Financial Planning
AGENDA

- Military compensation
- Civilian compensation
- Military retirement
- Civilian retirement
EVALUATING TOTAL MILITARY COMPENSATION

\[
\text{SALARY} + \text{BENEFITS} = \text{COMPENSATION}
\]
ACTIVITY: HIDDEN BENEFITS

What are the hidden benefits of military service?
# PAY AND ALLOWANCES

## PAY (taxable)
- Basic Pay
- Career Sea Pay
- Imminent Danger Pay
- Hardship Duty Pay
- Diving Duty Pay
- Flight Deck Duty Pay
- Submarine Duty Incentive Pay
- Selective Reenlistment Bonus (SRB)

## ALLOWANCES (not taxable)
- Housing (BAH)
- Subsistence (BAS)
- Clothing allowance
- Dislocation Allowance (DLA)
- Family Separation (FSA)
- Family Subsistence Supplemental Allowance (FSSA)
**TOTAL VALUE**

**E-6 with 10 years on active duty**

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay</td>
<td>$37,000</td>
</tr>
<tr>
<td>Housing</td>
<td>$20,000</td>
</tr>
<tr>
<td>BAS</td>
<td>$4,400</td>
</tr>
<tr>
<td>FICA</td>
<td>$4,000  (employer contribution)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$65,400</strong></td>
</tr>
</tbody>
</table>
EVALUATING CIVILIAN COMPENSATION

Assess benefits

Effect on income
SALARY VS. COMPENSATION

COMPENSATION

- Salary
- Health insurance
- Life insurance
- Retirement plan
- Vacation time
HEALTH BENEFITS

Single: $1000/year = $80/month
Family: $5000/year = $400/month

Job A
$30,000 + health benefits
100% of premium
$500 deductible
$30,000
- $500 deductible
$29,500

Job B
$32,000 + health benefits
80% of premium
$1000 deductible
$32,000
- $2,400 premium @ $200/month
- $1,000 deductible
$28,600
LIFE INSURANCE

SGLI
- Automatic enrollment
- $400,000 maximum

FSGLI
- Spouse up to $100,000
- Children $10,000

Civilian Employer
- May be for little or no cost
- Equal to one year’s salary or more
“The amount of money needed to sustain a certain level of living, including basic expenses such as housing, food, taxes, and healthcare. Cost of living is often used when comparing how expensive it is to live in one city versus another.”

Investopedia
COST OF LIVING

I live in

Hampton Roads-SE Virginia

I want to live in

DC

Washington-Arlington-Alexandria

$50K

$73,911

Price difference in Washington-Arlington-Alexandria, DC

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groceries</td>
<td>20% more</td>
</tr>
<tr>
<td>Housing</td>
<td>170% more</td>
</tr>
<tr>
<td>Utilities</td>
<td>6% less</td>
</tr>
<tr>
<td>Transportation</td>
<td>14% more</td>
</tr>
<tr>
<td>Health Care</td>
<td>12% less</td>
</tr>
</tbody>
</table>

Source: C2ER, December 2015
Military tax advantages

- Allowances not taxed
- No sales tax at NEX
- Tax exclusion zones
- State taxes may be waived
- Personal property taxes
OTHER COMPENSATION

- relocation assistance
- paid vacation
- bonuses
- transportation allowance
- 401k plan contributions
- holidays
- education benefits
- sick leave
$50/month for 30 years

0% interest = $18,000

5% interest = $40,000

8% interest = $68,000
FACTORS TO CONSIDER

- Pre-retirement income
- Retirement date
- Life expectancy
ACTIVITY: WHEN I RETIRE...

When
Where
Who
What
How
MILITARY RETIREMENT PLANS

Current system
20%

New system
80%

Thrift Savings Plan
Defined benefit
Lump-sum option
THRIFT SAVINGS PLAN

Defined contribution
- You contribute a percentage of your salary
- Long-term savings and investment plan

Advantages of TSP
- Automatic payroll deductions
- Investment options
- Withdrawal options

Changes
- DoD match up to 5% of base pay
- Automatic enrollment if enlist after January 1, 2018
## DEFINED BENEFIT

<table>
<thead>
<tr>
<th>Old plan</th>
<th>New plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age at enlistment</strong></td>
<td><strong>Age at enlistment</strong></td>
</tr>
<tr>
<td>+ 20 years</td>
<td>+ 20 years</td>
</tr>
<tr>
<td>50% Base pay</td>
<td>40% Base pay</td>
</tr>
<tr>
<td>2.5% each additional year</td>
<td>2% each additional year</td>
</tr>
</tbody>
</table>
LUMP-SUM OPTIONS

New plan

- Single payment 25 or 50% of anticipated benefits until age 60
- Remainder continues as monthly pension

Enlisted before 1 January 2018 and less than 12 years of service?

You can choose between the current and new plans!
SURVIVOR BENEFIT PLAN

Active Duty

- Automatically enrolled in the SBP at no cost
- Monthly payment is guaranteed by the government
- Entitlement calculated at date of death; annuity goes to surviving spouse
Retired

- Decide whether to continue the SBP
- Share SBP’s cost with the government
- Cost deducted from your retired pay on a pretax basis
PREPARING FOR CIVILIAN RETIREMENT

Pension plans

Individual Retirement Accounts
EMPLOYER PENSION PLANS

Defined benefit
Defined contribution
Traditionally referred to as a "pension," only 10% of workers are entitled to these traditional "pension" benefits. However, these benefits are being eliminated.
**DEFINED CONTRIBUTION**

**Employee A**

- $50,000/year
- Contributes 5% = $2,500
- Employer match = $2,500
- Total savings = $5,000

- Decide how much
- Choose the fund
- Take money with you
INDIVIDUAL RETIREMENT ACCOUNTS

Traditional IRA
• Deduct contribution from taxes
• Pay taxes when you withdraw money

Roth IRA
• Cannot deduct contribution from taxes
• No taxes on distributions
• Minimizes taxes at retirement

Rollover IRA
• Use funds from another retirement account
• Not a separate type of account
• Move funds to traditional or Roth IRA
ACTIVITY: WHEN I RETIRE...REVISITED

- Support your desired lifestyle
- Obtain information
- Military financial benefits
- Achieve dream retirement
- Military retirement benefits
- Civilian retirement plans
- Plan your financial future
Mid-Career ★ Module 4

FINANCIAL PLANNING WRAP-UP

- Military compensation
- Civilian compensation
- Military retirement
- Civilian retirement
FINANCIAL PLANNING WRAP-UP

FFSC financial workshops
- Military Pay Issues
- Planning for Your Retirement
- Saving and Investing
- Smart Transition Planning
- Thrift Savings Plan