of life insurance, nor does a Page 2. To make changes to your beneficiary information, you will need to complete an election form (Veterans Affairs Form SGLV-8286). Check with your personnel detachment or office for more information.

### THRIFT SAVINGS PLAN

The Thrift Savings Plan (TSP) is a defined-contribution retirement plan available through the U.S. government. Participation in TSP provides automatic savings. There are numerous benefits to the program, most significantly is the pre-tax deduction. This means that you are lowering your overall tax bill.

**Trainer's note:** For questions regarding SGLI and FSGLI, refer learners to the Department of Veterans Affairs at <<http://www.va.gov/>>. The Department of Veterans Affairs also handles Dependency and Indemnity Compensation (DIC), education benefits and other survivor programs. For additional Thrift Savings Plan information, refer to <<http://www.tsp.gov/>>. For further information on the Survivor Benefit Plan (SBP) and other benefits refer to the Office of the Secretary of Defense Military Compensation website <<http://militarypay.defense.gov/>>.

## **SURVIVOR BENEFIT PLAN**

When you retire, you may elect any of several Survivor Benefit Plan (SBP) options. The plan allows you to have a portion of your retirement pay go to a designated beneficiary after you die. You pay the premium for this benefit directly from your retired pay. The SBP is a choice you will be faced with as you get ready to retire. If you are on active duty, retirement-eligible and have a spouse and/or children, they are protected automatically protected under SBP at no cost to you while still on active duty.

## **SURVIVOR BENEFITS**

- Fallen Hero Compensation (death gratuity of \$100,000)
- Burial
- Round-trip travel and household goods move
- 12 months' BAH or 12 months of housing
- Arrears in pay and accumulated leave
- Social Security (\$225 burial and other survivor benefits)
- Dependency and Indemnity Compensation (DIC)
- VA education benefits
- Continuing medical and dental benefits for a limited time

To ensure that survivors get all the benefits to which they are entitled, it is critical that you keep your Page 2 (NAVPERS 1070/602 Dependency Application/Record of Emergency Data) up to date. The Page 2 is the form used to apply for dependency allowance and to document family member data. The important information on your Page 2 should be updated whenever there are changes in family member status. The family members you designate to receive your death gratuity and any unpaid allowances also are listed on your Page 2.

## **MEDICAL AND DENTAL**

Medical and dental coverage is provided at no cost to active-duty members and at varying costs to family members depending upon the type of coverage selected.

## EDUCATION

Depending upon your date of entry, you may be eligible for the GI bill, the Voluntary Education Assistance Plan (VEAP) or the Montgomery GI Bill. These are programs where you share in the cost of the benefit. There are also programs funded entirely by the government.

## LEAVE

You earn 2.5 days of leave every month, for a total of 30 days per year. Depending on duty requirements, you also are provided leave on federal holidays. You may accrue leave up to 60 days. Leave in excess of 60 days must be taken or lost by the start of the fiscal year (Oct. 1). You also may sell back up to 60 days of leave at the end of enlistment or separation. If you are deployed in a year, you may accrue more than 60 days in that year.

## RETIREMENT

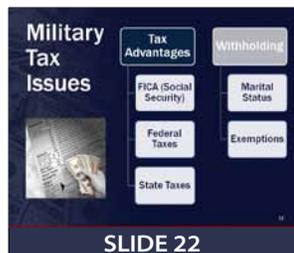
Normally, you must serve for 20 years to become eligible for retirement pay. The longer you serve, the more retirement pay you will receive. The percentage amount of your base pay varies depending upon the plan in effect at your date of entry. You also continue to receive commissary and exchange rights, and low-cost health insurance.

## MILITARY TAX ISSUES

Serving in the military has some big tax advantages: Allowances are not taxed, FICA is applied to base pay only and many members are exempt from paying state income taxes. These and other benefits can provide a significant tax advantage. Let's take a look at your taxes in more detail.

## FICA DEDUCTIONS

Social Security taxes, or Federal Insurance Contributions Act (FICA) deductions, are withheld from all military members' basic pay. This is separated into Social Security and Medicare contributions.



**Trainer's note:** If W-4 forms are available, encourage learners to fill in the correct data on the form now or advise them to go to PSD or change online via myPay.

## FEDERAL INCOME TAXES

Federal Income Tax Withholding (FITW) is based on all pays (not allowances, and not just base pay, like FICA). The amount withheld is determined by how you filled out your W-4 form, available at your local disbursing office or on myPay. The federal income tax system is pay as you go, meaning that as you earn your money, you must pay taxes on it.

**Withholding:** The goal of paying your federal taxes should be to pay your fair share and break even, so that when tax returns are due April 15, you do not owe, and are not owed, any money. Some people like to over-withhold so they get a big refund. That is an option if you do not have the discipline to save. Just realize that you are making an interest-free loan to the government, instead of having that money to use on a monthly basis to pay bills or invest. If you have the discipline, withhold only what you must, and save and invest the rest so you can earn a return on your money.

**W-4 Form:** Look at your LES, under the headings Fed Taxes/State Taxes, Marital Status (M/S) and Exemptions (EX) (sections G and I). This is for marital status and the number of exemptions you are claiming. Is it correct? Many service members forget to update this form and have taxes withheld at too high a rate. This is one of the most common problems financial counselors see, and it is the easiest way to get more money into your paycheck.

## STATE INCOME TAXES

Your military compensation may be subject to state income-tax withholding for the state you claim as your legal residence. Treat state taxes like federal taxes — do not pay any more than you must. If you are a resident of a state with an income tax, and the state does not exempt military pay, check your LES marital status and exemptions and keep this current and correct as well.

The Servicemembers' Civil Relief Act provides that a member of the armed forces who is a legal resident of one state but who is living in another solely by reason of military orders is not liable to the second state for income taxes on military income. However, non-military income from the second state is legally taxable by the state.

The following states do not presently have an income tax, but some of these states do have intangible personal property tax or tax-only dividend and interest income:

- Alaska
- Florida
- Nevada
- New Hampshire\*
- South Dakota
- Texas
- Tennessee\*
- Washington
- Wyoming

\*New Hampshire and Tennessee tax only dividend and interest income.

### **VOLUNTEER INCOME TAX ASSISTANCE PROGRAM**

Remember, at tax time the Volunteer Income Tax Assistance (VITA) program is available to help you fill out your federal income-tax forms (and possibly state forms) and may even be able to file your taxes electronically for you.

### **COMMON PAY PROBLEMS AND OPTIONS TO CORRECT THEM**

#### **Learner Activity:** I've Got a Problem

Purpose: Provides the means for learners to identify common pay problems and reinforce content by recommending appropriate options and solutions.

Time: 5 minutes

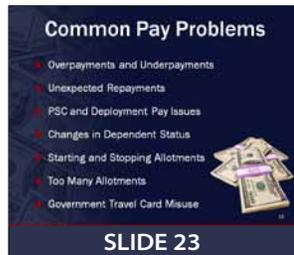
Materials: Paper and writing utensils, chart paper and markers

Preparation: You can choose for learners to work individually or in small groups. If you choose to work in groups, divide learners up at the



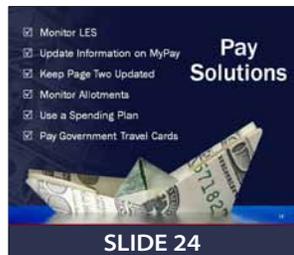
beginning of the activity. Before the activity starts, tape up chart paper to write down common pay problems, or use a white board.

Procedure: First, tell learners you would like them to tell you any pay problem they have experienced or that a friend has experienced. List these pay problems on your chart paper or white board. Distribute paper and instruct learners that they are to suggest possible options to correct their list of pay problems. You can either assign pay problems to individuals or groups or let them provide the information they have on as many as they can. Review the pay problem list and ask learners to share their suggestions. Follow up with Slides 23 and 24 to fill in any problems or suggestions that learners may have missed.



**Common Pay Problems**

- Overpayments and underpayments.
- Unexpected repays (garnishments, overpayments).
- Pay problems related to PCS and deployments.
- Changes in dependent status (marriages, children, etc.), exemptions incorrect.
- Allotments not stopping or starting on time.
- Too many allotments being used at once.
- Government travel card.



**Possible Solutions**

- Monitor LES monthly.
- Notify PSD immediately when there is a change in family status (marriage, birth, death, divorce).
- Keep Page 2 current, and update the information on myPay.
- Change income-tax withholding (federal and state).
- Closely monitor allotment start and stop requests, and keep copies of everything.
- Closely monitor budget/spending plan.



- Do not use government credit cards for unauthorized expenses.

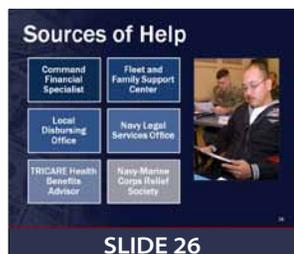
### REPAYMENT OPTIONS

If you receive pay or allowances to which you are not entitled, the government will recoup the money. Ideally, you would be instructed to set aside any money received to which you are not entitled. In reality, however, the money is often spent, and when the government recoups the money, it becomes a financial hardship for the Sailor. There are limited options to you when a government indebtedness repayment will create a hardship.

**Extend the repayment period:** Contact disbursing or DFAS to arrange for a longer repayment period. You will need to explain your situation and may need command backup for the reasons why you need more time to pay.

**Make payment arrangements:** Again, contact DFAS or disbursing to see if an arrangement can be made that is more favorable to your financial situation.

**Waiver of Indebtedness:** This allows a bit of breathing room to sort out your finances. All pay and allowances return to their original amount for a period of time. This is a complicated form and must be approved by the command. This is not to be taken lightly. The indebtedness issue must be resolved, but this extra time can provide you with an opportunity to work out a repayment plan that is easier on your budget. You must act quickly to stop funds from being deducted from your pay.

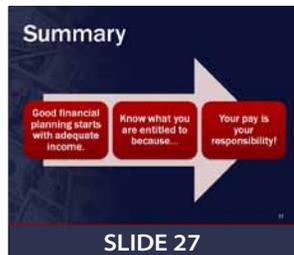


### SOURCES OF HELP

There are many sources available to help you with your military benefits. In addition to the list of websites on your handout, you can see these people for assistance:

- Command Financial Specialist
- Fleet and Family Support Center
- Local disbursing office
- Naval Legal Service Office

- TRICARE health benefits adviser
- Navy-Marine Corps Relief Society



## SUMMARY

Good financial planning starts with having adequate income. You can help yourself on the road to financial success by knowing what you are entitled to and by keeping track of your own pay and benefits information.

**Optional Learner Activity:** Pay and Compensation Calculator

Purpose: To explain the value of the military compensation package.

Time: 10 minutes

Materials and preparation: Varies with method chosen. Each learner should have a copy of the handout *Pay and Compensation Calculator (Example — John Dough)*.

Procedure: Choose your method of presentation:

Website method: Go to <<https://staynavytools.bol.navy.mil/PCC/?B3=Launch+Calculator>> to launch the calculator. Use the John Dough Sample LES and have the class provide the inputs. Click on Special Pays, input the Sea Pay information and then click Calculate. Review the information with the class. Once you have completed the example online, if time allows, ask the class for inputs and run through another example.

Hard-copy method: If no Internet connection is available, provide the Pay and Compensation Calculator Example handout to the class. Review the information provided. Explain to the class that the inputs came from the LES handout and that they can run this on themselves at home or visit their Command Financial Specialist.

Discussion: The Pay and Compensation calculator helps military members understand the monetary value connected with their pay and benefits. With data provided by the user, the calculator gives a monthly and annual breakdown of earnings, computes the tax advantage military members enjoy through the pay and allowance system, and calculates civilian equivalent pay, annual indirect compensation and retirement projections.



Provide the following information, using John Dough from the sample LES for the inputs to the calculator:

- Assume all dates are 1 Jan.
- He is an E-6.
- PEBD (PAY DATE) is 1 Jan 1991.
- His birthday is 1 Jan 1971.
- The LES shows he is claiming married with no dependents.
- He is receiving BAH, so he is living in civilian quarters and the ZIP code is 23511.
- We'll assume he is going to retire at his present rank at exactly 20 years of service.
- The remarks section of the LES shows 12 years of sea time.

When this data is calculated, we see his total monthly and annual pay information for taxable pay and allowances, as well as the tax information, to come up with take-home pay. Then we find the tax advantage provided by the non-taxed compensation. These amounts are estimates based on the information we provided and will not necessarily reflect the exact amounts.

The calculator provides us with Civilian Equivalent Pay information to help put the value of the compensation in context. This example shows what John would have to earn in the civilian world to stay even with his military compensation. It does not take into account the value of the Indirect Compensation shown next. So you should add this overall total to the amount you would need to stay even.

The next section shows the retirement payout he would receive under his High-3 retirement plan and how much he would need to save and invest if he were to reach this figure on his own, without the benefit of a retirement plan.

This calculator does a great job showing in concrete terms the many benefits provided by your total compensation package and not just the dollar amount that shows up in your account every two weeks.

## Optional Learner Activity: Military Pay Check Review Game



See “Introduction to the Modules: PowerPoint Games”. This activity can also be done using the handout *The Military Pay Check*.

### Pay Check Questions and Answers

1. What are the seven summary sections of the LES?
  - Personal Information
  - Entitlements/Deductions/Allotments/Summary
  - Leave Summary
  - Tax Information Summary
  - Pay Data Summary
  - Thrift Savings Plan Summary
  - Remarks
2. What are four types of allowances for housing?
  - BAH
  - COLA
  - MIHA
  - OHA
3. What are two types of pay which are taxable?
  - Base Pay
  - Special and Incentive Pays
4. What are seven things you can do on the myPay website?
  - Review the LES
  - Change tax withholdings
  - Update DDS information
  - Manage allotments
  - Buy savings bonds
  - Enroll in the TSP
- Change TSP contribution percentages
5. Who is responsible for the accuracy of pay information?  
You are!
6. What are three non-taxable allowances for living expenses?
  - BAS
  - FSA
  - CRA
7. What are two types of pay and/or allowances which may be received in advance?
  - Base — 3 months
  - BAH — 3 months CONUS, 12 months OCONUS
8. What are four types of taxes shown on the LES?
  - Social Security
  - Medicare
  - Federal
  - State
9. What are three repayment options for debts owed to the government?
  - Extend repayment period
  - Make payment arrangements
  - Waiver of Indebtedness