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Essential Financial Planning for Returning or Deploying Military Personnel and their Families

As the United States goes into its ninth year of military action in Afghanistan and Iraq, financial planning for military personnel and their families has taken on unprecedented importance. Multiple deployments during the longest wartime period of U.S. history has added considerable strain to military family budgets already shaken by the worst economic downturn in 70 years.

One of the smartest moves military personnel can make is a visit to a qualified financial, tax or estate planner before or after a deployment -- no matter how small their assets or how deep their current financial problems are. To find a qualified financial planner familiar with military personal finance, individuals can type in where they live and check the box marked "Government and Military" at the FPA's PlannerSearch website.

Here are some personal finance starting points for military personnel and their families:

Important laws and programs to know: After the 9/11 attacks, the federal government acted to boost benefits and protections for military families. One of the first was the Servicemembers Civil Relief Act of 2003, an update of longstanding financial protections for active military and their families. The act provides stays on civil litigation including bankruptcy and divorce and prevents wage attachments while military personnel are away. Coverage requires active duty confirmation from a commanding officer but expires 90 days after that status has been terminated. The law also makes it tougher – but not impossible – for landlords to evict military families for nonpayment of rent. A second major source of assistance for military families came in 2008 with changes to the Servicemen's Group Life Insurance plan, raising the total death benefit limit from \$250,000 to \$400,000. And the Caregivers and Veterans Omnibus Health Services Act of 2010 provides families of severely wounded veterans of Iraq and Afghanistan with coordinated financial and caregiving support.

Special safeguards needed against identity theft: Single military personnel need to keep a special lookout for identity theft that can happen while they're deployed. It's important to register an "active duty alert" with the three major credit reporting companies (Transunion, Experian and Equifax) every year. The alerts automatically stop all credit offers from being mailed to their homes. A call to any one of the credit bureaus will automatically put an alert on an individual's file with all three agencies. It's also a good idea to authorize a spouse or other trusted friend or family member to access credit reporting data to check for fraud during the service person's deployment or in case of injury or death.

Note credit protections: The 2003 act also freezes credit card, mortgage and some student loan interest at 6 percent if military personnel were approved for the loans before they were called to active duty. On student



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loans, reservists and active duty members of the military assigned away from their permanent-duty stations may receive a deferment for up to three years on student-loan payments as well as a break on accruing interest on missed payments. Finally, deployed military away for at least six months can terminate a car, truck or other vehicle lease without penalty.

Understand tax issues: Activated and deployed military personnel receive special tax breaks at the federal and sometimes state level. Military income earned by soldiers in combat zones is tax-free and they don't have to file taxes until 180 days after their return. Activated military personnel also are entitled to an extension on the period of time allowed for a tax break on the profits from the sale of a home. They're also entitled to tax breaks on childcare assistance and certain travel. Nontaxable combat pay can also be considered for the Earned Income Credit.

Plan ahead for lump-sum earnings: For returning military receiving accumulated military pay or compensation from civilian employment, it's good to sit down with financial and tax planners before the money is frittered away.

Don't forget retirement: Military service counts toward vesting for all civilian retirement plans -- even though employers may not always be required to give you your job back when you return. Also, the Heroes Earned Retirement Opportunities (HERO) Act allows tax-free combat pay to be considered as earned income for determining the contribution amount for traditional and Roth IRAs.

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