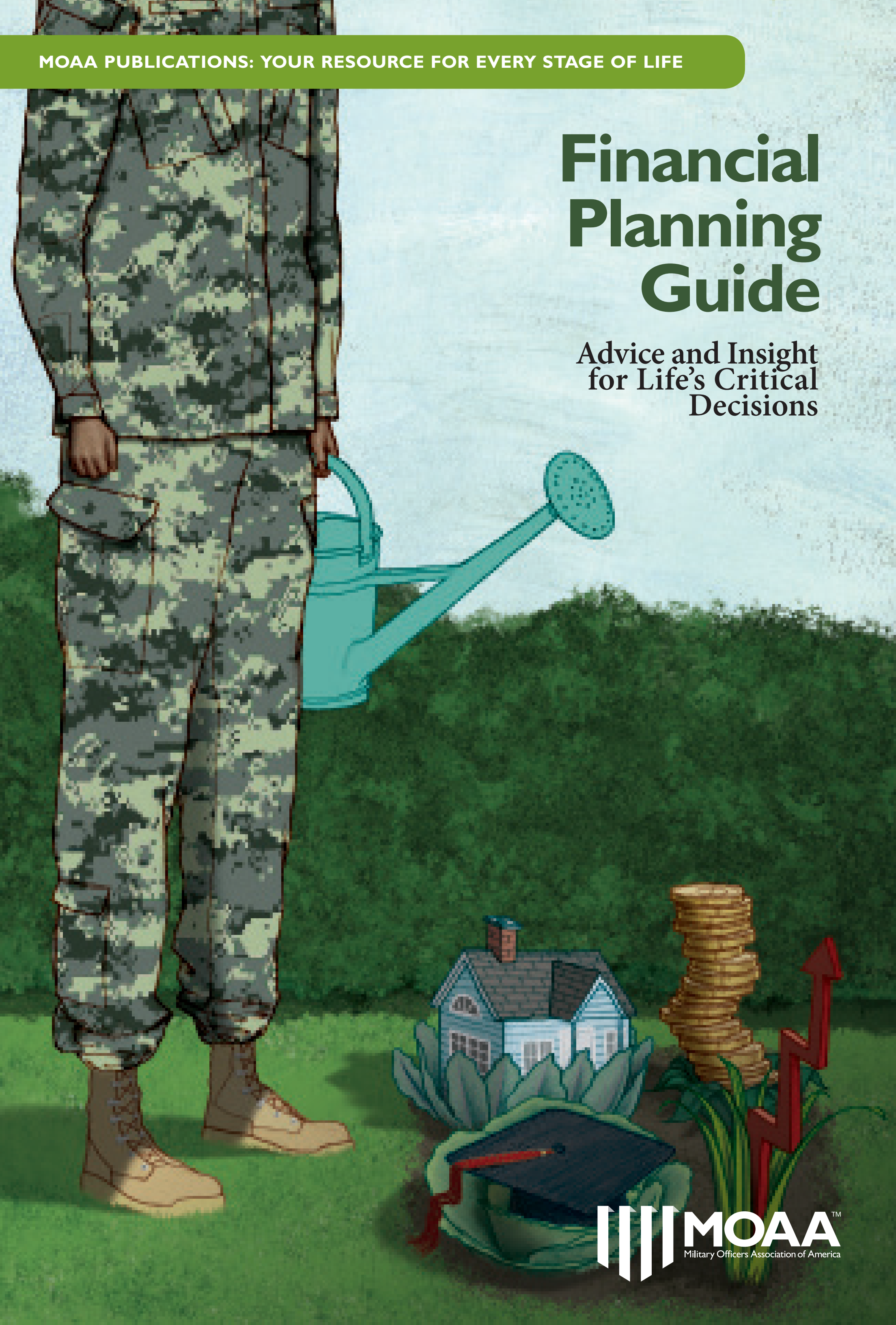
MOAA PUBLICATIONS: YOUR RESOURCE FOR EVERY STAGE OF LIFE
Financial Planning Guide
Advice and Insight for Life's Critical Decisions
MOAA™
Military Officers Association of America

Financial Planning Guide: Advice and Insight for Life's Critical Decisions

Whether you're debating the merits of a career-starter loan or shopping for annuities, MOAA wants to help make these financial decisions easier for you to understand. Each common financial decision most servicemembers encounter is presented in detail with all the key considerations spelled out so you can decide what's best for you. We hope you find this booklet a valuable reference.

If you have questions, call (800) 234-6622 or email beninfo@moaa.org to speak with a benefits and finance expert at MOAA. Keep up-to-date on financial and other military benefits issues through MOAA's blog at www.moaa.org/militarybenefitsblog.

Also check out the *Benefits Planning Guide* for issues regarding important benefits issues in your life.

Cover illustration: Jason Raish

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Introduction

As benefit and financial counselors at MOAA, we work with thousands of servicemembers each year. This provides us with opportunities to witness how people and institutions interact.

This guide is written to share our expertise and experiences with the benefits and financial topics most frequently raised by our members and participants in MOAA-conducted classes. We aim to go beyond the basic public information that can be found on the web or gleaned from service personnel staffs. We include insight into uncommon or "read-between-the-lines" situations people experience in real life. We explain complex and personal circumstances by describing what works for most people. A unique situation may require a conversation.

You also can turn to MOAA to answer your questions and act as your unbiased second opinion on any military benefit or general financial question you might have.

To join MOAA or our partner organization, Voices for America's Troops, call the number below or go to www.moaa.org or www.voicesfortroops.org.

Voices for America's Troops is open to anyone — civilians, veterans, and servicemembers of all ranks — wanting to help MOAA in its advocacy mission on Capitol Hill to support servicemembers and veterans and their families. Annual membership is inexpensive, but your support is invaluable.

Contact MOAA about benefits and financial information

- Email beninfo@moaa.org.
- Visit the MOAA Web Base at www.moaa.org/benefitsinfo.
- Call the MOAA Member Service Center at (800) 234-MOAA (6622).
- Mail MOAA
  Benefits and Financial Education
  Transition Center
  201 N. Washington St.
  Alexandria, VA 22314

Chapter 1

Career-Starter Loans for the Newly Commissioned

Most students in ROTC, the service academies, or officer candidate school are offered a "starter loan" by a financial institution late in the commissioning program or upon graduation. Many students question whether they should take the loan. Generally there is nothing wrong with accepting the loan. Here are some points to consider if you do so.

DON'T BUY SHORT-LIVED MATERIAL GOODS

Consider what you will think about your use of the money five years from now. Did you buy meaningless material goods that wore out, went out of style, or have been upgraded three times over? Did you buy a car that no longer has the same excitement after the new-car smell wore off and you've maintained it over the years? What's that car worth now?

Make sure you can look back five years from now and say, "I'm proud of how I made good use of that loan money." You don't want to look back and reflect on what a dummy you were. Experience can be a cruel teacher — get your brain ahead of your emotions.

CONSIDER YOUR OTHER DEBTS

Review your situation with your other debts such as school loans, car payments, or credit cards. How will adding another monthly payment to your budget affect your future life and financial situation? Will it keep you from finding appropriate living arrangements or purchasing necessary items to start your new life? Be careful not to sacrifice your near-term future by adding to your financial burdens.

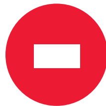
PAY OFF OTHER, HIGHER-INTEREST LOANS

You're already in debt, so you might as well pay less for it. The bottom line is debt costs money, and you want to pay as little as possible for it. By consolidating your loans, you simplify your life a bit. The bottom-bottom line is you don't want to be in debt, period. Debt is a water-torture device that drips on your forehead every month. Every month you will seethe at how much less money you have for yourself. If you can't pay for an item outright, debt should be used only for an item you need right now for an important reason.

STARTER LOANS

Why you should take the career-starter loan:

- to pay off other, higher-interest loans you have;
- to start a permanent emergency savings account; or
- to use the money to buy must-have items.



Why you shouldn't take the starter loan:

- to purchase material goods you don't need.

START PERMANENT EMERGENCY SAVINGS

Put $5,000, $10,000, or $15,000 away in a savings account; you decide the amount. You might think this is boring. It is — until you need it. This money is to ensure you stay debt-free. This money has to be liquid, and it won't earn you a high return. If a huge bill comes around — your car breaks down, refrigerator goes out, or water pipes burst — you'll be ready with your emergency account and won't have to go into debt. Now you'll feel good about yourself for having a smart game plan in effect. Strive to keep the emergency account balance maintained at your set value.

FURNISH YOUR LIVING SPACE WITH MUST-HAVE ITEMS

Every living space needs some items to make the space livable. A sofa, some chairs, a dining room table, pots and pans, utensils, and maybe even a decent flat-screen TV are good examples. Shop for the best prices, and don't go overboard. Think "must-have" items.

Chapter 2

Do-It-Yourself Investment Strategies

How can you implement a successful investment plan and not create a new job for yourself? (A more complete explanation of these strategies and how they work can be found in the *MOAA Investors Manual*.)

Before reading about these game plans, realize your first objective must be to remove emotion from your plan. Emotions like greed and fear cause us to act foolishly at the wrong times. ("That XYZ Fund looks so good; I've got to have some of that.") Emotions tear the guts out of investment returns over time.

As humans, we are hardwired to take the wrong actions with our investments. We buy into things that are bright and shiny and getting all the media attention. Unfortunately, by the time investment opportunities catch our attention, the bubble is about to pop and leave us with losses. We should be buying when things are cheap or down. The problem is cheap and down is ugly and scary. Instead of buying low and selling high, we do the opposite, buying high and selling low. Then we blame the investment for our loss, instead of looking in the mirror and blaming our emotions and poor investment strategy.

These three strategies steeped in history, data, and research will help you make an objective decision.

STRATEGY 1: BUY LOW

Buying low is a no-brainer, but how do you do it? Wealth is created by owning lots of shares. Building wealth is all about accumulating shares and not about monitoring your account value. To own more shares, buy in quantity when shares are cheap. It takes nerves of steel to buy low because the media scare us during these low periods.

Commit to making regular contributions to your retirement or investment accounts every pay period — known as dollar-cost-averaging or averaging down. This ensures you buy more shares when markets dip. Down markets provide average investors a chance to create wealth over time because shares are more affordable. Learn to like a down market; it's your friend.

STRATEGY 2: ALLOCATE PROPERLY

Allocation is the proportion of stocks, bonds, and cash in your investments (for example, 70-percent stocks, 20-percent bonds, and 10-percent cash). Good allocations are based on the historical returns of various investments over time (see the table below). Small companies and international stocks have the greatest long-term returns. Large companies come in next, then bonds. Cash (e.g., money market funds) is last for prospective returns. Stocks are for wealth accumulation, while bonds and cash are for wealth preservation. Too many people are mistaken in thinking bonds and cash will create wealth. Historically, only stocks provide a long-term return great enough to offset the negative impact of taxes and inflation and create wealth. Bonds and cash do not provide a return that offsets taxes and inflation.

Stocks, which have the greatest long-term returns, also have the greater up-and-down movement (volatility) in their share price. That's good! Volatility is your friend. Down is good (recall Strategy 1). You aren't wealthy owning 100 shares of stock. You're wealthy owning 10,000 shares of stock. To accumulate the maximum number of shares in your Thrift Savings Plan (TSP)/401(k) funds, you need to take advantage of the few and short-lived down stock markets. Only by "averaging down" according to Strategy 1 will you be poised to jump on more shares when the market heads down. This combination of greater returns and volatility

ASSET CLASS RETURNS 1926-2015

Asset Class	Compound Annual Return	Growth of $1
Small Company Stocks (bottom 20% market cap)	12.1%	$36,929
Large Company Stocks (S&P 500)	10.2%	$7,353
Government Bonds (Long-term)	5.5%	$143
Treasury Bills/Cash Equivalents	3.4%	$21
Inflation	2.9%	$14

Down markets provide investors a chance to create wealth over time.

Good allocations are based on historical returns.

Rebalance your portfolio annually.

from a stock portfolio with averaging down contributions allows for enhanced wealth creation.

If you still have five or more years before retirement, focus on the accumulation of shares, not your account value. Your account value will take care of itself over time. Lean heavily into stocks. Use the stock market's volatility to increase your share ownership with averaging down in your stock portfolio.

If you're closing in on retirement in five years, shift your focus to the protection of your account value. You need to ensure that when you need the money, it's there for you. Start reducing your proportion of stocks. However, even in retirement, your money has to last a long time. That means your money still has to grow ahead of taxes and inflation. Typically you will continue to have at least 40 to 50 percent of your investments in stocks to keep your money growing.

Pay attention to the big-picture view of the economy when closing in on retirement. Is the economy up with nowhere to go but down, or is it down and looking to head back up? Generally, you want to shift toward bonds/cash to protect your account value, unless the economy is down and heading up.

STRATEGY 3: REBALANCE YOUR ACCOUNT ANNUALLY

Over time, your allocation will change as your fund values move up and down. Get back to your original allocation. Rebalancing forces you to harvest profits from funds that have done well and put the profits to work in funds that are down. Hey, wait a minute, isn't that buying low and selling high? Why, yes, it is. Talk to your financial adviser or TSP/401(k) provider about rebalancing.

Chapter 3

How to Shop for an Advisor

Only by working with an advisor over some time can you know whether the relationship will meet your expectations. This makes shopping for an advisor challenging. There are subjective personal and professional issues at stake besides the technical issues. Here are some tips to help you whittle down the selection process.

CREDENTIALS

Some credentials are better than others, and any credential is usually better than none. Get the advisor's business card, go home, and Google the letters after his or her name. The more comprehensive the required courses, board tests, code of ethics/standards, and continuing education, the better the person's competence and product knowledge. Credentials can indicate an advisor's interest in expanding professional knowledge and staying current in the field. However, they don't mean the advisor knows how to apply the knowledge or has the necessary products available to best meet your needs.

EXPERTISE

A key consideration is the advisor's expertise. When it comes down to it, in the financial world there are countless ways to help a person reach his or her financial goals. You want someone who has seen various economic conditions and witnessed how accounts were affected by those conditions, knows numerous investment strategies, has the most investment/insurance options available, and will custom design a plan that best suits your personal needs and desires. You don't want a one-trick pony who knows only a few things or will work (to his or her own benefit) to make their few options work for you. Your person should be working for your benefit, have the most tools in the toolbox, and be willing and able to use those tools to develop a perfect game plan specifically for you.

WHERE YOU LOOK MATTERS

Generally speaking, banks tend to offer banking solutions, insurance companies offer insurance solutions, and brokers offer investment firm solutions. Bank advisors within a bank's investment department

will be more like investment firm brokers. The firm you choose has a culture and style of working with clients so the advisers within a firm operate under company policies. An independent advisor doesn't work for a financial firm. Independent advisors might offer you the most unbiased advice — but you might have to assume a bit more of the work.

ABC: ALWAYS BE CLOSING

Advisors who open accounts, recommend investment options, and manage the buying/selling of the investments are salespeople. They

EVALUATING AN ADVISOR

Advisors aren't always straightforward. Educate yourself enough about investment products to evaluate a potential advisor.

- **Know what you want and what your advisor offers.** Are you shopping for specific types of investment or savings products such as CDs, certain bonds, stocks, mutual funds, closed-end funds, options, or speculative stocks? If you're looking for individual municipal bonds and your advisor's company only sells mutual funds, guess what you'll be pitched?
- **Ask about insurance if you want it.** If you want only investment options, ensure your advisor will provide investments only. If you go to an insurance company for investment advice, chances are you will be sold an insurance product. Did you know some investments are "wrapped" in an insurance package? Do you want your investments in an insurance plan? You'll pay for them both.
- **How does the advisor get paid?** Chances are you'll pay via a fixed up-front fee for everything, a percentage of assets under management, commissions, or some combination of the three. Any option could be good or bad, depending on your situation. The advisor should tell you up front. If you have to ask about payment, it's a dubious sign. Be direct and inquire if you have to.
- **If mutual funds are your primary investment vehicle, which fund families (mutual fund companies) does your advisor offer?** Generally speaking, an advisor offering funds from only one mutual fund family should spur additional probing on your part. A typical mutual

have to put food on the table and please their bosses — and not necessarily in that order. Their job performance is directly related to how much money they make for their company, and that is related to closing the deal with you. That said, you want an advisor who puts more emphasis on meeting your needs and expectations than on making the most money. This usually requires working with an advisor who's already established with the amount of money he or she makes. Inexperienced advisors might concentrate too much on how much money they need to make.

fund family has some good funds, mostly average funds, and some bad funds. Wouldn't you prefer to cherry-pick from the best funds of numerous families?

- Is your advisor really interested in you? An advice session should be all about you. Does the advisor spend time getting to know you, asking numerous questions, and delving into your investments, your personal expectations, and your likes and dislikes? Professionals can't do their jobs properly unless they know all about you. So if you have an advisor who constantly pitches a product or comes up with ideas before you've explained yourself, you're with the wrong person. For example, be wary of advisors who see annuities as the solution for most situations. An annuity is an insurance product with investments, lots of strings, and fees (not that an annuity is a bad product, when it's used properly). The more advisors make things about you and not them and their products, the better.
- An advisor should want you to be an educated consumer. An educated client makes the job easier for a good advisor. If keeping you in the dark is your advisor's goal, you should be asking yourself what is being hidden. Your advisor should explain details and the reasoning behind his or her recommendations. Never leave a meeting unclear about what you are buying or why — buyer's remorse is not part of a good plan. Professional advisors want their clients to be a part of the process and make time for their clients. You should willingly want to participate in the purchase and not be pushed into a sales pitch for a game plan lacking detail.

FOLLOW THE MONEY

Technically, advisors are supposed to do the best thing for the client; but who's to say what's best? Most decisions are subjective, and anything can be spun to sound like the best option for you. If one investment offers more money to an advisor's company (and the advisor), there is a natural bias. So when you consider a specific company to act as your advisor, think about where their greatest revenues will come from: insurance, company-specific products, or services with lots of fees? Ask them. A good advisor doesn't mind explaining the details and respects a knowledgeable client.

TRUSTWORTHY SOURCES

Be choosy when looking for a financial advisor. These websites can guide you toward professionals who will act in your best interest.

- USAA investment services: **www.usaa.com**
- Financial Planning Association: **www.plannersearch.org**
- National Association of Personal Financial Advisors: **www.napfa.org**
- Garrett Planning Network: **www.garrettplanning.com**
- Certified Financial Planner Board (to find a certified financial planner): **www.cfp.net**

IT BOILS DOWN TO TRUST AND INTEGRITY

You can see why so much of the selection process rests on trust and integrity within the relationship. Advisors can make anything sound right to anyone. You have to understand their agenda. As best you can determine, you are looking for the person who cares about you first and foremost. Second, an advisor should have the expertise and tools to deliver the best plan for your needs and temperament. Because most folks don't understand the financial world, they put their entire trust in their advisor to make the right decisions. This opens you up to the possibility of unscrupulous sales practices. Get involved; be a participant in your financial game plan. Know:

- what investments you are in,
- why you are in them,
- what other options exist to achieve your goals (because there are always other options),
- what makes the other options better or worse, and
- whether your advisor has all the tools (both expertise and products) necessary to achieve your goals.

BE AN EDUCATED CONSUMER

Good advisors prefer it.

Chapter 4

Home-Buying Tips for Servicemembers

If you are currently serving and decide to buy a home while on PCS orders, first decide whether you're really ready to purchase. Then brush up on home-buying advice so you walk into the purchase process with your eyes wide open.

BEFORE YOU DECIDE TO BUY

Responsibility. The purchase of a home and all the associated issues are on you — only you. There won't be anyone to help if you find yourself in a financial bind when the next PCS orders roll around. The Housing Assistance Program of the past is no longer available. That was a onetime deal available because of political pressure to help folks at the height of the housing crisis in the late 2000s. We've heard servicemembers say it's not their fault they lost money on their home purchase and subsequent sell. Well, yes, it is. No one orders you to buy a house. Servicemembers live within the context and rules of the military. Make life decisions based on this fact, taking the unpredictable future into account.

Risk. Unless you are going to keep the home for decades, buying a house for a few years is like gambling. If you buy a house, you'd better have a back-up plan in case it costs you a bundle to get out of the house when the time comes. No one knows what the housing market will be like when it is time to sell. Houses tend to be bought under the misconception that real estate always goes up. It doesn't. Housing markets vary between different cities and regions of the country. To help paint a picture of the risk you assume, imagine you are within three years of retirement and you'll need all your TSP investment value to generate

Buy a house if you'll remain in a good financial situation and have a solid plan for riding out tough times. Don't buy because it feels good or because the market is due to go up.

additional retirement income. Would you invest 100 percent of your retirement account in stocks at that point? What makes buying a house on a three-year assignment much different? Home buyers have one thing in common: They all count on making a profit. Profit 100 percent of the time — how realistic is that?

Loss of freedom. A house restricts your freedom during PCS transitions. PCS moves in your life are foreseeable and unforgiving. A house doesn't care about your deadlines. No one in your chain of command cares that you have a house to sell. You can't stay behind to sell a house; you have to go. How will this affect your family? What if it costs you big bucks to get out of your house? During PCSs, that house will feel like concrete shoes holding you in place.

Emotions. Emotions should never drive any investment decision, because emotional investors typically lose. A short-term investment for the chance to strike it big is based on greed. There's also the Norman Rockwell feeling we get about home ownership. Buying a house is the single largest investment most people make. Sure, you can win big if things go your way because a home is a leveraged investment. But leveraged investments are among the riskiest investments a person can make because they also can bankrupt you. Buying stocks "on margin" is the same principle. There is no room for greed in a huge

BEFORE BUYING A HOUSE

Don't get stuck in a bad, but predictable, situation. Ask yourself these questions before you commit to buying a house.

- How long are you planning to keep the house?
- Can you easily rent out the home if you get orders to leave the area after a year?
- Are you ready to take on landlord duties, or do you have the cash to contract them out if necessary?
- Will you have money to pay your mortgage if you aren't living in the home and you can't rent it out?
- Will you be able to handle the risk if the home's price falls below what you paid for it?

Emotions should never drive any investment decision, because emotional investors typically lose. A short-term investment for the chance to strike it big is based on greed.

financial transaction; the financial world is a cold-blooded, unemotional creature. Intellect must trump emotion. Check your warm, fuzzy homeowner feeling under the first tip in "After You Decide to Buy" (see below).

Investor strategy and behavior. Investments (including real estate investments) are long-term decisions. Short-termers should be "savers." Home buying is a long-term investment over a short PCS period. Investors understand their investment and the market. They take advantage of history and data as they do their analysis. They look for solid, well-run investments where the probability of growth over the long haul is the greatest. Maximize the probability for success and minimize the chance for loss. Maintaining a long horizon is a crucial factor for investor success. Considerations for home buyers should be no different.

Short-term investors are speculators. Speculation is all about market timing and investment selection. Servicemembers buying homes become speculators. Professional speculators guess wrong on market swings and their selections most of the time — and that's when they are able to control the timing and selection. Military home buyers are betting they can buy low and sell high in the housing market when they have an unknown short investment period and no control over the timing or their location (city/state/region). Talk about fighting with both hands tied behind your back! If a servicemember profits on a PCS house purchase, it's all luck of the draw — right place, right time. Greed and luck make for a terrible combination and an even worse investment strategy.

AFTER YOU DECIDE TO BUY

Realize you're not after a Norman Rockwell home, where generations of your family will fondly remember the authentic mid-century wallpaper. You are buying a short-term investment in shelter for your family. Keep this thought firmly planted in your mind as you shop around: You are buying to sell. A home is where most people put pencil marks on the

DO THE MATH

MOAA's online financial calculators

Use MOAA's financial calculators to compare renting versus buying, decide between an adjustable-rate and a fixed-rate mortgage, consider refinancing options, and more.

- www.moaa.org/calculators

wall to chart their kid's growth. You, on the other hand, will be a seller before you know it. You have to be more focused on reselling the house than liking it for yourself and creating a home.

Your assignment can restrict your ability to maintain a house. Numerous deployments and long work weeks hinder efforts to mow,

trim hedges, clean gutters, rake leaves, and paint. If your free time is precious to you, you probably won't want to do chores in those rare free moments. A condo with maintenance covered by the management might suit your lifestyle better.

You want a house close to the best schools. No family wants their kids going to substandard schools — and we're not talking about your kids. You've got to think for the family that buys the house from you when you sell. This is a primary consideration for pinpointing the location of your purchase in an unknown city. Can kids walk to a good school?

Find the best neighborhood you can afford within a great school district. Drive through the neighborhood slowly. Are the homes well-maintained? Are there lots of renters? Renters can be a bad sign, especially if a college is nearby. Do the families have kids the ages of your kids? Does the neighborhood have pools, parks, close-by shopping, and easy access to public transportation? Are the local areas of interest within a convenient drive? Are you on a high-traffic street? What's the commuting time? Does the house have to be updated?

Check your credit rating. Take action to improve your credit before you consider purchasing. Determine whether VA eligibility will be a benefit worth using. Compare rates and loan processes with military-affiliated financial firms before shopping around to other financial institutions.

Look at the lesser house among better homes. You don't want the best house among lesser homes. Nicer homes will hold your home's value better than if you have the best home in a lesser neighborhood.

Consider the turnover in the city or area. You want to buy a home in an area that has a lot of turnover each and every year. Granted this is a double-edged sword. On one side, you know there likely will be buyers when you need to sell; on the other side, more homes being sold means more competition. It's better to compete for buyers than have no buyers. You can control how well your house competes. You can't generate buyers from thin air.

Keeping a house as an investment property or to eventually live in again could be a good reason to buy. However, have a solid financial plan in place for the worst-case scenario. Consider the following pitfalls: You can't find a renter, renters damage the house, you incur legal costs associated with bad renters and contracts, deductibles rise, property management costs add up, you fail to keep key types of insurance (such as flood), you're not around for regular upkeep and upgrades, the neighborhood goes down the tubes, the county reroutes traffic (or a parkway) as a result of its master plan, or you have to sell the home unexpectedly.

Chapter 5

Payback of Separation Pay

Did you take, or were you forced to take, separation pay as you left or were released from the service? Separation pay programs go by many names: Readjustment Pay, Non-Disability Severance Pay, Separation Pay, Disability Severance Pay, Voluntary Separation Incentive, Special Separation Benefit, and Voluntary Separation Pay.

The specific rules that apply to each program vary a bit, but they all have one thing in common: Should you continue to serve in the Guard or Reserve after you separate, and later become retirement-eligible, you must pay back your original separation pay.

Everyone separated under these programs was supposed to be counseled on the payback provision, but either the counseling was hit-or-miss or servicemembers forget the payback rules over the years.

The upshot is this pay is considered a form of retired pay. Your amount of pay was based on your years of service. When you eventually earn longevity retired pay from additional Guard or Reserve service, your retired pay is calculated using the same service years you already were paid for. You can't be paid twice for the same service time. As a result, your separation pay is recouped out of retired pay or from your VA disability compensation.

While the term "recoupment" is used, your separation pay actually is withheld from your retired pay until it's paid back. Think of your separation pay as an advance on your eventual retired pay. When you receive retired pay, your pay agent withholds pay until your advance has been recouped. If the recoupment is withheld from taxable retired pay, the gross amount of separation pay is withheld. If the recoupment is withheld from tax-free VA compensation, your net, after-tax amount of separation pay is withheld.

The question of the tax situation is confusing, but you don't get double taxed. You were paid taxable income upon separation, and you paid taxes as anyone does upon receiving income. The recoupment (withholding) is not a taxable event. Remember the recoupment is about having pay withheld; nothing is being taken back, and there is no exchange of money. Not being paid is not a taxable or a tax-refundable event.

LEARN MORE

Get more specific information about recoupment and how it affects your retired pay.

- DoD Financial Management Regulation (Chapter 4 is most useful): http://1.usa.gov/1sFhliB
- The Defense Finance and Accounting Service Separation Recoupment FAQ: www.dfas.mil/retiredmilitary/newsevents/news/separationrecoupmentfaqs.html

Chapter 6

Post-Service Thrift Savings Plan (TSP) Options

After you leave the service, you have options to consider regarding your TSP. An important consideration should be keeping your retirement accounts limited to as few as possible over your working lifetime. This can help hold down costs, simplify your financial situation, and maintain a workable span of control for managing your accounts.

OPTION 1: LEAVE YOUR TSP WHERE IT IS

You don't have to do anything with your TSP. You can't contribute to it anymore because you aren't an employee, but you can hold your investments in it. As a former servicemember or a retiree, the TSP allows you to manage your funds by moving your money among the fund choices. Though you can't contribute to your TSP after you leave the service, you can roll money from other retirement accounts back into the TSP.

Good reasons to keep your TSP include:

Cost. The TSP is the cheapest investment account you'll ever own.

Simplicity. You have six investment options.

Use the TSP as your base retirement account. Roll money from other retirement accounts (future ex-employers' 401(k)s, for example) into the TSP to keep your retirement investments consolidated in one sock, so to speak.

Reasons to move your TSP assets out include limited fund options, lack of ability to average down into the account, and maintaining an inactive account on the sidelines.

OPTION 2: ROLL YOUR TSP OVER INTO ANOTHER RETIREMENT ACCOUNT

The other retirement account would be your individual retirement account (IRA) or your future employer's 401(k) account. This will close your TSP account for good, unless you roll over only a partial amount of your TSP account, which also is an option. Should you ever go back to work for the federal government, you'll open a new TSP account.

Good reasons to roll your TSP funds over and close the account include:

Maintaining only active accounts. Keep the accounts that allow you to take advantage of all the investment strategies outlined in this guide. Drop accounts that are out-of-sight and out-of-mind.

Better/more investment options. You won't be limited to the six TSP options.

Fewer accounts. You'll essentially own two retirement accounts: an active IRA and your current employer's account. Your IRA serves two purposes: as a repository for dead employer accounts as you change jobs and as a place to contribute extra money for your future after maxing out contributions to your employer's account.

Expenses could be a problem with 401(k)s and IRAs. The more you pay in expenses, the less return you earn on your investments. Also, expenses compound over decades and significantly erode the amount of your assets in retirement. Finally, your 401(k)s and IRAs might have worse investment options than the inexpensive TSP indexed funds.

OPTION 3: WITHDRAW YOUR TSP MONEY

Withdrawing your TSP money to spend is a big mistake. The only time this option makes sense is when you have severe financial hardship and you need money now to handle the problems. To use this retirement account early (prior to age 59½), you must pay both regular income taxes on the amount withdrawn and a 10-percent tax penalty (plus possible state income taxes). What's worse is that you rob your future of the assets you could have after compounding the investment over the decades. This option is a last resort.

Chapter 7

Critical Considerations in College Planning

The majority of parents would like their child to accomplish some sort of higher education after graduating from high school. Studies show the higher one's education level, the higher the lifetime earning potential. The process of selecting the right type of school and educational program and handling the cost of education can be confusing and overwhelming. Proper planning by considering the factors below can pave a path to a future of satisfaction and success for your child.

CAREER DIRECTION

At the high school level, your child usually has clear demonstrated strengths in specific school subjects and interests in school and community and has participated in a variety of activities. These strengths, interests, skills, and favorite activities might give clues to the best career choice for him or her. The career choice might be broad (interest in science) or specific (interest in nutrition). Encourage your child to take a career assessment using the links below. Career assessments will give added insight by matching a student's skills and interests with a potential career-life future. Armed with this vision, you can better consider the next steps.

- www.careeronestop.org
- http://associationdatabase.com/aws/ncda/pt/sp/resources

THE EDUCATIONAL INSTITUTION

Determining the most appropriate type of educational institution and level of education is the next step. Many families assume a four-year college is the only educational choice for their student. The national graduation completion-rate average for students who start at a four-year college or university and actually graduate by the sixth year is only 59 percent (U.S. Department of Education, National Center for Education Statistics 2015, *The Condition of Education 2015*). Rather than waste valuable time and money, take time to learn about and consider other types of educational institutions and what their programs have to offer. You should talk to your child to get in front of this issue and determine

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whether a four-year degree program is the most realistic and practical option to achieve your goals. Matching your child's interests, skills, and academic strengths with the right educational program will increase the likelihood he or she will graduate and be happy with his or her choice.

Schools fall into these basic types:

Public versus private. State and local governments operate public schools. Private schools are affiliated with a nonprofit such as a private foundation or religious denomination. Private schools also could be for-profit businesses, such as many online, career, trade, or technical schools.

Four-year colleges and universities. These offer bachelor's degrees and often master's, doctorate, and professional degrees. Many four-year universities are home to law schools and medical schools.

Two-year community and junior colleges. These institutions offer two-year associate degrees that often can be transferred to a four-year institution. Some community colleges have guaranteed admissions agreements (with specific requirements) with four-year colleges. Community colleges also might offer applied associate degrees, certifications, and diplomas in many career fields that prepare a student to enter the workforce. Easy access, open admission, and lower cost make this an increasingly popular option for many students.

Career, technical, vocational, or trade schools. These schools prepare students for specific careers. Many of these schools are for-profit businesses. Be aware of the bottom-line costs at for-profit schools. Additionally, many of the same career programs can be found at a local community college for a much lower cost.

Use the following sites to research schools.

- The College Board: www.collegeboard.com
- The National Center for Educational Statistics' College Navigator: http://nces.ed.gov/collegenavigator
- College Portrait of Undergraduate Education: www.collegeportraits.org
- The Association of Career and Technical Education: www.acteonline.org
- U.S. Department of Labor Registered Apprenticeships: https://www.dol.gov/featured/apprenticeship
- U.S. Community Colleges by State: http://nces.ed.gov/collegenavigator

THE CAMPUS ENVIRONMENT

It is important to choose a college based on a student's academic capabilities, personality traits, and individual needs. Families should discuss the location (urban, rural, suburban), size of campus, and type of campus

life available. If at all possible, visit institutions while school is in session to get a feel for the campus. This might become your child's home for the next four or five years. Many colleges offer virtual tours on their websites, but don't rely on these. Nothing replaces a visit. Take into consideration the cost of travel if selecting an out-of-state school. Selecting the right school will help avoid the costs and time involved with applying to other schools and transferring credits.

ADMISSION SELECTIVITY

When developing a wish list of educational institutions for your student, determine the admission requirements and the level of acceptance selectivity. Selectivity is defined as the percentage of applicants accepted for enrollment. Admission requirements should be defined clearly on the college's website admission pages. Students should make sure their high school courses match the admission criteria (e.g., four math credits, four English, two foreign language, etcetera). Admission websites also provide the average accepted GPAs and average accepted test scores (SAT or ACT). Students should apply to schools where they are academically suited and competitive based on the institution's admission criteria. Students who plan to attend a four-year institution should take the SAT or ACT in the spring of their junior year and the fall of their senior year. To determine college acceptance selectivity and SAT/ACT details, visit:

- http://collegesearch.collegeboard.com/search/index.jsp
- www.collegeboard.com
- www.actstudent.org

FINANCIAL AID, SCHOLARSHIPS, AND GRANTS

All families should fill out and submit the Free Application for Federal Student Aid (FAFSA). Many institutions use the FAFSA to determine grants, scholarships, and lower-cost loans. Find out what financial aid your child might qualify for by using the "FAFSA 4caster" to get an estimate. The FAFSA should be submitted after Jan. 1 of your child's senior year of high school.

If at all possible, visit institutions while school is in session to get a feel for the campus. This might become your child's home for the next four or five years. Nothing replaces a visit.

When considering the cost of education, all college websites must provide a college net-cost calculator, which projects the estimated net cost of a school. The net cost is based on the average annual costs, less financial aid and anticipated number of years in school. Note whether the net-cost estimate includes loans. By including loans, a school can make its costs appear lower when you actually are paying for the loan. Check out local organizations, parental affiliations, student interests, and college websites for scholarships. Don't forget MOAA's no-interest loans and scholarships to help out.

The financing options are simple: Pay cash, use money that comes your way, or go into debt. Your primary objective should be accumulating as little debt as possible. You might think this is stating the obvious, but the desire to obtain a college degree can drive some to consider the "at any cost" extreme. Having little to no debt is especially critical if the student inherits the debt. What's the chance a new graduate with a $1,000-a-month college loan payment can afford an apartment, a car, and bills — and still have enough for a life? Even for parents assuming the debt, consider how long you want a debt that could be as large as a second mortgage.

PLACES TO LOOK FOR FINANCIAL AID

Help your child graduate with little to no debt. Use these websites to find scholarships, estimate federal aid, and make loan calculations.

- MOAA Educational Assistance and Scholarship Finder: www.moaa.org/education
- College cost guide: http://collegecost.ed.gov
- The U.S. Department of Education Federal Student Aid Prepare for College page: http://1.usa.gov/1mCEwkS
- FAFSA and FAFSA4caster: www.fafsa.ed.gov and https://fafsa.ed.gov/FAFSA/app/f4cForm?execution=e1s1
- Project on Student Debt: www.projectonstudentdebt.org
- ECMC student loan repayment calculator: https://www.ecmc.org/borrtools/displayLoanCalculatorForm.action
- The Internal Revenue Service's Tax Benefits for Education: www.irs.gov/pub/irs-pdf/p970.pdf
- Federal Student Aid: https://studentaid.ed.gov/sa/repay-loans/understand

Don't rob from your future by stopping contributions or borrowing or withdrawing from your retirement accounts to fund your child's education. You have one career lifetime to build enough wealth to retire. It will take steady deposits, proper investment management, and lots of time to accumulate the required wealth.

RETENTION AND GRADUATION RATES

Retention and graduation rates should be considered when making a college selection because no one wants to go to a school that can't graduate its students. At www.collegeresults.org, you can research how successful a school is at meeting its ultimate objective: keeping and graduating its students. Being surrounded with peers who consider a timely graduation important can encourage your child to make more efficient use of his or her time — and save money in the long run.

THE MILITARY

If you're reading this, chances are this option is no secret to you. You know all the opportunities for training, education, and responsibility and the help provided in the maturing process. If it's been a while since you served, you might not be aware of the Post-9/11 GI Bill program available to servicemembers who served from Sept. 11, 2001, and afterward. This educational program is a valuable benefit that can pay full freight for tuition, books, fees, and a housing allowance.

The Post-9/11 GI Bill does not require a financial deposit or any cash payment on the part of the servicemember. All time served after 90 days, active duty or Title 32 Guard call-up supporting an active duty mission, counts toward accumulating a greater benefit. Servicemembers earn three years of benefits after 90 days of service, but the amount of benefit within the three-year benefit period varies based on time served. Ninety days of service time earns a 40-percent benefit amount. The maximum benefit amount is 100 percent for 36 months of service or more.

Research this program at:

- The Post-9/11 GI Bill: **www.benefits.va.gov/gibill**
- Military Career Options: **www.todaysmilitary.com**

It's an exciting time for you and your child. Enjoy the journey.

Chapter 8

Shopping for Annuities

Annuities are definitely a source of confusion among consumers. For people familiar with pension plans, use of the term "annuity" contributes to the confusion over annuity products. Pension income and the term "annuity" are synonymous. However, in the financial world, annuities are much more than just a stream of income like a pension. While all annuities have options that allow them to provide a stream of income, most are not used that way.

Insurance companies typically offer and develop annuities. However, they can be sold by insurance companies, banks, credit unions, investment firms, online brokerages, financial advisors, or anyone with a license to sell investments or insurance products.

The federal government does not insure insurance companies, so the FDIC does not cover annuities. Insurance companies themselves back principal and rate guarantees on annuities. The financial rating of the insurance firm is your assurance of safety. Look to do business with a solid insurance firm earning top financial ratings and with a great reputation.

Annuities can be bought in several different varieties to accomplish different savings objectives. Contributing to the confusion over annuities is that every insurance firm adds its own bells and whistles, making comparisons difficult even between similar products.

Annuities can be either savings or investment accounts — savings pay interest and investments are tied to the stock and bond markets. You can find savings annuities that pay better interest rates than other interest-bearing accounts, such as money markets, CDs, or short-term bonds. It's these guaranteed higher-interest-rate annuities that get attention during low-interest-rate economies.

Annuities have similarities with qualified retirement accounts in that money deposited in the annuity cannot be withdrawn until the owner turns 59½ years old. Owners face taxes and tax penalties for early withdrawal.

Ask about surrender fees — a percentage of the value of a withdrawal that you are penalized for pulling your money out of the plan too early. The surrender fee is on top of the taxes and the tax penalty for

withdrawal prior to age 59½. A surrender fee applies regardless of age. Understand this penalty before you purchase an annuity. It can run into the double-digit percentages and last for 10 years. The penalty is similar to those charged for cashing out of a CD too early, but annuity penalty amounts are much greater.

It might be easier to describe types of annuities by using other, more familiar types of savings and investment accounts as examples. Generally, there are three types of annuities (these are just descriptive labels, not the annuities' real names). These annuities have no life insurance option. They are purely savings, investment, or income accounts.

IRA-like annuities can be considered a third level of retirement savings, where 401(k) comes first, IRAs are second, and the annuity is added third. These are called *deferred annuities* because the potential income stream is deferred to a later date, or not at all, because producing an income stream is not a requirement. They come in versions called "variable" for the investment version and "fixed" for the interest-rate version.

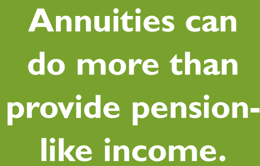
Their official name typically describes what they are as in "flexible premium, deferred, variable" or "flexible premium, deferred, fixed" annuity. Because it is an insurance product, the deposits are usually called premiums. However, how much you deposit and when you deposit is completely up to you. There is no set payment amount or schedule.

Variable annuities have many fees, and additional options can be purchased for additional cost. Fixed annuities don't have fees as their costs are factored into the plan and reflected in the interest rate provided. You can shop around for fixed rate annuities as you would for CDs. Surrender fees also apply.

These deferred annuities even can pay a form of matching contribution, similar to a 401(k) match, on top of each deposit if you find one with a bonus feature. A fixed version known as an "equity indexed" annuity pays an interest rate that floats with the direction of the stock market. Equity indexed annuities are fixed, pay an interest rate so the principal amount is not at risk (doesn't decrease), and guarantee a minimum return. Equity-indexed annuities are complicated, so be careful when you shop for one of these — it might not be what you think.

There is no tax deduction for money deposited and no annual deposit limit as there is with an IRA. The value grows tax-deferred and the gain, not the principal, is taxed upon withdrawal as ordinary income.

Do you have extra money you want to sock away for retirement (age 59½)? Do you want an account that defers taxes until withdrawal? A flexible premium, deferred annuity might be for you.



Ask about surrender fees.

Annuities are sold by insurance companies, banks, credit unions, investment firms, online brokerages, financial advisors, or anyone with a license.

Annuities provide income, protect savings, or grow investments.

CD-like annuities pay interest and lock up your money like a CD. They are known as *single-premium* annuities. You make a single lump-sum deposit upfront, and that's it. They are "deferred" annuities, meaning there is no immediate income stream upon deposit. However, an income stream is an option should you choose it in the future.

Surrender fees apply. You still have the age-59½ withdrawal limitation as with the flexible premium, deferred, variable/fixed annuities, mentioned earlier. Because the annuity is tax-deferred, taxes are not paid on the interest payments until money is withdrawn from the account.

Remember, the interest rate and your principal are guaranteed by the insurance firm because annuities are not FDIC-insured. Select an insurance company with a high financial rating and a great reputation.

Single-premium annuities pay an interest rate that can be locked in for a period of years. Once the lock-in period expires, unlike a CD where you cash out or roll into another CD, the annuity just continues along and the interest rate changes to whatever the rate is at that time. Or you can roll the annuity over to another annuity.

Do you have money you want to protect while earning decent interest? Are you willing or able to lock up the money for a period of time? Check out a fixed annuity. It's similar to shopping for CDs or short-term bonds.

If you are looking to add guaranteed regular income to your financial plan, the immediate (pension-like) annuity is your option. It could act as your survivor benefit plan.

Pension-like annuities are the simplest of all annuities. All annuities have the option eventually to turn their account value into a stream of income. However, *immediate annuities* create a stream of income immediately. The stream of income is guaranteed for as long as you choose it to last.

Typically, you deposit a single, lump sum and income starts. Factors that determine the amount of income include these considerations and options you select:

- age at deposit,
- lifetime income option,
- guaranteed income for a set period of time regardless of the beneficiary's length of life,
- a refund of the deposit at death if the principal amount is unused,
- a survivor option, and/or
- an inflation adjustment option.

If you are looking to add guaranteed regular income to your financial plan, this is your option. If you opted out of a survivor benefit program upon retirement, an immediate annuity could act as your survivor benefit plan.

This publication does not explain everything. As in buying a car, all cars are cars, but there are so many types and so many options. Annuities also come in so many models and have so many options and features you have to know what you need. If you go shopping without a clue, you risk being sold — and paying extra for — something you don't want.

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Price $7.95 January 2019 1-903