BRS FC/E Course Financial Literacy Touch Points Resource Paper

Financial Literacy Skill Training Occasions as Listed in the 2016 National Defense Authorization Act (NDAA):

A. Initial Entry Training
B. Upon arrival at first duty station
C. Permanent Change of Station (PCS) moves (E-4 and below and O-3 and below)
D. Promotion (E-5 and below and O-4 and below)
E. Vesting in Thrift Savings Plan (TSP)
F. Entitlement for Continuation Pay
G. Major Life Events (Marriage, Divorce, Birth of first child, Disabling illness or condition)
H. Leadership Training
I. Pre- and Post-Deployment Training
J. Transition (Active to Reserve Component, Separation from Service, Retirement)

Note: The NDAA of 2016 lists 10 "financial literacy skills" upon which Service members are to be educated and trained at intervals during their Active and Reserve Component duty. The DoD refers to the intervals at which the education and training is to occur as "touch points." The following Resource Guide provides amplifying instruction on the skills the Service member should acquire at each of these touch points. The word "retirement" is used in a number of the touch points and is implied in others. This Course is, after all, about the Blended ***Retirement*** System. In this context, it is useful to describe the word, "retirement," and the savings effort required to enjoy it. See the short note titled "A Note on Retirement and 'Standard of Living'" attached to the end of this Resource Paper.

A. Initial Entry Training

Many newly joined Service members are receiving their first pay check. The objectives of the initial training are to set the basic foundation for careful money management, prudent use of credit, and an early understanding of the concept of investments, especially the potential reward and the sources of risk. The Service member must also learn about MyPay, the Leave and Earnings Statement (LES), and the TSP website.

1. Identify elements of a Leave and Earning Statement (LES).
2. Identify benefits of financial planning.
3. Identify the elements of a budget.
4. Describe the TSP and other investment options.
5. Identify financial management assistance resources.
6. Identify frequently made poor financial choices and the consequences of each.

B. Upon Arrival at First (Permanent) Duty Station

Service members now have a predictable routine and an environment for managing living expenses, saving (and investments), and credit. They are in the optimum environment in which financial literacy training can be delivered.

1. Understand the basics of personal financial accounting to include statements of income and expenses and statements of net worth.
2. Understand the relationships between financial goal setting, budget planning, and budget execution.
3. Understand banking and credit union services and accounts. Organize savings and checking accounts. Understand the importance of an emergency saving account. Understand how to start an allotment in MyPay.
4. Understand the mechanics of installment loans and revolving credit to include how interest is calculated on monthly payments.
5. Understand the credit reporting and credit scoring systems. Understand debt management.
6. With respect to understanding the immense potential of the TSP, be familiar with the structure of index mutual funds, their historical rates of return, and their performance behavior across successive U.S. business cycles. In addition, be familiar with the time value of money, investor time horizons, investor risk tolerance, and dollar cost averaging.
7. Understand how the traditional and the Roth TSPs are treated in the current year and at the time of withdrawal. Understand the 10% penalty imposed on withdrawals (of tax-deferred contributions and gains) before age 59 1/2.
8. Understand the techniques for managing a TSP account to include actions in the TSP section of MyPay and managing allocations of contributions in the member's TSP account at the TSP web site.
9. Understand the basics of buying a car and purchasing car insurance.
10. Understand the financial responsibilities in renting off base.
11. Understand that the financial implications of planned Life Events, especially marriage, having children, purchasing an expensive car (or other item) and purchasing a home can be identified through effective budget planning.
12. Understand how to use the IRS W-4 Calculator to identify the amount of taxes that will be due in a given year and the amount of taxes that needs to be withheld from each monthly check. The W-4 Calculator works well for individuals and couples that have salary income.

C. TSP Vesting

Describe *retirement* account vesting and its impact on ownership of funds within an account:

1. Describe the impact of matching funds on the growth of a retirement account. Understand that the DoD matching contributions are "free money" and at the 5% level allow a Service member to double the number of shares purchased each month. This is an example of "compounding" in investments.
2. With respect to TSP portability, understand that upon leaving the Active or Reserve Component, a Service member has four options for managing or transferring the funds in the TSP account:
    a. Leave the funds in the TSP.
    b. Roll the funds over to a civilian employer's 401(k) plan.
    c. Roll the funds over to an individual retirement account (IRA).
    d. Cash out the funds (thereby incurring significant tax penalties on untaxed contributions and most gains due to the contributions).

3. Be aware that a significant advantage of keeping the TSP account upon separation or retirement is that contributions to a civilian employer's 401(k) plan can be transferred into the TSP in a lump sum after leaving the specific job.
4. Use online financial planning software and related tools to project potential growth in TSP account balances.
5. Understand IRS contribution limits both for the TSP and for IRAs.
6. Understand the treatment of Traditional and Roth TSP accounts both in terms of current tax liabilities and tax liabilities at the date of withdrawal.
7. Describe the following types of *retirement* income: social security, pensions/annuities, and personal investments (such as the TSP).
8. Know the difference between employer-sponsored *retirement* plans and individual retirement plans.
9. A reminder that a TSP loan that is not repaid in full at the time of separation from Federal service incurs a taxable distribution on the unpaid amount.
10. Be familiar with the concept of asset allocation in investments, and especially among the funds comprising the TSP.
11. Understand the relationship between investor time horizons (i.e., short-term 1-3 years, intermediate term, 4-6 years, long-term, 7 years and greater) and the type of investments that are most suitable for each time horizon.
12. Understand the risk of losing money in the TSP and the general economic conditions under which that might occur.
13. Understand the historical rate of return for the indexes that comprise the TSP funds, and the general economic conditions under which the returns were achieved.

D. Entitlement to Continuation Pay

Under BRS, Continuation Pay is offered to members at the completion of 12 years of service provided members complete an addition four-year commitment. Describe the cost versus benefit of choosing Continuation Pay. *A decision to forego Continuation Pay is essentially a decision to leave the Active Component before reaching 20-year retirement.*

1. Understand that a decision to forego or choose Continuation Pay should be made only after a concerted effort to project retirement income that might result from following a civilian career path.
2. Demonstrate how to calculate Continuation Pay.
3. Understand the tax implications of receiving the payment in one payment as opposed to 2 or 3 equal annual payments.
4. Outline the options for allocating continuation pay: spending, saving, investing, paying down debt, or charity.

E. Transition

The NDAA envisions three significant transition events relative to the BRS. Chronologically, the first is at separation when the Service member faces a decision on the portability of the TSP. The second is when the Service member transitions from the Active Component to the Reserve Component and needs to become familiar with RC provisions of the BRS. The third is when the Service member retires and has the option of electing to take a lump sum payment of future retirement assets.

Transition ~ Separation

1. Understand the four options for a TSP account at separation (Keep, Rollover to new 401(k), Rollover to IRA, Cash out) and the benefits and costs of each.
2. Understand the benefit of being able to roll a future 401(k) account back into a pre-existing TSP account. **Note:** Eligible to do so only when leaving the company that sponsors the 401(k) plan.
3. Understand the tax penalties of having an unpaid balance on a TSP loan when separating from active Federal service.

Transition ~ Active Duty to Reserve/National Guard

1. Understand the regulations and procedures by which Reserve Component (RC) Service members are credited with "good years" for retirement eligibility and with retirement points for actual retired annuity calculations.
2. Understand how Continuation Pay is calculated for RC Service members.

Transition ~ Retirement from Active Duty ~ Eligible for Lump Sum Payment

1. Building on the budgeting skills learned during the Transition Readiness Seminar, project a 12-month budget using the revised monthly annuities from the 50% and 25% lump sum payments in order to project cash flow requirements after committing to the Lump Sum payment(s).
2. Determine the uses to which the Lump Sum payment(s) will be applied. If all or part of the money will be invested, determine the effect the investment will have on the family long-range retirement plan.
3. Using skills learned in the TRS, calculate the additional amount of money to be invested each month in order to retire at the Standard of Living (SOL) projected in the most recent family long-range financial plan.
4. Understand the tax implications of receiving payment in one total disbursement of the Lump Sum or in 2 or more equal annual disbursements.
5. Outline the options for allocating Continuation Pay: spending, saving, investing, paying down debt, or charity.

F. Permanent Change of Station (PCS) moves (E-4 and below and O-3 and below)

Service members relocate between installations which alters income sources and monthly bills, depending on the locale-specific cost of living. Relocation can generate unnecessary expenses if the Service member and family do not plan carefully for the entire move.

1. Contact the installation Personal Financial Manager (PFM) and Relocation staff for a consultation or class on making a smooth move.
2. Understand all applicable travel pay and allowances authorized for the move, particularly for an overseas move.

3. Use Service-provided work sheets to project expenses before the move, expenses during transit, and expenses at the new duty station.
4. Ensure all existing obligations are closed out, the emergency fund for the move is in place, and move-in expenses are set aside.
5. Analyze the impact of the loss of a non-military spouse's employment due to the move.
6. Consider making a personally procured move (DITY); understand entitlements related to POVs.
7. Discuss costs, benefits, and risks of renting off base or purchasing a home.
8. Be familiar with support resources if an unforeseen hardship arises during or after the move.

G. Promotion

Promotions increase monthly income, and taxes. Promotions increase the potential for the individual or family to contribute at least 5% monthly to the TSP in order to achieve the DoD 5% matching contribution.

1. Upon notification of promotion, review individual or family current standard of living, as well as short-term, intermediate-term, and long-term financial goals.
2. Assess the impact of the pay increase on monthly net income (Gross Pay - Taxes). Identify the net gain in monthly net income (Gross Pay-Taxes).
3. Understand that if the Service member and family can continue to live at their current standard of living, the increase in monthly net income can more easily be allocated to family financial goals.
4. Assuming the Service member and family have a stable financial situation (a positive monthly cash flow), and If not already contributing 5% to the TSP, then allocating all or a portion of the increase in income to the 5% goal should be the first priority.
5. If the increase in net income does not produce a positive monthly cash flow, make an appointment with an installation PFM or other recognized financial counselor.

H. Major Life Events

Life events (i.e., marriage, divorce, birth of child, disabling sickness or condition, etc.) experienced by Service members may have implications or impact on short- and long-term personal financial goals or budgets.

1. In anticipation of a Life Event, or as a Life Event occurs unexpectedly, review impact on monthly and annual budgets.
2. Understand that Major Life Events affect taxes in multiple ways, generally increasing or decreasing exemptions, deductions, or credits; or creating a change in filing status.
3. Reevaluate life insurance, car insurance, and as necessary, health and long-term care insurance needs.
4. With respect to divorce, understand the legal concepts by which joint property and liabilities are split between each party.
5. Understand the importance of updating beneficiary designations and bequests on all depository accounts, deeds, titles, wills, and trusts.

I. Pre-/Post-Deployment

Deployment presents financial opportunities and challenges for Service members as they prepare to be away from home station, possibly in a combat zone, for an extended period of time, and upon returning home.

1. Pre:
   a. Project major expenses that will be incurred by the family over the length of the deployment and plan for managing the expenses.
   b. Review family financial goals, review the monthly and annual budgets and the current balance sheet to add/delete expenses and assets, as appropriate. Especially, set goals for the expected increase in savings over the deployment, and discuss how the gains will be used at the end of the deployment.
   c. Determine how each spouse will access and use direct deposit pay (e.g., Navy "Split Pay") for a deployed spouse.
   d. Understand allowances and special pays which will be received during the deployment; know which pays are taxable and which are "tax-free."
   e. If not already contributing 5% to the TSP, examine options in the budget to reduce other expenses in order to allocate more income to TSP contributions.
   f. Determine how to contribute "tax-free" pay to the TSP.
   g. Ensure member is aware of and understands the Savings Deposit Program (SDP).
   h. Evaluate vulnerability to identity theft and consumer fraud that might be heightened during the deployment.
2. Post:
   a. Once again, review family financial goals, review the new monthly and annual budgets and the current balance sheet to add/delete expenses and assets, as appropriate.
   b. Ensure the increase in savings achieved over the deployment are applied to the original goal or a revised goal.
   c. Know how to close an SDP account and transfer saved funds to other savings/investment/credit accounts for which the savings were initiated.

J. Leadership Training

Financial Literacy Training is included in many classes and briefings conducted by unit leaders. Frequently the finance topics stem from a recent experience within the command. On other occasions, the financial topic is based on the presenter's expertise, such as managing money and investments effectively. Topics on which unit leaders can provide valuable instruction include:

1. All topics listed in Touch Point 2 (above) ~ Upon Arrival at First Duty Station.
2. Encouragement from unit leaders who have invested systematically in the TSP, have seen the benefits of their steady contributions, and want to share their lessons learned and insights.
3. Financial implications of behaviors that are counter to good order and discipline within the unit, *particularly when the behavior might result in forfeiture, reduction, or separation, or other admonitions that could affect eligibility for promotion.*

A Note on Retirement and "Standard of Living."

Retirement brings to mind many images, but one that is inescapable is that the retiree is no longer working and thus no longer has monthly earned income. Quality of life in retirement depends in part on the financial resources the individual or couple earned during their working years: social security, perhaps a pension, and withdrawals from personal savings and investments. The total resources required for a comfortable retirement are challenging to calculate.

Because the estimate of resources required is so challenging, it is helpful before going into the touch points to describe briefly the technique and assumptions used by financial planners to help clients make these calculations.

The key is for the clients to describe the ***"Standard of Living (SOL)"*** they hope to have in retirement. The prospective retiree is asked to describe the life style they hope to have in retirement and all the activities they hope to pursue while they are still healthy and active. With this image in mind, the client(s) are asked to estimate total annual expenses required to fund the life style and activities in TODAY's dollars. The projection must include every facet of daily life plus major annual events: food, clothing, transportation, recreation, travel to visit children and grandchildren, maintenance on the bass boat, etc. The estimate generally assumes the home mortgage is paid, and that they need to include money to buy a new car every couple years, and that they need to maintain their home. It also includes the inescapable fact that they will still be paying Federal and state taxes, as well as taxes on money withdrawn from retirement accounts (but not Roth accounts). This is consistent with a Merriam-Webster definition of standard of living: "The necessities, comforts, and luxuries enjoyed or aspired to by an individual or group."

The initial estimate is made in TODAY'S dollars. But we know that inflation will drive up the cost of living as the years roll on. Thus part of the financial planning process is to account for the effect of inflation on purchasing power. Clearly the amount of money required to fully retire today is very much smaller than the amount that will be required in future years. The financial planning process includes "time value of money" calculation techniques to build in the effect of inflation. For instance, projections of the amount of money need to be invested for the next 25 years, for example, use an "inflation-adjusted" rate of return to project the growth in the account. The financial planning process has additional steps, of course, but this this brief description helps us appreciate the fact that planning for retirement is manageable, and necessary.

Thus the word "retirement" includes an image of what retired life will be and the amount of money that will be required each year to fully enjoy the necessities, comforts, and even luxuries embodied in that image.

Finally, current "standard of living" is generally the manner in which each Service member is living currently with respect to income, necessary expenses, and discretionary spending. For most young service members, this means the comforts and luxuries referred to above are limited at best, and they naturally aspire to a higher standard of living. The complication is when they use credit to purchase the comforts and luxuries and fail to allocate a reasonable percentage of their net income to future financial goals and future financial needs.