Million Dollar Sailor

A personal wealth-building program
for Sailors and family members.






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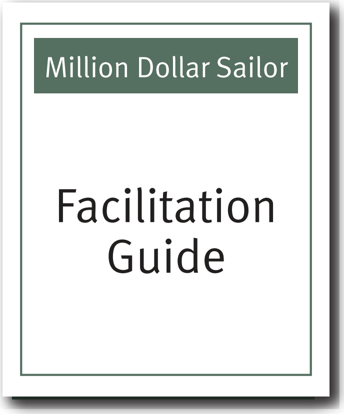


Overview and Purpose

Welcome to the standardized edition of Million Dollar Sailor: A Personal Wealth Building Program for Sailors and Family Members. Million Dollar Sailor (MDS) is a two-day training designed to assist Sailors and their families to successfully navigate through the transitions of Navy life and the financial challenges that accompany them. The Million Dollar Sailor Training is a component of the Personal Financial Management Program created to specifically combat the most common financial issues facing Sailors in today's Navy by providing them with sound financial management skills that can be used over their lifetime.

The Million Dollar Sailor Program provides a comprehensive overview of steps to enhance personal financial fitness. The purpose of the program is to:

- Provide a basic understanding of financial issues.
- Create an awareness of assistance resources available.
- Develop problem solving skills with regards to financial issues.
- Promote strategies of achieving financial growth.

The mission of the program is to enhance overall quality of life through personal financial growth and fitness, to improve overall operational readiness and performance, and to enhance retention. Supporting the direction of the latest revision of OPNAVINST 1740.5B dated May 2007, Million Dollar Sailor targets many of the current financial challenges that face our Navy personnel and their families including security clearance issues, credit management, identity theft, bankruptcy, mortgage and foreclosure issues, government credit card abuse and the multiple issues involving Internet buying and selling.

The concept of the Million Dollar Sailor Program originated as the result of a collaborative effort of several financial educators from Navy Region Hawaii's Fleet and Family Support Center in February 2008 in response to these pervasive financial issues and their ensuing impact on young Sailors. The success of the program in meeting its learning objectives combined with the positive feedback of its participants contributed to the initiative for a standardized Million Dollar Sailor Program throughout the Navy.

Agenda and Sequencing

Million Dollar Sailor (MDS) is a two-day program consisting of eleven modules ranging from sixty minutes to two hours in length for an overall total of fifteen hours of training. While each module can serve as a stand-alone training, they are sequenced within Million Dollar Sailor to build upon one another. The recommended agenda is as follows:

Day 1

- Welcome and Overview
- Million Dollar Sailor on Military Pay
- Millionaire Money Management
- Consumer Awareness
- Insurance: Protecting Wealth
- Credit Management

Day 2

- Car Buying
- Home Buying
- Banking and Financial Services
- Wealth Building
- A Million Dollars Worth of Resources

The agenda allows for scheduled breaks between each module as well as within modules that are over sixty minutes in length. While suggested places for breaks are highlighted in the Instructor Guide, decisions regarding the number and timing of breaks are left to the discretion of the facilitator.

Disc Layout

The disk contains three volumes. The first volume consists of the Facilitation Guide Introduction and general resources. The second volume contains the training materials for each module to include the Instructor Guide, PowerPoint Slides and PowerPoint Games. The third volume contains the handouts for all of the training modules. Many of the handouts are used for more than one module.

Module Components

Million Dollar Sailor is broken down into eleven modules that have the following components:

Instructor Guide: The instructor guide contains the module content and references the corresponding PowerPoint slides and other supportive materials. The first page of each module within the MDS Instructor Guide will include the following information:

- Module Name
- Module Length
- Description of the Module

- Learning Objectives
- Materials (Handouts, Web sites, Supplies)
- Works Cited

The instructor guide incorporates several icons to alert the trainer of recommended activities and optional information in addition to the standardized content. To follow is a list of the icons used along with their descriptions:

NOTE Recommended Training Technique/ Note to Trainer

A Group Activity

Q Interactive Question

U% Statistics (Source Material will be noted for updating purposes)

LOCAL Supplement with Local Information

HO Handout

WEB Web site Tour

A/V (Audio/Visual/Media Materials)

PowerPoint Slides: The PowerPoint file contains pre-formatted, read-only slides that accompany the content. It is recommended that facilitators thoroughly read the MDS Instructor Guide in addition to reviewing the PowerPoint Slideshows to familiarize themselves with the sequence and timing of the program. Many slides contain animations and other effects that are designed to correspond with specific portions of the content.

PowerPoint Games: Some of the modules contain a pre-programmed PowerPoint game that can be used as an interactive review of content. Before using any of the PowerPoint games, facilitators should thoroughly read the instructions contained in the Instructor Guide.

Handouts: Each of the modules contains participant handouts to support the module content. Handouts listed in the Instructor Guide will be hyperlinked to its corresponding handout in the .pdf format. Facilitators may want to consider laminating select handouts for multiple usage. There is one Guided Note Taking Handout for each module to encourage active learner participation.

Supportive Materials: The CD contains supportive materials to include the following samples: Evaluation Forms, Welcome Letter and Certificates.

MDS Facilitation

The intended facilitators of MDS include both Fleet and Family Support Center (FFSC) Financial Education Counselors and Command Financial Specialists (CFS). FFSC Financial Education Counselors are highly trained professionals who deliver PFM programs and services, many of whom are nationally certified as Accredited Financial Counselors. Command Financial Specialists (CFS) are trained uniformed military personnel who successfully complete a rigid 40-hour personal financial management curriculum to include training in financial management counseling.

The level of module preparation will vary from trainer to trainer depending on the level of training experience and familiarity with the subject matter. All trainers, regardless of experience, should read and review all components of the MDS Training program to ensure proficiency with the subject matter. Specific icons and trainer notes throughout the instructor guide direct the facilitator to supplement the content with information specific to the region, as well as update certain facts and statistics. In addition to completely reading the content for all modules, facilitators are advised to print out all components of the module and place them in a sectional binder. Facilitators should review and practice using the instructor guide, PowerPoint slides, PowerPoint games and handouts, as well as navigate any Internet Web sites or electronic resources.

Million Dollar Sailor Participants

While the Million Dollar Sailor Program is open to any command member, officer and/or enlisted, it is targeted toward junior Sailor, ages 17–25. Focusing primarily on proactive personal financial management for the many transitions of military life, Million Dollar Sailor teaches sound financial principles that can lead to financial freedom when implemented and supported over time. Participants may include both married and single service members. Spouses and eligible members may also be eligible to attend the Million Dollar Sailor program at some locations.

To allow for full participation in all learning events, participants should be instructed to bring several pieces of key financial information with them to class. As part of the registration process, it is recommended that participants be contacted by letter or email prior to their Million Dollar Sailor class and instructed to bring the following:

- Current LES (Obtainable through myPay at www.dfas.mil)
- Copy of their credit report (Available for free download from www.annualcreditreport.com)

- Estimate of banking and investment balances.
- List of outstanding debts including minimum monthly payments, account balances and APRs.
- Estimates of major living expenses, such as clothing, groceries, utilities etc.

Evaluation

Evaluative measures have been built into several areas of the MDS Training Program to assess the perceived value of the training, whether the training has met its objectives and to identify areas of improvement. Based on the Four-Level Model for Evaluation (Kirkpatrick, 1994), evaluation of the MDS Training is an ongoing process conducted during each module, at the conclusion of each module and after the training has been completed.

During the Modules. Each module contains multiple interactive learning activities including group discussions, case studies, interactive questioning techniques and specific uses of technology to get learners involved with the training materials. Facilitators can use these interactive events to observe and assess the degree to which participants have mastered the content.

Conclusion of the Modules. Participants will be given questionnaires at the conclusion of each module to provide their immediate feedback on the training delivery, content and materials. Participants will have an opportunity to indicate their personal reactions to the training through a combination of Likert Rating Scale (1-5) and open-ended survey questions on the provided MDS Module Evaluation Form. Participants are also instructed to complete a Personal Financial Action Plan which can be completed at the conclusion of the training or mailed to the Fleet and Family Service Center subsequent to the training.

Following the Training. To assess whether the MDS Training had an impact on behavior, facilitators are encouraged to follow up with training participants approximately three to six months after the training. A MDS Follow-Up Survey is provided to help facilitators determine whether the participants have transferred what they have learned to their personal financial management. For FFSCs with smaller or more manageable groups of participants, facilitators may want to reference the personal goals indicated on the participant's Personal Financial Action Plan. Surveys can be sent via email or by mail using a postage-paid return envelope.

Million Dollar Sailor

Training Toolbox

The following section outlines information that may be helpful to you as a training facilitator. The topics reviewed include:

- Characteristics of Adult Learners.
- Characteristics and Skills of Motivating Instructors.
- Active Training and Learning.
- Interactive Questions.

Characteristics of Adult Learners (Knowles, Holton & Swanson, 2005)

Adult learning researcher, Malcolm Knowles, identified six characteristics of adult learners that form the foundation for adult learning theory.

- *Learner's need to know:* Adults need to know the why, what and how before engaging in a learning activity.
- *Self-concept of the learner:* Adults are relatively self–directing and wish to control their own learning.
- *Prior experience:* Adults come to a learning event with a rich background of experience which is considered their greatest resource for learning.
- *Readiness to learn:* Adults are generally ready to learn something when they recognize a developmental or life task that necessitates new knowledge.
- *Orientation to learning:* Adults' orientation to learning is very problem-centered; they seek to learn things in context.
- *Motivation to learn:* Adults are primarily motivated by internal factors. They seek to learn predominantly for intrinsic value and look for a personal payoff to their learning.

Characteristics and Skills of Motivating Instructors (Wlodowski, 1985)

Wlodowski (1985) suggested a model of characteristics and skills for motivating instructors which is particularly relevant to adult learners. He grouped these characteristics into four categories of skill:

1. *Expertise: The Power of Knowledge and Preparation.* Expertise is a function of knowing something that is beneficial to adults and knowing it well. It involves the preparation to convey that information through an organized learning event.
2. *Empathy: The Power of Understanding and Consideration.* Empathetic instructors continuously consider the learner's perspectives and have a realistic understanding of the learner's needs and expectations. A demonstrated sense of empathy includes adapting the instruction to the learner's level of experience and skill.

3. *Enthusiasm: The Power of Commitment and Animation.* Enthusiastic instructors value what is being taught. They express commitment with appropriate degrees of emotion, animation and energy.
4. *Clarity: The Power of Language and Organization.* Clarity involves presenting information in a way that can be followed and understood by most learners.

Active Learning and Learning

The Million Dollar Sailor program is infused with active learning techniques to engage participants and help them use the training information in productive ways. Facilitators are encouraged to engage learners in as many of the active training techniques as possible, including the various optional activities included in the course material. Active learning is important to improving the learning experience and achieving the learning objectives because it supports six learning events (Clark & Kwinn, 2007):

Supports Attention. Active learning forces social presences and prevents learners from dividing their attention between two or more activities.

Builds New Mental Models. Active learning assists in the construction of new mental models necessary for learning.

Supports the Transfer of Learning. Active learning techniques support the transfer of learning from the brain's working memory to long term memory where the information can be retained.

Manages Cognitive Load. We know from research that there is a limit to how much information the human brain can assimilate at one time before it reaches its cognitive load. Keeping learners engaged and focused through active learning techniques prevents participants from reaching their cognitive load too quickly.

Activates Prior Knowledge. Active learning events cue information already stored in long term memory which expedites the learning process.

Motivates Learners. Active learning techniques motivate learners by providing them ways to apply their learning.

Interactive Questions

Interactive questions can be used throughout training to keep participants engaged in the course material and assess their knowledge. Trainers can use the participant responses from interactive questions to help frame the learning material in a real life context for the learners. Training researchers (Clark & Kwinn, 2007) have identified four types of interactive questions:

Knowledge: These questions can be used to assess prior knowledge from other areas, evaluate the learning progress throughout the training, or to review content.

Example: What do you know about credit reports?

Demographic: Demographic questions reveal relevant attributes about participants to include their job, title and physical location.

Example: Can you please tell us your name, rank and command?

Behavior: Behavioral questions inquire as to what participants have done in the past, what they are currently doing or what they will do in the future.

Example: What has been your experience with purchasing a vehicle in the past?

Attitude: Questions about participant attitudes can be used to assess satisfaction as well as to reveal opinions and feelings that may obstruct learning or the application of skills.

Example: How do you feel about the level of risk associated with mutual funds?

Facilitation Guide Handouts

- *MDS Welcome Letter*
- *MDS Facilitator Agenda*
- *MDS Participant Agenda*
- *MDS Module Evaluation*
- *MDS Personal Financial Action Plan*
- *MDS Follow-Up Survey*
- *MDS Certificate of Completion*

Works Cited:

Clark, R., & Kwinn, A. The New Virtual Classroom. San Francisco: John Wiley & Sons, 2007

Kirkpatrick. D. Evaluating Training Programs: The Four Levels. San Francisco: Berrett-Koehler, 1994.

Knowles, M. H. The Adult Learner. San Diego: Elsevier Inc., 2005.

Lawson, K. The Trainer's Handbook. San Francisco: Pfeiffer, 2006.

The Bob Pike Group. The Pike Ascent. Eden Prairie, MN: Creative Training Techniques Press, 2008.

Wlodowski, R. Enhancing Adult Motivation to Learn. San Francisco: Jossey-Bass, 1985.

Personal Financial Action Plan

Using Your Million Dollar Sailor Training, develop three personal goals that form the basis of your Financial Action Plan.

Name: ____________________________________

Command: ____________________________________

Email: ____________________________________

Phone: ____________________________________

Specific & Measurable Goal	Time Frame	Action Steps to Achieve Goal

Please mail or bring your Personal Action Plan to your local FFSC Financial Educator for review.

Million Dollar Sailor Facilitator Training Agenda

Day 1

1. Welcome and Overview (90 Minutes)
2. Million Dollar Sailor on Military Pay (60 Minutes)
3. Millionaire Money Management (120 Minute)
4. Consumer Awareness (60 Minutes)
5. Insurance: Protecting Wealth (60 Minutes)
6. Credit Management (120 Minute)

Day 2

7. Car Buying (60 Minutes)
8. Home Buying (60 Minutes)
9. Banking and Financial Services (60 Minutes)
10. Wealth Building: Saving and Investing/ Retirement Planning(120 Minute)
11. A Million Dollars Worth of Resources (90 Minutes)

Breaks

The agenda allows for scheduled breaks between each module as well as within modules that are over sixty minutes in length. While suggested places for breaks are highlighted in the Instructor Guide, decisions regarding the number and timing of breaks are left to the discretion of the facilitator.

Materials

The instructor guide contains the module content and references the corresponding PowerPoint slides and other supportive materials. The first page of each module within the *MDS Instructor Guide* will include the following:

- Module Name
- Description of the Module
- Materials (Handouts, Web sites, Supplies)
- Module Length
- Learning Objectives
- References

The handouts contain Participant Notes Pages for each module that are designed for guided-note taking and individual note-taking.

Million Dollar Sailor
Participant Training Agenda

Day 1

1. Welcome and Overview
2. Million Dollar Sailor on Military Pay
3. Millionaire Money Management
4. Consumer Awareness
5. Insurance: Protecting Wealth
6. Credit Management

Day 2

7. Car Buying
8. Home Buying
9. Banking and Financial Services
10. Wealth Building: Saving and Investing/ Retirement Planning
11. A Million Dollars Worth of Resources

Modules

The training modules range from 60 minutes to two hours in length. Breaks will be provided at the discretion of the facilitator.

Materials

Each module contains handouts to be used in support of the materials presented. There are also guided note pages to emphasize key points of the training and allowing you space to make personal notes.






Million Dollar Sailor
Training Module Evaluation Form

Module TItle: ______________________________

Speaker Name: ______________________________

Please circle the appropriate response to the following:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The module was well designed.	1	2	3	4	5
I received valuable information I can use both immediately and in the future.	1	2	3	4	5
The module met my expectations.	1	2	3	4	5
The handout(s) provided useful content both during the training and for the future.	1	2	3	4	5
The learning events and activities supported my understanding of the topic.	1	2	3	4	5
The facilitator used good presentation skills.	1	2	3	4	5
The facilitator appropriately involved participants.	1	2	3	4	5

What did you like best about this training module?

Is there anything that could be done to improve this module of the training?

Million Dollar Sailor Follow-Up Survey

You are receiving this survey because you recently attended the Million Dollar Sailor Training Program provided by the Fleet and Family Support Center. Your responses to this survey will assist us in continuing to provide quality training that meets the needs of today's military service members and their families. Please complete this survey via email or return it to your local Fleet and Family Support Center using the postage-paid envelope provided. Please indicate the helpfulness of the training sessions.

	Not Helpful	Somewhat Helpful	Helpful	Very Helpful	Not Applicable/ Not Used
Welcome and Overview	☐	☐	☐	☐	☐
MDS on Military Pay	☐	☐	☐	☐	☐
Millionaire Money Management	☐	☐	☐	☐	☐
Consumer Awareness	☐	☐	☐	☐	☐
Insurance: Protecting Wealth	☐	☐	☐	☐	☐
Credit Management	☐	☐	☐	☐	☐
Home Buying	☐	☐	☐	☐	☐
Banking and Financial Services	☐	☐	☐	☐	☐
Wealth Building: Saving/ Investing/ Retirement	☐	☐	☐	☐	☐
A Million Dollars Worth of Resources	☐	☐	☐	☐	☐

How has your MDS Training affecting how you handle your personal finances?

In what areas do you think you have improved the most?

Are there any barriers that are preventing you from applying what you have learned in the MDS Training?

Is there anything we could do to improve the MDS Training?

Million Dollar Sailor

Welcome and Overview

Module One: Welcome and Overview

Module Length: 90 Minutes

Module Description:

This 90-minute module serves as an introduction to the Million Dollar Sailor (MDS) Program addressing the importance of the program to Sailors for purposes of their personal financial well-being as well as the security of their naval career. The module outlines the agenda for the program and allows for the review of administrative information specific to the site where training is conducted.

The module also includes an assessment of current financial knowledge that provides a training baseline for the facilitator. Consequences of financial mismanagement are reviewed and discussed.

Learning Objectives:

Upon completing the MDS Welcome and Overview Module, participants will be able to:

- Identify three benefits of responsible personal financial management.
- Identify two financial issues that are unique to or affected by the military lifestyle.
- Identify two consequences of financial mismanagement in both the military and civilian sectors.
- Define the principle of compound interest.

Materials Needed:

- MDS Welcome and Overview PowerPoint Slides
- Computer/Internet and PowerPoint Projector
- Chart Paper or Whiteboard/Markers
- Cardstock
- Pens, Pencils, Paper
- Handout:
  - *Million Dollar Sailor Pre-Test*
  - *Module One Participant Notes Page*

Works Cited:

Bureau of Economic Analysis National Economic Accounts. “Personal Income and Outlays.” 24 December 2008. U.S. Department of Commerce. 21 January 2009.<http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm>.

Capgemini. 2008. “World Wealth Report.” Capgemini,U.S., LLC. 25 January 2009. 3 November 2008. <http://www.us.capgemini.com/worldwealthreport08/>.

Department of the Navy. Central Adjudication Facility. 2007. 3 November 2008. <http://www.navysecuirty.navy.mil/doncaf>.

——. Command Financial Specialist Training Manual 15608D. Washington D.C.: Commander, Navy Installations Command, 2005.

——. OPNAV Instruction 1740.5B. Washington D.C.: Office of the Chief of Naval Operations, 2007.

——. Personal Financial Management Standardized Curriculum. Washington D.C.: Commander, Navy Installations Command, 2007.

——. SECNAV Instruction 1754.1B. Washington D.C.: Office of the Secretary of the Navy, 2005.

Eker, H.T. Secrets of a Millionaire Mind. New York: HarperCollins Publishers, 2005.

Openshaw, J. The Millionaire Zone: Winning Steps to a Seven Figure Income. New York: Hyperion, 2007.

Ramsey, D. The Total Money Makeover. Nashville: The Thomas Nelson Group, 2007.

Stanley, T.J. & Danko, W.D. The Millionaire Next Door. Atlanta: Longstreet Press, 1996.

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

A/V **Slide 1:** Million Dollar Sailor

HO *Module One Participant Note Pages*

Welcome to Million Dollar Sailor! Thank you for joining us and for taking your first step on the road to financial security and freedom.

NOTE Introduce yourself and provide participants with information about your background such as your position, your responsibilities, how long you have worked with the military, any military experience, and/or your experience providing financial education to the military. Facilitators may want to have their personal contact information displayed somewhere in the classroom.

? Q *If you owned your own business, what would your goal be?* (To make a profit).

Now think about your own financial future. You need to be thinking about your own financial portfolio with the same goal.

Throughout your Navy career, you will continue to experience deployments, changes in rank/rate, frequent moves and other events that will cause your pay to fluctuate. Million Dollar Sailor will provide you with the tools and resources you need to successfully navigate through these transitions and become financially free. You have worked hard and made many sacrifices throughout your military career to protect the freedom of others. You deserve the peace of mind that comes from knowing that your personal finances are secure.

A/V **Slide 2:** What Can Million Dollar Sailor Do For Me?

? Q *How did you learn to manage your money? Where did you learn it? Who did you learn it from?*

NOTE Ask participants to raise their hands for the response that pertains to them. Example: from their parents, school, a financial product salesperson, or the hard way—on their own.

We all need money, but few of us understand it as well as we should. Most of us have had little formal education about how to manage our money. We either learned it from our parents, in school, from someone trying to sell us something or on our own (the hard way). Even when we learn financial information of significant value, we often wish we knew about it or practiced it sooner.

The purpose of this class is to educate and assist Navy personnel and their families in their quest to have a better quality of life with more financial choices. It is a proactive training that teaches sound money management principles, that when applied, can assist Sailors and their families with specific transitions that are unique to the military lifestyle.

NOTE Acknowledge that while most Sailors are directed to come to the training, the program goes over sound financial management practices that are beneficial for everyone to know. Emphasize that participants are *not* there as a punishment or because they lack the ability to handle their money properly. Many Sailors are handling their finances very well, but there is always room for improvement.

Can this class make you a Millionaire? Yes, it could! By making smart choices, and avoiding foolish ones, you can reap the benefit of wise financial decisions over a 30 year period—including becoming a millionaire (if you want to). But aside from making a million dollars, there are also other benefits to practicing sound financial management, some of which can be achieved sooner.

Personal financial planning is essential for us all in order to achieve our goals, whether your goal is long-term, like retiring a millionaire, or short-term, like buying a house or a car. Personal financial planning is also a key factor in achieving financial fitness, which includes living within your income and decreasing your dependency on credit. By practicing strong, personal financial management, you can strengthen and safeguard your military career, manage your money in the present and build wealth for your future.

Slide 3: Strengthen Your Military Career

Prior to entering graphics, engage participants in the group activity listed below.

Benefits to PFM (2 Minutes)

Give participants sixty seconds to two minutes to brainstorm among their group or table to list benefits to personal financial management that pertain to their career.

Security Clearances. In Fiscal Year 2008, the Department of the Navy, Central Adjudication Facility, (DoN CAF) denied or revoked 1759 clearances. Of that total, **81.2% (1429)** were due to financial issues, with the next highest issues being personal conduct at only 4% and criminal conduct at only 3.8%. The majority of these cases involved individuals in pay grades E3-E7.

For updated statistics pertaining to security clearances, contact the DoN CAF Division Chief/ Deputy Director at www.navysecurity.navy.mil/doncaf/doncaf-process.htm.

Promotion. In addition to security clearances, your personal financial management can affect your ability to be promoted, to accept specific assignments and be eligible for overseas transfer.

Safeguard Your Future. Strong personal financial management skills safeguard, strengthen, and protect your military career. They also protects your career against legal ramifications that affect you as a military service member.

Slide 4: Managing Your Money in the Present

In addition to strengthening your career, Million Dollar Sailor will provide you with the knowledge and tools to help you better manage your money in the present. Even if you are getting by or better yet, stashing a few dollars away, there are always opportunities for learning more about money management.

Payday. *When is payday?* Payday occurs on the 1st and the 15th of the month (not 6PM on the 30th). If the date falls on a holiday or weekend, Sailors normally receive their pay on the workday prior. There is more to managing your money than getting by from paycheck-to-paycheck, even if you are doing so comfortably.

Living Within Means. Managing our money in the present starts with living within our means. How do you know what those means are?

Developing a balanced budget will show you, and we will show you how to calculate one.

More Choices. When you are successful at managing your money, you have more choices. Everyone wants choice when it pertains to the financial decisions of your life.

Less Stress. Sound financial management generates a certain peace of mind. There is less stress and less worry when you know exactly what you can afford and where your money is going.

Maintain Credit. Sound financial management helps us maintain good credit which is very important in today's society. Good credit helps us acquire the things we want most out of life. Bad credit makes it harder and more expensive to have the things we want. We will show you why.

A/V **Slide 5:** Building Wealth

Finally, strong, personal financial management skills allow us to build wealth for the future.

Many of us learn about money the hard way—on our own. Sometimes it is a combination of what we read, what other people tell us and what we find out through trial and error. All of it may be valuable information, but it may lack one essential factor: learning early on.

As we will discuss later, the key to building wealth is time. Time can be your friend or time can be your enemy, depending on *when* you implement your financial plan. The goal of Million Dollar Sailor is to teach you the skills and strategies *now* while you have the opportunity to take advantage of time and all that it can do for your finances. Harnessing the asset of time will allow your investment to grow faster to achieve your future goals. The sooner you begin saving and investing, the better off you will be.

Compound Interest. Becoming a millionaire is an attainable goal if you understand one simple concept, and that concept is compound interest. Compound interest is interest *earned on* and *added to* your original investment (principal) and thereafter also earns interest. Like a snowball rolling downhill, compound interest is when your money makes more money.

But compound interest can work in two directions, and the direction determines whether you will be a millionaire or whether you will be broke. The first direction is when compound interest rolls away from you. When you borrow money, you have to pay compound interest to the organization that loans it to you. That money flows *away from* you and makes *that* organization rich. *Wrong Direction!* The other direction is when compound interest is paid *to you*, which occurs through savings and investments. *Right Direction!* Now you have the chance to become a millionaire.

The key to building wealth and achieving your financial goals is to reverse the direction of compound interest. The way to do that is to know your financial responsibilities, manage your money and protect your wealth. When you need guidance and help, there are FREE Navy resources available to you and your family.

A/V Slide 6: Millionaire Myths

As we just mentioned, becoming a Million Dollar Sailor on a military paycheck is very much attainable. Despite the growing numbers of millionaires in this country, millionaires are not well understood. If becoming a Million Dollar Sailor is important to you, then it is necessary to dispel certain myths about millionaires.

Millionaires are rare. Thanks to inflation, a million dollars is worth less in relative terms than 50–100 years ago. But more and more people are reaching millionaire status because how we make money today is fundamentally different than when Henry Ford made his millions. There are currently more than 10 million millionaires in the world (Capgemini, 2008).

Millionaires are smarter than the rest of us. Wealthy people are not smarter than the rest of us, they just have more supportive habits when it comes to their money. As financial expert Dave Ramsey (2007) points out, "winning at money is 80% behavior and only 20% head knowledge." The point here is that managing money goes hand-in-hand with managing behavior. You do not need to be a certified financial planner to be able to initiate some financially sound money management practices that can add up to millions over the next 20 to 30 years.

Millionaires feel rich. Some millionaires with extremely high net worth live luxurious lifestyles and feel rich, but these represent only about 1% of all millionaires (Capgemini, 2008). Many millionaires, especially those who have just crossed the line of $1 million in net worth do not own yachts, live in mansions or even consider themselves rich. As evidenced in the best-selling book *The Millionaire Next Door*, most millionaires live in average size houses, drive mid-priced domestic cars and worry about the cost of retirement, college and health care (Stanley & Danko, 1996; Capgemini, 2008).

Millionaires are cheap. Some people believe that in order to be a millionaire, you have to be cheap. Similarly, if you want to be a millionaire, but believe that wealthy people are fundamentally bad, you may be programming yourself to never fully try. You do not have to be cheap to be a millionaire, but if you spend your money indiscriminately, you will never be financially free.

Millionaires are just lucky. When asked about how they became wealthy, most millionaires admitted that they started with nothing: no money, no inheritance, no sugar daddy (Openshaw, 2007). Financial success is not a matter of luck, accident or being at the right place at the right time. Financial success is predictable. By implementing the sound financial practices discussed in this training, you can be well on your way to becoming a Million Dollar Sailor.

Becoming a Millionaire is Easy. The principles and behaviors needed to manage your money and achieve financial freedom are not *complicated*, but they are not easy either (Ramsey, 2007). It takes courage and tenacity to make tough choices about your wants and needs, as well as to make sacrifices in the present to ensure a better future. There is no shortage of books, seminars and programs promising that you can become rich quickly using "seven easy steps" or some secret formula; however, those promises are usually based on a lie or undisclosed risk. The simple truth is: there are no secrets, there are no shortcuts, and it is not always easy.

A/V **Slide 7:** Meet Your Classmates

A Money Bingo (10–15 Minutes)

Copy the Money Bingo cards onto cardstock and distribute to participants. Instruct participants to walk around the classroom and introduce themselves to the other participants. When they find another participant (or facilitator) who matches the description of one of the topics, they should have that individual place their initials in the box. The objective of the activity is similar to standard Bingo, requiring the participants to complete an entire row or the entire card. Prizes may be awarded.

A/V **Slide 8:** Agenda, Day 1

Military Pay. Understanding your military pay is essential to planning your finances in the present and in the future. We will examine the many types of military pay and allowances, how they are recorded on your LES and the various events that affect changes in your military pay.

Developing Your Spending Plan. The basis for all personal financial management is developing a personal financial plan to see what money is coming in, where it is going, and what you want it to accomplish in the future. We assist you in developing your own financial plan that outlines your net worth, your cash flow, and your spending plan for achieving your financial goals.

Consumer Awareness. Gaining control of your finances involves examining your behavior and what motivates you to spend. Consumer Awareness discusses the many marketing strategies that are designed to separate you from your hard-earned money and what you can do to overcome these tactics.

Insurance. Everyone hates insurance… until they need it. While purchasing insurance will not make you rich, it may prevent you from being poor. An important part of financial management is protecting the assets we own that contribute to our net worth.

Credit Management. How we manage our finances is tied closely to how we manage our credit and our debt. For some of us, this means protecting the credit history we have worked hard to establish, for others it involves rectifying behaviors of the past to get our credit back on track. Our discussions will include the importance of your credit score and how to manage personal indebtedness.

A/V **Slide 9:** Agenda, Day 2

Understanding how to manage your credit and your debt will affect what will probably be the two biggest purchases of your life: your car and your house.

Car Buying. The Car Buying Module will discuss the three critical aspects of purchasing a vehicle: the purchase, the financing and the trade-in, as well as strategies for dealing with those high-pressure sales tactics.

Home Buying. Although it may or may not be in your immediate future, buying a home is a complicated process. This training will address the critical steps in buying a home, such as identifying your needs, your budget, your agent and your appropriate mortgage.

Banking and Financial Services. Managing money involves storing it somewhere and having access to it when you need it. Banking and Financial Services will discuss the products, services and associated costs with financial institutions today, including electronic banking.

Wealth Building: Saving and Investing/Retirement Planning. Anyone who has financial goals for the future will be required to save and invest. This Wealth Building Module will discuss the different savings and investment tools available, the advantages and disadvantages of each, and most importantly, how compound interest can make you a millionaire!

Referral Sources. When we think of millionaire icons such as Oprah Winfrey and Bill Gates, we think of individuals who had to struggle all alone against terrible odds. They achieved the American dream and became extraordinarily wealthy because they are extraordinary individuals. But these individuals and other successful people like them did not get there all on their own. They had help… and so do you. Our final piece of the training is devoted to the many referral resources, many at no cost, that are available to you in your quest to becoming a Million Dollar Sailor.

A/V **Slide 10:** Administrative Details

- Classroom Policies
- Cell Phones
- Facilities/ Restrooms
- Parking
- Training Schedule/ Breaks
- Dot.com Disclaimer

LOCAL Use this accompanying PowerPoint slide to address any information that is specific to the site or facility that you are using such as the suggestions and graphics listed.

Suggested Dot.com Disclaimer: The Commercial Web sites listed in these modules are for educational purposes only; no warranty is made regarding their accuracy or quality. This information does not constitute an endorsement of any site, or of any products or services that may be offered on any site referenced. Other sites are available and may provide equally useful information.

A/V **Slide 11:** Million Dollar Sailor Pretest

HO *Million Dollar Sailor Pretest* (20–30 Minutes)

Before we go any further into the topics we plan to discuss today, let us take a look at what you already know. You are going to take a short pre-test to assess what you already know about managing money. We do not expect you to have all the answers. Hopefully, you will have all the answers by the time you complete the training.

NOTE Administer the Million Dollar Sailor Pre-test, and allow participants 20 minutes to complete the test. Since some participants will complete the test faster than others, it is recommended that you incorporate a break into this activity and have the participants report back in approximately 30 minutes from the time you administer the pre-test. Answers will be reviewed on slides 12–31 and should take approximately 20 minutes.

NOTE Remind participants that everyone manages their finances differently and that it is important to respect the diversity of opinions and practices that will be discussed in the classroom

Encourage participants to get the most out of their two-day training by participating as much as possible. Their active involvement in the class will help them get more out of the financial issues being discussed and help them process, retain and apply the information more effectively.

A/V **Slide 12:** What is the approximate percentage of security clearances that are denied or revoked for financial reasons?

A. 10%

B. 25%

C. 50%

D. **80%**

Statistics based on 2008 calculations by DoN CAF.

Slide 13: Which is not an area of information that is covered on your credit report?

A. **Monthly Income**

B. Payment History

C. Amounts Owed

D. New Credit Accounts

Slide 14: Which is NOT a summary section on the LES?

A. Thrift Savings Plan Summary

B. Leave Summary

C. **Duty Station Summary**

D. Remarks

Slide 15: What budget term is defined as gross income minus taxes?

A. **Net Income**

B. Take-home Pay

C. Disposable Income

D. Gross Pay

Slide 16: This board can assist with companies that have taken advantage of military personnel and makes recommendations about placing organizations “off limits.”

A. Better Business Bureau

B. Navy-Marine Corps Relief

C. **Armed Forces Disciplinary Control Board**

D. States Attorney General

Slide 17: A ROTH IRA account requires you to contribute at least $5000 per year?

A. True

B. **False**

$5000 is the maximum amount you can put in a ROTH IRA (for 2009).

Slide 18: What is the primary purpose of insurance?

A. Safe Way to Invest Money
B. **Protection Against Financial Loss**
C. To Avoid Risk
D. To Pay Premiums

Slide 19: What is one thing that you can NOT do on the myPay Web site?

A. Buy Savings Bonds
B. Enroll in TSP
C. Change Tax Withholdings
D. **Change Your Legal State of Residence**

Slide 20: Which military insurance will you need to replace if you separate or retire from the military?

A. Auto Insurance
B. **Life Insurance**
C. Homeowner's Insurance
D. Renter's Insurance

Slide 21: Ideally, your debt-to-income ratio should be less than ____?

A. 10%
B. **20%**
C. 30%
D. 50%

Slide 22: In credit terms, what is the time in which you can pay off all new purchases without incurring finance charges?

A. Lapse Time
B. **Grace Period**
C. Free Time
D. Interest Free Time

Slide 23: Where do car dealerships make the most money?

A. Sticker Price of a New Car

B. Trade-in

C. **Financing of a Car**

D. Referrals

Slide 24: Your total car expenses should not exceed what percentage of your net income?

A. 10%

B. **25%**

C. 50%

D. 75%

Slide 25: Which type of home loan typically requires a down payment of 3–5%?

A. **Federal Housing Administration Loan**

B. Veteran's Administration Loan

C. Bank Loan

D. Student Loan

Slide 26: Which of the following is ethically bound not to list and sell you the same house?

A. Selling Agent

B. **Buyer's Agent**

C. Listing Agent

D. Broker

Slide 27: Using which resource can have a negative effect on your credit score?

A. **Debt Consolidation**

B. Fleet and Family Service Center Financial Educator

C. Command Financial Specialist

D. Navy Marine Corps Relief Society

Slide 28: Interest rates that fluctuate, based on such things as the prime rate, are known as?

A. Floating Interest Rates

B. Secure Interest Rates

C. Consumer Interest Rates

D. **Variable Interest Rates**

Slide 29: When using your ATM card at a bank other than your own bank you can be charged a fee from both banking institutions, which can average $2.75 per withdrawal.

A. **True**

B. False

Slide 30: Enrollling in the DoD Uniformed Services Thrift Savings Plan and allotting your money to the "G" fund guarantees your money will not suffer a loss due to a decline in the Stock Market.

A. **True**

B. False

Slide 31: This federal agency is concerned with consumer protection and law enforcement regarding consumer issues such as identity theft.

A. **Federal Trade Commission**

B. Social Security Administration

C. Department of Defense

D. Department of Homeland Security

Slide 32: Why is the Navy concerned about your finances?

Why do you think the Navy is concerned about the finances of its personnel? How is this different from civilian employers?

Allow participants to respond individually or as a group, brainstorming and presenting their ideas. (Sample responses: mind not on work, can lead to careless and costly errors, injury or even death; recruitment and retention costs; reflections on the Navy; and security clearance issues.)

Slide 33: Poor Personal Financial Management is No Longer Personal

Poor personal financial management affects you.

Slide 34: Poor Personal Financial Management is No Longer Personal

Poor personal financial management affects your family.

Slide 35: Poor Personal Financial Management is No Longer Personal

Poor personal financial management affects your shipmates.

Slide 36: Poor Personal Financial Management is No Longer Personal

Poor personal financial management affects operational readiness.

OPNAV Instruction 1740.5 B identifies financial problems as "having a serious negative impact on the stability of service members and families, as well as a debilitating effect on operational readiness, morale, and retention." You perform a different job with a different scope than most of your civilian counterparts. While the financial management practices of your friends and family members have little to do with their employment, it has a great deal to with yours.

Slide 37: Don't Let This Happen to You

Military consequences of poor financial management:

- Security Clearance Loss
- Negative Evaluation
- Promotion Loss
- Overseas Transfer Loss
- Reduction in Rank
- Non-Judicial Punishment
- Administrative Discharge

Slide 38: Don't Let This Happen to You

Civilian consequences of poor financial management:

- Non-Sufficient Funds/Bounced Checks
- Denied Credit
- Bad Credit Report or Rating
- Repossession
- Foreclosure
- Bankruptcy
- Legal Actions

In addition to the many military consequences of poor financial management, there are several consequences in the civilian sector as well. You may be assessed fees and additional charges for checks returned for Non-Sufficient Funds. You may be denied credit or charged higher interest rates due to your poor credit history or credit score. You may be at risk for repossession on your vehicle or foreclosure on your home if you cannot make your monthly payments. Continual financial issues may lead to bankruptcy and other legal actions.

A/V **Slide 39:** Millionaire Planning Will Help You:

- Realize financial goals
- Live within your means
- Maintain good credit history
- Get more for your money
- Reduce financial stress
- Achieve financial confidence

If you plan to be a millionaire, you need to plan the finances to get you there. In order to be financially fit, it is important for us all to live within our income and decrease our dependency on credit.

We all want to get the most for our time and our money, and to be in the position whereby our money is working for us not against us. We all also want to reduce any financial stress in our lives and the lives of those around us. Therefore, personal financial planning is an empowering process by which we can achieve both confidence and control with regards to our personal saving, spending and investing.

A/V **Slide 40:** How Do You Become a Millionaire?

So you want to be a millionaire… how do you do it? Becoming a millionaire is not a matter of implementing "three easy steps." It takes time and discipline. But the strategies to achieving millionaire status, combined with that time and discipline, can be grouped into three distinct categories.

1. **Manage the Present:** Understand what income you have coming in, have a balanced budget, protect your assets and be a wise consumer—especially when it comes to big purchases like a car or a home.
2. **Clean up the Past:** Reduce or eliminate the debt that you may have acquired along the way, and implement a spending plan that prevents you from falling back into indebtedness.

3. **Invest in the Future:** Learn about the different options you have when it comes to savings and investments—particularly those that pertain to your retirement that have specific tax benefits.

And while you are putting these sound money management principles to work, make sure to take advantage of all the resources you have at your disposal, especially those that are provided by the military at no cost to you.

Million Dollar Sailor
Module One: Welcome and Overview

Participant Notes Page

1. Benefits of Personal Financial Management:

2. Two financial issues that are unique to the military lifestyle are:

3. Name consequences of financial mismanagement within the following two environments:

Military	Civilian Sector

4. Compound interest is the ___________________ your money makes on your

   ____________________ and your _____________________.

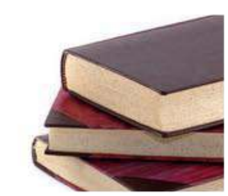
Notes:

Million Dollar Sailor Pretest

1. What is the approximate percentage of security clearances that are denied or revoked for financial reasons?
   A. 10%
   B. 25%
   C. 50%
   D. 75%
2. Which is not an area of information that is covered on your credit report?
   A. Monthly Income
   B. Payment History
   C. Amounts Owed
   D. New Credit Accounts
3. Which is NOT a summary section on the LES?
   A. Thrift Savings Plan Summary
   B. Leave Summary
   C. Duty Station Summary
   D. Remarks
4. What budget term is defined as gross income minus taxes?
   A. Net Income
   B. Take-home Pay
   C. Disposable Income
   D. Gross pay
5. This board can assist with companies that have taken advantage of military personnel and makes recommendations about placing organizations "off limits."
   A. Better Business Bureau
   B. Navy-Marine Corps Relief
   C. Armed Forces Disciplinary Control Board
   D. States Attorney General
6. A ROTH IRA account requires you to contribute at least $5000 per year?
   A. True
   B. False
7. What is the primary purpose of insurance?
   A. Safe Way to Invest Money
   B. Protection Against Financial Loss
   C. To Avoid Risk
   D. To Pay Premiums
8. What is one thing that you can NOT do on the myPay Web site?
   A. Buy Savings Bonds
   B. Enroll in TSP
   C. Change Tax Withholdings
   D. Change Your Legal State of Residence
9. What military insurance will you need to replace if you separate or retire from the military?
   A. Auto Insurance
   B. Life Insurance
   C. Homeowner's Insurance
   D. Renter's Insurance
10. Ideally, your debt-to-income ratio should be less than ____?
    A. 10%
    B. 20%
    C. 30%
    D. 50%



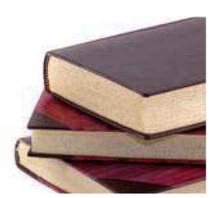


11. In credit terms, what is the time in which you can pay off all new purchases without incurring finance charges?
    A. Lapse Time
    B. Grace Period
    C. Free Time
    D. Interest Free Time
12. Where do car dealerships make the most money?
    A. Sticker Price of a New Car
    B. Trade-in
    C. Financing of a Car
    D. Referrals
13. Your total car expenses should not exceed what percentage of your net income?
    A. 10%
    B. 25%
    C. 50%
    D. 80%
14. Which type of home loan typically requires a down payment of 3-5%?
    A. Federal Housing Administration Loan
    B. Veteran’s Administration Loan
    C. Bank Loan
    D. Student Loan
15. Which of the following is ethically bound not to list and sell you the same house?
    A. Selling Agent
    B. Buyer’s Agent
    C. Listing Agent
    D. Broker
16. Using which resource can have a negative effect on your credit score?
    A. Debt Consolidation
    B. Fleet and Family Service Center Financial Educator
    C. Command Financial Specialist
    D. Navy Marine Corps Relief Society
17. Interest rates that fluctuate, based on such things as the prime rate, are known as?
    A. Floating Interest Rates
    B. Secure Interest Rates
    C. Consumer Interest Rate
    D. Variable Interest Rates
18. When using your ATM card at a bank other than your own bank you can be charged a fee by both institutions, which can average $2.75 per withdrawal.
    A. True
    B. False
19. Enrolling in the DoD Uniformed Services Thrift Savings Plan and allotting your money to the "G" fund guarantees your money will not suffer a loss due to a decline in the Stock Market.
    A. True
    B. False
20. This federal agency is concerned with consumer protection and law enforcement regarding consumer issues such as identity theft.
    A. Federal Trade Commission
    B. Social Security Administration
    C. Department of Defense
    D. Department of Homeland Security





M	O	N	E	Y
Has a bachelors degree in business	Has a Roth IRA	Subscribes to a financial magazine	Has two children	Plans to stop working by age 62
Is currently contributing to the Thrift Savings Plan	Drives a sports car	Has a traditional IRA	Purchased a Certificate of Deposit at some point	Does their own taxes
Has a rental property	Has had a 401(k) plan at a civilian job	**FREE**	Has purchased U.S. Savings Bonds	Has Renter's Insurance
Has a will	Has attended a PFM class at FFSC	Has invested in the stock market (not just mutual funds)	Plans on retiring with $1 million	Is debt free
Owns their own business	Has worked with a Certified Financial Planner	Has no credit cards, always pays cash	Has a Roth Conversion IRA	Tracks spending using a computer program

M	O	N	E	Y
Has a bachelors degree in business	Has a Roth IRA	Subscribes to a financial magazine	Has two children	Plans to stop working by age 62
Is currently contributing to the Thrift Savings Plan	Drives a sports car	Has a traditional IRA	Purchased a Certificate of Deposit at some point	Does their own taxes
Has a rental property	Has had a 401(k) plan at a civilian job	**FREE**	Has purchased U.S. Savings Bonds	Has Renter's Insurance
Has a will	Has attended a PFM class at FFSC	Has invested in the stock market (not just mutual funds)	Plans on retiring with $1 million	Is debt free
Owns their own business	Has worked with a Certified Financial Planner	Has no credit cards, always pays cash	Has a Roth Conversion IRA	Tracks spending using a computer program

Million Dollar Sailor

Million Dollar Sailor on Military Pay

Module Two: Million Dollar Sailor on Military Pay

Module Length: 60 Minutes

Module Description:

While military personnel receive a steady paycheck, they also experience many fluctuations in pay that affect their financial goals and progression on the path to becoming a Million Dollar Sailor. A crucial and primary step on the road to financial freedom is both the anticipation and understanding of changes that affect military compensation.

The purpose of the "Million Dollar Sailor on Military Pay" Module is to increase participants' attentiveness to their military pay as well as their awareness of the impact that various pay issues can have on their personal financial management. The module reviews the Leave and Earnings Statement (LES), military pays and allowances, common allotments and deductions, and tax issues of concern to military personnel. The "Million Dollar Sailor on Military Pay" Module will also discuss common pay issues and methods of problem resolution.

Learning Objectives:

Upon completing this 60-minute module, participants will be able to:

- Recognize the importance of understanding military pay and monitoring the LES as a critical initial step in money management and building wealth.
- Identify various military pays and allowances, as well as events which affect changes in pay.
- Cite repayment options for government debts.
- Demonstrate an understanding of the variables and advantages involved in ensuring the correct amount of Federal and State Taxes are withheld.
- Identify other military benefits beyond pay and allowances.
- Recognize common pay problems and identify resources to correct them.

Materials Needed:

- Understanding Military Pay PowerPoint Slides
- Paycheck Review PowerPoint Slides
- Computer/Internet and PowerPoint Projector
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper

> **NOTE** Download Current Pay and Allowance and Federal Tax tables prior to class.

- Handouts:
  - *Understanding Your LES*
  - *Federal W-4 Tax Form, P*
  - *Pay and Allowances Tables*—Available from www.dfas.mil
  - *Tax Tables*—Available from www.irs.gov
  - *Module Two Participant Notes Page*

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A/V **Slide 1:** Million Dollar Sailor on Military Pay

HO *Module Two Participant Note Pages*

A **Stand Up and Be Counted** (5 Minutes)

> NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

Directions: Instruct the group that you will be taking an informal survey based on some issues revolving around military pay. Ask participants to "stand up and be counted" if the statement applies to them. Start with specific statements and move to more general statements so that the entire room is standing at the end of the exercise. Ask participants to stand if they have experienced any of the following changes in pay within the last six months:

- Moved out of military quarters/moved out of barracks to residence off base.
- Had a change in family size (marriage, birth of a child, divorce).
- Made rank or experienced a change in rate.
- Experienced a change in duty station/PCS move.
- Went on government-directed travel (TAD/TDY).
- Anyone who wished any of these things happened to them in the last six months.

Discussion: Ask for volunteers to share the type of event they experienced in the last six months and the overall effect on their pay (did it go up or down?).

The purpose of this module is to increase your understanding of the military compensation system and the impact that various pay issues can have on your personal financial management.

Just because you receive a steady paycheck does not mean that your pay will not vary. Changes and fluctuations in your military pay occur constantly and need to be factored into your spending plan in order to successfully manage your money and achieve your financial goals. Not all of these changes are under your control, but how you anticipate and respond to these changes IS under your control. Successfully managing the financial transitions associated with the military lifestyle will help you maintain your course on becoming a Million Dollar Sailor.

A/V **Slide 2:** Why is it important to know about military compensation?

? Q *Who is in charge of your pay?*

NOTE Look for answers to support the fact that the Sailors themselves are responsible for their pay.

Why is it important to understand your pay? Why should you care?

NOTE Engage participants in a discussion about why understanding pay is important and/or relevant to their personal financial management.

Many times when pay is incorrect, it is tempting to blame the Navy or the Disbursing Office. It is important to realize that your pay is YOUR responsibility. It is critical to your financial management plan to ensure that your military pay is correct. You need to make sure that you are receiving all the pay and allowances to which you are entitled, and none that you are not.

As discussed in the overview of the MDS Program, financial freedom is critically dependent on assessing where you are financially, in the present and for the future. This can be extremely difficult if you are unsure of exactly how much you are earning and how much you are spending. Understanding and reviewing your military compensation will enable you to realize the following:

Know current entitlements. Your pay is your responsibility, therefore it is essential that you know what your current entitlements are to ensure you are being paid correctly. Mistakes happen, and knowledge of your pay will help correct them quickly when they do.

Keep current on changes. Navy pay is governed by many laws, instructions and policies that are constantly changing in order to recruit and retain qualified personnel. The Navy needs to know essential information about Sailors to pay them correctly, and if that information is missing or incomplete, pay may not be correct.

Manage changing circumstances. Many events occur in life that necessitate pay changes such as going on deployment, getting married, getting promoted, transferring or re-enlisting. Fluctuations in pay can catch military members, their family members and their eligible dependents off guard if unprepared. Financial hardship can occur when members do not understand how much pay they are entitled to and what to expect. Frequently, such hardships occur because members are not aware of the need to update their records or fail to do so when necessary.

Maintain readiness. If you are knowledgeable of your entitlements you will be more attentive to the accuracy of your pay. As you learn more about your pay and understand your LES, you will be better able to anticipate changes before they occur and manage them more effectively. A proactive approach to managing military pay helps Sailors focus on mission readiness rather than reacting to a financial crisis.

Maintain Your Path to Financial Freedom. Most importantly, ensuring that you are receiving all pay and benefits to which you are entitled (and none that you are not) are essential in maintaining your course on your financial path. Overpayments and underpayments can be solved eventually, but may cause some collateral damage to your spending plan in the

short-term or the long-term. They may cause financial setbacks that can sabotage your best efforts. Understanding your military compensation is a proactive step in your personal financial plan.

A/V **Slide 3:** Agenda

Concepts that will be addressed in the module:

- **myPay and Your LES.** We will discuss how the military pay system works and the importance of understanding military pay and monitoring the LES.
- **Pay and Allowances.** We will identify various military pays and allowances, as well as events which affect changes in pay.
- **Allotments and Deductions**. We will identify various types of allotments and deductions, including repayment options for government debts.
- **Tax Issues**. We will discuss the importance of understanding the variables and advantages involved in ensuring that the correct amount of Federal and State Taxes are withheld.
- **Military Benefits**. We will discuss other military benefits that are included in your overall military compensation.
- **Common Pay Problems.** We will identify several common pay problems and discuss options to correct them.

A/V **Slide 4 :** The Navy Pay System

WEB Optional: Take participants on virtual tour of myPay Web site available at https://mypay.dfas.mil/mypay.aspx or via the DFAS site at www.dfas.mil.

What is myPay? myPay is an automated system that puts you in control of your pay account. You are in charge of making certain changes to your account quickly and easily. You can access your account nearly 24/7 to change or review your current information or to check your recent pay statements. Service members are provided an initial PIN for their first visit which must be changed to a private PIN for continued access. myPay is available online at: https://mypay.dfas.mil/mypay.aspx or via the DFAS site at www.dfas.mil or by phone at 877-363-3677. 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? You can access your pay statements, tax forms and information regarding travel payments using myPay. You can also access and print your LES, change federal and state tax withholdings, update direct deposit data, manage allotments and buy savings bonds. Using your myPay account, you can enroll in the Thrift Savings Plan and make contribution percentage changes.

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 DFAS-Cleveland. It is your responsibility to ensure that the account selected for DDS payments is open and in good standing. This pay can only go to one account. If you want to distribute your pay differently you must make those arrangements with your financial institution, or use the allotment system through DFAS.

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

- 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.

A/V **Slide 5:** Your LES

Leave and Earnings Statement (LES): Monthly statement showing all the pay changes and information for the month including entitlements (pays and allowances), deductions and allotments, and pay related remarks.

NOTE Remind participants of the importance of looking at the entire LES statement, not just what they are earning right now. The LES contains not only current information, but information about what changes are due to occur. This can assist Sailors in budgeting for the future, particularly when they see that a certain pay is due to terminate.

Section A— Personal Information: Contains information that specifically identifies you, such as your full name, Social Security Number (SSN), 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 pay, 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. The 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: Indicates your beginning leave balance, the leave you have earned from the beginning of the fiscal year (October 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.

? Q *How many days of leave can you carry?*
(Generally, you are permitted to carry 60 days across a fiscal year. Under

some circumstances, such as duty performed in a combat zone, you may be entitled to carry 75 days of leave or more. Questions regarding the current regulations pertaining to maximum leave balance should be directed to PSD.)

Sections G, H, I—Tax Summary: Indicates 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 (like a W-2) to use when preparing your income taxes. It is also important to ensure the M/S block (marital status) and the EX block (number of exemptions) listed in sections G and I are correct. Many military members enter the service using a designation of S 00 (Single claiming 0), and often forget to change this once they marry or have children. Correcting your exemption status can effect the amount of pay you receive on a monthly basis. This money can be incorporated back into your monthly spending plan to assist you in reaching other financial goals.

NOTE Emphasize to learners that they should check their LES each month to ensure they are getting all the pays and allowances to which they are entitled. Strongly warn them that if they are receiving money they are NOT entitled to, the Navy will eventually collect it back, and that they must not spend it. (Suggest they put it "on hold" in savings.)

? Q *Which do you think is more valuable, receiving that difference in money as a tax return or as part of a monthly budget?*

(You may want to discuss some of the advantages and disadvantages to each as well as how receiving money either way can be incorporated into a spending plan. Advantages include using it as a means of controlling your money if you have no financial plan in place. But after your MDS training, you may decided you can find better uses for that money in your monthly budget.)

Section J—Pay Data Summary: Encompasses specific information used to determine the allowances you are entitled to receive. The data includes information on your dependents, the zip code of your duty station and the amount you pay in rent if living off base or in privatized government housing. It is important to 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 the percentage of pay specified for contribution. The current boxes show the amount contributed to TSP this pay period while the YTD shows the amount for the year. You can also view your TSP account at 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 (DDS), use of leave, garnishments, or general notes regarding pay, allowances, deductions, or other military benefits.

A/V **Slide 6:** Military Pay and Benefits

When all factors are considered, the Navy has one of the best

compensation systems available in this country. There is much more to your pay then just the dollars showing up in your account each month. There are several types of pay and allowances included in your military compensation package, some of which are monetary (like basic pay) and others that are non-monetary (like shopping at the commissary). Listed below are the main categories of monetary and compensation:

- Base pay.
- Special Pays.
- Incentive Pays.
- Allowances.

What are some of the ways that military compensation differs from civilian compensation?

(Suggested responses include: some of the pay is taxable and some is not; military pay includes allowances for things like housing and clothing.)

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. There are three main categories of special and incentive pays that affect how the pay is distributed:

- 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 Reenlistment Bonuses are a retention tool that usually require an additional service obligation and are lump sum annual cash bonuses.

Slide 7 : Taxable Pay

Listed on this slide are some special and incentive pays that you might see on your LES. Pays may be based on pay grade, years of service, years of sea service, years of aviation experience, billet (or NEC), location of billet, and qualifications, or any combination of these. Some of these entitlements must be recertified annually to verify that you still qualify for them.

Slide 8: Military Allowances

What are some examples of military allowances?

Allowances: You may also receive allowances to cover living expenses, housing, travel, and moving expenses. These are nontaxable items. Allowances are based on many different circumstances and criteria, varying from whether or not you have dependents, to whether or not you are authorized to live off-base. There are three basic types of allowances:

- Housing.
- Living Expenses.
- Moving or Travel Expenses.

Are allowances taxable or nontaxable? (Generally non-taxable.)

How is this different in the civilian world? (Often not provided by the employer at all.)

Slide 9: Housing Allowances

BAH: Basic Allowance for Housing (BAH) is paid to those authorized to live off–base. It is based on 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-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. The COLA index changes every two weeks and is based on both inflation and exchange rates.

NOTE Emphasize the importance of using allowances for their intended purpose and not for something else to avoid financial hardship in the future.

For example, if COLA were used for regular expenses like car payment, the service member and their family may face financial difficulty upon reassignment when COLA is eliminated.

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.

Slide 10 : Living Expenses

BAS: Basic Allowance for Subsistence is designed to offset costs for 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 is designed to help those whose job requires them to keep two households. It can be either “Unaccompanied” or “Separated.”

- *Type I—Unaccompanied FSA:* Applies to Sailors (with dependent family members) who are assigned to a permanent duty station outside of the continental U.S. or Alaska where: 1) government quarters are not available; or 2) family members’ travel is not authorized and they must maintain two households.
- *Type II—Separated FSA:*
  - *Type R*—Sailors whose family members do not reside near their duty station and are not authorized to move to or near it.
  - *Type S*—Sailors who are assigned to duty aboard ship which has been away from home port for more than 30 consecutive days.
  - *Type T*—Sailors who are on temporary duty orders away from their permanent duty station for more than 30 consecutive days (and their family members do not live near the temporary duty station).

CRA: Clothing Replacement Allowance is a uniform/clothing allowance that is paid annually to enlisted members and officers once upon entry into the service. You receive this allowance once a year, during the month in which you entered the service. The amount you receive is based on your years in service, your gender, and whether your duties require you to have special or extra uniforms. The maternity allowance is payable only once every 3 years.

U% All of the examples of allowances are specific to the military, meaning that they would need to be factored into the cost of a salary in a comparable civilian job. CRA is particularly significant, because over a 22-year career, enlisted males will add approximately $14,600 to their income and enlisted females will add approximately $15,000 to their income in clothing allowances. Additional information regarding clothing replacement allowances can be found at www.military.com/benefits/military-pay/clothing-allowances#1.

A/V **Slide 11:** Travel Allowances

Certain travel allowances are provided for government travel such as **Temporary Duty Travel** (TDY) and **Temporary Assignment of Duty** (TAD). Travel allowances are paid by the government for expenses associated with orders requiring travel, usually after the travel is completed.

A government issued travel charge card is usually used for travel and to obtain funds from Automated Teller Machines (ATM). Types of travel allowances include:

Mileage/Transportation: This is based upon the distance traveled, where you have been ordered to go and how you were directed to travel.

Per diem: This is designed to offset the cost of lodging, meals, and incidental expenses incurred by a member while performing travel, and/or temporary duty away from the member's permanent duty station.

Miscellaneous: These include 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.

What is the current amount of mileage reimbursement?

(2009 Standard Mileage Rate is $.55/mile for business miles driven per IR-2008-131.)

Encourage participants to visit http://perdiem.hqda.pentagon.mil/perdiem for current per diem rates, or do a computer demonstration for the class.

Slide 12 : Moving Allowances

Under **PCS (Permanent Change of Station)** orders that 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 Transportation Move Program allows you to move personal household goods yourself or by hiring a commercial mover. It allows you to play a role in the set-up and execution of the move with varying degrees of personal participation. The government will pay you 95% of the cost it would have paid the commercial moving company to ship your goods (up to your authorized maximum weight allowance).

The advantages of this program include personal participation and control over the move, cash incentive payment for participating in the program, and additional authorized time off to attend to moving arrangements.

The disadvantages include the potential for higher costs and damages. 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.

You need to apply for moving allowances; they do not automatically show up on your LES. Remember that moving allowances will not cover all the costs associated with the move, but they will help defray the costs. The actual dollar amount of the allowance will vary depending on number and age of dependents, number of vehicles, miles travelled and authorized travel time.

A/V **Slide 13:** Permanent Change of Station (PCS) Allowances

Permanent Change of Station Allowances (PCS) are provided for members who are moving their household. This includes:

U% **Temporary Lodging Expenses (TLE)** provides for the temporary cost of housing while in transition. It is payable for ten days in CONUS and five days when going out of CONUS.

U% **Temporary Lodging Allowance (TLA)** is payable up to 60 days OCONUS and cannot exceed $180.00 per day.

Dislocation Allowance (DLA) varies by pay grade and dependency status. DLA is not an advance and does not have to be repaid.

A/V **Slide 14:** Advance of Pays

You are authorized certain advance pay when moving; however, you must apply for it.

Base Pay: You can receive up to three months of advance base pay subject to the approval of your Commanding Officer.

BAH: You may be eligible for Advance BAH to help defray the cost of moving into off-base housing. You can receive up to three months advance BAH (CONUS) and up to 12 months OHA (OCONUS) when moving into non-government housing subject to the approval of your Commanding Officer.

Remember that taking three months of advance base pay may seem like a good idea, but it presents some financial risks that can sink your financial plan. Remember that basic pay advances are normally paid back over a period of twelve months, starting a month after the allowance is drawn.

A 24-month payback may be permitted under special circumstances and subject to command approval. Advance pay will leave you with a huge dead horse to pay off that will translate into money deducted from your monthly budget. If you feel the need to take that three month advance pay, you may also need to take a look at your budget to see your current spending behaviors.

A/V Slide 15: Allotments

An allotment is one category of money that comes out of your pay. You can arrange to have money taken directly out of your pay and sent to a person or account you designate. The allotment system is a convenient way to pay bills, make charitable contributions, and manage your money in general. You must start and stop allotments by filling out a form at your local PSD or online at the myPay site. They are paid on the first of the month.

There are two types of allotments allowed in the Navy pay system:

Discretionary Allotments: examples include payments to dependents, insurance premiums, car loans, mortgage or rent, loan payments, and savings. You are limited to six total discretionary allotments.

Non-Discretionary Allotments: examples include U.S. Savings Bonds, NMCRS loan repayments, indebtedness to the government, charitable contributions, and delinquent taxes.

Allotments are great money management tools that put *you* in control. Allotments also make saving and investing automatic, substantiating the concept of "pay yourself first." They set aside money in your financial plan before you even have a chance to see it or spend it.

A/V Slide 16: Deductions

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

Taxes: These include state and federal income tax, 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. Taxes are 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. Changing your home of record to avoid paying state income tax, especially when you have never lived there, did not vote there, or never had a drivers license there, is illegal.

NOTE Deductions in the Navy pay system include: Meal Deduction, Servicemembers' Group Life Insurance (SGLI); Family SGLI (FSGLI); Federal Income Tax Withholding; Federal Insurance Contribution Act (FICA)—Social Security Tax and Medicare; State Income Tax Withholding; Dental; Advance Pay/Advance BAH or OHA; Overpayment; Armed Forces Home Assessment; and Thrift Savings Plan (TSP).

Insurance: Withholdings include those for Servicemembers' Group Life Insurance (SGLI and FSGLI) and the Dental Health Plan.

Garnishments: This is 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 can also 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 is also where you will see advance pay and BAH or OHA paybacks.

A/V **Slide 17:** Other Military Benefits

Servicemembers' Group Life Insurance (SGLI): 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 it ceases after 120 days or it can be converted to another type of insurance after service ends.

Family Servicemembers' Group Life Insurance (FSGLI): 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.

NOTE SGLI and FSGLI will be discussed in greater length in the MDS Insurance: Protecting Wealth Module.

Thrift Savings Plan (TSP): The Thrift Savings Plan is a retirement savings plan available through the U.S. government. Participation in the TSP is likely to be a wise choice as it provides automatic savings. There are numerous benefits to the program; however, the most significant benefit is the pre-tax deduction which lowers your overall tax bill. TSP will be discussed in greater detail in the Building Wealth Module.

Survivor Benefit Plan (SBP): There are multiple survivor benefits available to you including the Survivor Benefit Plan, an option you will be given as you plan for retirement. If you are on active duty, retirement-eligible and have a spouse and/or children, your family is automatically protected under SBP at no cost to you while still on active duty. When you retire, you may elect any of several SBP options. SBP allows you to have a portion of your retired pay go to a designated beneficiary after you die. You pay the premium for this benefit directly from your retirement pay.

Medical and Dental Care: Provided at no cost to active duty members and at varying costs to family members depending upon the type of coverage selected.

Education and VA Programs: 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 to assist with your education. These are programs where you share in the cost of the benefit. There are also programs funded entirely by the government.

Leave: You earn leave every month. You earn 2.5 days per month for a total of 30 days per year. Depending upon duty requirements, you are also 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 (October 1). You may also sell back up to 60 days 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.

A/V **Slide 18:** Taxes

Tax Advantages: 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 tax benefits can provide a significant tax advantage.

Social Security Taxes (FICA TAXES): 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.

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

? Q *What would you estimate as the difference between an E4 (with four years in the Navy) claiming SO versus M2 for tax purposes?*

(Figures from the 2009 Military Tables: S00 ($256) and M02 ($87) for a difference of $169 monthly.)

WEB Option: Take participants on virtual tour of military pay tables at www.dfas.mil and have them pick a rate and determine the difference between a S00 and M02 tax allowance.

? Q *What are some ways you could use the difference as part of an overall effective financial management plan?* (Highlight all acceptable answers such as decreasing debt, increasing savings or used as part of a monthly spending plan).

State Income Tax Withholding (SITW—STATE TAXES): Your military compensation may be subject to SITW for the state you claim as your legal residence. Treat state taxes like federal taxes—do not pay any more than you are required to pay. Be aware of the states that do not have state income tax (some have an intangible personal property tax). In 2009, these states include: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. These two states tax only dividend and interest income: New Hampshire and Tennessee.

Also, the Service Members Civil Relief Act of 2004 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 his/her military income. However, if you have non-military income from the second state, you are liable for state income taxes on that income.

Withholding: The goal of paying your federal taxes should be to pay your fair share and break even, so that when tax time rolls around you do not owe and are not owed any money. Some people like to over-withhold so that they get a big refund back at tax time. That is an option if you do not have the discipline to save otherwise. 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 interest on your money.

Look at your LES under the headings Fed Taxes/State Taxes, Marital Status (M/S) and Exemptions (EX) (sections G and I) which provide information on marital status and number of exemptions you are claiming. Are the exemptions correct? Many service members forget to update their W4 and have taxes withheld at too high a rate. This is one of the most common problems financial counselors see and, once corrected, is the easiest way to get more money into your paycheck.

VITA (Volunteer Income Tax Assistance): Remember, at tax time the VITA program is a free service available to help you complete your Federal Income Tax forms (and possibly state forms) and may even be able to electronically file your taxes for you.

A/V **Slide 19:** Common Pay Problems

The following is a list of common pay problems:

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

Slide 20: Pay Solutions

The following are some suggestions that can help prevent and/or deal with common pay problems:

- Monitor LES.
- Notify PSD immediately when there is a change in family status (marriage, birth, death, divorce); keep your Page 2 current and update the information on myPay.
- 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.

Slide 21: Repayment Options

Extend Repayment Period: Contact disbursing or DFAS to arrange for a longer repayment period. You will need to explain your situation and will need command support as to your reasons why you need longer to pay.

Make Payment Arrangements: 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.

Slide 22: Sources of Help

There are many sources available to help you with your military benefits. In addition to the list of Web sites on your handout, refer to the following for assistance:

- Command Financial Specialist.
- Fleet and Family Support Center.
- Local Disbursing Office.
- Navy Legal Services Office.
- TRICARE Health Benefits Advisor.
- Navy-Marine Corps Relief Society.

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

A/V **Slide 23**

Optional Participant Activity: Pay Check Review

Game Directions

- Print out the question bank listed below and thoroughly familiarize yourself with all the questions and answers and any backup information.
- Practice on your computer, then practice in a classroom making sure you know how to use the slide package. Check to see that hyperlinks and sounds are in working order.
- If you save your game, you may write over your template which can interfere with the hyperlinks. It is best to not save games played with the class. However, the template on the disk will always be a fresh one, since it is read-only.
- Decide in advance if you will divide your participants up into teams or if the class will answer as individuals. Decide on scoring, team names and prizes, if any.
- For games where teams will be competing to be the first to answer a question, you may want to have a “spotter” at the front or back of the room to help choose which hands go up first. Make sure the group knows that ultimately you are the arbiter in any questionable situations.

Tic-Tac-Toe Question and Answer

This game format uses a *Tic-Tac-Toe* board with simple questions and answers. Upon opening the game, make sure macros are enabled and go to slide show format. Note that some of the *Tic-Tac-Toe* files have more than one game programmed.

Navigating: At the main game board slide, click on the box for the first "position" chosen. The question will appear on the screen. The answer will appear when you click anywhere on the screen. Click on the "house" button at the bottom center to return to the main game board slide. Type either an X or an O in the box depending on which team won the space. Then proceed on to the next box chosen.

Sounds: At the bottom left of the question/answer slide there is an "O," which will give you the wrong buzzer sound. For correct answers you can click on the "X" (at the bottom right) for applause. The sounds are optional.

Scoring: Score is kept by placing either an X or an O in the box on the main game board slide. You designate the combination for winning. It could be the traditional three in a row, or it could be whichever team gets the most blocks.

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 that are taxable?
    - Base Pay
    - Special and Incentive Pays

4. What are seven things you can do on the myPay Web site?
   - Review the LES
   - Change tax withholdings
   - Update DDS information
   - Manage allotments
   - Buy Saving Bonds
   - Enroll in the TSP
   - Change TSP contribution percentages
5. Who is responsible for the accuracy of pay information?
   - Sailors
6. What are three non-taxable allowances for living expenses?
   - BAS
   - FSA
   - CRA
7. What are two types of pay and/or allowances that may be received in advance?
   - Base Pay—Up to three months
   - BAH—Up to three 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

Million Dollar Sailor
Module Two: MDS on Military Pay Module

Participant Notes Page

1. Understanding military pay and monitoring my LES is an important step in

   ____________________ and ____________________.

2. Some military pays and allowances that can affect changes in pay:

3. Name repayment options for government debts:

4. Two factors you can adjust on your W2 Form that will determine the amount of federal taxes withheld from your pay are:
   marital ____________________ and the number of ____________________ claimed.

5. What are some military benefits beyond pay and allowances?

6. Two resources to assist you with correcting pay problems are:

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Understanding Your LES

This handout is published as a guide to inform you about your DFAS Leave and Earnings Statement (LES) and what it means to you. Every month, you will receive, or find on myPay, an LES showing entitlements, deductions, and allotments. If, after reading this pamphlet, you have any questions concerning your pay, check with your Disbursing Office.

DEFENSE FINANCE AND ACCOUNTING SERVICE MILITARY LEAVE AND EARNINGS STATEMENT

ID	NAME (Last, First, MI)	SOC. SEC. NO.	GRADE	PAY DATE	YRS SVC	ETS	BRANCH	ADSN/DSSN	PERIOD COVERED
	DOUGH, JOHN M.	000-55-5555	E6	860101	18	041122	NAVY	4015	THIS MONTH

A

	ENTITLEMENTS		DEDUCTIONS		ALLOTMENTS		SUMMARY	
	Type	Amount	Type	Amount	Type	Amount	+ Amt Fwd	.00
A	BASE PAY	2809.80	FEDERAL TAXES	335.00	DISCRETIONARY ALT	100.00	+ Tot Ent	4491.51
B	BAH	919.00	FICA-SOC SECURITY	174.21	DISCRETIONARY ALT	47.00	– Tot Ded	2542.74
C	CSP	480.00	FICA-MEDICARE	40.74	AFAF ALLOT	2.00	– Tot Almt	168.74
D	BAS	242.81	SGLI FOR 250,000	16.25	TRICARE DENTAL	19.74	= Net Amt	
E	CRA	39.90	AFRH	.50			– Cr Fwd	.00
F			MEAL DEDUCTION	196.00			= EOM Pay	$1,780.03
G			MID-MONTH-PAY	1780.04				
H								
I								
J								
K								
L								
M								
N							DIEMS	RETPLAN
O	TOTAL	4,491.51		2,541.74		168.74	XXXXXX	HIGH 3

B C D E

F

LEAVE	BF Bal	Ernd	Used	Cr Bal	ETS Bal	LV Lost	LvPd	Use/Lose	FED TAXES	Wage Period	Wage YTD	M/S	Ex	Add Tax	Tax YTD
	15.0	3.0	.0	18.0	68.0	.0	0.0	.0		2809.80	7657.80	M	00	.00	900.00

G

H

FICA TAXES	Wage Period	Soc Wage YTD	Soc Tax YTD	Med Wage YTD	Med Tax YTD	STATE TAXES	St	Wage Period	Wage YTD	M/S	Ex	Tax YTD
	2809.80	6517.80	404.10	6517.80	94.50		FL	2809.80	7657.80	M	00	.00

I

J

PAY DATA	BAQ Type	BAQ Depn	VHA Zip	Rent Amt	Share	Stat	JFTR	Depns	2d JFTR	BAS Type	Charity YTD	TPC	PACIDN
	W/DEP	SPOUSE	23511	750.00	1	A		4			6.00		

K

THRIFT SAVINGS PLAN (TSP)	Base Pay Rate	Base Pay Current	Spec Pay Rate	Spec Pay Current	Inc Pay Rate	Inc Pay Current	Bonus Pay Rate	Bonus Pay Current
	0	.00	0	.00	0	.00	0	.00
		TSP YTD Deductions		Deferred		Exempt		
		.00		.00		.00		

REMARKS: YTD ENTITLEMENTS: 9856.80 YTD Deductions: 1508.10

L

BAH BASED ON W/DEP, ZIP 23511
SEA DUTY TIME 12/01/15
BANK NAME
ACCOUNT #

DFAS Form 702, Jan 02

Key To Sections

A Shows period covered by this LES. This LES will reflect any changes to Petty Officer Dough's pay which the Defense Finance Accounting Service Cleveland (DFAS) has processed. There may have been other changes to his entitlements, but due to mail or processing delays, they are not reflected on this LES. In most cases these changes will be reflected on the next LES.

B Displays all entitlements for the period covered. Any entitlements that were earned in previous months will be added to like entitlements or allowances.

C Displays all deductions from pay for the period covered. Any retroactive deductions will be added to like deductions.






D Displays all allotments deducted from pay for the period covered.

E Summarizes entitlements, deductions, and allotments to provide the actual amount of the payment to be paid to the member on payday. Amount shown is the amount to be paid on the end-of-the-month payday.

"DIEMS" is the date John Dough signed up for military service.

"RETPLAN" is the retirement plan under which John Dough entered service.

F Provides the current status of Petty Officer Dough's leave account.

"BF Bal" (brought forward leave balance) shows the days leave carried forward from the previous fiscal year ending on 30 Sep.

"Ernd" is the cumulative amount of leave earned this fiscal year or current term of enlistment if service member reenlisted/extended since the beginning of the fiscal year.

"Used" is the cumulative amount of leave used this fiscal year.

"Cr Fwd" is the current leave balance as of the end of the period covered by the LES.

"ETS Bal" shows the projected leave balance to the Expiration Term of Service (ETS).

"Lv Pd" will periodically display any leave sold back to the Navy.

"Use/Lose" is the projected number of days of leave that will be lost if not taken in the current fiscal year.

G Shows current federal tax information.

H Shows FICA information (Social Security tax plus Medicare tax).

I Shows current state tax information, including marital status and number of exemptions.

J Provides information for local disbursing use.

K Provides information on TSP contributions for the current year.

"Rate" boxes indicate the percentage of pay elected for contribution.

"Current" boxes indicate the contribution for this pay period.

L Provides information about changes in allotments, deductions, or entitlements. Indicates career sea service counter.

Web sites:

www.npc.navy.mil/CareerInfo/StayNavyTools

www.militaryonsecource.com

www.dfas.mil/militarypay.html

www.nko.navy.mil

www.dod.mil/militarypay

www.lifelines.navy.mil

REMEMBER

Your pay is your responsibility. Verify and keep your LES each month. If your pay varies significantly and you don't understand why—visit your Disbursing Office or mypay.dfas.mil

Form W-4 (2009)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2009 expires February 16, 2010. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds $950 and includes more than $300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on their tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earner/multiple job situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see the Instructions for Form 8233 before completing this Form W-4.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2009. See Pub. 919, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A Enter “1” for **yourself** if no one else can claim you as a dependent . . . . **A** ______

B Enter “1” if:
- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse’s wages (or the total of both) are $1,500 or less.

. . **B** ______

C Enter “1” for your **spouse.** But, you may choose to enter “-0-” if you are married and have either a working spouse or more than one job. (Entering “-0-” may help you avoid having too little tax withheld.) . . . . **C** ______

D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . **D** ______

E Enter “1” if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . **E** ______

F Enter “1” if you have at least $1,800 of **child or dependent care expenses** for which you plan to claim a credit . . **F** ______
(**Note.** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

G **Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.
- If your total income will be less than $61,000 ($90,000 if married), enter “2” for each eligible child; then **less** “1” if you have three or more eligible children.
- If your total income will be between $61,000 and $84,000 ($90,000 and $119,000 if married), enter “1” for each eligible child plus “1” **additional** if you have six or more eligible children. **G** ______

H Add lines A through G and enter total here. (**Note.** This may be different from the number of exemptions you claim on your tax return.) ▶ **H** ______

For accuracy, **complete all worksheets that apply.**
- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $40,000 ($25,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** | **Employee’s Withholding Allowance Certificate** | OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

▶ **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

2009

1 Type or print your first name and middle initial.	Last name	2 **Your social security number**
Home address (number and street or rural route)	3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note.** If married, but legally separated, or spouse is a nonresident alien, check the “Single” box.	
City or town, state, and ZIP code	4 **If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.** ▶ ☐	

5 Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2) **5**

6 Additional amount, if any, you want withheld from each paycheck . . . . **6** $

7 I claim exemption from withholding for 2009, and I certify that I meet **both** of the following conditions for exemption.
- Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability **and**
- This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.

If you meet both conditions, write “Exempt” here . . . . ▶ **7**

Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.

Employee’s signature
(Form is not valid unless you sign it.) ▶ **Date** ▶

8 Employer’s name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

Deductions and Adjustments Worksheet

Note. Use this worksheet *only* if you plan to itemize deductions, claim certain credits, adjustments to income, or an additional standard deduction.

1 Enter an estimate of your 2009 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 2009, you may have to reduce your itemized deductions if your income is over $166,800 ($83,400 if married filing separately). See *Worksheet 2* in Pub. 919 for details.) . . . **1** $

2 Enter: { $11,400 if married filing jointly or qualifying widow(er); $ 8,350 if head of household; $ 5,700 if single or married filing separately } . . . **2** $

3 **Subtract** line 2 from line 1. If zero or less, enter “-0-” . . . **3** $

4 Enter an estimate of your 2009 adjustments to income and any additional standard deduction. (Pub. 919) . . . **4** $

5 **Add** lines 3 and 4 and enter the total. (Include any amount for credits from *Worksheet 8* in Pub. 919.) . **5** $

6 Enter an estimate of your 2009 nonwage income (such as dividends or interest) . . . **6** $

7 **Subtract** line 6 from line 5. If zero or less, enter “-0-” . . . **7** $

8 **Divide** the amount on line 7 by $3,500 and enter the result here. Drop any fraction . . . **8**

9 Enter the number from the **Personal Allowances Worksheet,** line H, page 1 . . . **9**

10 **Add** lines 8 and 9 and enter the total here. If you plan to use the **Two-Earners/Multiple Jobs Worksheet,** also enter this total on line 1 below. Otherwise, **stop here** and enter this total on Form W-4, line 5, page 1 **10**

Two-Earners/Multiple Jobs Worksheet (See *Two earners or multiple jobs* on page 1.)

Note. Use this worksheet *only* if the instructions under line H on page 1 direct you here.

1 Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**) **1**

2 Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here. **However,** if you are married filing jointly and wages from the highest paying job are $50,000 or less, do not enter more than “3.” . . . **2**

3 If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter “-0-”) and on Form W-4, line 5, page 1. **Do not** use the rest of this worksheet . . . **3**

Note. If line 1 is *less than* line 2, enter “-0-” on Form W-4, line 5, page 1. Complete lines 4–9 below to calculate the additional withholding amount necessary to avoid a year-end tax bill.

4 Enter the number from line 2 of this worksheet . . . **4**

5 Enter the number from line 1 of this worksheet . . . **5**

6 **Subtract** line 5 from line 4 . . . **6**

7 Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here . . . **7** $

8 **Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding needed . . **8** $

9 Divide line 8 by the number of pay periods remaining in 2009. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2008. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck . . . **9** $

Table 1

Married Filing Jointly		All Others	
If wages from **LOWEST** paying job are—	Enter on line 2 above	If wages from **LOWEST** paying job are—	Enter on line 2 above
$0 - $4,500	0	$0 - $6,000	0
4,501 - 9,000	1	6,001 - 12,000	1
9,001 - 18,000	2	12,001 - 19,000	2
18,001 - 22,000	3	19,001 - 26,000	3
22,001 - 26,000	4	26,001 - 35,000	4
26,001 - 32,000	5	35,001 - 50,000	5
32,001 - 38,000	6	50,001 - 65,000	6
38,001 - 46,000	7	65,001 - 80,000	7
46,001 - 55,000	8	80,001 - 90,000	8
55,001 - 60,000	9	90,001 - 120,000	9
60,001 - 65,000	10	120,001 and over	10
65,001 - 75,000	11		
75,001 - 95,000	12		
95,001 - 105,000	13		
105,001 - 120,000	14		
120,001 and over	15		

Table 2

Married Filing Jointly		All Others	
If wages from **HIGHEST** paying job are—	Enter on line 7 above	If wages from **HIGHEST** paying job are—	Enter on line 7 above
$0 - $65,000	$550	$0 - $35,000	$550
65,001 - 120,000	910	35,001 - 90,000	910
120,001 - 185,000	1,020	90,001 - 165,000	1,020
185,001 - 330,000	1,200	165,001 - 370,000	1,200
330,001 and over	1,280	370,001 and over	1,280

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. The Internal Revenue Code requires this information under sections 3402(f)(2)(A) and 6109 and their regulations. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may also subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws, and using it in the National Directory of New Hires. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

Module Three: Millionaire Money Management

Module Length: 120 Minutes

Million Dollar Sailor

Millionaire Money Management

Module Description:

The ability to manage money effectively is the single most important factor in achieving financial success versus meeting financial failure. Becoming a Million Dollar Sailor requires a financial blueprint that outlines how money will be used to reach personal financial goals and to achieve financial freedom.

The module will address the importance of developing financial goals and having a written plan to help achieve those goals. Using the Financial Planning Worksheet, a comprehensive financial planning tool, participants will learn how to measure their wealth by calculating net worth, account for all of their income, document living expenses, and detail their indebtedness. Participants will also learn easy ways to improve their cash flow, reduce unnecessary living expenses, pay off debt and seek assistance with budgeting issues.

Learning Objectives:

Upon completing this two-hour module, learners will be able to:

- Demonstrate their understanding of personal goal setting by developing one short term and one long term financial goal using the SMART (Specific, Measurable, Action-Oriented, Realistic, Timely) Goal Format.
- Distinguish the differences among net income, gross income and disposable income.
- Complete a financial planning worksheet consisting of calculations of net worth, monthly income, monthly savings and living expenses, indebtedness and debt-to-income ratio.
- Identify options for increasing income, decreasing expenses and decreasing indebtedness to improve a financial plan.
- Name at least two sources of help to assist them with developing their spending plan.

Materials Needed:

- MDS Millionaire Money Management PowerPoint Slides
- Computer/Internet and PowerPoint Projector
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper

- Calculators
- Electronic Financial Planning Worksheet (Excel Calculator)
- Handouts:
  - *Financial Planning Pyramid*
  - *Financial Planning Worksheet (FPW)*
  - *Creative Savings Strategies*
  - *I can't Invest Now*
  - *Debt-to-Income Ratio for Consumer Debt*
  - *Module Three Participant Notes Page*

Works Cited:

Bureau of Economic Analysis. "National Income and Product Accounts Table." 2008. National Economic Accounts. 4 November 2008 <http://www.bea.gov/national/nipaweb/index.asp>.

myPay. 2008. Defense Finance and Accounting Service. 3 November 2008. <http://www.dfas.mil/>.

Department of Labor. "Consumer Expenditure Survey." 2006. Bureau of Labor Statistics. 5 November 2008. <http://www.bls.gov/cex/>.

Department of the Navy. Command Financial Specialist Training Manual 15608D. Washington D.C.: Commander, Navy Installations Command, 2005.

——. OPNAV Instruction 1740.5B. Washington D.C.: Office of the Chief of Naval Operations, 2007.

——. Personal Financial Management Standardized Curriculum. Washington D.C.: Commander, Navy Installations Command, 2007.

—— SECNAV Instruction 1754.1B. Washington D.C.: Office of the Secretary of the Navy, 2005.

Ramsey, D. The Money Answer Book. Nashville: The Thomas Nelson Group, 2004.

——. The Total Money Makeover. Nashville: The Thomas Nelson Group, 2007.

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

A/V **Slide 1:** Millionaire Money Management

HO *Module Two Participant Note Pages*

Q *How many of you (by a show of hands) are currently using a spending plan?*

For most major events in life it is important to have a plan. Significant events in the Navy, such as going on a mission or making rank, require a plan. Managing your money requires a plan.

The average E4 over four years of service makes about $25,000 per year (2009 Military Pay Tables). Bypassing promotions and raises, assuming he or she stays in the Navy for 10 years, he or she would earn over $250,000. If you have $250,000 running through your fingers, would you not want a plan for it? If you were building a $250,000 house, would you not use a blueprint?

> **NOTE** Encourage volunteers to describe their spending plan in more detail such as: why they started one, how they created and maintain it, and what they include in the spending plan.
>
> Focus (and provide) positive responses that indicate the power and freedom that a spending plan can provide.

A/V **Slide 2:** Millionaire Money Management

As we mentioned in the MDS Overview, Thomas Stanley interviewed millionaires across the nation for the basis of his best-selling book, T*he Millionaire Next Door*. The results of his research could be summarized in one single statement: rich people are good at managing their money. They make their money behave the way they want it to. Non-millionaires tend to be better at mismanaging their money. Research has shown that the single biggest difference between financial success and financial failure is how well you manage your money (Eker, 2005).

As we discussed in our Millionaire Myths, rich people are not smarter than poor people, but they do have better habits when it comes to their money. Habits are critical, and we all have habits of "doings" and habits of "not doings" (Eker, 2005). If you are not in the habit of managing your money, chances are you have probably never found a way that is easy and effective. The purpose of this module is to introduce you to the Financial Planning Worksheet, a money management tool that can help you.

A/V **Slide 3:** Agenda

Purpose of a Spending Plan: We will discuss the purpose of having a written financial plan to serve as your roadmap to achieving financial freedom.

Setting S.M.A.R.T. Goals: We will explain importance of establishing S.M.A.R.T. financial goals that can provide direction to your financial management efforts.

The Financial Planning Pyramid: We will explain the fundamentals of sound financial management practices, starting with the most building a solid foundation.

Developing Your Personal Financial Plan: We will demonstrate how to develop your own financial plan that will enable you to calculate your net worth, account for all of your income, document living expenses, and detail any indebtedness. We will also identify ways to improve your cash

flow, reduce unnecessary living expenses, pay off debt and seek assistance with budgeting issues.

Slide 4: Money Management Excuses

"Budgeting restricts my freedom."

The word "budgeting" conjures up a lot of negative thoughts for people. Something about budgeting and freedom just do not seem to go together. But the truth is that budgeting does not restrict your freedom, it actually promotes it. Used consistently, a budget is simply telling your money where it should go instead of wondering where it went.

"I don't have enough money to manage."

The habit of managing your money is more important than the amount. It is not about how much money you make; it is about how much money you keep. Waiting until you have plenty of money before you begin to manage it is like looking through the wrong end of the telescope. It is the equivalent of an overweight person thinking "I will start to diet and exercise as soon as I lose weight." If you do not find a way to manage your money, the lack of it will always manage you.

Slide 5: Your Spending Plan

What is a spending plan? A spending plan is a written method to help you achieve your financial goals by measuring and managing the money that comes in and goes out of your "pocket." A common name for a spending plan is a budget.

Spending Your Money On Paper and On Purpose: A spending plan is a written method of spending your money with intention.

Gives Every Dollar a Name: It is telling your money where to go instead of trying to figure out where it went.

Means of Achieving Your Goals: A spending plan is your roadmap or your blueprint to achieving your goals.

A spending plan is just that—a plan—or a way of spending your money on paper, on purpose, with intention.

Slide 6: Effective Spending Plans

Characteristics of an effective spending plan will fade in one at a time with the mouse click.

An effective plan:

Guide and servant—not a master: Some people think of a budget or a spending plan much like a diet or a type of straight jacket that keeps them constrained. Freedom and budget just do not seem to go together. But when they develop and use a budget or a spending plan, they are likely to experience more freedom and contentment than before they implemented one. The plan is there to guide you, not control you.

Practical and realistic: An effective spending plan has to be based on reality. You may want to spend only $20.00 a month on gas for your car, but is that realistic? You may want to start riding your bike rather than driving, but is that practical? As you work through your spending plan, be sure to keep it realistic. Do not set yourself up for failure.

Easy to understand: In its simplest form, a spending plan is a list of money coming in and going out. Although this program will introduce you to an eight-page tool, a simpler approach may work depending on your situation. It is important to keep the process as simple as possible.

Reflection of your needs, wants, values and goals: The spending plan needs to be customized to *you*. It should reflect the way you actually spend your money. Anyone who spends the money should be involved in the budgeting process (such as your spouse).

Based on current income and expenses: While your plan can allow for additional expenses or income you expect in the future, it is important that the figures accurately reflect your current income and expenses. If you do not know what your current income and expenses are, finding out may require some effort by everyone in your family who spends and earns money. Tracking your spending for a pay period or two may help you attain more accurate numbers.

Flexible: Changes are constantly occurring in your life and your spending plan should be flexible enough to accommodate those changes. Your budget will not be perfect when you first put it on paper, and it does not necessarily need to be down to the penny for it to work. Over time, your budget will continue to work more effectively. You can also build flexibility into your budget by strengthening your emergency and reserve savings.

Provides for necessities and fun: Service members and their families work hard for their money and make sacrifices every day that most civilians do not. It bears repeating that your spending plan should not be so restrictive that you do not have room for some of life's pleasures. There are times when everyone needs to cut back, but it is reasonable and expected that people will build into their spending plan some money for pleasure, as well as necessities.

A/V Slide 7: SMART Financial Goals

Anything you want to achieve (making rate, getting a degree, saving money) requires the same thing—setting a goal. Successful people have goals. They take control of their money and plan its use. Goal setting forces you to decide what you want to accomplish with your money and clearly defines the steps to take. A well-written goal is a "SMART" goal. SMART means:

Specific (Is the outcome/ desired result clear?)
Measurable (How will you determine whether you have reached the goal?)
Action-oriented (What are going to do in order to achieve this goal?)
Realistic (Is this goal possible, given my circumstances?)
Timely (When will I achieve this goal? How long will it take?)

Goals can be short-term, meaning you could achieve them within the next five years, or long-term, meaning it will probably take you more than five years to achieve it. Regardless of whether it is a short-term or long-term goal, it is important to commit your financial goals to writing.

Remember that goals may change over time. Going through the process of writing a spending plan may help identify areas where spending could be reduced or income could be reallocated. As your financial situation changes, it is common to adapt your action steps to achieve your goals.

A/V Slide 8: Setting Millionaire Goals

An example of a weak long-term goal is: *"I want to be rich."* Many people want to be rich, but this goal does not have a specific plan. How will you become rich, by what age, starting when?

However, writing it out using the SMART technique, the goal states, "I plan to have $1 million dollars in assets by age 65. To achieve my goal I will invest $250 per month in mutual funds with an average annual rate of 10%." Excellent goal! It is specific as to how much to save, has an end point and identifies what will be done to make it happen.

A/V Slide 9: SMART Goal Example

Presented here is an example of a SMART financial goal.

- The goal is **S**pecific: eliminate the credit card debt.
- The goal is **M**easurable: $4000 paid off over the next two years.
- The goal is **A**ction-oriented: the individual has already listed several ways to reduce expenses and increase income. Some of these changes will have an immediate effect on monthly income (For example, changing the withholding tax).

- The goal is also **R**ealistic and **T**imely. The individual has broken it down into several smaller steps to be implemented over the next two years.

Comprehensive, accurate and effective spending plans are developed with the ultimate goal of building wealth, not debt. Start this process by envisioning what you would like to achieve with your money and then writing your goals down in black and white using the “SMART “process.

A Goal Setting (5 Minutes)

Ask the participants to take a moment and think of a financial goal they would like to make, both for the short-term goal (one to five years) or the long-term (over five years). Instruct participants to write their goals down on their Participant Notes Page, as well as some action steps to help them achieve these goals.

NOTE Ask for volunteers to share their goals with the class. (Optional)

A/V **Slide 10:** The Financial Planning Pyramid

HO *The Financial Planning Pyramid*

The Financial Planning Pyramid gives us a visual picture of the steps involved in successful management of personal finances. If you can implement the Financial Planning Pyramid, you will become a Million Dollar Sailor.

To receive maximum benefit, you must start with the foundation of implementing a financial plan. This first step in building wealth includes the most basic elements of planning: establishing adequate income, implementing controlled spending and maintaining adequate insurance.

Once this level of the Financial Planning Pyramid is mastered, then you can start saving for emergencies, goals and retirement. Some Sailors may be able to work on establishing a balance of paying down debt and establishing savings. Each person and situation is different and unique. Should you do this out of sequence, and the first emergency comes along, your financial plan will fall like a house of cards. This is a process that takes time and commitment.

NOTE Suggested break point.

A/V **Slide 11:** Developing a Personal Financial Plan

HO *The Financial Planning Worksheet*

The *Financial Planning Worksheet (FPW)* is the spending plan form used in the Navy’s Personal Financial Management Program. There are five major components to the FPW which we will discuss as we go through them. They are:

1. Net Worth (p. 1)
2. Budget (pp. 2–4)
3. Action Plan (p. 5)
4. Monthly Spending Plan (p. 6)
5. Daily Expense Tracker (pp. 7–8).

The first component (listed on page one) is the Net Worth Statement. Net worth is a measure of your wealth at a certain point in time. You measure your net worth by subtracting your liabilities from your assets. Your net worth is what you own minus what you owe.

On this form, you simply list the total value of everything you own on the left and the total balance due for everything you owe on the right. When you subtract one from the other you are left with your net worth. Since your net worth is a measure of your wealth, it is a number that you should track on a regular basis in order to ensure that you are building wealth, not debt. If you are running your finances according to sound money management principles, you should see this number go up year after year. Ideally, you should have a positive net worth, but for many people just starting out it is common to be negative.

A/V **Slide 12:** Budget or Cash Flow

The four primary elements of the budget portion of the *Financial Planning Worksheet* (pages two through four) are: Income, Savings, Expenses and Indebtedness.

The Income Section: The income section is on page two of the Worksheet and accounts for all money that is coming into your budget including your military pay—directly from your Leave and Earnings Statement (LES), any additional income from your spouse, a second job, rental income, etc.

It may be difficult to project out more than three months because there are often too many variables at play. Dual military couples will need to calculate the spouse's net income on another sheet of paper and insert the amount in the block designated "Spouse's Earnings (less taxes) on page two of the *FPW*.

Savings and Investing: The savings and investing sections (located on page three) encompass regular monthly contributions to some type of savings account that does not get pulled out during the month to pay expenses. Examples would include regular savings contributions, TSP, savings bonds and regular investments.

Living Expenses: Living expenses, listed on page three along with monthly savings, include everything that you spend in a month including groceries, gas, insurances, electricity, utilities, child care, charitable giving etc. It also includes your mortgage or rent.

Indebtedness: Page four is the indebtedness page where you list all of your outstanding consumer debt such as car loans, credit cards, advance pays or overpays, personal loans, etc.

You will notice that there is an "actual" and "projected" column. The "actual" column reflects the actual amount spent in that category. The "projected" column can be used for two purposes: 1) to reflect future pay raises or other increases in income; and/or 2) to display a lesser amount that is targeted for a future month due to shortfalls of money that have occurred from excessive spending in a previous month. In the end, your expenses must equal your income. You cannot spend more money than you make.

A/V **Slide 13:** Monthly Income

There are different terms used for different combinations of pays and deductions:

Gross Income: your total pay and allowances, everything you earn.

Net Income: gross income less taxes.

Take-Home Pay: net income less any other deductions or automatic allotments. This is what ends up in your account each payday.

A/V **Slide 14:** Savings and Living Expenses

Page three of the *FPW* consists of all the money you spend on a monthly basis, including both savings and living expenses.

There is room in this section to list any monthly amounts put into savings funds, as well as lines for monthly amounts going to investments. The *FPW* breaks savings up into reserve funds for expenses that do not occur monthly (car insurance, school tuition, birthdays, holidays), emergency fund for unexpected, emergency expenses (emergency leave, unexpected auto repairs, sick pets) and goal-getter fund (short-term goals, within five years). These three funds do not necessarily have to be three separate accounts, but they need to be accounted for separately. Investments would include any monthly contributions made to long term investments such as an IRA, TSP or other investment vehicles. Most financial advisors suggest you save a total of five to ten percent of net income.

? Q *Why do you think savings is listed as an expense on the FPW?*

(Savings, like other items deducted from net income, is an expense. While Sailors may be putting it away for another purpose or goal, it is still something they are currently "spending" money on.)

? Q *What percentage of their disposable income do you think the average American saves?*

The average American saves less than one percent of their disposable income. According to the Bureau of Economic Analysis (2009), personal savings as a percentage of disposal income was only .7% in 2006, .6% in 2007 and approximately 1.3% in 2008* (statistics based on the first three economic quarters of 2008). In recent years, we have also seen a negative savings rate, meaning that as a nation, we are spending more than we are making and dipping into savings for living expenses.

These statistics can be discouraging, but they can also serve as a wake-up call. The American dream is still very much alive and very much attainable. The average millionaire saves at least 10–20% of the disposable income. The Navy's Personal Financial Management Program recommends using this guideline as well for setting your monthly goals.

U% For recent statistics regarding the percentage of income saved by the average American and other financial statistics, consult the National Income and Product Accounts Table found on the Bureau of Economic Analysis Web site: www.bea.gov/national/nipaweb/index.asp.

Also listed on page three below Savings are the most common Living Expenses. Living Expenses take up the majority of your income. Some expenses are fixed, such as rent and insurance, while others such as entertainment, food and clothing are variable. You can control variable expenses and adjust the amounts you spend in these categories in order to have more to use somewhere else. If you are unsure of what your expenses are, tracking expenses for a month will give you a more accurate picture of your spending than trying to guess how much you spend in each category.

NOTE Current statistics on consumer spending can be found in the most recent "Consumer Expenditure Survey Reports" produced by the Department of Labor which can be found at Bureau of Labor Statistics Web site: www.bls.gov.

A (Optional) Living Expenses Discussion (15 Minutes)

As a group, walk participants through the living expenses section of the *FPW*, having participants contribute what they believe to be a fair monthly estimate for a family of four or for just one individual (depending on the group). While some disagreement may occur, the process gets the participants thinking of how small expenditures in each category can quickly add up. Some irregular expenses, such as holiday gifts and car expenses, may need to be calculated for an entire year and divided by 12 for a monthly estimate.

Slide 15: Indebtedness

Page four of the financial planning worksheet is the indebtedness section where you list all of your outstanding debt such as credit cards, car loans, personal loans, consolidation loans, student loans, advance payments, overpayments or indebtedness to Navy Marine Corps Relief (NMCRS), NEX, or family and friends. Along with the debt and its purpose, you will need to include the minimum payment required and annual percentage rate (APR) charged.

Do not include your mortgage as part of your indebtedness because, for purposes of constructing your own *FPW*, your mortgage is a living expense. You should, however, include debt from any rental property that is not your primary residence.

If you are currently paying more than the minimum monthly payment, then list the amount that is typically paid in the projected payment column.

NOTE Remind participants that they will need to transfer over any debts that have been paid right out of the military paycheck such as advance pay repayments, overpayments, NMCRS repayments or other payments made by allotment. It does not matter if the debt is being paid in the form of an allotment or by writing a check. The debt is still being paid out of your income. Debt payments over and above the minimum monthly payments need to be listed in the projected column in order to calculate an accurate debt-to-income ratio.

NOTE Facilitators who are experienced with the electronic *FPW* are encouraged to showcase this capability in the classroom. Students may find a demonstration of the "Full Steam" component of the electronic *FPW* highly motivating when they watch how quickly a targeted approach can reduce their debt. Inform participants they can see their Command Financial Specialist or FFSC Financial Educator for additional assistance in accelerating their debt reduction.

Slide 16: Financial Summary

With the numbers put into the Summary at the bottom of page four, you can determine whether you have a surplus (money left over) or a deficit (a negative amount) at the end of the month. Income minus savings minus living expenses determines what you have left to pay debts. This number minus debt payments is what you have at the end of the month.

NOTE Remind participants of the importance of double checking all of their figures and calculations to ensure there are no mistakes.

Is your bottom line positive or negative? If your bottom line is positive, great, but what are you doing with that extra money? If you are accounting for all your money, there should be no surplus or deficit. If there is a surplus, put it away into savings or use it to pay off debts. If there is a deficit, you need to make some adjustments. The Summary information can also be used to calculate what percentage of your net income goes to expenses, to indebtedness and to savings. Your debt-to-income ratio is computed by dividing the total of all your monthly debt payments (not including your mortgage) by net monthly income. The formula for calculating your debt-to-income ratio is listed on the bottom of the summary on page four: Total Monthly Debt Payments/Net Income x 100.

A/V **Slide 17:** Ideal Debt-to-Income Ratio

The ideal breakdown for your total net income is 70/20/10. Approximately 70% of your net income should be going towards living expenses. No more than 20% of your net income should be going towards your debts (indicated as your Debt-to-Income Ratio). Finally at least 10% of your monthly income should be designated for savings. Percentages will vary in different households based on different lifestyles, but these guidelines still prove very effective in helping build wealth and keeping debt to a reasonable level.

The following guidelines are used to determine a safe level of debt:

- Less than 15%—use caution.
- 15% - 20%—fully extended.
- 21% - 30%—overextended.
- Greater than 30%—seek help.

A/V **Slide 18:** Improving Your Plan

Page five shows three ways to improve your spending plan, which can create a more positive cash flow. There are three main options you can exercise to improve your financial situation, and combining any of the three can affect change even faster. The three ways of improving your budget are:

- Increase income.
- Decrease living expenses.
- Decrease indebtedness.

A What Are My Options? (20 Minutes)

Materials Needed:

- Markers
- Flipchart paper or whiteboard/newsprint
- Masking tape or push pins

Secure flipchart paper to walls around the classroom and label with the following topics at the top of the paper:

- Housing
- Transportation
- Food
- Entertainment
- Communication
- Clothing

Divide participants into groups of six to twelve participants and assign each group to one category. Instruct the group to make a list of ways to reduce living expenses in their category and write their suggestions on the sheet. Allow ten minutes for the groups to brainstorm responses for each category and ten minutes for group leaders to brief the class on their responses. At the conclusion of the exercise, distribute the *Creative Savings Strategies Handout.*

Methods of increasing income include getting a part-time job, having spouse work, changing federal or state income tax withholding, selling assets and paying off debts. Decreasing living expenses produces the most immediate results. A well-managed budget that decreases living expenses can see results within days. Some suggestions include reducing or bundling cable, telephone and internet services, using library for books and DVD rentals, reducing utility usage, using coupons, asking for military discounts and shopping at discounted stores. Surplus income found in your budget or surplus income resulting from increasing income or decreasing living expenses can be applied to debt payments to reduce overall indebtedness.

HO *Creative Savings Strategies*

A/V **Slide 19:** Spending Plan

Page six of the *FPW* is perhaps the most critical portion of your spending plan, outlining your paycheck-by-paycheck spending plan. What you plan on spending and what you actually spend can be two different things, depending on how you handle your money. It cannot be overstated how important it is to have a spending plan that accurately reflects your true expenses. All of the details you have worked out can be put together on one page to provide you with a specific amount to spend in each category.

You can use either your take home pay amount or total net income. Check the box for the amount on which you will base the Spending Plan. If you use take home pay, list only what is deposited into your account each pay day and then note all other expenses as indicated. If you have allotments coming out of your salary, do not include them again on this page. If you use the net income amount, include all expenses whether paid directly by you or by allotment.

The column labeled “Budgeted Amount” is the total monthly amount of all items in each category on page three. For example, Savings includes the total amount of your Emergency Fund, Reserve Fund and Goal Getter Fund, as well as your Investments/IRA/TSP. This total is then placed in the single block to the right of “Savings & Investments” (in the “Budgeted Amount” column) on the Monthly Spending Plan work sheet (page six).

Note the (P) for “planning.” This is where you list what you plan on spending with each paycheck. Looking at your bills, checkbook and credit card statements, determine when you spend money in each of the categories. For instance, if your phone bill is due on the 10th of the month and your water, electricity and gas bills are due on the 23-28th of the month, your phone bill expense is the only amount that should appear under the “P” in the “Utilities” row for the 1st of the month, while the total of your other three expenses are entered under the “P” for the 15th of the month.

The (A) is the “actual” amount you spent or paid for the items. Total up all expenditures in each category that occur from 1st-14th of the month under the “A” block in the “1st” column. Do likewise for all expenditures occurring from 15th-31st under the “A” block in the “15th” column. This is where you compare and evaluate what you have planned to spend versus what you actually spent. If you are under or on budget, congratulations! If you consistently overspend in one or more categories, you may have to decrease the expenditures in another category to balance your plan.

Remember, you cannot spend more money than you make. If you are over budget, you may need to get a better picture of your actual expenses so you can anticipate the higher cost of the category in the next month. Understand that some categories change with the seasons such as utilities (heating/cooling costs are higher in summer/winter while they are lower in spring/fall). Plan accordingly. The spending plan allows a forecast of three months so you do not forget quarterly payments.

When used as a working document, your spending plan forces you to make deliberate spending decisions. If you consider buying an item not on the plan, then you must make a choice, take on more debt or spend money allotted to something else.

A/V **Slide 20:** Sources of Help

A business would bring in a consultant if it started to run into financial problems. If you are having financial difficulties or need assistance creating a spending plan, get help. Sources of help include:

- Your Command Financial Specialist.
- Fleet and Family Support Center Financial Educators.
- Navy-Marine Corps Relief Society.
- Debt Management Programs at Credit Unions (both on and off the installation).
- Consumer Credit Counseling Services or other non-profit financial education organizations.

Some of these services are available online or by telephone.

A/V **Slide 21:** Financial Planning Worksheet Exercise (20 Minutes)

A Instruct participants that they will be spending the remainder of the module developing their own personal financial plan. Distribute a blank Financial Planning Worksheet and instruct participants to complete as much of the *FPW* as possible using the financial information they brought with them. Allow individuals to work independently or in groups, if participants feel comfortable sharing their personal information. Instruct them to calculate their debt-to-income ratio and to identify at least two options for improving their financial situation by increasing income, decreasing expenses or decreasing indebtedness.

NOTE Facilitators should walk around the room as participants are completing their Financial Planning Worksheet, providing guidance as needed. Participants may work together if both parties are agreeable.

Facilitators may want to have the current Navy Pay Scales available for individuals who neglected to bring an LES.

Million Dollar Sailor
Module Three: Millionaire Money Management

Participant Notes Page

1. SMART Goals are:

   S ______________________________________

   M______________________________________

   A ______________________________________

   R ______________________________________

   T ______________________________________

2. Write one short term and long term goal using the SMART GOAL Format

   ____

   ____

   ____

   ____

3. Your total pay and allowances is called____ .

4. Your gross income less taxes is called ____ .

5. Your net income less any other deductions or automatic allotments (what ends up in your account on payday) is called ____ .

6. Improving your financial plan involves several options including:

   Increasing ________________________

   Decreasing ______________________

   Decreasing ______________________

7. Two sources of help to assist you in developing a savings plan include: ____________________________ and ____________________________.

Notes ____

____

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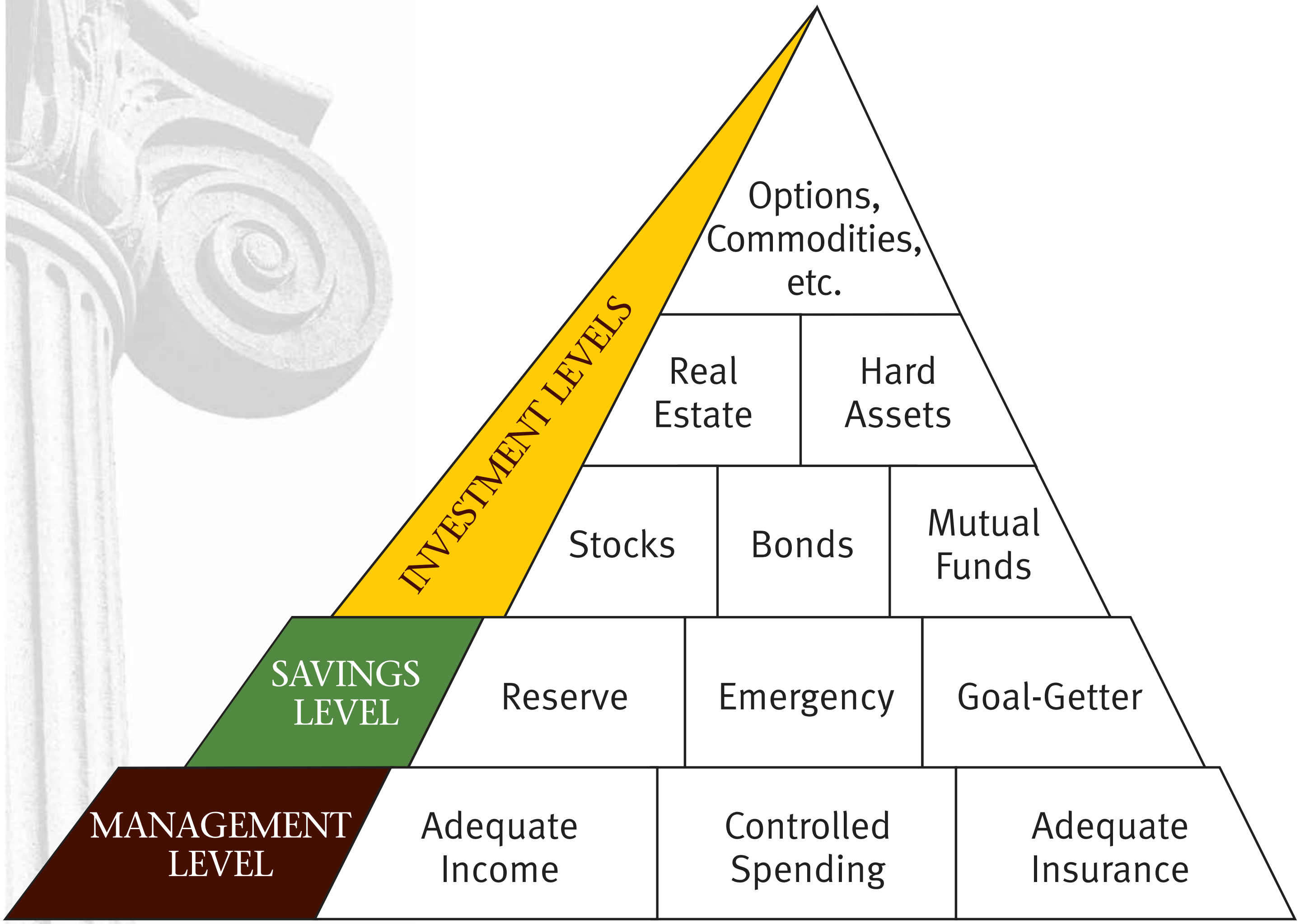
Financial Planning Pyramid



Financial Planning Worksheet

Date ____________ SSN ____________ Rate ____________

Name ________________________ Age ____________

Pay Grade ____________ Yrs. in Svc. ____________ Date Reported/PRD (Transfer) ____________

Marital Status ____________ Spouse's Name ____________ Age ____________

Spouse's Place of Employment ________________________

Number of Children and Ages ________________________

Home Address ________________________

Work Telephone ____________ Home Telephone ____________

Command & Referred By (Self, CMD, NMCRS, FFSC, etc.) ________________________

Amount of SGLI Elected ____________ Amount of FSGLI Elected ____________

TSP Monthly Contribution ____________ MGIB Monthly Contribution ____________

STATEMENT OF NET WORTH

ASSETS

Cash on hand $____________
Checking Accounts $____________
Savings Accounts $____________
Certificates of Deposit $____________
Cash Value of Life Insurance $____________
U.S. Savings Bonds $____________
Mutual Funds/Money Market $____________
Stocks/Bonds $____________
College Funds $____________
401(k)/403(b)/TSP $____________
Other (IRAs, etc.) $____________

Real Estate (Market Value)

Home $____________
Rental Property $____________
Other (Vac Home/Trailer/Time Share) $____________

Personal Property

Vehicles/Motorcycles/Boats $____________
Furniture $____________
Jewelry $____________
Other (Collectibles, etc.) $____________

Counseling Provided By: ____________
Counselor Phone #: ____________
Appointment Date: ____________ Time: ____________
Place: ____________

LIABILITIES

Signature Loans $ ____________
Auto Loans or Leases $ ____________
Consolidation Loans $ ____________
Student Loans $ ____________
NEX/AAFES (Star Card) $ ____________
Department Store Credit Cards $ ____________
Other Credit Cards $ ____________
NMCRS (Loan) $ ____________
Other (Friends, Relatives, etc.) $ ____________
Advance/Over Payments $ ____________

Mortgages-Balances Due

Home $ ____________
Rental Property $ ____________
Other (Vac Home/Trailer/Time Share) $ ____________

TOTAL ASSETS $ ____________

TOTAL LIABILITIES $ ____________

NET WORTH
(Assets – Liabilities) $ ____________

MONTHLY INCOME

	ENTITLEMENTS	ACTUAL		PROJECTED		REMARKS
*	Base Pay					
	Basic Allowance for Housing (BAH I or II)					
	Overseas Housing Allowance (OHA)					
	Basic Allowance for Subsistence (BAS)					
	Family Separation Allowance (FSA)					
*	Flight Pay/Diving Pay/Flight Deck Pay					
*	Submarine Pay					
*	Other Hazardous Duty Pay					
*	Sea Pay					
	Taxable COLA					
	Other (tax exempt/allowance eg. COLA/FSSA)					
	TOTAL MILITARY COMPENSATION (A)					
*	Taxable pay ( )					Excludes pretax ded for TSP/MGIB
	DEDUCTIONS	**ACTUAL**		**PROJECTED**		**REMARKS**
	ALLOTMENT					For/ends?
	ALLOTMENT					For/ends?
	ALLOTMENT					For/ends?
	ALLOTMENT					For/ends?
	ALLOTMENT					For/ends?
	Family SGLI (For Spouses)					
	Servicemembers' Group Life Insurance (SGLI)					
	Uniform Services TSP					
	MGIB					
	FITW Filing Status Actual					Proj. Status:
	FICA (Social Security)					Base Pay Only, Excludes MGIB
	FICA (Medicare)					Base Pay Only, Excludes MGIB
	State Income Tax					State Claimed:
	AFRH (Armed Forces Retirement Home)					
	TRICARE Dental Plan (TDP)					
	Advance Payments					Ends:
	Overpayments					Ends:
	TOTAL DEDUCTIONS (B)	$		$		
	CALCULATE NET INCOME	**ACTUAL**		**PROJECTED**		**REMARKS**
	Service Member's Take Home Pay (A-B)	$		$		Divide by 2 for Payday Amount
	Service Member's Other Earnings (less taxes)					
	Spouse's Earnings (less taxes)					
	ALLOTMENT					
	ALLOTMENT					
	ALLOTMENT					
	ALLOTMENT					
	ALLOTMENT					
	Family SGLI (For Spouses)					
	Servicemembers' Group Life Insurance (SGLI)					
	Uniform Services TSP					
	MGIB					
	TRIDARE Dental Plan (TDP)					
	Advance Payments					
	Overpayments					
	Child Support/Alimony (Received/Income)					
	Other Income (e.g. SSI, Rental Income)					
	TOTAL MONTHLY INCOME	$		$		

**Note:* *Pay Entitlements are taxable. Allowance Entitlements are non-taxable.*

MONTHLY SAVINGS AND LIVING EXPENSES

Note: Actual or Projected Figures can be carried forward to spending plan.

SAVINGS		ACTUAL		PROJECTED		REMARKS
SAVINGS	Emergency Fund (1-3 months)					Monthly Contribution Amount
Goal: 10% of Net Income	Reserve Fund					
Actual Projected	"Goal-Getter" Fund					
$ $	Investments/IRAs/TSP/etc.					
TOTAL SAVINGS AND INVESTMENTS (10%)		$		$		
LIVING EXPENSES		ACTUAL		PROJECTED		REMARKS
HOUSING	Furnishings					
	Maintenance/Repairs					
	Mortgage/Rent					
	Taxes/Fees					
FOOD	Dining Out					
	Groceries					
	Lunches					Include school and work lunches
	Vending Machines					
	Meal Deductions					
UTILITIES	Cable/Satellite TV					
	Cellular/Pagers/Phone Cards					
	Electricity					
	Internet Service					
	Natural Gas/Propane					
	Telephone					Local=$____Long Distance=$____
	Water/Garbage/Sewage					
CHILD CARE	Allowances					
	Daycare					
	Support					Include other dependant care
AUTOMOBILE	Gasoline					
	Maintenance/Repairs					
	Other					
CLOTHING	Laundry/Dry Cleaning					
	Purchases ($50 monthly per person)					
INSURANCE	Automobile					
	Health/Life					
	Homeowners/Renters					
	SGLI/FSGLI					Both service member/Family SGLI
	TRICARE Dental					
HEALTHCARE	Dental					
	Eye Care					
	Hospital/Physician					
	Prescriptions					
EDUCATION	Books					
	Fees (Other/Room & Board)					
	Tuition					
	MGIB					Montgomery GI Bill (MGIB)
CONTRIBUTIONS	Charities (CFC/NMCRS)					
	Club Dues/Association Fees					
	Religious					
LEISURE	Athletic Events/Sporting Goods					Include spectator sports
	Books/Magazines					
	Computer Products (Software/Hardware)					
	DVD/VHS & Video Games Rentals					
	DVD's & CD's					
	Entertainment					
	Lessons					Dance, Music, Self-Defense, Tutor
	Toys & Games					
	Travel/Lodging					
PERSONAL	Beauty Shop/Nails					
	Barber Shop					
	Cigarettes/Other Tobacco					
	Vending Machines					
	Liquor/Beer/Wine					ABC, Package Store, etc.
	Other (Toiletries, Supplements, etc.)					
GIFTS	Holidays					
	Birthdays/Anniversaries					
PET CARE	Food/Supplies					
	Veterinarian/Service (Boarding/Grooming)					
MISCELLANEOUS	ATM Fees/Stamps/etc.					
	Other					Recommend $50-$150 Buffer
TOTAL MONTHLY LIVING EXPENSES (70%)		$		$		

INDEBTEDNESS 20%

CREDITOR	PURPOSE	MONTHLY PAY-MENT	BALANCE	PROJECTED PAYMENT	REMARKS (Mos Behind, Pd by Allotment, etc.)	APR %
1. US Govt.	Advance Pay				Automatic Deduction	
2. US Govt.	Over Payments				Automatic Deduction	
3.						
4.						
5.						
6.						
7.						
8.						
8.						
10.						
11.						
12.						
13.						
14.						
15.						
16.						
17.						
18.						
19.						
20.						
21.						
22.						
23.						
24.						
25.						
	TOTAL					

SUMMARY

	ACTUAL	PROJECTED
NET INCOME (Bottom of Page 2)		
SAVINGS & INVESTMENTS (Page 3) –		
LIVING EXPENSES (Page 3) –		
AMOUNT LEFT TO PAY DEBTS =		
TOTAL MONTHLY DEBT PMTS (Page 4) –		
SURPLUS OR DEFICIT =		
DEBT TO INCOME RATIO =		

(Total Monthly Debt Payments ÷ Net Income x 100 = Debt-to-Income Ratio)

ACTION PLAN

INCREASE INCOME

1. ______
2. ______
3. ______
4. ______
5. ______
6. ______

DECREASE LIVING EXPENSES

1. ______
2. ______
3. ______
4. ______
5. ______
6. ______

DECREASE INDEBTEDNESS

1. ______
2. ______
3. ______
4. ______
5. ______

REFERRALS/RECOMMENDED TRAINING

1. ______
2. ______
3. ______
4. ______
5. ______

SETTING YOUR GOALS (Short & Long Term)

GOAL	COST	DATE WANTED	= MONTHLY SAVINGS TO REACH GOAL
1.			
2.			
3.			
4.			
5.			
6.			

MONTHLY SPENDING PLAN

☐ TOTAL NET INCOME ☐ TOTAL TAKE HOME PAY	MONTH		MONTH		MONTH	
BY PAYDAY	1st	15th	1st	15th	1st	15th

*If using take-home pay amount, do not include any savings, expenses, or debt payments that are deducted from pay or paid by allotment.

P = Planned Expenses A = Actual Expenses	Budgeted Amount	P	A	P	A	P	A	P	A	P	A	P	A
Savings & Investments													
Housing													
Food													
Utilities													
Transportation													
Clothes													
Insurance													
Health													
Education													
Contributions													
Subscriptions													
Personal													
Entertainment													
Dependent Care													
Miscellaneous													
Creditors													
TOTALS	$												

DAILY EXPENSES

Keep track of your daily expenses for two weeks

Keep a record of how you spend your money for the next two weeks. The secret is to record it when you spend it. Using a “stickie” note in your wallet or purse will help you track your expenditures. When you go for your money make a note on your “stickie” (write the amount and the item). At the end of the day, transfer the recorded amounts to this record. Be sure to include bills paid, along with sodas, lunches, etc.

Remember this is for tracking your take home pay, don’t include allotments.

TAKE HOME PAY FOR TWO WEEKS Dates

DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:			
Item:	Amount:	Item:	Amount:	Item:	Amount:	Take Home Pay: $ _________ Amount Spent: $ _________ Balance: $ _________ (+ or -)	

Creative Savings Strategies

Once you have made the commitment to start a savings plan, and you have decided into which banking institution to place your money, the crucial question you may ask yourself is, "Where am I going to find extra money to put away?" Listed below are ways to save that may help you in your effort to build a substantial nest egg. Have Fun!

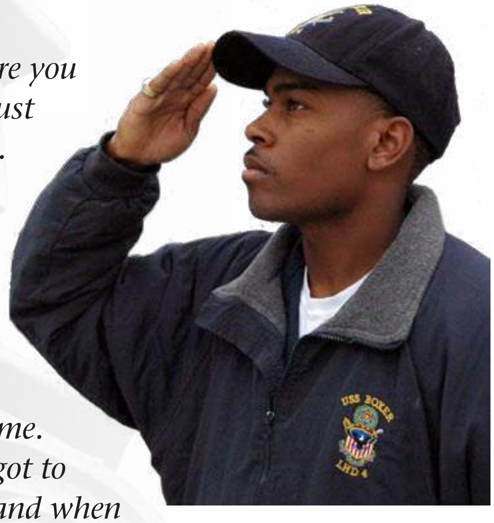
Remember, money is not "saved" until it is truly in the account!

- When payday comes around, always pay your savings account first as though it were a regular bill. Direct deposit is probably the easiest way to do this. Remember, the amount you deposit is not as important as depositing something on a regular basis.
- Save all of your change in a jar. Pick a designated date and take it to the bank to deposit into savings.
- Put any unexpected sums of money into savings (reenlistment bonuses, tax refunds, birthday/anniversary checks, year-end bonuses, lottery jackpots!).
- Scrimp one month out of the year! Let your imagination go wild on how you can save as much as possible for one month. Knowing that this episode of frugality will end in 30 days may help add to your motivation.
- Give up one trip to a fast food restaurant per week and make a sack lunch to eat instead. Put the money you saved into your account!
- Cut back on utilities (electricity, gas, phone) for a month. If your next bills are less than what you budgeted for, stick the extra money into savings! If you have a family, get everyone involved.
- Make some family savings goals together (save for vacation, a dinner out, or a trip to an amusement park).
- Show the children your written family budget, and add up the numbers so they can see where the money is being allocated. Try to get a family consensus on which expenses can be cut back, and task each person with a money savings responsibility.
- Make a game out of cutting costs and saving. Offer special rewards to your kids if they meet their own savings goals (saved enough money for a toy, a trip to the movies, clothes, bike, or a first car).
- Hugs, smiles, and words of praise are great rewards, unless you have promised to match a dollar amount for a special project or item that your child is working towards.

These are just a few creative ways to save. Open your mind to all possibilities when building a savings plan!

I Can't Invest Now

Age 18 to 25

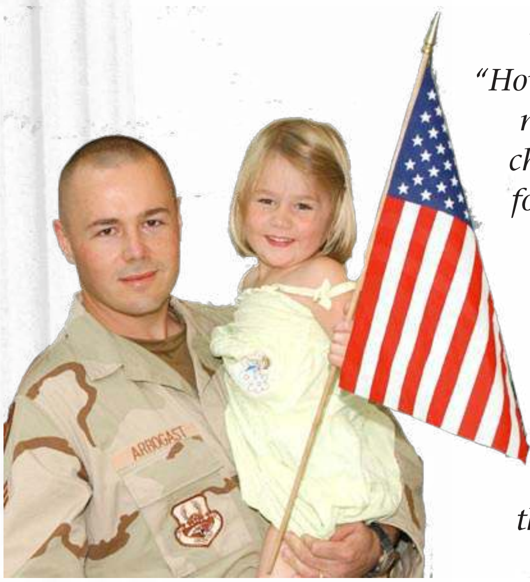


"Me Invest? Are you kidding? I'm just getting started. You can't expect me to be able to invest now. I'm young and I want to have a good time. After all, I've got to get a car… If and when I get out of the service, I'll start investing."

Age 25 to 35

"You don't expect me to invest now do you? Remember, I've only been working a few years. Things will be looking up soon, and then I'll be able to invest. Right now, I have too many expenses… Wait until I'm a little older. There's plenty of time."

Age 35 to 45



"How can I invest now? Married, children to care for… I've never had so many expenses in my life! When the children are a little older, I can start thinking about investing."

Age 45 to 55

"I wish I could invest now, but I just can't do it. I have two children in college and it's taking every cent and more to keep them there. I've had to go into debt to meet the college bills. But that won't last forever, and then I can start investing."

RETIRED

Age 55 to 65

"I know I should be investing now, but the money is tight. It's not so easy for a man my age to better himself. About all I can do is hang on. Why didn't I start to invest twenty years ago? Maybe something will turn up."

Age 65 and over

"Yes, it's too late now. We are living with our eldest son. It isn't so nice, but what else can we do? We have our retirement benefits, but who can live on that? If only I had invested when I had the money. You can't invest after there is no income."






Debt-to-Income Ratio for Consumer Debt

This is a useful tool in determining your financial stress level. Do the math and consider where you are before taking on further debt.

1. Net Income (Gross monthly pay minus taxes only; i.e., federal taxes, state taxes, and Social Security.) 1. ____________________

2. Installment Credit (Include charge accounts, car payments, advance pay, overpay, etc. Do not include rent, mortgage, utilities, or insurance payments.)

   Creditor Monthly Payment

   A. ________________________________ $ ____________

   B. ________________________________ $ ____________

   C. ________________________________ $ ____________

   D. ________________________________ $ ____________

   E. ________________________________ $ ____________

   F. ________________________________ $ ____________

   G. ________________________________ $ ____________

   H. ________________________________ $ ____________ 2. ____________________

3. Divide line 2 by line 1, multiply by 100

   (2) __________________ ÷ (1) ____________________________ x 100 = ___________________%

   TOTAL

Percent	Status
Less than 15%	Some additional credit may be used with caution.*
15%–20%	Fully extended.
21% - 30%	Overextended.
Greater than 30%	Seriously overextended. Seek help!

* Will the additional monthly payment put you over 20%? Large families may have a difficult time with 16% or more.

Million Dollar Sailor

Consumer Awareness

Module Four: Consumer Awareness

Module Length: 60 Minutes

Module Description:

Americans live in the most marketed-to society in the world. Corporations spend billions of dollars on sophisticated advertising each year because it is successful in increasing their profits.

To ensure consumers make sound choices and execute power over their purchasing decisions, it is critical that they be aware of and prepared for certain marketing tactics.

The Consumer Awareness module is designed to provide learners with an exposure to the wide array of consumer issues including the impact of advertising on buying decisions and common sense strategies to avoid impulse decision-making. The module will also distinguish among misrepresentations, fraud and scams, as well as discuss the laws that protect consumers against dishonest merchants. The module provides basic strategies for consumers to employ to ensure they get the most value for their money.

Learning Objectives:

Upon completing this 60-minute module, participants will be able to:

- Identify three marketing and advertising practices geared towards members of the military.
- Cite two consumer strategies for making an informed purchase.
- Identify three strategies for preventing and coping with identity theft.
- Identify three resources for resolving consumer issues or complaints.

Materials Needed:

- Computer/Internet and PowerPoint Projector
- Consumer Awareness PowerPoint Slides
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper
- Newspapers and/or Magazines with Print Ads
- Handouts:
  - *Deter-Detect-Defend: Avoid Identity Theft*
  - *Sources of Help for Military Consumers*

- *Consumer Awareness Learning LABB*
- *Module Three Participant Notes Page*

Works Cited:

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Federal Trade Commission. "Deter-Detect-Defend." 2006. Federal Trade Commission. 25 January 2009. <http://www.ftc.gov/bcp/edu/pubs/consumer/idtheft/idt01.shtm>.

Meiss, R. & Pike, B. SCORE! Two. Eden Prairie: Creative Training Techniques Press, 2008.

Ramsey, D. The Money Answer Book. Nashville: The Thomas Nelson Group, 2004.

Stanley, T.J. & Danko, W.D. The Millionare Next Door. Atlanta: Longstreet Press, 1996.

A/V **Slide 1:** Consumer Awareness

HO *Module Four Participant Note Pages*

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

Think about the last purchase that you made. How did you find out about it? How was it marketed to you? How much time did you put into deciding whether or not to buy it? Did you use cash or a credit card?

? Q *What does the phrase "Caveat Emptor" mean?*

Caveat Emptor is the Latin term for "Let the Buyer Beware." Unscrupulous business people use this term to argue that it is the responsibility of consumers to make sure they are getting a good deal for their money. While the federal government has enacted laws to help protect consumers, the government has not relieved consumers from the responsibility of doing everything they can to make wise spending decisions and avoid fraud.

Consumer awareness simply means ensuring that someone who purchases goods and services is informed, alert and knowledgeable. You work

hard for your money, so you want to get the most out of it when you spend it and make sure you are spending it wisely. Consumer awareness means that you have thought about your money and developed goals for your money. It means that you have a realistic budget, make deliberate spending decisions, plan your purchases, investigate all offers, comparison shop, and use credit wisely.

Consumer awareness means knowing the types of frauds and rip-offs out there so that they can be avoided. It means understanding the impact of advertising, instant gratification, and the mistaken sense of entitlement. Ultimately, it means you understand that it is your behavior in the consumer marketplace that will determine whether you get the most for your money or become a victim of consumer abuse.

Slide 2: Agenda

Our goal today is to raise your awareness as a consumer, update your consumer knowledge of marketplace misrepresentations, scams and frauds, and provide the strategies to combat them. Consumer awareness leads to avoidance of routine consumer dangers. We will identify key consumer laws and resources to assist you in dealing with the marketplace if avoidance does not work and assistance is needed. Concepts we will be covering in Consumer Awareness:

- **Why the Military:** Why do companies target the military? What are some of the factors that make the military more vulnerable to deceptive practices?
- **Misrepresentations, Scams and Fraud:** What is the difference between a fraud, a scam and a misrepresentation? What are some examples of each?
- **Advertising:** What are some of the methods advertisers use to take advantage of consumers?
- **Combat Strategies:** What are some of the things we can do to protect ourselves from some of these issues in the economic marketplace?
- **Consumer Protection:** What can we do and where do we go for help if something unfair or unfortunate happens to us?
- **Sources of Help:** What are some of our resources when dealing with various consumer issues?

Slide 3: Why the Military?

Why is anyone susceptible to dishonest or fraudulent practices in the marketplace? There are several possible reasons including wanting to get a good deal and spending as little as possible; lacking experience with con artists; lacking consumer training; failing to have reliable sources information; or falling victim to high pressure sales techniques.

Service members are particularly vulnerable to consumer tactics. They are often young and away from home for the first time. They may make purchases without the benefit of an objective second opinion. Like many other young Americans, young service members tend to be uneducated consumers, but they are often reliable because they have a government job.

Businesses love the military because of the steady paycheck and a willingness to spend. They are all aware of the ease of paying by allotment, and many businesses will actually provide allotment forms directly to the consumer. There have even been instances where a business will not take any other method of payment. They also like your steady income and the allotment system because it is easy to garnish if you fail to pay them.

After deployments or extensive TDY periods, it is not uncommon for military members to blow all the money saved on things missed for all those months, or to purchase big tickets items because now they have “money burning a hole in their pocket.” For example, we know that roughly 40% of service members purchase a vehicle after returning from a six-month deployment (PFMSC, 2007).

Slide 4: Consumer Issues

? Q *What is the difference between a misrepresentation, a scam and a fraud?*

As consumers, we are often exposed to unsavory business practices. Some offers are truly fraudulent and illegal—most however, are simply scams and misrepresentations.

Misrepresentation: Misrepresentations are not necessarily illegal. Sellers are simply misleading you by making you think the deal is different than it really is. A key point to remember is that while some business practices certainly may *not* be ethical, they clearly are *not* illegal. This is precisely why the legal term “Caveat Emptor” applies in the absence of legal guidance. Examples of misrepresentations include door-to-door sales, sweepstakes prizes, contests and free gifts and unordered merchandise schemes.

Scam: Scams are unfair acts of exploitation, but not necessarily illegal. Scams take advantage of areas where there are no consumer laws to provide protection. Examples of scams include payday loans, Internet scams, free inspection deals, get rich quick deals, buying clubs, title loan companies and work-at-home schemes.

Fraud: Fraud is a deliberate deception. It is illegal and there are numerous consumer laws to protect us. The opportunity for fraud is large. According to the Federal Trade Commission (2008), consumers reported fraud losses of over $1.2 billion, with Identity Theft being the highest rated complaint (32%) with the highest rate of complaints existing for the age bracket of

18–29 years old (28%). The median loss per person was $349. While these are large sums of money, it is estimated that actual fraud totals are considerably higher since most individuals fail to actually report being a victim of fraud. Examples include identify theft, auto repair frauds, pyramid/ponzi schemes, bait and switch, slamming/cramming and telemarketing.

Updated statistics on consumer fraud can be found at www.ftc.gov/opa/2008/02/fraud.shtm

Consumer education is the key to avoiding fraud. In fact, fraud is one of the few crimes in which victims can decline to participate — if they recognize the warning signs. Without a sound education in consumer issues, the marketplace turns into a jungle where the law is survival of the fittest, and the fittest are often predators out to get your money in whatever way possible.

Slide 5: Marketing Slogans

The buying habits of the American consumers have been thoroughly researched. Companies spend billions of dollars each year discerning which marketing strategies are most effective in having consumers part with their dollars. They use advertising as a means to convince consumers to buy a certain product, often by acting now and thinking later.

Effective advertising can frequently persuade you to purchase more than you planned to buy, to spend more than you intended to spend, and, if possible, to get you to buy something you neither wanted nor needed in the first place. Maximizing the sale is the name of the game.

Companies use many strategies to make an effect. If you do not think advertising has an effect on you, see if you can guess what companies the following slogans represents.

Marketing Slogans (3 Minutes) *(Ask participants to identify the following slogans. Slogans will appear on the mouse click).*

- *Be All That You Can Be* (Army, 1981)
- *Just Do It* (Nike, 1988)
- *I'm Loving It* (McDonalds, 2003)
- *Can You Hear Me Now?* (Verizon Wireless, 2005)

Many of these slogans are memorable to you simply due to the multiple times you have been exposed to them. Repetition is just one of many effective marketing techniques. If you could easily recall the company associated with these slogans, you are proof that marketing works.

What is the 16th Amendment to the Constitution?

The 16th Amendment to the Constitution grants Congress the right to levy taxes against our income. It is interesting how many of us know these slogans and jingles, but many of us cannot recall an important piece of legislature that affects our lives every day. Now that is the power of advertising.

Slide 6: Advertising Techniques

We already discussed the power of one advertising technique: repetition. We can see how repetition helps us remember a product, even *years* after the slogan was created. Some other techniques include:

Informative: Just the facts of the product are presented, in an appealing and understated way, in the belief that the quality of the product will "sell itself." This is a tactic used to sell big ticket items like luxury cars and jewelry, or to get consumers to shop in a store with a high status appeal. (Examples include Infomercials—cosmetics, acne treatments.)

Emotional: Achieves an emotional response that may have nothing to do with the product itself. The advertising may imply you may be a societal outcast if you do not use a certain product (deodorant, toothpaste, the latest fad in jeans). It creates the myth of owning the latest "in" thing or service. Often it includes subtle put-downs of the competition. Some of these ads are even designed to make you cry. Think of how you have responded to the "pull on the heartstrings" approach! (Examples include commercials to support starving children in foreign countries.)

Personalized: Designed to make the customer think the salesperson or advertiser wants you, and only you, for a customer. You may also be made to feel as though you will personally lose out if you do not purchase the product. (Examples include "personalized" junk mail or hair growth products that will make you look and feel younger.)

Association: Uses familiar people from popular culture to sell the product. The idea is that you can associate with that person on a personal level if you buy the product being endorsed. (Examples include famous celebrities wearing certain brands of underwear or promoting certain brands of hair color.)

Fear: Part of the emotional appeal approach. Plays on your fear of rejection or loss if you do not use the favored product. This often includes the idea of personal ruin if this product is not used or purchased. Some even make you believe your children's future will be ruined if you do not buy their product. (Examples include home security systems and personal injury litigation.)

(Optional) Military Targets (5–10 Minutes)

Provide newspapers, magazines or other types of print material for participants to review. Ask participants to choose an ad and identify the technique the advertiser used. Highlight any ads that are specifically targeted to the military.

Slide 7: Combat Strategies

Know How to Purchase

Analyze Wants, Needs and Motives: Determining what you need versus what you want (and how both fit into your spending plan) will help you get the most for your money. Also take a look at your buying motives. It is okay to buy things for fun, but you should not chase happiness with money. No amount of spending and no amount of stuff will give you contentment or fulfillment. No amount of purchases will take away guilt. Do not medicate yourself with spending.

Know What You Can Afford: Have a budget and stick to it. Studies have shown that people who do not keep track of their income and expenses with some form of a written budget cannot account for 10% of their money! A written budget also includes well-thought-out financial goals, so having a budget helps you avoid impulse buying, a major behavior leading to consumer fraud.

Do Your Homework: Know the product and know who you are buying from. Never buy anything that you do not understand. If a deal is legitimate, the seller will be willing to answer all your questions and give you time to research the company and the product. Be especially careful when dealing with online merchants and be leery of businesses which have only a P.O. box for an address.

Comparison Shop: Make sure you have investigated all of your options before making the purchase. Be sure to include the NEX and businesses that offer military discounts to take advantage of any tax benefits or discounts.

Check the Warranty/Guarantee: When comparing products and services, do not forget to check the warranty or guarantee that may save you repair or replacement costs in the future.

Get Agreements in Writing: If you do not have it in writing, it is your word against the salesperson's. A verbal promise is only as good as the paper it's written on.

Sleep on It: Wait 24 hours before making a major purchase. This "cooling off" period will save you money once you get away from the salesperson's hype. Do not buy on impulse. Impulse buying is a big contributing factor to getting ripped off. Do not be rushed into signing anything. If the deal is not good tomorrow, it is not a good deal. Unplanned spending not only undermines your budget, but also means you have not done any research or comparison shopping. So, you may not be getting the best deal for your money.

Slide 8: Combat Strategies

KNOW HOW TO COMPLAIN

Act immediately if you are unhappy with a product or purchase. There are three basic steps to take.

Contact the seller first: Start with the salesperson. Make sure you have a copy of all of your documentation, a clear description of the problem and the resolution you want. Be polite. Anger never solves anything and only makes the store personnel defensive. If the salesperson cannot help, speak with the manager. Sometimes company policy prevents the manager from giving you the help or remedy you desire. Be patient. Save all purchase related paperwork, sales receipts, repair orders, contract and any letters to or from the company and keep a log of your conversations and actions, detailing who, what, where and when, including the times and results.

Go to the company or manufacturer: If the store manager is unable to help you, write a letter to the president of the company and/or the manufacturer of the product. Try to obtain the president's name and address from the store manager. Calmly and accurately explain the problem and the action you would like taken. Be brief and to the point. Include all documentation and anything else you need to tell your side of the story. You are starting a paper trail that will clearly show your good faith efforts to resolve the problem. Sending the letters by certified mail with a return receipt requested is the best way to verify that it was indeed delivered.

Use your Consumer Advocate Resources if you are still not satisfied. These include the State's Attorney General or State Office of Consumer Affairs, Armed Forces Disciplinary Control Board and the Better Business Bureau. We will discuss these resources in more detail later.

Slide 9: Identity Theft

Military Deter, Detect, Defend Handout

What is identity theft? Identity theft is a federal crime. It occurs when one person's identification (which can include name, Social Security number or any account number) is used or transferred by another person for unlawful activities. The FBI cites identity theft as one of the fastest growing crimes in America. The Federal Trade Commission, the government agency that deals with consumer protection, estimates that

approximately nine million Americans have their identity stolen every year (FTC, 2008). Victims spend extensive time and expense closing bad accounts, opening new ones, and fixing credit records.

U% For updated information and statistics regarding identity theft, consult the Federal Trade Commission Web site at www.ftc.gov/bcp/edu/pubs/consumer/idtheft/idt01.shtm.

Think about taking care of your identity on a regular basis just like you take care of your health. Some activities you do every day, like brushing your teeth and taking vitamins. Other actions should be taken once or twice a year, like getting dental check-ups and an annual physical. The Federal Trade Commission advises a three-pronged approach to identify theft prevention and resolution: Deter, Detect, Defend.

Deter: Deterring identity theft involves protecting your personal information on a daily basis. Protecting your Social Security number, shredding old receipts and banking information and using secure browsers for your Internet purchases are ways to minimize your risk.

Detect: Know the signs for identity theft such as new accounts that you cannot explain, fraudulent or inaccurate information on your credit reports or failing to receive bills or other mail. Follow up with creditors if your bills do not arrive on time. A missing bill could mean an identity thief has taken over your account and changed your billing address to cover his/her tracks. Watch out for credit cards that you did not apply for. Check your credit report with all three reporting agencies to make sure your information is correct.

Defend: Take immediate action if you have been a victim if identity theft and defend against future assault.

A/V **Slide 10:** If You Have Been a Victim

The Federal Trade Commission outlines the following steps to take if you have been a victim of identity theft. It is important that you begin documenting the time and money you spend on straightening out identity theft, keeping copies of all correspondence and documents related to the theft. Write records of all telephone calls, including the date and time of your call and the name and title of the person who assisted you. Write letters to confirm all phone conversations. Include the date, the name of the person you spoke with, and what actions were taken. To be extra careful, send documents and letters Return Receipt Requested and keep the postal receipt with your copy.

Review your credit report and place a fraud alert. Fraud alerts can help prevent an identity thief from opening any more accounts in your name. You only need to contact one of the three credit reporting agencies to place an alert. The credit reporting agency you call is required to contact the other two, which will place an alert on their versions of your report, too. If you do not receive a confirmation from a credit reporting agency, you should contact that agency directly to place a fraud alert.

Close the accounts that you know, or believe, have been tampered with or opened fraudulently. Call and speak with someone in the security or fraud department of each company. Follow up in writing, and include copies (NOT originals) of supporting documents. It is important to notify credit card companies and banks in writing. Send your letters by certified mail, return receipt requested, so you can document what the company received and when. Keep a file of your correspondence and enclosures. When you open new accounts, use new Personal Identification Numbers (PINs) and passwords. Avoid using easily available information like your mother's maiden name, your birth date, the last four digits of your Social Security number or your phone number, or a series of consecutive numbers. If the identity thief has made charges or debits on your accounts, or has fraudulently opened accounts, ask the company for the forms to dispute those transactions.

File a report with your local police or the police in the community where the identity theft took place. Call your local police department and tell them that you want to file a report about your identity theft. When you go to your local police department to file your report, bring a printed copy of your FTC ID Theft Complaint Form.

File a complaint with the Federal Trade Commission. You can file a complaint with the FTC online, by telephone or by mail. By sharing your identity theft complaint with the FTC, you will provide important information that can help law enforcement officials across the nation track down identity thieves and stop them. Additionally, you can provide a printed copy of your online complaint form to the police to incorporate into their police report. The printed FTC ID Theft Complaint, in conjunction with the police report, can constitute an Identity Theft Report and entitle you to certain protections.

Document All Communication. Finally, keep copies of all letters, email communication or any other documentation regarding the identity theft for your records.

NOTE Refer participants to the FTC Web site for more information at www.ftc.gov/bcp/edu/pubs/consumer/idtheft/idt01.shtm.

Slide 11: Understanding the Military Lending Act

The Federal Military Lending Act protects armed forces personnel who are on active duty and members on Active Guard or Reserve Duty. It also provides protections to dependents, defined as a spouse, child, or a

person for whom the service member provided greater than 50% support for 180 days preceding the extension of credit.

The statute's protections are limited to three types of consumer credit:

- Payday loans
- Vehicle title loans
- Tax refund anticipation

The Military Lending Act provides:

Interest Cap of 36%: Creditors are prohibited from charging any member greater than a 36% Military Annual Percentage Rate (MAPR) which includes interest, fees, credit service charges, credit renewal charges, credit insurance premiums, and fees for credit-related products sold in connection with the transaction. The MAPR must be stated orally and in writing.

The Military Lending Act protects consumers from:

Roll-Over Loans: A creditor cannot "roll-over" or refinance the same loan between the same creditor and borrower.

Mandatory waivers of consumer protection laws: Creditors cannot require borrowers to waive any State or Federal law, including provisions of the Servicemembers Civil Relief Act.

Mandatory arbitration provisions: Creditors cannot require borrowers to submit to arbitration or burdensome legal notice provisions.

Use of check or vehicle title as loan security: A creditor cannot require a borrower to issue a check as a means of access to the borrower's financial accounts or require a borrower to provide a vehicle title as loan security.

Unreasonable notice requirements: A creditor cannot insert into credit agreements any unreasonable notice requirement as a prerequisite to a borrower's right to bring legal action against the creditor.

Mandatory allotments: A creditor cannot require a borrower to create a voluntary allotment for the benefit of the creditor as a loan prerequisite.

Prepayment penalty: A creditor cannot charge a penalty for prepayment of a loan, in whole or in part.

Any credit agreement subject to the regulation that fails to comply with this regulation is void from inception. The rule further provides that a creditor or assignee that knowingly violates the regulation shall be subject to certain criminal penalties. The Federal Military Lending Act has been be in effect since October 1, 2007.

Slide 12: Consumer Protection Laws

Laws and Rights, Federal/State

Consumers have legal rights at both the state and federal level. You do not lose these rights because you are in uniform, but you do need to know what they are in order to protect yourself. Federal Consumer Laws include:

Servicemembers Civil Relief Act: This 2003 update was originally passed by Congress as the Soldiers' and Sailors' Civil Relief Act of 1940 and provides a number of improved protections for military members. One of these protections provides the opportunity for a service member to delay a court date when military duties make it impossible to appear. You are guaranteed the right to have your day in court. You cannot be tried in absentia.

Another provision is sailors' ability to have their interest rate capped at six percent if their military obligations have affected their ability to meet their financial obligations such as credit card debt, mortgages and other loans. Only debts incurred by the service member or by the service member and his or her spouse jointly *before* coming into the military qualify. The burden is on the creditor to seek relief in court.

Consumer Bill of Rights: These are general rights of access to product and price information and the right to an informal dispute process.

Fair Credit Billing Act: This applies only to credit purchases and allows you to withhold payment on a disputed product or service. This law allows you to challenge a credit card charge when the charge was unauthorized, is an error, if you never received the product purchased, or the product did not perform as promised.

Seventh Amendment (Right to Trial by Jury): This is the cornerstone to a consumer's right to appeal and is embedded in the Bill of Rights. Many large ticket contracts have a waiver of the right to court appeal to avoid costs and class action against manufacturers. Never waive this hard won right by signing a contract without taking it to NLSO first.

State Consumer Protection Laws include:

State Lemon Laws (also known as the Motor Vehicle Warranty Enforcement Acts): These laws allow you to return a new vehicle that has safety or repeat mechanical problems, and interestingly enough, cosmetic problems, which constitute a major defect. You are entitled to a refund or a replacement. Some states also have laws regarding used vehicles.

Usury Laws: A usury law sets the cap on interest rates, which is the maximum amount of interest you can be charged. Since there is no federal limit, each state determines its own maximum allowable rate. Almost every state has some form of usury law in place, but there are always businesses that are able to find their way around them.

> **NOTE** Be Prepared to provide additional information about the state's usury laws.

Slide 13:

Remember you have many Consumer Advocate Resources at your disposal if you need additional help.

Your Command Financial Specialist or your local **Fleet and Family Support Center** can assist you with financial counseling, budgeting, and a variety of other services, including contact information for other Consumer Advocate Resources.

Navy Marine Corps Relief Society can assist military members with financial issues and may be able to provide emergency loan services based upon certain circumstances.

Navy Legal Services Officer can assist you with legal issues and advise you of your rights under Consumer Protection Laws.

The State's Attorney General or State Office of Consumer Affairs is a primary resource for people who have been the victims of frauds, misrepresentations and scams. They can take legal action against the company.

The Better Business Bureau has a mediation service, at no charge, which will try to resolve your complaint. You will have to agree to accept their decision, in writing, before they will try to help you.

Armed Forces Disciplinary Control Board can assist with companies that have allegedly taken advantage of you or others because of your military status.

Slide 14: Consumer Awareness LABB

Consumer Awareness LABB (5 Minutes)

Consumer Awareness LABB

Distribute *Consumer Awareness LABB* handouts and allow participants five minutes to answer the questions.

Lesson—What is the most important lesson I learned from the Consumer Awareness Module?

Action—What action will I take as a consumer in the future to get better results?

Barrier—What barrier(s) will I need to overcome?

Benefit—What benefit(s) do I expect from taking this action?

Have participants share what they wrote down with a learning partner or with their small group. Ask for volunteers to share their LABB commitments with the whole group, allowing you to emphasize some key learning points from the module.

Participant Notes Page

1. When a seller misleads you by making you think the deal is different than it really is, this is called a ________________________ .

2. Unfair acts of exploitation that take advantage of areas where there are no consumer laws to provide protection are called ________________________

3. An illegal and deliberate deception is known as a ________________________ .

4. Two strategies for making a smart purchase include: ________________________

   and ________________________ .

5. To prevent and cope with being a victim of identity theft, the Federal Trade commission recommends a three factor approach:

   ____

   ____

   ____

6. Three resources for resolving consumer issues or complaints include:

   ____

   ____

   ____

Notes

____

____

Sources of Help for Military Consumers

Sample Complaint Letter

Your Address
Your City, State, Zip
Date

Name of Contact Person, if available
Title, if available
Company Name
Consumer Complaint Division (if you have no specific contact)
Street Address
City, State, Zip Code

Dear (Contact Person),

Re: (account number, if applicable)

Describe purchase.
Include name of product and serial number.
Include date and place of purchase.

On (date), I (bought, leased, rented, or had repaired) a (name of the product, with serial or model number or service performed) at (location, date and other important details of the transaction).

State Problem.
Give History.

Unfortunately, your product (or service) has not performed well (or the service was inadequate) because (state the problem). I am disappointed because (explain the problem: for example, the product does not work properly, the service was not performed correctly, I was billed the wrong amount, something was not disclosed clearly or was misrepresented, etc.)

Ask for specific actions.
Include copies of documents.

To resolve the problem, I would appreciate your (state the specific action you want—money back, charge card credit, repair, exchange, etc.) Enclosed are copies (do not send originals) of my records (include receipts, guarantees, warranties, cancelled checks, contracts, model and serial numbers and any other documents).

Allow time for action.
State how you can be reached.

I look forward to your reply and resolution to my problem, and will wait until (set a time limit) before seeking help from a consumer protection agency or the Better Business Bureau. Please contact me at the above address or by phone at (home and/or office numbers with area code).

Sincerely,
(Your Name)

Enclosure(s)

Keep copies of all your letters, faxes, emails, and related documents.

How to Complain Effectively

- See your Command Financial Specialist for guidance.
- Save all purchase-related paperwork. Include copies of receipts, repair orders, warranties, cancelled checks, contracts, and any letters to or from the company.
- If you have a problem:
  1. Contact the business—the salesperson you dealt with or the manager. Clearly and calmly describe the problem and the action you would like them to take. Document response in writing.
  2. Contact the company president or a representative of the manufacturer. Use the Sample Complaint Letter. Send it certified mail, return receipt requested.
  3. Allow time for the person you contacted to resolve your problem.
  4. Contact Consumer Advocates for further assistance. Don't give up until you are satisfied. Use the quick resource list on the reverse side of this page for consumer protection contacts.

Sample No Solicitation Letter

Your Address
Your City, State, Zip
Date

Mail Preference Service (Telephone Preference Service)
Direct Marketing Association
PO Box 9008 [PO Box 9014]
Farmingdale, NY 11735

To whom it may Concern:

I am writing to register with your Mail Preference Service [Telephone Preference Service].

Please inform your members that I do not want my name sold to any company for the purpose of placing me on a mailing list [telephone calling lists] and sending me advertising mail. Please remove my name permanently.

In addition, I would like my name removed from any and all existing lists.

Sincerely,

(Your Name)

Get Off Mailing, Telemarketing and E-Mail Lists

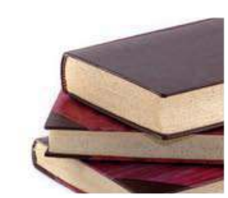
Junk Mail, Telemarketing and E-mail:
www.aboutus.org/DmAConsumers.org

Credit Bureaus:
Ask to be put on their "opt out" lists.
Call 1-888-5-OPTOUT
www.optoutprescreen.com

Non-Compliance:
Federal Trade Commission
Washington, DC 20580
www.ftc.gov





Protect Your Personal Information

- Give personal information only when absolutely necessary, and only when you initiated contact.
- Carry only the credit cards you need.
- Store personal information in a safe place at home or work. Copy all the contents of your wallet, front and back, and store with other personal information.
- Keep your PIN numbers secret. Never write a PIN on a credit/debit card or on a slip of paper kept with your card.
- Avoid obvious passwords.
- Watch out for "shoulder surfers." Use your free hand to shield the keypad when using pay phones and ATMs.
- Do not leave any blank spaces on checks, credit slips and contracts.
- Keep all receipts. Ask for carbons and incorrect charge slips as well. Promptly compare your receipts with account statements. Watch for unauthorized charges.
- Destroy (shred) documents with account information.
- Protect your mail. Ask your local U.S. Postal Service to put your mail on hold when you are traveling and can't pick it up.
- Get your free credit report once a year.

Think Before You Click: Practice Safe Computing

- Protect your personal information.
- Know who you are dealing with.
- Use anti-virus software and a firewall, and update both regularly.
- Be sure to set up your operating system and Web browser software properly, and update them regularly.
- Protect your passwords.
- Back up important files.
- Learn who to contact if something goes wrong.
- In short, ***think before you click!***

Web Sites for Consumers

The Consumer Action Handbook
www.consumeraction.gov

Consumer Protection
Better Business Bureau: www.bbbonline.org

Consumer World: www.consumerworld.org

Consumer Safety Tips: www.consumer.gov

Consumer Reports: www.consumerreports.org

Federal Citizen Information Center: www.pueblo.gsa.gov

Federal Trade Commission: www.ftc.gov

Kelley Blue Book: www.kbb.com

National Consumer League's Fraud Center: www.fraud.org

Military OneSource Web site: www.militaryonesource.com

Military Sentinel Fraud Website: www.consumer.gov/military

NADA Car Guides: www.nada.com

National Association of Attorneys General: www.naag.org

National Consumers League: www.natlconsumersleague.org

National Legal Aid & Defender Association: www.nlada.org

Network of Consumer Hotlines: www.callforaction.org

Public Citizen, consumer advocacy: www.citizen.org

Scam Site: www.scambusters.org

Emergency Financial Assistance
American Red Cross: www.redcross.org

Navy-Marine Corps Relief Society: www.nmcrs.org

Financial Information and Counseling
Bill Tracking: www.billmonk.com; www.buxfer.com

Consumer Credit Counseling: www.nfcc.org

Credit Reporting Agencies: www.experian.com; www.transunion.com; www.equifax.com

Free Annual Credit Report: www.annualcreditreport.com

Navy Fleet and Family Support Programs: www.ffsp.navy.mil

Power Payment Plans: https://powerpay.org

Tightwad Central Frugality We bsite: www.tightwad.com

Predatory Lending
Center for Responsible Lending: www.responsiblelending.org

Payday Loan Information: www.PayDayLoanInfo.org

COMMON WAYS ID THEFT HAPPENS:

Skilled identity thieves use a variety of methods to steal your personal information, including:

1. **Dumpster Diving.** They rummage through trash looking for bills or other paper with your personal information on it.
2. **Skimming.** They steal credit/debit card numbers by using a special storage device when processing your card.
3. **Phishing.** They pretend to be financial institutions or companies and send spam or pop-up messages to get you to reveal your personal information.
4. **Changing Your Address.** They divert your billing statements to another location by completing a "change of address" form.
5. **"Old-Fashioned" Stealing.** They steal wallets and purses; mail, including bank and credit card statements; pre-approved credit offers; and new checks or tax information. They steal personnel records from their employers, or bribe employees who have access.

DETER·DETECT·DEFEND

AVOID THEFT

www.ftc.gov/idtheft

To learn more about ID theft and how to deter, detect, and defend against it, visit **ftc.gov/idtheft**. Or request copies of ID theft resources by writing to:

Consumer Response Center
Federal Trade Commission
600 Pennsylvania Ave., NW, H-130
Washington, DC 20580

DETER·DETECT·DEFEND

AVOID THEFT

www.ftc.gov/idtheft

FIGHTING BACK AGAINST IDENTITY THEFT

FEDERAL TRADE COMMISSION

DETER

Identity theft is a serious crime. It occurs when your personal information is stolen and used without your knowledge to commit fraud or other crimes. Identity theft can cost you time and money. It can destroy your credit and ruin your good name.

Deter identity thieves by safeguarding your information.

- **Shred** financial documents and paperwork with personal information before you discard them.
- **Protect** your Social Security number. Don't carry your Social Security card in your wallet or write your Social Security number on a check. Give it out only if absolutely necessary or ask to use another identifier.
- **Don't give out** personal information on the phone, through the mail, or over the Internet unless you know who you are dealing with.
- **Never click** on links sent in unsolicited emails; instead, type in a web address you know. Use firewalls, anti-spyware, and anti-virus software to protect your home computer; keep them up-to-date. Visit **OnGuardOnline.gov** for more information.
- **Don't use** an obvious password like your birth date, your mother's maiden name, or the last four digits of your Social Security number.
- **Keep** your personal information in a secure place at home, especially if you have roommates, employ outside help, or are having work done in your house.

DETECT

Detect suspicious activity by routinely monitoring your financial accounts and billing statements.

Be alert to signs that require immediate attention:

- Bills that do not arrive as expected
- Unexpected credit cards or account statements
- Denials of credit for no apparent reason
- Calls or letters about purchases you did not make

Inspect:

- **Your credit report.** Credit reports contain information about you, including what accounts you have and your bill paying history.
  - The law requires the major nationwide consumer reporting companies—Equifax, Experian, and TransUnion—to give you a free copy of your credit report each year if you ask for it.
  - Visit **www.AnnualCreditReport.com** or call 1-877-322-8228, a service created by these three companies, to order your free credit reports each year. You also can write: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.
- **Your financial statements.** Review financial accounts and billing statements regularly, looking for charges you did not make.

DEFEND

Defend against ID theft as soon as you suspect it.

- **Place a "Fraud Alert" on your credit reports, and review the reports carefully.** The alert tells creditors to follow certain procedures before they open new accounts in your name or make changes to your existing accounts. The three nationwide consumer reporting companies have toll-free numbers for placing an initial 90-day fraud alert; a call to one company is sufficient:
  - **Equifax:** 1-800-525-6285
  - **Experian:** 1-888-EXPERIAN (397-3742)
  - **TransUnion:** 1-800-680-7289

  Placing a fraud alert entitles you to free copies of your credit reports. Look for inquiries from companies you haven't contacted, accounts you didn't open, and debts on your accounts that you can't explain.
- **Close accounts.** Close any accounts that have been tampered with or established fraudulently.
  - Call the security or fraud departments of each company where an account was opened or changed without your okay. Follow up in writing, with copies of supporting documents.
  - Use the ID Theft Affidavit at **ftc.gov/idtheft** to support your written statement.
  - Ask for verification that the disputed account has been closed and the fraudulent debts discharged.
  - Keep copies of documents and records of your conversations about the theft.
- **File a police report.** File a report with law enforcement officials to help you with creditors who may want proof of the crime.
- **Report the theft to the Federal Trade Commission.** Your report helps law enforcement officials across the country in their investigations.
  - Online: **ftc.gov/idtheft**
  - By phone: 1-877-ID-THEFT (438-4338) or TTY, 1-866-653-4261
  - By mail: Identity Theft Clearinghouse, Federal Trade Commission, Washington, DC 20580

DETER·DETECT·DEFEND
AVOID THEFT
www.ftc.gov/idtheft

Consumer Awareness Learning LABB

Answer the following questions using information covered in the Consumer Awareness Module of Million Dollar Sailor:

Lesson — What is the most important lesson I learned from this module?

Action — What action will I take as a consumer to get better results?

Barrier — What barrier(s) will I need to overcome?

Benefit — What benefit(s) do I expect from taking this action?

Million Dollar Sailor

Insurance: Protecting Wealth

Module Five: Insurance: Protecting Wealth

Module Length: 60 Minutes

Module Description:

A portfolio to financial freedom is incomplete without a plan to protect what has been earned. Insurance is a primary means of safeguarding wealth and other assets against certain life events that can undermine the money management efforts of the Million Dollar Sailor. The Million Dollar Sailor Insurance Module is designed to develop knowledge and skills that will enable participants to make informed consumer decisions on the basic types of insurance and to determine their personal insurance needs. The Life-Cycle Approach to Insurance walks participants through various life-cycle events and their impact on insurance needs. The module also addresses methods for determining the amount of insurance needed using specific insurance calculators.

Learning Objectives:

Upon completing this 60-minute module, participants will be able to:

- Identify the primary purpose of insurance.
- Name at least three life events that affect insurance needs.
- Name two resources for getting help with insurance.

Materials Needed:

- MDS Insurance: Protecting Wealth PowerPoint Slides
- Computer/Internet/PowerPoint Projector
- Insurance Calculator (Needed for computer simulation) Available at: www.insurance.va.gov/sgliSite/calcuator/needsCalc.htm
- Chart Paper or Whiteboard/Markers
- Pens, Pencils and Paper
- Handouts:
    - *Life Cycle Approach to Insurance Needs*
    - *Shopping Tips for Insurance*
    - *Your Insurance Needs: Organizing Your Records*
    - *Life Insurance Needs Calculator*
    - *Module Five Notes Page*

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Department of Veterans Affairs. 2009. “Servicemembers’ & Veterans’ Group Life Insurance.” Department of Veterans Affairs. 15 Jan 2009. <http://www.insurance.va.gov>.

——. “Life Insurance Needs Calculator.” Department of Veterans Affairs. 15 January 2009. <http://www.insurance.va.gov/sgliSite/calcuator/needsCalc.htm>.

Federal Long Term care Health Insurance. 2009. Office of Personnel Management. 15 January 2009. <http://www.ltcfeds.com/index.html>.

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Ramsey, D. The Total Money Makeover. Nashville: Thomas Nelson Group, 2007.

> NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

A/V **Slide 1:** Insurance: Protecting Wealth

HO *Module Five Participant Note Pages*

? Q Close your eyes and think about where you live. Imagine yourself sitting on your couch and think about all the items around you—things like your TV, stereo, chair, rugs, lamps, and clothes. Do you have a mental picture? If there was a terrible fire and you lost everything you have right now, would you be able to replace it? Do you have that kind of money in the bank or do you have enough insurance to cover this loss? Imagine you were in a car accident. Do you have enough money to pay for the repairs to the cars involved? What if someone is injured in the accident—could you pay for the medical expenses that would be incurred? (*Instruct participants to open their eyes.*)

It is never pleasant to think about the possibility of negative events like these occurring in your life, but just as with life in the military: we

promote peace but are always prepared for war. Avoiding the topic of insurance altogether will not prevent bad things from happening—however preparing for unanticipated events can give you tremendous peace of mind. You cannot build wealth in a meaningful way without a plan to protect it.

This Insurance Module will cover different types of insurance plans available to help you cope with potential losses and a common-sense approach to how, when, and which product to purchase. This approach is called the Life-Cycle Approach to Insurance Needs.

A Insurance Needs Across the Life Cycle (15 Minutes)

Divide class into small groups of four to eight participants. Assign each group one of the following life stages (repeating stages if you have more than 10 groups or assigning groups two consecutive stages if you have less than 10 groups):

1. Single in Quarters
2. Moving Off Base
3. Buying a Car
4. Getting Married
5. Having Children
6. Buying a Home/ Condo/ Mobile Home
7. Increasing Assets
8. Divorce
9. Retirement/ Separation
10. Death

Have each group brainstorm insurance needs for their stage in the life-cycle, taking into consideration the prior stage in the cycle. Ask for a member of each group to report and record the responses on the board or a sheet of paper. Review all results of each group, or have a group leader provide what the group considers the top answer.

A/V **Slide 2:** Why Do I Need Insurance?

We all hate insurance… until we need it. We pay and pay on our premiums until we sometimes feel like we are “insurance-poor.” It may seem as though there would be better things to spend that money on, including proactive things like reducing debt or saving for a personal goal. Some people think that they cannot afford insurance at all, but the truth is, there are some types of insurance that you cannot afford to be without.

The purpose of any insurance is protection from financial loss. Life, health, auto, homeowner's/renter's, and long term care insurance products are all designed to protect you from losses you cannot afford to cover yourself. Insurance allows an individual to substitute a small certain cost (the premium) for a large uncertain financial loss (the contingency insured against). All policies have limits, which define the maximum amount you will be paid for the loss.

There are several ways to manage the various risks that we are all exposed to. One way to do this is to *avoid* the risk all together. For example, if you do not want anyone to drown in your pool, then you may not want to install a pool. Similarly, if you do not want a disabling injury, you should probably stay away from dangerous activities. A second way is to *reduce* the risk. For example, taking a defensive driving course will reduce the risk that you will get into a car accident. You can also *retain* a risk. This means that you are willing to pay for whatever financial loss occurs (usually smaller losses).

For everything else you can *transfer* the risk, which means you pay an insurance company a specific fee (premium) for the promise that they will pay for a larger loss that may occur. Whether it is life, property, health or personal liability, the principles are the same—avoid and reduce the risks you can, pay for the losses you can afford, and insure whatever is left. So, what do we have left and when do we insure it?

A/V **Slide 3:** Agenda

There are many different insurance needs, and these needs will change at different times in your life. While everyone's situation is different, we will take a look at a Life Cycle Approach to insurance, incorporating some of the more traditional life events that you may experience.

We will also discuss some tips for reducing your insurances costs as well as sources of help where you can obtain more information or assistance in determining your insurance needs.

A/V **Slide 4:** What Affects Insurance Needs?

The type and amount of insurance needed is affected by many life events such as moving into a home, having a family, acquiring assets, retirement, and providing for those who outlive you. We will take a look at the major life-cycle events and explore how we can use them to make the best insurance purchasing decisions.

HO *Life Cycle Approach to Insurance Needs*

Slide 5: Single in Quarters/Off Base

There are a few basic insurances that you will need to have to protect your assets and your future wealth as a Million Dollar Sailor. If you are single and living in government housing, you may think that you do not need any type of insurance, especially if you do not own a car. But even when you live in government quarters, you still have some insurance needs. These needs increase and continue to change as you go through certain life events.

Renter's Insurance

Many young service members have no renter's insurance to replace their personal property if it is destroyed or stolen. Those who fail to purchase renter's insurance can face a double problem. Not only do they lose their possessions, but if those items are not paid off, the creditor will expect the payments to keep coming in. Renter's insurance is a relatively inexpensive protection, costing approximately $10 to $25 per month.

Renters insurance is needed even when you live in government quarters. The government insures the building but may not always cover your losses. Check with the Housing Office to find out what is covered. Talk with your insurance company to make sure your possessions are covered while residing in the barracks or on a ship.

Replacement Cost Coverage: Replacement cost coverage will pay fully to replace lost items. Actual cash value will only pay the depreciated value of the items. Always ask for replacement cost coverage! Once you have your property insured, take an inventory and keep a copy of the list somewhere safe (not at home). Photographs or video of your property may help in getting a full value settlement.

Personal Property: Make sure you know what is and is not covered as well as the policy limits. Some personal property, particularly high cost items like jewelry, guns, collectibles, sporting gear, or computer equipment, is usually not fully covered under a standard policy; you may need a special rider or even a separate policy. (A rider is like a mini policy added to a bigger policy to cover specific items.) This is the case with both homeowner's and renter's policies.

Life Insurance

If you are single and have no dependents, no one suffers financial consequences as a result of your death; therefore, the need is not present (beyond covering one-time expenses such as burial costs and any outstanding debts). For these expenses, most Sailors are covered by Servicemembers' Group Life Insurance (SGLI).

Servicemembers' Group Life Insurance (SGLI) is a program of low-cost group life insurance for service members on active duty, ready reservists, members of the National Guard, members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service, cadets and midshipmen of the four service academies and members of the Reserve Officer Training Corps. SGLI coverage is available in $50,000 increments up to the maximum of $400,000. Premiums are currently 6.5 cents per $1,000 of insurance, totaling $26.00/month for full coverage, regardless of the member's age.

Update Statistics

Rates current as of January 2009 available at www.insurance.va.gov.

Traumatic Injury Protection under Service Members' Group Life Insurance (TSGLI): Every member who has SGLI also has TSGLI effective December 1, 2005. This coverage applies to active duty members, reservists, National Guard members, funeral honors duty and one-day muster duty. This benefit is also provided retroactively for members who incur severe losses as a result of traumatic injury between October 7, 2001 and December 1, 2005, if the loss was the direct result of injuries incurred in Operations Enduring Freedom or Iraqi Freedom. The cost of TSGLI is one additional dollar per month, bringing the combined total of SGLI/TSGLI to $27.00 per month.

Auto Insurance

For many Sailors, the biggest initial purchase they will make is an automobile. Most states require drivers to purchase automobile liability insurance and most young military drivers purchase only the minimum coverage required. However, those with assets to protect should seriously consider increasing their level of protection. If you want to protect yourself from big repairs or a possible lawsuit, you will want to buy more than what's required.

Slide 6: Buying a Car

Often, junior personnel purchasing their first car will buy their insurance from the dealer. Frequently, this is collision coverage only and protects only the lender's interest in the car. The service member will still need liability coverage to register the car on base. Purchasing auto insurance from a dealer is generally not recommended; investigating insurance coverage from several companies before going to purchase the vehicle is usually the best solution. Premiums can vary greatly from company to company.

Auto Insurance: There are four basic areas of auto insurance coverage:

Liability: Liability refers to your responsibility for other people's losses, both property damage and bodily injury. It is written as three numbers. For example: 100/300/50 means $100,000 in bodily injury coverage per person, $300,000 in bodily injury coverage per accident, and $50,000 in property damage coverage per accident.

Collision and Comprehensive Coverage (Physical damage): If you cause an accident, collision will pay to repair your vehicle (the actual cash value, not the replacement cost). Comprehensive pays for damages to your car not caused by an accident; fire, tree fall, theft, etc. Your insurer will only pay as much as the car was worth when the event occurred, not the cost of a new car.

Uninsured/Underinsured Motorist Coverage: Uninsured/Underinsured Motorist Coverage protects you if you are in an accident with a hit and run driver or with someone that is uninsured or underinsured. This is a very important coverage and is mandated in some states. Despite laws requiring auto insurance, many drivers chose to go without insurance.

Medical Payments: Medical payments cover you and your passengers for injuries no matter who is at fault.

LOCAL Discuss any state requirements for auto insurance per person, per accident, property damage and medical payments.

Optional Features: Optional features can be added to your policy including rental car reimbursement, towing and labor, and gap coverage (pays the difference between the actual cash value and the amount left on your loan if your vehicle is totaled).

A/V **Slide 7:** Saving on Auto Insurance

Select higher collision and comprehensive deductibles. This is your out-of-pocket expense which you will pay for repairs. Many consumers find a deductible of $500 to $1000 to be more cost-effective. Call and find out what savings will be at varying levels. When opting for higher deductibles, make sure you have emergency funds to cover potential repair costs.

If you have a second car and could afford to replace it or to do without it for awhile, you may wish to drop collision and comprehensive coverage on that car entirely. Compare the Actual Cash Value (ACV) of your vehicle to the premium cost of collision and comprehensive to help you decide. Ensure that you keep liability insurance since this is required by state law.

A safe driving record helps to minimize insurance costs. For very small claims (or only slightly higher than your deductible) that involve no injuries to anyone, consider not filing for reimbursement; the increase in premium for having the accident may cost more than the amount you receive to cover the repairs! Drivers should also be very selective when lending their cars.

Maintain coverage while on deployment. Some companies will allow continued coverage at a reduced rate while deployed. Contact them and let them know your car will be “off the road.” If you drop coverage, your rates will likely go up when you reinstate it. If you still owe money on the vehicle, the creditor will require you to maintain coverage.

Ask about discounts. Many insurers will give discounts for added safety features, like antilock brakes, side air bags, alarms, etched windows and other anti-theft devices. Many companies give discounts to customers who coordinate their coverage by buy multiple policies.

Check your credit report. Insurance companies use credit scores in determining your rates. Make sure your credit report is accurate before you start shopping for a car.

Comparison Shop. Do your homework before choosing a company. Investigate several companies (at least three) and compare them for the best value based on your needs.

A/V Slide 8: Getting Married

Getting married is an exciting time in your life and not always a time when you are thinking about insurance. However, getting married also involves tying a knot in your finances, which can be either protected or placed at risk depending on the amount of insurance you carry. Your insurance needs will include:

Renter's Insurance: You will need to review and adjust as necessary, adding your spouse's possessions to your policy.

Auto Insurance: You will need to review and adjust as necessary, adding spouse and spouse's vehicle to your policy.

Life Insurance: Remember the purpose of life insurance is to protect those who depend upon you financially, should you die. The single most important reason to have life insurance is to replace one's income. It can also provide funds to pay off a mortgage, eliminate debt, pay educational costs or any other financial need. If you have dependents or expect to acquire them, you probably need life insurance. Getting married may greatly affect your life insurance needs. FSGLI offers inexpensive spousal coverage. Spousal coverage is available in $10,000 increments, up to $100,000 and cannot be greater than the service member's coverage. Premiums for spousal coverage are deducted from the member's monthly pay.

Married, One Income, No Children: When there is only one income coming in, one spouse is financially dependent on the other. Insurance would be needed to provide for the non-working spouse during his or her adjustment period and possibly longer depending on his or her education, employment potential and health.

Married, Dual Income, No Children: Since both spouses are working, the major consideration will be providing money to pay off debts that they share and final expenses such as medical and funeral costs. Dual income couples often have more debt as well as more money. One thing you must remember is that all insurance policies have a beneficiary designation form. The death benefit will be paid to the person specified on the form. It is important to change your beneficiary form for your SGLI if you want your current spouse to receive the money when you pass away.

Health Insurance: While on active duty, all of your health care and most of your family member's care is covered at no cost to you by TRICARE. In order to be covered, your dependant family members must be enrolled in the Defense Eligibility Enrollment Reporting System (DEERS) by you and then be enrolled in the TRICARE program. TRICARE has three options: Prime, Extra, and Standard, which you can discuss with a TRICARE representative to determine the best fit for your needs.

Dental: You will need to enroll your new family in the Dental Health Program.

A/V **Slide 9:** Having Children

As with other major life events, you will want to review and adjust many of your insurances such as Renter's/Homeowner's Insurance and Auto Insurance when children enter the picture. Some of the insurances that should change significantly include:

Life Insurance: Your life insurance needs will dramatically change with the addition of a child into your family as you consider the long-term financial responsibility of raising children. In addition, you may also need to insure the other parent. Family SGLI (FSGLI) is available up to $100,000. Children under 18 are automatically covered for $10,000 under FSGLI. In addition, children between the ages of 18 and 23 who are full-time students are covered. Consider some of the following options:

Married With Children: This is the time of greatest need for life insurance. Regardless of employment status, the surviving spouse is generally going to have a significant need for additional funds to offset the loss of the other spouse's income while the children are living at home or are in college. Serious insurance planning is needed for both spouses, even if one is not currently employed. Consider costs of childcare if an active duty military member is the surviving spouse. When the spouse is nonmilitary, there could be a need for additional life insurance as FSGLI benefits alone may not be sufficient.

Single Parents: Single parents will want to consider who will take care of the children, if he/she (the parent) dies. A significant consideration when designating a guardian should be the guardian's ability to provide for the children's financial needs. Adequate insurance should be in place to compensate the guardian for the additional expenses of raising the children.

Children: Unless your children provide significant income to the home, the financial consequence of their death would be medical and burial expenses only. FSGLI provides $10,000 per child at no cost to you.

Health Insurance: You will need to add your child(ren) to DEERS and Page 2.

Dental Insurance: You will need to change your dental enrollment to the full family plan, generally when the child has teeth or needs to begin care (usually age two to three years).

Auto: Review and adjust as needed.

Renter's: Review and adjust as needed.

Slide 10: Buying a Home

Buying a home also affects your insurance needs, since your home and its contents usually represent your largest purchases. Many homeowners are underinsured because they have not properly assessed their needs and purchased insurance with adequate coverage. When buying a home, your insurance needs will include:

Homeowner's Insurance: Homeowners insurance is required by your lender to cover both the property and your personal possessions, including liability coverage for someone injured on your property. When shopping for home insurance, there is much more to consider than how much your coverage will cost. You need to buy the right type of policy, the proper level of protection, plus special provisions for valuables such as jewelry, computer equipment and other possessions. You may also need additional coverage for such things as earthquakes or flooding.

Standard Policy: Most homeowners purchase a standard HO-5 (homeowners) "all risks" policy. This covers property damage to the home, damage to contents, liability against damages to others while on your property and expenses if you are displaced for some time. Standard policies provide the same coverage regardless of which company issues them; the only real difference is the cost. Like renters insurance, homeowner's insurance should cover replacement cost coverage, not just cash value.

Other Coverage: Homeowner's insurance does *not* cover certain types of damage (including earth movement, water damage, power failure, neglect, war, nuclear accident, or intentional damage). Most of these perils can be covered and may be required by a separate policy specific to that issue, (such as earthquake insurance or water damage/flooding), when your home is located in a high-risk areas. However, it is generally inexpensive elsewhere, and often a wise purchase.

Take Inventory: Once you have your property insured, take an inventory and keep a copy of the list somewhere safe. Photos or videos of each room and its contents will help you to settle a claim in the event of a loss. Do not wait until the fire to find out if you have enough coverage. Take an inventory to help you decide how much insurance you need.

Life Insurance: Your needs increase again based on the mortgage you are carrying. In order to pay it off in the event of your demise, you will need to carry more insurance.

A/V **Slide 11:** Increasing Assets

As your assets increase, so will your insurance needs. You will need to continue to review and adjust your life insurance, auto insurance, renter's/homeowner's insurance periodically or as you add large assets to ensure you have adequate protection. Some additional insurance considerations as your assets begin to grow are:

Umbrella Insurance: An umbrella policy protects against loss in the event of a large damage award in a lawsuit, over and above the limits of an auto or homeowner's liability policy. Those with substantial assets to protect should consider an umbrella policy, as should anyone who may face particular risks. This could include owning an in-ground swimming pool, having a potentially dangerous dog for a pet, or regularly transporting other neighborhood children in your van. Typically, you are required to have $300,000 to $500,000 of insurance coverage on your regular policies before qualifying for an umbrella policy. In addition, insurers require that you have both your homeowners and auto policies with them. A $1 million umbrella policy can often be purchased at a relatively low cost (under $150 per year), and could prevent someone from taking years of your future income in a judgment.

Long-Term Care Insurance (LTC): LTC Insurance is designed to help protect your assets in case you need nursing or in-home care. For most people, Medicare and medical insurance does not pay for long-term care. The average nursing home stay costs approximately $40,000 per year which can crack and scramble your nest egg in a heartbeat (Ramsey, 2007). Long-term care insurance is available to service members, retirees, spouses, and certain other family members under the Long-Term Care Program. While the program is not free, it is sponsored by the federal government and provides a variety of options and premiums.

WEB For more information about the Military Long Term Care program, you can research or refer participants to www.ltcfeds.com or 1-800-582-3337.

Slide 12: Divorce

All policies need to be reviewed in circumstances of divorce and/ or separation. Be certain to have all policies in your name for all of the areas of insurance.

It is time to reevaluate and recalculate how much life insurance you need based on what expenses you are required to cover and what plans you have made for any children. It is critical that you review and update beneficiary designation (which is different from your Page 2).

Slide 13: Retirement/ Separation

When you retire or separate from the military, many of the benefits you have had at little or no cost through the military must now be covered on your own. Your new employer may provide some benefits if you continue to work. However, in most cases you will have a cost share.

Life Insurance: You have several options, the first of which is converting your SGLI to VGLI (Veterans Group Life Insurance) at a much higher price. You can also convert your SGLI to permanent insurance on a guaranteed basis with one of 54 different commercial companies listed at www.va.gov. If you are in good health, you can apply for new insurance. If you continue to work, you may want to investigate the life insurance plans offered by your new employer.

Health/Dental Insurance: Personal health policies can be very expensive. The number one cause of bankruptcy in this country is medical bills, followed by credit cards (Ramsey, 2007). Consider your employer's policy if there is one available to you. You must enroll in TRICARE as a retiree and there will be costs attached. You may need a supplemental policy even if you are eligible for Medicare/ Medicaid.

Disability Insurance: If you are 32 years old, you are twelve times more likely to become disabled than to die at age 65 (Ramsey, 2007). Disability insurance replaces a portion of your income should you be injured or become ill and are unable to work for an extended period of time. While on active duty you have disability coverage, but when you get out, you need to look at this again. Usually the most cost-effective way to purchase disability insurance is through your employer, but you can also purchase it on an individual basis. Industry experts recommend minimum disability coverage of 60% of your annual income, but consider 70-80% based upon your expenses.

Slide 14: Survivor Benefits

The U.S. Government is often said to be the best benefit-paying corporation in the world (if a member dies on active duty). Active Duty Members have a number of benefits provided by the government. These must be included in any consideration of insurance needs. Separatees must depend on the policies they have put in place. Retirees will have burial benefits, Social Security, and SBP as well as their own policies.

Death Gratuity: $100,000 paid within 72 hours.

SGLI: Standard $400,000. This coverage can be decreased or even declined entirely by the service member. It could be difficult to find a better deal elsewhere though. Military occupations are considered "high risk" which means that a traditional policy may not cover you if you die accidentally. Remember that the beneficiary of the policy, the one who will get the money, is determined by you. This is separate from your will.

DIC (Dependency and Indemnity Compensation, provided by the VA): DIC is a tax-free benefit to the surviving spouse and dependent children. A spouse's Survivor Benefits Plan (SBP) annuity is reduced by any DIC amount received. DIC is adjusted annually in accordance with the cost of living and is currently $1,091 for an eligible surviving spouse (2008). An additional benefit of $250 will be paid monthly for each child (2008). These benefits must be applied for.

Social Security: Survivors will receive a lump sum payment from Social Security, and if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks. The benefit amount depends on the worker's earnings history. Individuals receive an estimate of Social Security benefits yearly.

Supplemental VA Education Benefits: Educational benefits are available to a surviving spouse for up to twenty years after the service member dies. Children are also eligible to use these benefits between ages 18 and 26.

SBP: The Survivor Benefit Plan is like insurance on your retirement pay. It is provided at no cost while on active duty, but must be paid for at retirement. The amount you receive is based on your retirement pay and the benefit amount chosen. Any SBP payment to the spouse will be offset by the amount of DIC received. Child DIC payments do not affect SBP payments.

Other Benefits: The military will pay the cost of a basic funeral and provide transportation for family members. The family will be provided a no-cost final move and receive BAH or permission to live in housing for twelve months, and be paid for any accumulated leave or arrears in pay. All of the above taken together provide the foundation for a sizable estate for the average service member.

The Department of Veterans Affairs handles DIC and many other Survivor Benefits Programs. Rates can be researched at www.va.gov For more information on SBP refer to the OSD Military Compensation website www.defenselink.mil/militarypay.

Slide 15: Replacing/Supplementing Life Insurance

As we have seen, life insurance needs vary during your life. Some needs will be short-term, such as providing income until children graduate, and some will be long-term, such as covering funeral expenses and personal debt. In young adulthood, the need for life insurance is minimal if you have no dependents. When you marry, and particularly when you start raising a family, the need for life insurance greatly increases. Later in life, after your children have grown up and are independent, and you have acquired other assets, the need for life insurance declines and possibly disappears.

There are many different life insurance products. Some are perfect for shorter-term needs (needs that have a beginning and an end) and some are perfect for perpetual needs (providing a stream of income for a spouse or providing for burial needs). By considering your position in the lifecycle and the specific need you want covered, you can zero in on the most appropriate product to use. The expenses you will need to cover throughout your life may be best covered by permanent insurance (also referred to as "whole life") while those of limited duration may be best covered by temporary insurance (also referred to as "term").

Term Insurance

Term insurance provides protection for a limited period of time (the term of the policy). The face amount will be paid out if the insured dies during the specified period. Nothing is paid if the insured survives. Term insurance is purchased for one-, five-, ten-, twenty-, and thirty-year periods. Premiums for one-year term plans increase annually. For five-, ten-, twenty-, and thirty-year plans, the premiums generally remain level for the entire term. Some term plans allow you to renew for an additional term. You may also be able to convert your term policy to a permanent insurance plan sometime in the future on a guaranteed basis. Term insurance becomes prohibitively expensive when death becomes more likely to occur. Term insurance is a good way to provide much needed protection when you are young and have financial obligations. It is also a good buy if you want permanent insurance but cannot yet afford it. SGLI and FSGLI are both term insurance. If you die during the term, the face amount is paid to your beneficiary.

Advantages: 1) Less costly, particularly in the early years, when the purchaser is young and the need for the insurance is normally greatest; and 2) useful for limited duration needs such as a mortgage or education expenses.

Disadvantages: 1) Costs that increase steadily with age; and 2) no cash value buildup.

Slide 16: Replacing/Supplementing Insurance: Whole Life Insurance

Whole Life

Premiums for whole life insurance are much higher than term in the early years. The higher premiums are used to cover the small amount needed for "pure insurance" and the rest is set aside in reserve to offset increasing costs in the future. This reserve money (cash value) is invested conservatively and belongs to the insurance company until the insured surrenders the policy, borrows it, or dies. If the company finds that it did not need the entire premium charged, it may return it to the insured. This return of unused premium is called a dividend. Insurance policy dividends are not taxed and can be received in cash, used to buy paid-up additional insurance, purchase term insurance, or held by the company and receive interest. The dividends can also be used to pay future premiums. Once in place, a whole life policy remains in place for as long as you pay the premiums, normally for the whole life of the insured.

Advantages: 1) Level premiums; 2) life coverage (as long as premiums are paid); 3) build cash value which may be used later; 4) ability to take loans against cash value; 5) ability to purchase additional insurance without evidence of insurability; and 6) cost effective way to purchase insurance you intend to keep long term.

Disadvantages: 1) Expense (particularly when young); 2) difficult to accurately compare against other policies due to bundled services; 3) difficult to accurately estimate future cash values other than a low guaranteed minimum; 4) little or no cash buildup in the early years of the policy; and 5) some surrender charges are in effect for the first 10–20 years.

NOTE Other examples of permanent insurance that differ from Whole Life Insurance include Universal Life and Variable Life.

Universal Life: Universal Life offers flexibility to the policy owner in setting premium amounts and death benefit options that are fully disclosed. The premium is deposited into an interest sensitive fund (accumulation fund). The insurance company periodically withdraws money from the fund to cover term insurance costs, company expenses, and any other policy-related fees. The excess premium dollars continue to earn interest. Similar to whole life, the accumulated money can be borrowed or withdrawn at the discretion of the policy owner. As long as enough money remains in the fund to cover term insurance charges and company expenses, the policy stays in force. It is important that subscribers understand their policy, as each company has its own unique rules and requirements.

Variable Universal Life: Variable Universal Life is similar to Universal Life except that, in addition to an interest sensitive fund, it offers the policy owner the option to invest in mutual fund sub-accounts to achieve a potentially higher return than whole or universal life. This type of policy carries higher risk as it is subject to market fluctuations. Potential buyers should also be mindful of fees relating to the investment accounts. Make sure to ask for a prospectus. Insurance agents selling Variable Universal Life must be securities licensed.

A/V **Slide 17:** Insurance Tips

When it comes to insurance, we pay and pay on our premiums until we sometimes feel "insurance poor." If you want protection, you cannot avoid paying for insurance, but there are some strategies you can employ to save money when it comes to purchasing insurance as well as getting the most value for your purchase.

Determine and review insurance based on life-cycle events. With every life cycle event, you should determine and review your needs to determine if you have the proper type and proper amount of insurance. If other people are dependent on you for their financial well-being, having no insurance plan in place or being underinsured, can be a costly mistake.

Comparison shop for the best deal. There are many insurance providers that offer similar products at very different rates. Shop around and compare prices. Comparison shop among reputable companies for the best deal. Look for discounts such as those for military families, non-smokers, anti-theft devices and other factors.

Combine insurances for better rates. Some companies offer discounts if you purchase multiple insurances from them. For example, you may get better rates if you obtain your auto and homeowner's insurance through the same company.

Choose high deductibles to save on premiums. With high liability limits, these are usually the best buys in the world of insurance. Use your emergency fund to self-insure yourself by covering the cost of your deductible.

Buy insurance; do not let it be "sold" to you. There are many gimmicks in the world of insurance, so it is important to have a basic understanding of what each product is designed to protect. Do not let yourself to be talked into purchasing more than you need or a product that you do not understand. Use only reputable companies.

Use an insurance calculator. Use an insurance calculator, such as the one provided by the Department of Veterans Affairs to determine how much insurance you actually need.

Organize your insurance records. Finally, it is important to keep your insurance records organized so that you can locate, review and update them when needed.

HO *Shopping Tips for Insurance*
Your Insurance Needs: Organizing Your Records

A/V **Slide 18:** Sources of Help

Figuring how much life insurance to purchase (if any) is relatively easy to determine with the many insurance calculators available on the Internet. The VA provides an excellent calculator specifically designed with the military member in mind. These calculators look at existing assets, employer-provided benefits, insurance you currently have, and determine if they will cover the financial needs that will result from your death. If they do, you don't need additional insurance. The calculators will help you determine whether you are adequately covered, as well as approximately how much additional insurance you need if your existing insurance does not cover all your needs.

For additional help or counseling you can contact your local Fleet and Family Support Center or your Command Financial Specialist.

WEB (Optional) Walk participants through the life insurance calculator provided on the Department of Veterans Affairs Web site at www.insurance.va.gov/sgliSite/calcuator/needsCalc.htm. Have participants volunteer responses to insurance estimates. You can also use the AT1 George Flier case study in the PFMSC Insurance Module and the accompanying directions for the insurance needs calculator in the Training Techniques component to explain the use of the calculator and determine this hypothetical service member's life insurance needs.

HO *Life Insurance Needs Calculator*

A/V **Slide 19:** Insurance

A (Optional) Ball Toss Review: True or False (3–5 minutes)

Preparation: Any soft ball, stuffed animal, even a large wad of paper will work.

Procedure: Ask the class to stand and form a circle. Ask the first question below and then toss the ball to a participant for the answer. If he or she does not know, instruct him/her to pass it to another participant. Once any discussion about the question has been completed, ask the next question and allow the ball to be tossed to someone new. Continue on in this manner until the review is complete.

Whole Life insurance is the only type of life insurance you'll ever need.
FALSE: It depends on your personal financial situation and usually term is less expensive.

You should insure against large losses and take care of the small losses yourself.
TRUE: You cannot insure against all risk. Do not be "insurance poor."

Since I carry the maximum, I have $400,000 in cash-value in my SGLI.
FALSE: SGLI is term insurance and has no cash-value.

You should match your insurance product with the type of need you have.
TRUE: Use term for needs with a discrete end and use permanent or whole life for perpetual needs.

Term insurance is more costly than whole life in the early years.
FALSE: Whole life is more expensive in the early years.

Any permanent product makes an excellent addition to your other investments because of the growth of cash value.
FALSE: Although cash value may grow, life insurance should not be purchased as a type of investment.

The insurance salesperson will tell me how much life insurance I need to buy.
TRUE: Any salesperson will be happy to tell you how much you need to buy. However, you can figure it out yourself and that is the better route.

A great way to reduce the cost of insurance is to reduce the deductible.
FALSE: Increase the deductible to reduce cost. However, make sure you do not increase it so much that you can't afford to pay it!

You can get either DIC or DEA, but not both.
FALSE: In most cases you are entitled to both.

You can get either SGLI or the Death Gratuity, but not both.
FALSE: You get both.

Renter's Insurance is a waste of money.
FALSE: It may be the best money you have spent in a while! Of course, if you have absolutely nothing to insure, then it is a waste.

BONUS QUESTIONS

Name three life events that affect the type and amount of insurance you need.
Moving off base, Buying a Car, Buying a Home, Getting Married, Having Children, Retiring, Death.

Million Dollar Sailor
Module Five: Insurance: Protecting Wealth

Participant Notes Page

1. Name at least three life events that affect insurance needs.

   ____

   ____

   ____

2. The primary purpose of insurance is to ______________________________ .

3. In order to receive the current value versus the depreciated value of items lost or damaged, it is necessary to have insurance with __________________________ .

4. Name the basic types of insurances that most individuals should have.

   ____________________ ____________________

   ____________________ ____________________

   ____________________ ____________________

5. Name two resources for getting help with insurance:

   ____________________ and ____________________.

Notes

____

____

____

Life Cycle Approach To Insurance Needs

Insurance planning begins with an assessment of your needs. If nothing changes, leave your plan alone. But with major life events, reconsider your plan.

Single in Quarters

"I don't need any insurance. I live in government quarters. I don't even have a car."

- Renter's Policy—Still necessary to cover your possessions.
- Life Insurance—Only if someone depends on your income, otherwise consider a small amount to cover final expenses. SGLI is enough.

Moving Off-Base

"I commute to work with a friend and I am just buying some furniture on credit. Since I don't have much, I don't need insurance to cover it."

- Renter's Policy—Absolutely necessary to replace your possessions including those you are paying off.

Buying a Car

"I am buying a car with a big monthly payment; there's no way I can afford insurance. I'll just take my chances."

- Auto Insurance—required for on-base driving. Required by state law at set minimums.

1. Liability coverage pays for others' losses if you are responsible.
2. Collision and Comprehensive coverage.
3. Uninsured/Underinsured motorist coverage.
4. Medical payments.

Getting Married

"Wow, this is such a big step, with so many things to consider. I don't want to think about those negative things right now."

- Life Insurance—If someone depends on your income, review your plan and determine your needs. FSGLI offers inexpensive spousal coverage.
- Health—Use the TRICARE system at low or no cost. Consider a supplemental policy if far away from a military treatment facility or if there are special health needs. Sign up for DEERS and add to Page 2.
- Dental—Remember to enroll your new family member in the Dental Health Program.
- Auto—Review and adjust as necessary.
- Renter's Policy—Review and adjust as necessary.

Having Children

"I have a baby now. I'm supposed to be responsible but I don't even know where to begin."

- Life Insurance—Needs will increase due to the long-term financial responsibilities of raising a child. In addition, insure the other parent. FSGLI is available up to $100,000.
- Children under 18 get $10,000 automatic coverage under FSGLI.
- Health—Add child to DEERS and Page 2.
- Dental—Wait until the child has teeth and/or needs to begin care, first visit around age two to three years.
- Auto—Review and adjust as necessary.
- Renter's Policy—Review and adjust as necessary.






Buying a Home/Condo/Mobile Home

"I've just made the biggest purchase of my life; now I want to protect my investment and find a way to pay off this debt if something happens to me."

- Homeowner's Insurance—Required by your lender and needed to cover both the real property and your personal possessions. It also includes liability coverage for someone injured on your property.
- Life Insurance—Needs increase due to the mortgage you are carrying. If you want to be able to pay it off, then you must carry enough insurance to do so.

Increasing Assets

"I am finally starting to accumulate some possessions and put money aside in investments. Now I worry about how to protect these assets from a lawsuit."

- Umbrella Policy—Wide coverage for minimal costs. This is in addition to homeowners and auto insurance. It covers you above the limits of these policies for your liability in a lawsuit.
- Long Term Care—Coverage for nursing/ in-home care later in life.
- Homeowner's—Review and adjust as necessary.
- Auto—Review and adjust as necessary.
- Life—Review and adjust as necessary.

Divorce

"My spouse said she would continue to cover me on the auto insurance policy, but now it's been cancelled. What should I do?"

- Review all policies and adjust as necessary.
- Reconsider your life insurance needs and your beneficiary.

Retirement/Separation

"I am getting out of the military in a few months, will my insurance needs change?"

- You have been provided many benefits at low or no cost which you now must cover yourself.
- Life Insurance—Increase your policy to cover the loss of SGLI or consider VGLI (Veterans Group Life Insurance).
- Health/Dental—Shop for a policy if not provided by your next employer. Personal health policies can be very expensive. Even if you are eligible for Medicare/Medicaid, you may need a supplemental policy.
- Disability—You may be provided coverage by your employer, otherwise you should look for a policy to replace a portion of your income should you be injured or become ill.
- Auto—Review and adjust as necessary.
- Homeowner's—Review and adjust as necessary.

Death

"My spouse just passed away, what can I expect financially now?"

Active Duty members:

- Death Gratuity: $100,000 paid within 36 hours.
- SGLI: Up to $400,000.
- Dependency and Indemnity Compensation.
- Accumulated leave and/or arrears in pay.
- Burial.
- Travel or funeral.
- Twelve months BAH or time in quarters.
- Final household goods shipment.
- Survivor Benefit Plan (SBP) Automatic.
- Social Security Survivor Benefits.
- VA Education Benefits.

Out of Military:

- Benefits will depend on the policies you have put in place.

Retirees:

- SBP if elected.
- Social Security.
- Burial.

Shopping Tips for Insurance

Save Money on Auto Insurance

- Compare prices. Get at least 3 quotes.
- Use the auto-insurance buyer's guide.
- Don't buy collision and comprehensive coverage from the lender.
- Buy a car that is inexpensive to repair.
- Raise the deductibles (but have money in savings).
- Have sufficient liability coverage.
- Consider dropping collision insurance on older cars.
- Take advantage of discounts: good driver, safe vehicle, good student, low mileage, occupational, and Internet.
- Describe exactly how your car is used.
- Notify insurer about changes that could lower rates.
- Pay entire premium when due.
- Share your car with teenagers (insurance for a car they own is even more expensive!).
- Drive safely.
- Check with the Insurance Institute for Highway Safety for vehicle ratings.
- Multi-policy Insurance: Buy all policies from the same company.

Save Money on Homeowner's Insurance

- Compare prices. Get at least three quotes.
- Buy all your property and casualty insurance from the same company.
- Install deadbolt locks, smoke detectors, a fire extinguisher, and burglar alarms.
- Pay annually.
- Raise the deductible.
- Quit smoking.
- Buy replacement-cost coverage.
- Have sufficient liability coverage.
- Buy a recently built house.
- Don't over-insure (don't include price of the land your house is on).

Tips to Remember

- Purchase insurance to cover catastrophic losses, not small losses.
- Generally, one comprehensive policy is better than a number of smaller ones.
- Always shop for a policy which is guaranteed renewable and non-cancelable.
- Never drop essential coverage until another policy is in force.
- Purchase insurance from a financially strong company.

Web Sites

Military:

www.va.gov
www.ltcfeds.com
www.tricare.osd.mil
www.insurance.va.gov

Consumer:

www.consumerworld.org
www.naic.org
www.insurancefraud.org
www.term4sale.com
www.iii.org
www.accuquote.com
www.insweb.com
www.ssa.gov
www.ambest.com
www.quotesmith.com
www.standardandpoors.com






Your Insurance Needs: Organizing Your Records

INFORMATION TO KEEP:

1. For each individual life insurance policy on your life, record the following information:
   - The full name of the life insurance company that issued the policy.
   - The city and state of the home office of the company that issued the policy.
   - The name and U.S. headquarters of the group, if the issuing company belongs to a group of companies.
   - The policy number.
   - The date the policy was issued.
   - The amount of the death benefit.
   - The name and address of the agent/broker who sold you the policy.
   - The type of policy (e.g., term, whole life, etc.).
   - The location of the original life insurance policy.
2. For each employer-provided or group (trade association, etc.) insurance benefit, record the following information:
   - The name of the employer or group that sponsors the insurance.
   - The office or person to contact when it's time to file a claim.
   - The certificate number (comparable to the policy number under an individual policy).
   - The date the insurance was started.
   - The amount of the death benefit.
3. For death benefits that are features of annuities, workers compensation programs, disability insurance, travel accident insurance, etc., record the following information:
   - The type of policy that has a death benefit as part of its features.
   - The full name of the life insurance company that issued the policy.
   - The city and state of the home office of the company that issued the policy.
   - The policy number.
   - The date the policy was issued.
   - The amount of the death benefit.
   - The name and address of the agent/broker who sold you the policy.
   - The location of the original insurance policy.
4. For each life insurance benefit on your life dedicated to paying off a loan (credit cards, etc.), record the following information:
   - The full name of the lending institution through which you obtained the life insurance.
   - The loan number and issue date of the loan.
   - The name of the person or office to contact when it's time to file a claim.
   - The policy number of the life insurance policy that pays off the loan.

WHERE TO KEEP THE INFORMATION:

Keep one set of these records in your home, in a place where others who need this information are likely to find it. After placing the information there, make your family/loved ones aware of its location. This could be the same place you keep other financial records, legal papers, or anywhere your survivors are likely to look for them. Keep another set of these records "off site"—that is, outside of your home, perhaps in a safe deposit box, or with a professional or trusted relative who can produce them when needed. On each page, record the date on which the information was last updated.

Life Insurance Needs Calculator

Financial Obligations: Immediate Cash Needs

Death Expenses (Burial and Funeral Costs, Uninsured Medical Costs, Estate Taxes, and Estate Settlement expenses such as legal fees) ______________

Housing Costs ______________

- ☐ I own my home.
- ☐ I rent my home.

Total Estimated Education Costs ______________

- ☐ I want to estimate educational costs for my children.
- ☐ I don't need to estimate educational costs.

Credit Card and Other Personal Debt ______________

Car Loans Outstanding Balance ______________

Home Equity Loans Outstanding Balance ______________

Emergency Fund ______________

Income Available to Your Survivors

Annual VA Dependency and Indemnity Compensation (DIC) or Death Pension Income ______________

Annual Social Security Survivor Benefit ______________

Annual Survivor Benefit Plan Income ______________

Annual Pension Plan Amount ______________

Survivor's Annual Earnings from Work ______________

Survivor's Annual Earnings from Dividends and Interest ______________

Survivor's Other Annual Income (Money from Rental Properties, Private Loan Payments from Others, Annuities) ______________

Income Needed to Support Your Survivors

Annual Income Amount Needed ______________

Number of Years Income will be Needed ______________

Net Income Needed to Support Survivors ______________

Assets: Lump Sum Payments Available to Your Survivors

Thrift Savings Plan Benefit ______________

Current Investments ______________

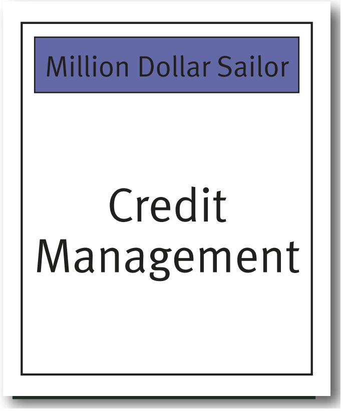
Servicemembers' or Veterans' Group Life Insurance Coverage ______________

Other Life Insurance Coverage ______________

VA Educational Benefits for Spouses and Children ______________

Other Lump Sum Payments ______________

Life Insurance Needed: ______________



Module Six: Credit Management

Module Length: 90 Minutes

Module Description:

Managing credit responsibly is one of the biggest strides that you can make towards becoming a Million Dollar Sailor. Avoiding credit misuse and getting out of debt requires supportive money habits. Many hard working people find themselves in debt due to poor choices or a lack of knowledge about how debt works. Getting out of debt requires changes in behavior, because behavior modification will always win over the math.

The MDS Credit Management Module is designed to help participants learn how to use credit wisely, establish and maintain a good credit rating, and avoid excessive debt. The module will also discuss effective strategies for reducing indebtedness and getting back on the path to financial freedom.

Learning Objectives:

Upon completion of this 90-minute module, participants will be able to:

- Identify four ways to establish credit.
- Name three factors affecting the cost of credit.
- Name three inappropriate uses of credit.
- Explain the importance of their credit score.
- Identify three ways to improve their credit score.
- Identify three options for reducing debt.
- Name three sources of help in answering questions about credit and managing personal indebtedness.

Materials Needed:

- Computer/Internet and PowerPoint Projector
- MDS Credit Management Power Point Slides
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper
- Calculators
- Handouts:
  - *Empty Pockets/Wise Use of Credit*
  - *Choosing Credit Cards*

- *Credit Reports*
- *Module Six Participant Notes Page*

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A/V **Slide 1:** Credit Management

HO *Module Six Participant Note Pages*

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

Managing credit responsibility is one of the biggest strides that you can make towards becoming a Million Dollar Sailor. Avoiding credit misuse and getting out of debt requires supportive money habits. Many hard working people find themselves in debt due to poor choices or a lack of knowledge about how credit really works. Getting out of debt requires changes in behavior, because behavior modification will always win over the math.

Credit has become a normal part of everyday personal financial management for most Americans. Used appropriately it can be an excellent tool, but used the wrong way it can bring the financial wheels of your life to a grinding halt for a long, long time.

A/V **Slide 2:** Agenda

To help with good credit management, topics in this module include:

- **Credit Management:** This will include information on how to use credit wisely and the best ways of establishing credit.
- **Credit Reports:** We will discuss the three major Credit Reporting Agencies and important information pertaining to your credit score.
- **Debt Management:** We will discuss the warning signs of taking on too much credit and methods for reducing indebtedness.
- **Sources of Help:** We will review resources that can assist you with your credit and debt management needs.

A/V **Slide 3:** Americans and Credit

NOTE Research updated statistics on credit and debt to share with participants.

America seems to be a nation in love with debt. The statistics surrounding average amounts of debt are sometimes hard to interpret because they are calculated in different ways. But when we take a look at these statistics, one thing is clear—many Americans are living well beyond their means and relying too heavily on credit for their living expeneses.

- In 2008, the average household carried $8700 in debt.

- In 2008, the average credit card debt per borrower (not per household) was $5,710, about 6% higher than 2007.
- Consumer Debt has grown five times since 1980 ($355 billion) and now stands at $2.6 trillion (2008).
- 48% of Americans are worried about the amount of debt they have and 54% do not have a financial plan. Eighty-eight million households are using credit cards today.

U% Credit Card Statistics found at www.cardtrak.com and www.money-zine.com.

Bankruptcy Information: In 2005, personal bankruptcies topped a record two million. In 2006, personal bankruptcies dropped to 597,000 due to the new, stringent bankruptcy laws that went into effect. Filing for non-business bankruptcies in 2007 was 822,590.

U% Bankruptcies: www.abiworld.org.

Our entire economic system is largely based on credit. There is a lot of money to be made from it; interest on consumer purchases brings over $100 billion into the economy every year.

U% Financial Planning: www.lendingtree.com/stm3/pressroom/PressReleaseDtl.asp?PRID=546.

A Empty Pockets (20 Minutes)

HO *Empty Pockets*

This exercise will help participants discern the differences between living expenses and debt, and indicate whether their use of debt was "wise" or "unwise."

Materials Needed:

- Handout *Empty Pockets*, one for each group.
- One page of newsprint or whiteboard.
- Markers for each group.

Preparation: Have available a collection of items commonly carried in a purse or pocket such as car and house keys, pictures of family members, band aids, pens and pencils, lipstick and makeup, credit cards, money, etc. Have a whiteboard or one piece of newsprint and markers for each group.

Procedure: There are four steps to this activity.

Step One: Living Expense or Debt? Working in groups of four to six, have participants empty their pockets, wallets, and/or purses and place the contents on their group table. Ask them to create a list of expenses the items represent. For example, car keys obviously would represent a car loan, a house key would represent a mortgage, utility expenses, upkeep expenses, etc. A Band-Aid might represent medical expenses, pictures of children could represent the cost of raising children, student loans, clothing, etc. Allow about three to five minutes for each group to write a list of answers on newsprint. If participants are short on items, provide them with typical items from your own collection.

Step Two: Living Expense or Debt? After the groups have completed Step One, have them go back through their list and determine whether it is a living expense or a debt. This will require you to explain the difference—if they had to borrow money or use any form of credit for the item, it is a debt. They can use the handout *Empty Pockets* to list the type of expense or each item on the newsprint can be labeled "LE" or "D." Allow about three minutes for this part of the activity.

Step Three: Wise or Unwise Use? Have each group determine whether the items they labeled as a debt were a wise or unwise uses of credit. Allow about three minutes for this discussion.

Step Four: Debrief. When all groups have finished, go around the room asking for input from each group as to what was a wise or unwise use of credit and why. Comment and commend as appropriate and conclude by briefly showing slides four and five with the following discussion of wise and unwise use as necessary.

A (Alternative) **Brainstorming Activity** (10 Minutes)

Break participants into groups and inform them that they have three minutes to brainstorm and record examples of wise and unwise uses of credit. Have a group leader report responses and record responses on chart paper.

A/V **Slide 4:** Wise Uses of Credit

Wise Uses of Credit

Success or failure with money depends much more on appropriate behavior than it does on the amount of money one has. Using credit wisely is the result of good planning (a behavior). Conversely, inappropriate behavior, such as lack of planning or emotional spending, is usually the cause of unwise uses of credit that can lead to serious financial problems.

The best use of credit is for planned purchases of assets—things that will grow or increase in value over time, like a home or an education. Credit is also useful for convenience, such as avoiding having to carry large sums of cash assuming you do not carry a balance month-to-month. Credit can also be a money management tool that provides a written statement of all your expenditures for tracking purposes. Using credit to take advantage of sales or discounts when you do not have immediate access to your cash is a good use as well. The wise use of credit virtually always falls into one of these two categories—assets or convenience, and always includes planning (deliberate spending).

Slide 5: Unwise Uses of Credit

Unwise uses of credit revolve around imprudent behavior… poor or no planning, or emotional spending. Unwise uses include:

Impulse Buying: Easy access to credit often leads to a “buy now, pay later” mentality. Impulse buying can occur when we are bored, nervous, sad, angry or happy. During these times, consumers will often charge items they would never buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay about one-third more than they would if they first compared prices at other locations where the same item might be on sale. By nature, impulse items are not planned expenses.

Spending for Status: Many people feel they need to spend to impress others. Advertising appeals to these emotions. Ads in the media for credit cards often portray the person using the card as having power or status. The message being sent is that if you use their card, you will be able to do great things, have more fun, attract others, and be more successful.

Retaliatory Spending: In a family where there is not a clear spending plan in place that partners agree on, each party has a common tendency to spend on themselves first. Both individuals may feel justified in making purchases for working hard or as a result of watching the other partner make a purchase. This can spin off into retaliatory spending: each partner buying (charging) more for themselves in order to “even the score” with the other.

Spending to Feel Good: This feeling can become addictive. Like other addictive behaviors, the good feelings are only temporary; the debt “hangover” can last a long time. Individuals should always decide before charging any purchase if they are buying an item because they really need it or because they are under stress and want to feel better. People who spend to feel good or to get a “fix” sometimes will not even use the items because it is not about the item purchased, it is about the feeling they get from the transaction.

Purchasing Consumables: Credit becomes more dangerous when used to purchase consumables like food, clothing, entertainment and vacations—items that lose much or all of their value immediately after purchase. It is okay to spend money on these items, but you should not have to go into debt to have them.

Everyday Living Expenses: Meeting everyday living expenses is perhaps the most dangerous use of credit. If you do not have the cash to pay for regular living expenses today, what makes you think that you will be able to pay for it next month?

Even if you pay your credit cards off at the end of the month, it is estimated that credit card users spend 12–18% more than individuals who pay in cash (Ramsey, 2004). Flipping a credit card up on a counter registers less emotionally than watching cash leave your wallet. Credit card companies are multi-million dollar corporations. Even taking into account rebates, airline miles and other discounts, you are not beating the system (Ramsey, 2004). Credit agencies are making money from your purchases—otherwise, they would not be lending it to you.

A/V **Slide 6:** Establishing Credit

Start building your creditworthiness early, so when you need credit you will be able to get it. Lenders look for evidence of financial responsibility and stability. This can be achieved in several ways:

Properly maintain a checking and savings account at a financial institution.

Pay existing bills (such as rent and utilities) on time.

Apply for a savings secured loan: Credit Unions and Banks will give a loan up to the amount of money in a related savings (or share savings) account. The money in savings is frozen until some or the entire loan is paid off. Since the financial institution knows it will get its money even if you default, the rate on the loan is normally very low, usually only slightly more than the interest rate they are giving you on your savings. In a way, you are paying to borrow your own money, but the idea is to help you establish credit.

Co-signed Loan: A co-signed loan may be an option if you have little credit history and someone is willing to co-sign for you. However, if you already have a good credit history, be very careful of co-signing a loan for a friend or a relative. Statistically, more than half of these types of loans end with the cosigner paying back part, most, or all of the money owed. By the time you find out the loan is in default, it has already negatively impacted your credit.

Retail Charge Card: A charge card from a local retailer or gas company is often the easiest type of credit card to get. Start small, with one card. Make small purchases and pay off in full at the end of the month. Be careful to avoid overspending as interest rate charges for these cards are normally high.

Major Bank Card: After establishing a good credit history with other loans, a consumer will eventually qualify for a Visa or MasterCard from a major bank. There are over 6,000 different banks issuing these cards. Consumers must be aware that terms and rates will vary considerably, from so-called "secured" cards which often require a cash deposit and have low credit limits and high rates, to the "premium" cards (often called gold or platinum) targeted at consumers with the best credit ratings.

A/V **Slide 7:** Where to Borrow

Credit is a product that you should shop for just like you would shop for a new car or a new home appliance. Since the amount of interest that can be charged on various types of credit differs from state to state, it is important to shop carefully. Try to get pre-approved by arranging financing for large items before you go shopping. This will help you get a firm fix on what you can afford to pay. Compare options from different lenders to get the best deal. Besides your own personal creditworthiness, the cost of credit is determined by a number factors such as where you borrow, how much you borrow, how long you take to repay and how interest is calculated. Let us take a look at each of these in a little more detail.

NOTE Remind participants of the dangers of predatory lending: Advance-fee loans, Payday loans, Sub-prime Mortgages, Title Pawn lenders, Rent-to-Own, Refund Anticipation Loans etc. These types of lenders charge excessive interest rates and fees, wrap in unnecessary insurance, and often have pre-payment penalties.

This is the most expensive money borrowers can use. Advise participants to see their CFS, NMCRS or local FFSC Financial Specialist if they find themselves contemplating getting money from this type of lender.

Where you borrow will definitely affect your cost.

Credit Union: Owned by members, loans to members only, normally offer the most attractive rates.

Commercial Banks: Offer a wide variety of products, average rates, for lower risk people.

Savings Banks and Savings and Loan Associations: Focus on mortgages, often offers other services, similar to banks.

Consumer Finance Companies: Accept higher credit risks, rates often high.

Retail Merchants: In-store loans and credit cards often have promotional introductory rates that rise rapidly after 90 to180 days. Rates are often unattractive. Whether you are buying a car, a TV, or anything else, normally the most expensive place to finance any consumer purchase is the place you are buying it. You pay for the convenience. Ensure you understand that "teaser rates" of 0% interest for 12 to 24 months are great, but only if you completely pay off the loan within that period of time. If you do not pay off the entire loan over the 12 to 24 month period, you will incur all finance charges starting from date of purchase until you pay it off.

Other Factors: How much you borrow has a big impact on total cost. A down payment can often result in substantial savings. The bigger the down payment, the less the total cost. Borrowing for a longer period lowers your monthly payment but results in higher cost. The shorter your repay period, the less the total cost.

A/V **Slide 8:** Choosing a Credit Card

HO *Choosing Credits Cards*

When choosing a credit card, it is important to read the fine print and understand all of the terms and conditions of the card.

Annual Percentage Rate: The APR is a measure of the cost of credit, expressed as a yearly rate. It also must be disclosed before you become obligated on the account and on your account statements. The card issuer also must disclose the "periodic rate"—the rate applied to your outstanding balance to figure the finance charge for each billing period.

Grace Period: Also called a "free period," it lets you avoid finance charges by paying your balance in full before the due date. Knowing whether a card gives you a grace period is especially important if you plan to pay your account in full each month. Without a free period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account. If your card includes a free period, the issuer must mail your bill at least 14 days before the due date so you will have enough time to pay.

Annual Fees: Most issuers charge annual membership or participation fees. They often range from $25 to $50, sometimes up to $100; "gold" or "platinum" cards often charge anywhere from $75 up to several hundred dollars.

Transaction Fees and Other Charges: A card may include other costs. Some issuers charge a fee if you use the card to get a cash advance, make a late payment, or exceed your credit limit. Some charge a monthly fee whether or not you use the card.

A/V **Slide 9:** Qualifying for Credit

Three C's of Credit

Creditors look for an ability to repay debt and a willingness to do so—and sometimes for a little extra security to protect their loans. The factors they use to evaluate a borrower are summarized by the three Cs of credit: Character, Capacity and Collateral.

Character: Will you repay the debt? Creditors will look at your credit history: how much you owe, how often you borrow, whether you pay bills on time, and whether you live within your means. They also look for signs of stability: how long you have lived at your present address, whether you own or rent your home, and the length of your present employment.

Capacity: Can you repay the debt? Creditors ask for employment information: your occupation, how long you have worked and how much you earn. They also want to know your expenses: how many dependents you have, whether you pay alimony or child support, and the amount of your other obligations.

Collateral: Is the creditor fully protected if you fail to repay? Creditors want to know what you may have that could be used to back up or secure your loan as well as other resources you have for repaying debt other than income, such as savings, investments, or property.

Creditors use different combinations of these factors to reach a lending decision. Different creditors may reach different conclusions based on the same set of facts. One may find a borrower an acceptable risk, whereas another may deny the same borrower. Some develop their own rating system, while others use "credit scores" (explained later). Most all creditors, however, will use your credit report to help them make a lending decision.

NOTE This is a suggested time for a break.

A/V **Slide 10:** Credit Reports

A credit report is a detailed account of the credit, employment and residence history of an individual used by a prospective lender to help determine creditworthiness. Credit reports also list any judgments, tax liens, bankruptcies or similar matters of public record entered against the individual.

The industry is dominated by three Credit Reporting Agencies (CRAs): Equifax, Experian, and TransUnion (also called Credit Reporting Companies). These CRAs maintain independent databases and compete with one another to sell information to lenders, insurance companies, and employers. For the most part, they do not share information with each other and so may not have identical information about an individual. If you have moved a lot, your information may be incomplete and you should request a copy from all three bureaus.

It is important to review your credit report at least once a year to verify that the information is correct and complete. Mistakes happen, and if undetected, could prevent you from getting future credit. Also, a lot of identity theft is uncovered by reviewing credit reports. The major credit bureaus all have Web sites and toll-free numbers where consumers can request a copy of their credit report. Information on how to do this is included in your "Credit Reports" handout. Under current law, every American with a credit history can get one free credit report a year from each of the big three credit reporting agencies. The reports are available online at www.annualcreditreport.com.

A/V **Slide 11:** Credit Report Information

HO *Credit Reports*

NOTE Caution participants that obtaining a copy of their credit report from www.freecreditreports.com is not free.

Obtaining a "free" credit report from this agency automatically enrolls them in a "free" trial membership with their credit monitoring system. Failure to cancel this membership will result in a monthly charge.

When you get a copy of your credit report, you will see that they all include the following information in one form or another.

Identification and employment information: Your name, birth date, Social Security number, employer, and spouse's name are routinely noted. The CRA also may provide information about your employment history, home ownership, income, and previous address, if a creditor requests this type of information.

Payment history: Your accounts with different creditors are listed, showing how much credit has been extended and whether you have paid on time. Related events, such as referral of an overdue account to a collection agency, may also be noted. This data is also referred to as "trade lines."

Inquiries: CRAs must maintain a record of all creditors who have asked for your credit history within the past year, and a record of those persons or businesses requesting your credit history for employment purposes for the past two years.

Public record information: Events that are a matter of public record, such as bankruptcies, foreclosures, or tax liens, may appear in your report.

Accurate Negative Information: When negative information in your report is accurate, only the passage of time can assure its removal. A CRA can report most accurate negative information for seven years and bankruptcy information for ten years. (Inquiries and payments are reported for two years.) Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than $75,000 a year; and information reported because you have applied for more than $150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the event took place.

Slide 12: Your Credit Score

Your Credit Score: Credit scoring is a system creditors use to help determine whether to give you credit and how much to charge you for it. Information about you and your credit experiences, like your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Using a statistical formula, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor. A total number of points—a credit score—helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments on time. Generally, consumers with good credit risks have higher credit scores.

You can get your credit score from the three nationwide CRAs, but you will have to pay a fee for it. Many other companies also offer credit scores for sale alone or as part of a package of products. Two well-known credit score companies are the Fair Isaac Company ("FICO" score) and Beacon.

The FICO score takes into account five areas of information and weighs each category:

- 35% Payment History.
- 30% Amounts Owed.
- 15% Length of Credit History.
- 10% Types of Credit in Use.
- 10% New Accounts.

Slide 13: What is a Good Credit Score?

Credit scores vary depending on the product offered and the range of scores the creditor is using. However, there are a couple of things we can learn from this credit score data. The first is that the credit score scale range is from 300–850. We can also learn that the average credit score is right around 700. Actually, 700 is technically the median, which means that roughly half the population scores above 700 and half the population scores below 700. Most lenders would simply view 700 as an average credit score—and that is an important point.

If 700 is an average credit score, then a good credit score is anything above 700—and the higher the score, the better. Many lenders perceive scores above 700 as a sign of a person or household with good financial health. On the other hand, individuals with scores below 600 may be viewed as high risk and may even be turned downed for credit or charged a higher interest rate on a loan.

Fico Scores and percentages based on 2006–2007 data from Money-zine.com at www.money-zine.com/Financial-Planning/Debt-Consolidation/About-Credit-Scores.

Generally, the following is true for FICO scores:

700 and up: Considered excellent, about 58% of the US population falls within this credit range.

600–699: Considered good credit. May not qualify for the very best interest rate and terms. About 27% of the US population falls within this credit range.

500–599: Considered risky credit. May still qualify for a loan, but may have to pay several percentage points more than the group in the excellent category. About 12% of the US population falls within this credit range.

400–499: Considered very risky credit, usually with foreclosures, liens and/or credit judgments in their reports. Will probably have to pay maximum rates allowed by law if given credit at all. About 1% of US population is in this range.

Slide 14: Correcting Inaccuracies on Your Report

Correcting inaccuracies on your credit report is an instrumental way to improve your credit score. Under the Fair Credit Reporting Act (FCRA), both the CRA and the information provider (the person, company, or organization that provides information about an individual to a CRA) are responsible for correcting inaccurate or incomplete information in their report. To take advantage of all their rights under the FCRA, contact the CRA and the information provider if they see inaccurate or incomplete information. Dispute forms are included on Web sites or a hard copy can be requested from the CRA. Recommended steps to correcting inaccurate information on your credit report are:

Contact the Credit Reporting Agency: Tell the CRA, in writing, what information you think is inaccurate. Include copies (NOT originals) of documents that support your position. Send your letter by certified mail, return receipt requested, so you can document what the CRA received. Keep copies of everything. Request that they delete or correct the inaccuracy.

Contact the Creditor: Write to the appropriate creditor or other information provider, explaining that you are disputing the information provided to the bureau. Again, include copies of documents that support your position. Many providers specify an address for disputes. If the provider again reports the same information to a bureau, it must include a notice of your dispute. Request that the provider copy you on correspondence they send to the bureau.

CRAs must investigate the items in question, usually within 30 days, unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the CRA, it must investigate, review the relevant information, and report the results back to the CRA. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide CRAs so they can correct the information in your file.

When the investigation is complete, the CRA must give you the written results and a free copy of your report if the dispute results in a change. (This free report does not count as your annual free report.) If an item is changed or deleted, the CRA cannot put the disputed information back in your file unless the information provider verifies that the information is, indeed, accurate and complete. The CRA also must send you written notice that includes the name, address, and phone number of the information provider.

If you request, the CRA must send notices of any correction to anyone who received your report in the past six months. A corrected copy of your report can be sent to anyone who received a copy during the past two years for employment purposes.

If an investigation does not resolve your dispute with the CRA, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the CRA to provide your statement to anyone who received a copy of your report in the recent past. Expect to pay a fee for this service.

A/V **Slide 15:** Your Bad Credit Could Cost You $1 Million

Just as you earn interest when you place it in savings or an investment, using someone else's money is going to cost you money in the form of interest and fees. Thinking like a Million Dollar Sailor, this money also costs you in the form of missed opportunities to save and invest for the future.

The better your credit history, the better your chance of qualifying for lower rates and fees. If you have a history of slow or no payments in your report, you may be denied credit or you may be charged more for the credit lenders are willing to give you, so pay your existing bills on time and maintain a spotless credit record.

How Bad Credit Could Cost $1 Million

You are probably are well aware that a poor credit score costs you money, but you probably do not know how much that can add up to over time—sometimes well over $1 million. For people with poor credit, the additional money they will pay for things like mortgages, car loans and insurance, compared with what those with solid credit pay, can be in the mid-six figures over a 30-year period. Invest it wisely, and that number could soar to more than $1 million. Here are some examples that illustrate how poor credit costs you in more ways than you can imagine:

Mortgage: One obvious place that poor credit hurts you is the interest rate you must pay when you purchase a house. According to Realtor.org, the median sale price for a home in June 2008 was $201,000* (down from 217,900 in 2007). According to MyFico, a 30-year, $201,000 loan for someone with a credit score of between 760 and 850 carried a 4.384% APR. Someone with a credit score of between 500 and 579 would have an APR of 9.4% or more. That would mean that a person with a good score would have a monthly payment of $1,005, while the person with the poor credit score would pay $1,9696—or $964 a month more for the same house. That adds up to $347,000 over the 30 years of the loan.

*Statistic based on average of median sales prices available in the third quarter of 2008). For more information and updated statistics, visit www.realtor.org/research/research/metroprice.

Auto loan: Edmunds.com states that the average car loan is $24,864. According to MyFico, an auto loan for a person with good credit (defined as a score of between 720 and 850) would carry a 7.221% APR, while someone with poor credit (a score between 500 and 589) would have to pay a 14.909% APR. That works out to a difference of $88 a month, which comes to $5,280 over the five years of the loan. The average person keeps his or her car for 4.5 years. That means if each person financed a new car every five years, it would cost the person with bad credit $31,680 more in car financing over 30 years than someone with good credit.

Credit cards: Let us assume, for our exercise, that both the people with good and bad credit both carry the median credit card debt of $2,200 over 30 years. If the person with good credit has an interest rate of 9% and the person with bad credit has an interest rate of 20%, the person with poor credit will pay an extra **$7,260** over a 30-year period.

Lost interest: Remember to think like a Million Dollar Sailor. If the person with good credit took the difference and invested that money in an account that earned 8% compounded annually for 30 years, he or she would have well over $1 million saved. In fact, investing the $964 difference in the cost of the mortgage alone would be worth $1.3 million. This is why getting rid of debt is one of the biggest strides you can make towards becoming a Million Dollar Sailor.

Bad credit will affect your interest rates on all types of insurance including auto, health and homeowners. Insurance companies know that people with poor credit make more claims than those with good credit—and therefore are more of a risk to insure. If your credit score is taken into account on any of your insurance rates, an individual with poor credit will pay more than a comparable individual with good credit.

Other Factors: You may put the future of you military career at risk with poor credit management habits. You may not be able to get or maintain a security clearance, thereby limiting the types of jobs you can do in the military and handicapping your chances at promotion. As a civilian you may also lose out on a better job due to poor credit. More and more employers pull your credit report when you apply for a job, because many see a risk in employing a person with poor credit.

Many apartment managers will run a credit check on prospective tenants. If your credit is poor, you may be denied a unit due to the risk that you may not be able to pay. If you have poor credit, you may need to leave a deposit—or a larger deposit—with certain companies than you would if you had good credit. Utility and cellular phone companies sometimes ask for deposits with people that have less-than-stellar credit.

A/V **Slide 16:** How Interest is Calculated

Balance Computation Method for the Finance Charge: If you do not have a grace period or if you expect to pay for purchases over time, it is important to know what method the issuer uses to calculate your finance charge. This can make a big difference in how much of a finance charge you will pay—even if the APR and your buying patterns remain relatively constant. Examples of balance computation methods include the following:

Average Daily Balance: This is the most common calculation method. It credits your account from the day payment is received by the issuer. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, depending on your plan, cash advances typically are included. The resulting daily balances are added for the billing cycle. The total is then divided by the number of days in the billing period to get the "average daily balance."

Adjusted Balance: This is usually the most advantageous method for card holders. Your balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included. This method gives you until the end of the billing cycle to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior, unpaid finance charges from the previous balance.

Previous Balance: This is the amount you owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

Two-Cycle Balances: Issuers sometimes use various methods to calculate your balance that make use of your last two month's account activity. Read your agreement carefully to find out if your issuer uses this if so, what specific two-cycle method is used. If you do not understand how your balance is calculated, ask your card issuer. An explanation must also appear on your billing statements.

A/V **Slide 17:** Minimum Monthly Payment Myth

Minimum Monthly Payment: Beware of making only minimum payments. Base your payment on what you can afford, but always try to pay as much as possible. If you have a $1,000 balance on an 18% credit card and only pay the minimum, 2% of the balance for example, it will take 19 years to pay off and cost a total of $1,931. However, increasing the payment to 5% of the balance results in a two-year payoff and $382 in interest paid.

A/V **Slide 18:** Warning Signs of Too Much Credit

Warning Signs:

Credit cards make spending easy and may encourage you to spend more than you can repay. The following is a list of possible warning signs of too much credit:

- Not being able to pay off most credit cards each month.
- Being able to afford only the minimum monthly payments on credit cards.
- Finding that more income each month is being committed to debt repayments.
- Falling behind on payments and receiving late notices.
- Having no money after paying bills and needing to take a cash advance to buy groceries or meet other regular monthly expenses.
- Less than one month's take home pay in savings.
- Dependent on spouse's job or part-time job to make ends meet every month.
- Debt-to-income ratio of over 20%.
- At or near credit limits on credit cards most of the time.

A/V **Slide 19:** Critical Point

Things are reaching the critical stage when an individual or family is:

- Rotating bills—paying some this month, some next month.
- Borrowing or getting cash advances to make payments—using credit to pay credit.

- Being denied additional credit due to problems on credit reports.
- Hiding bills or being dishonest with family members about debts.
- Seeking additional debt from predatory lending sources, like payday loans or refund anticipation loans.
- Relying on a debt consolidation loan to reduce payments enough to meet monthly living expenses.

A/V **Slide 20:** Recovering From Debt

Even good people find themselves in debt due to different situations. If you find yourself teetering on the brink of financial destruction, all is not lost. There are options for you.

Implement a Budget and Spending Plan

Take Charge! Develop a workable budget and a spending plan. Do what is necessary to establish a positive monthly cash flow.

Change Your Behavior: Remember that overcoming debt is more about behavior than financial knowledge. You cannot go to the mall if you have a spending problem just like a person with an alcohol problem cannot hang out at a bar. Spend time thinking about how you got into debt to begin with… are you living beyond your means? Are you satisfying all your wants and sacrificing all your needs? Are you an emotional spender or an impulse shopper? Should you not use credit at all? Again, your CFS or FFSC Financial Educator can help you figure out what to change so that your behavior moves you in the direction of building wealth, not drowning in debt.

Prioritize Debts: Before paying off any debt you need to make sure you are taking care of your basic needs first. There needs to be food on the table and lights on in the house. From there, you will need to prioritize your debts and take care of the most important ones first. Major items like your mortgage and car payment should normally be top priority.

Use a Power Payment Plan: After budgeting to get a positive cash flow, ensure minimum payments are made on all monthly bills, and then apply all remaining available funds to whichever debt has the smallest balance. When the smallest balance is paid off, apply the money used for that payment to the next bill on your list and keep the others the same. Again, when that bill is paid off, apply all the money used for the payment to the next bill on your list. In this manner you will "power pay" down your debt. Some people prefer to pay the bill with the highest APR first for greatest overall savings. You must use your judgment to do what is best for your family. Your Command Financial Specialist has both a computerized budgeting program and power payment plan that make setting up a personal debt payment plan easy and flexible.

Talk to Your Creditors: Stay in contact with your creditors and let them know if there is a problem. If a friend owed you money and was avoiding you or not returning phone calls, you would think he or she was trying to "stiff" you. Businesses are the same way. Just talk to them. Be honest about what you can or cannot pay. Once you have determined how much you can pay to creditors, approach them with a plan. Be careful of promising more than you can deliver.

Slide 21: Use with Caution

Be wary of those who are eager to help you out of your debt situation… for a price. Be careful of the advice of organizations that profit from assisting you with debt. Also, using a debt management service only tackles one part of the problem. Debt management by someone else means that your habits do not change. Just like you cannot have someone else lose weight for you, you cannot have someone else change your spending habits. Turning the problem over to someone else only treats the symptoms.

Debt Consolidation: Debt consolidation is borrowing your way out of debt, which is a bad idea. Debt consolidation tempts you with promise of saving interest and having only one small payment instead of multiple ones. But in most cases, the lower payment exists not because the rate is actually lower, but because the terms are extended. In other words, you will probably wind up paying the same or even more over time.

Debt Management: Debt Management companies "manage" your debt by taking one payment from you and distributing the money among your creditors with whom they have worked out lower payments and lower interest rates. As good as this sounds, debt management is not for everyone. It is meant for people who need help re-negotiating their debt to get their financial plan to a break-even point (not live in a deficit). This does have consequences because some creditors look at debt management as a negative element in your credit report. Also note that if you have poor credit and you stick with a debt management program for 2-5 years and pay off your debt, it will then be looked at as a positive mark on your credit report. See your Command Financial Specialist or your Financial Educator at Fleet and Family Support Center to see if you are a candidate.

Bankruptcy: Bankruptcy is a major decision and one that you should never make by yourself. Chapter Seven Bankruptcy is complete liquidation of debt and it stays on your credit report ten years. Chapter Thirteen Bankruptcy is a restructuring of debt, and it will stay on your credit report for seven years. But please do not let these guidelines fool you; bankruptcy is for life. Loan applications, job applications and other contracts and applications will ask you if you have ever filed—EVER! If you lie, you are committing fraud. Bankruptcy is not a quick fix. It is meant for people to get a fresh start, but it has consequences.

Slide 22: Sources of Help

Use Your Resources: There are many services that are free to you and your family as a member of the military. Utilize your free resources like your Command Financial Specialist, your local Fleet and Family Services Center Financial Educator, Navy Marine Corps Society Debt Counselors and other services that have your best interest in mind.

Slide 23: Summary

With all the money companies stand to make by extending credit, it is no wonder it has become a regular part of our financial life. Managed correctly, credit, whether loans or credit cards, can be a great tool. Abused, they can lead to higher costs, denials, and even bankruptcy. Keep in mind these healthy tips for using credit wisely:

- Have a working budget or financial plan, keep it up-to-date, and live within your means.
- Calculate your current debt-to-income ratio and keep monthly payments at 15 to 20% of your net income or less.
- Plan all credit purchases; make sure they fit in your budget.
- Shop around for any credit; it is just like any other product you would buy. Look for the best deal.
- Check your credit report annually and keep it spotless.
- Use all of your available resources to help you plan and to help you get out of debt.
- Remember, financial success is more about behavior than it is about money. If you are in financial distress, figure out why and change your behavior so you can build wealth, not debt.

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Million Dollar Sailor
Module Six: Credit Management

Participant Notes Page

1. You can establish credit by:

2. Three factors that affect the cost of credit include:

3. Name three inappropriate uses of credit.

4. Explain the importance of your credit score.

5. Three ways to improve a credit score include:

6. Three options for reducing debt include:

7. Three sources that can help answer questions about credit management or assist you in reducing your debt include:

Empty Pockets

Living Expenses	Debts
Wise Use of Credit	
Unwise Use of Credit	

Choosing Credit Cards

How to Find the Right Card:

1. The Federal Reserve has informative publications at www.FTC.gov.
2. Web sites that list the best credit and credit card deals, educational information and calculators: www.bankrate.com, www.cardweb.com.
3. Financial magazines and publications frequently post a list of the best credit card deals for consumers.

Questions to Ask:

- Is there an introductory rate, what is it and how long does it last?
- After that, what will my rate be?
- Is there an application fee?
- Are there processing fees?
- Is there an annual fee?
- Is there a late fee?
- Is there an over the limit fee?
- Are there additional fees, like account termination fees or balance transfer fees?
- When and how can a variable rate be changed?
- When and how can a fixed rate be changed?
- What is the grace period before interest is applied?
- How will you inform me of any changes in my contract?
- Will the company inform me if I am about to go over my limit?
- If I go over my limit, what happens?
- What is company policy if I have trouble paying my bill?

The Right Card for You:

- Know the terms of your card and what they mean.
- Carrying a balance: Look for a card with a low annual percentage rate (APR).
- Paying off balances monthly: Look for a card with no annual fee. Check for a grace period during which no interest is charged on outstanding balances.
- Poor or no credit history: Secured cards are available. Customers post a security deposit equal to the credit limit of the card.

Beware of high interest charges:

- How widely is the card accepted?
- How high a credit limit do you need?

How to Manage Credit:

- Commit to a plan to pay off or reduce your credit card debt by using a power payment schedule.
- Call the card company and request that they lower your interest rate and eliminate your fees. It costs nothing to ask.
- Check the fine print on the credit application.
- Are you getting a fixed annual percentage rate or is it a temporary teaser rate that will increase frequently?
- Always pay more than the minimum amount due.
- If you carry a balance, beware of cards that offer a rebate, frequent flier miles, and other perks. They can carry high interest rates and fees that can cancel their benefits.

Avoid Identity Theft:

- Keep purse and wallet safe at all times.
- Do not carry your Social Security card.
- Do not give personal information to people you don't know.
- Read all bank and financial statements and look for unusual charges and suspicious activity.
- Shred all receipts, checks, bank statements, expired credit cards, and any other documents with personal information.

Helpful Web sites:

www.aafes.com (Army Air Force Exchange System)
www.abiworld.org (American Bankruptcy Institute)
www.aiccca.com (Association of Independent Consumer Credit Counseling Agencies)
www.annualcreditreport.com (Free annual credit report from the three major agencies)
www.bankrate.com (Bankrate Web site for Comparison Shopping)
www.bea.gov (Bureau of Economic Analysis)
www.bls.gov (Bureau of Labor Statistics)
www.consumerlaw.org (National Consumer Law Center)
www.creditpage.com (Consumer Credit Guide)
www.cuna.org (Credit Union National Association)
www.federalreserve.gov (Federal Reserve System)
www.ftc.gov (Federal Trade Commission)
www.legalconsumer.com (Bankruptcy Information)
www.lifelines.navy.mil (Lifelines Services Network)
www.myvesta.org (Non-profit Debt Management Counseling)
www.ffsp.navy.mil (Fleet and Family Support Centers)
www.nfcc.org (National Foundation for Credit Counseling)






Credit Reports

Check your credit report at least once a year for errors, negative information that could prevent you from obtaining a security clearance or mortgage, and signs of identity theft (see below).

- Experian (888) 397-3742 www.experian.com.
- TransUnion (800) 888-4213 www.transunion.com.
- Equifax (800) 685-1111 www.equifax.com.

How to Request a Copy of Your Credit Report:

Consumers now get one free credit report each year from all three major credit report agencies. Go to www.annualcreditreport.com.

How to Correct an Error on Your Credit Report:

Under the Fair Credit Reporting Act (FCRA), both the Credit Reporting Agencies (CRAs) and the information provider (the person, company, or organization that provides information about you to a CRA) are responsible for correcting inaccurate or incomplete information in your report. To take advantage of all your rights under the FCRA, contact the CRA and the information provider if you see inaccurate or incomplete information. Dispute forms are included on Web sites, or you can request a hard copy from the CRA.

1. Tell the CRA, in writing, what information you think is inaccurate. Include copies (NOT originals) of documents that support your position. Send your letter by certified mail, return receipt requested, so you can document what the CRA received. Keep copies of everything.
2. CRAs must investigate the items in question—usually within 30 days—unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the CRA, it must investigate, review the relevant information, and report the results back to the CRA. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide CRAs so they can correct the information in your file.
3. When the investigation is complete, the CRA must give you the written results and a free copy of your report if the dispute results in a change. (This free report does not count as your annual free report under the FACT Act.) If an item is changed or deleted, the CRA cannot put the disputed information back in your file unless the information provider verifies that the information is, indeed, accurate and complete. The CRA also must send you written notice that includes the name, address, and phone number of the information provider.
4. If you request, the CRA must send notices of any correction to anyone who received your report in the past six months. A corrected copy of your report can be sent to anyone who received a copy during the past two years for employment purposes.
5. If an investigation doesn't resolve your dispute with the CRA, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the CRA to provide your statement to anyone who received a copy of your report in the recent past. Expect to pay a fee for this service.

Tell the creditor or other information provider, in writing, that you dispute an item. Be sure to include copies (NOT originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to a CRA, it must include a notice of your dispute. And if you are correct—that is, if the information is found to be inaccurate—the information provider may not report it again.

How to Get Your Name Off Solicitation Lists:

Creditors receive lists of names from credit bureaus in order to pre-screen your report and make promotional offers. To be excluded from these lists, call the credit bureaus or 1-888-5 OPT OUT or go to www.donotcall.gov; www.optoutprescreen.com; and www.the-dma.org.

Four Steps to Take if your Identity is Stolen:

1. Place a fraud alert on your credit reports as soon as possible and review your credit reports.

   Contact any one of the nationwide CRAs to place a fraud alert on your credit report. Fraud alerts can help prevent an identity thief from opening any more accounts in your name. The company you call is required to contact the other two, which will place an alert on their versions of your report, too.

   Equifax: 1-800-525-6285; www.equifax.com.

   Experian: 1-888-EXPERIAN (397-3742); www.experian.com.

   TransUnion: 1-800-680-7289; www.transunion.com.

   In addition to placing the fraud alert on your file, the three CRAs will send you free copies of your credit reports. If you ask, they will also display only the last four digits of your Social Security number on your credit reports.

2. Contact the security or fraud department of each company where you know, or believe, accounts have been tampered with or opened fraudulently, and close the accounts. Follow up in writing, and include copies (NOT originals) of supporting documents. It is important to notify credit card companies and banks in writing. Send your letters by certified mail, return receipt requested, so you can document what the company received and when. Keep a file of your correspondence and enclosures.

   When you open new accounts, use new Personal Identification Numbers (PINs) and passwords. Avoid using easily available information like your mother's maiden name, your birth date, the last four digits of your Social Security number, your phone number, or a series of consecutive numbers.

3. File a report with your local police or the police in the community where the identity theft took place.

   Get a copy of the police report or, at the very least, the number of the report. It can help you deal with creditors who need proof of the crime. If the police are reluctant to take your report, ask to file a "Miscellaneous Incidents" report, or try another jurisdiction, like your state police. You also can check with your state Attorney General's office to find out if state law requires the police to take reports for identity theft. Check the Blue Pages of your telephone directory for the phone number or check www.naag.org for a list of state Attorneys General.

4. File a complaint with the Federal Trade Commission.

   By sharing your identity theft complaint with the FTC, you will provide important information that can help law enforcement officials across the nation track down identity thieves and stop them. The FTC also can refer your complaint to other government agencies and companies for further action, as well as investigate companies for violations of laws that the FTC enforces.

   You can file a complaint online at www.consumer.gov/idtheft. If you don't have Internet access, call the FTC's Identity Theft Hotline, toll-free: 1-877-IDTHEFT (438-4338); TTY: 1-866-653-4261; or write: Identity Theft Clearinghouse, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580.

   For more information, see "ID Theft: What's It All About or Take Charge: Fighting Back Against Identity Theft" at www.ftc.gov/idtheft.






Module Seven: Car Buying Strategies for the Million Dollar Sailor

Million Dollar Sailor

Car Buying Strategies

Module Length: 60 Minutes

Module Description:

Purchasing a vehicle is a large investment that can have significant impact on an individual's short-term and long-term financial circumstances. The car buying process consists of several phases, each with its own potential hazards that can result in lasting negative consequences for the amateur buyer. The MDS Car Buying Module is designed to develop knowledge and skills that will enable participants to conduct adequate research on a new car purchase, to determine how much they can afford to spend on a car, and to negotiate effectively when purchasing an automobile.

Learning Objectives:

Upon completion of this 60-minute module, participants will be able to:

- Identify three methods for overcoming high pressure sales tactics.
- Describe how to research a fair price for a car.
- Cite two legal rights in the car buying process.
- Identify two sources of help with car buying.

Materials Needed:

- Computer/Internet and PowerPoint Projector
- MDS Car Buying PowerPoint Slides
- Car Buying Jackpot PowerPoint Game
- Chart Paper or Whiteboard/ Markers
- Pens, Pencils, Paper
- Internet Access—NFCU calculator
- Handouts:
    - *Three Deals of Car Buying*
    - *Determining Car Payments*
    - *Leasing vs. Buying*
    - *Sources of Help—Car Buying*
    - *Questions to Ask Car Dealers*
    - *Car Sales Tricks of the Trade*
    - *Installment Contract*
    - *Module Seven Participant Notes Page*

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NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

A/V **Slide 1:** Car Buying Strategies for the Million Dollar Sailor

HO *Module Seven Participant Note Pages*

Almost every service member will purchase a new or used car while on active duty. They will spend more of their disposable income on automobiles than on virtually anything else except food and shelter. This module explores how you can save hundreds, if not thousands, of dollars on your next vehicle purchase—the *how* to buy. *What* you buy will be largely up to you.

? Q *Think about the last time you purchased a vehicle. What are some of the things that you wish you could do over? What would you have done differently?*

NOTE Encourage a few participants to share their experiences. Use their examples to show that there is always something new to learn when it comes to car buying and sometimes you learn certain costly lessons only through experience. The point of this training module is to learn the lessons ahead of time so that you will not have to learn the lessons of car buying the expensive way.

A/V **Slide 2:** Three Deals of Car Buying

HO *Three Deals of Car Buying*

Americans love their cars. Nowhere else in the world will you find people living paycheck-to-paycheck with two vehicles, less than two years old, parked in their driveway (Ramsey, 2007).

Buying a car should not run in conflict with your spending plan. Financing a car should not place your ability to build wealth and your financial freedom in jeopardy. The bottom line: purchasing a vehicle should *be* a financial goal; it should not *undermine* your financial goals.

This course is designed to help you save money and hassles on your next car purchase by focusing on the *Three Deals of Car Buying* —the Purchase, the Financing and the Trade-In. It will also take a look at legal rights you have when buying or selling a car.

The Purchase: The purchase of new cars continues to be on the rise in America.

? Q *Can anyone guess the average car cost in America?*

We will discuss some strategies when purchasing a vehicle, either new or used, to determine what best fits into your budget.

The Trade In: The trade-in value of a vehicle will vary greatly depending on the make, model and mileage, as well as the overall condition of the car. Edmunds.com (2008) estimates the average cost to be over $28,000. We will discuss some resources and methods for getting the most value.

The Financing:

? Q *How much do you think the average car payment is in America?*

U% The average car payment in America averages between $335 and $445 per month.* Most people finance their car for 66 months and the average time they actually drive that car is around 30 months (Auto QnA, 2009).

Having a car payment does not always have to be in your future. Today we will discuss what type of *car* you can afford, not just what type of *payment* you can afford.

NOTE *Average car payments in America are difficult to calculate because they depend on many variables such as the down payment, trade-in vehicle and credit score (which helps determine interest rate). The car itself is a large variable, as its make, model, year, mileage, etc. all goes into calculating payments. An average structure to go by is approximately: Small Cars: $305-375, Midsize cars $400–475, and Large cars/SUV's $500 and up. For updated statistics, visit Auto QnA at www.autoqna.com/buying-selling/1930-buying-selling-6.html.

A/V **Slide 3:** Deal #1: The Purchase

Many people begin the car buying process by visiting a dealership—which should be one of the last things they do. Unfortunately, the process often ends the same day with the purchase of an inappropriate car at too high a price. Dealers will ask about financing and trade-ins before offering a bottom-line price so that they can mentally calculate their profits to the buyer's disadvantage. You can save yourself hundreds, if not thousands of dollars, on your next purchase by doing some homework *before* you step on the lot so that you are always in control of the buying process.

There are five things you need to determine *before* making a successful purchase. They are:

- How much you can afford.
- The type of vehicle you want to buy.
- Where you will buy the vehicle.
- A fair and affordable price for the vehicle.
- Should you lease?

A/V **Slide 4:** Know What Can You Afford

How much you can spend in total on the vehicle: If you only figure out how much you can afford to pay each month and not the total amount you want to spend on the vehicle, you will probably get the monthly payment you want, but risk paying too much for the vehicle overall.

How much you can put down on the vehicle: The more you put down, the less you have to finance and the lower your monthly payment.

How much you can spend per month on a payment: If you only figure how much you want to pay in total, you risk ending up with a monthly payment that you will not be able to afford. Buy the car; never buy the payments.

WEB http://www.navyfcu.org/calcs/AutoLoan.html (10 Minutes)

Using the NFCU Auto Loan calculator:

- Demonstrate how to calculate how much participants can afford to spend in total on a vehicle by entering in an approximate monthly payment amount.
- Demonstrate how to calculate the monthly payment based on the cost of a desired vehicle.
- Demonstrate how the number of months on the loan, the trade-in allowance, and the down payment can affect the monthly payment.

NOTE Ask participants to contribute information to be used in the demonstration. Suggested questions to utilize the financial calculator include:

- What do you think is the cost of a new SUV?
- What type of monthly payment do we want to use for this example?
- How many months do we want to take out on the loan?
- How much money can we expect to get for a reasonable trade-in allowance for our old vehicle?

A/V **Slide 5:** Calculating Monthly Payments

HO *Determining Car Payments*

What is a reasonable monthly car payment? Financial advisors usually suggest keeping total car expenses to within 25% of your net income (what remains after taxes). Expenses higher than 25% run the risk of sinking your budget, increasing your debt-to-income ratio and preventing you from achieving other financial goals. It is important for potential buyers to understand that total car expenses include paying for the car as well as maintenance, insurance, operating expenses (fuel, oil, etc.) and taxes. As a general guide you can use 15% of net income for the car payment and 10% of net income for the other expenses.

How you can determine these figures?

Preparing a Spending Plan: Referencing the spending plan that you developed yesterday, use the projected columns for the additional costs associated with this car purchase. Make sure that you include not only the car payment, but also the maintenance, operating expenses, insurances and taxes. Should these new costs place you in a deficit in your projected column, you must re-evaluate and choose a lower priced car that still suits your needs.

Debt-to-Income Ratio: You will also want to know how much of your money currently goes to pay monthly debt payments so you do not overextend yourself if you add a car payment. You can use the debt-to-income ratio you calculated yesterday as a general guide regarding your ability to take on more debt(not an absolute measure). If your debt-to-income ratio is 20% or higher, you may want to hold off on taking on more debt.

Your Credit Report: Be sure to check your credit report as you work on your spending plan and debt-to-income ratio. A dealership will pull your report, so it is best you look at it first unless you are paying in cash or have pre-approved financing. This way there will not be any surprises.

Pre-approved Loan: Consider getting a pre-approved loan by your financial institution. This will provide information on interest rates, payments, and terms in addition to ensuring you do not overextend yourself once at the dealership.

A/V **Slide 6:** What Type of Car do you Want?

The vehicle you purchase must strike the right balance between wants, needs and affordability. Everyone has different preferences in a vehicle. There are many factors to consider when deciding what to get including size; manual or automatic transmission; two-, four-, or all-wheel drive; use (on or off-road, length of commute, parking conditions); style; safety; ownership and operating costs.

New or Used: Once you have made some choices as far as the type and style of the car you need, you have another choice that can significantly impact the price of the car—should you get a new car or a used car? Each one has positive as well as negative aspects; there are no absolute answers to the question of a new versus used car. Each buyer must consider his or her needs and resources when making the choice.

Considerations	New Car	Used Car
Cost	Almost always more than a used car.	Generally less than a new car.
Mechanical Problems	Likely to have less than a used car.	Likely to have more than a new car. Repair costs can add significant amounts to the cost of owning and operating a car. Are you mechanically inclined and able to make your own repairs? Do you have an auto mechanic you know and trust? Have you considered using base auto hobby shops?
Depreciation	The value of a new car diminishes rapidly following the purchase, anywhere from 10% to 40% the first year. To get the full value of a new car, many consumers plan on owning it for several years (four, five, or more).	Used cars depreciate at a slower rate because cars depreciate the most in the first two years.
Warranties	About half of automakers offer a standard three year/36,000 mile warranty, and the other half offers four year/50,000. There are even a few automakers offering five year/60-100,000 mile coverage. Extended warranties can be purchased at an additional cost.	May or may not have any remaining. Service contracts will add significantly to the cost of the car.

NOTE Remind participants to review materials covered in the *Insurance Module,* such as tips for reducing car insurance costs. Once you have narrowed your choices to a few models, compare quotes on insurance cost. Sometimes two similar vehicles can have very different insurance costs and that cost difference will help you make a final decision on a model. Moreover, knowing the cost ahead of time enables you to figure this significant expense into the budget. For many junior sailors, the insurance payment can be as much or more than the car payment!

Tips for Cutting Car Insurance Costs Include: Get at least three rate quotes; get a higher deductible to lower the premium; drop collision and comprehensive on older cars; check your credit report; ask for discounts; avoid lapses in coverage; and be a safe driver.

A/V **Slide 7:** Performance Research

HO *Sources of Help—Car Buying*

Consumer Reports. Too many consumers choose their car by the image it portrays. Choose the best performing car for the price you can afford. Consumer Reports rates the reliability, safety, performance, and fuel economy of cars and is relatively unbiased since it accepts no advertising. You can also consult *Consumers Union* publications and the *Insurance Institute for Highway Safety*. There are many Web sites that examine the cost and performance issues of vehicles listed on your *Sources of Help Handout*.

Dealerships: Car buyers should research a minimum of three potential sellers. There are no absolute guidelines to follow in selecting a dealer, a salesperson or an individual from whom to buy a car. Do your homework and you should get a good deal no matter from whom you buy. Since buying a new car almost always involves choosing a dealership, here are some guidelines to use.

Years in Business—Although being in business for a long time does not necessarily mean that the dealer is straightforward, the worst of the dealers (in terms of how buyers are treated) seem to go out of business fairly quickly. This is just one factor of many to consider.

Complaints—Check with the Armed Forces Disciplinary Control Board, Office of Consumer Affairs of the Attorney General, the Better Business Bureau, and any professional associations to which the dealer belongs for any complaints filed against them.

Salespersons and Mechanics—How long have they been with the company? Again, not a foolproof factor, but anything that suggests company stability is frequently a good sign. Take your salesperson for a "test drive"—is he or she pushy? Relaxed? Open? Impatient? Responsive? Make sure the salesperson is someone you can work well with.

References—These are sometimes used to impress the buyer, but unless you can get a complete list of everyone who has ever bought a car from them, assume they are giving you the names of persons who will only say positive things. In other words, skip checking their references.

Professional Membership—Membership in the Better Business Bureau, National Automobile Dealers Association, or National Independent

Automobile Dealers Association does not automatically mean a good deal for you. It does, however, give you some reassurance that there are avenues for you to address concerns if they occur.

HO *Questions to Ask Car Dealers*

Private Sellers: Frequently, car buyers can save money by purchasing from a private seller. The downside is that there is little or no consumer protection after the sale and no repair plan. If the car purchaser is truly knowledgeable about cars or can bring someone along who has that knowledge, this may be an excellent source to consider.

Internet/Online Services: Many people are conducting successful searches for new vehicles over the Internet. At a minimum, there is a wealth of research materials available to help you make wise consumer choices. Online car buying services include:

- *Direct Services*—They will sell you the car and deliver it to your house.
- *Referral*—Your quote is given to a "preferred" dealer who contacts you.
- A*uctions*—You name your price and dealers bid for your business.
- *Online Dealerships*—You browse cyberspace car lots and buy online.
- *Buying Services (USAA, NCOA)*—They will negotiate the purchase price.

A/V **Slide 8:** What is a Fair Price

Auto dealers and private individuals have a right to make a reasonable profit on the sale of a car. What constitutes a reasonable profit? To know this, you must know what constitutes a fair price for the vehicle.

Where to Find Pricing Information: All of the components of pricing at Dealer invoice and Manufacturer's Suggested Retail Price (MSRP) are available through a variety of resources. Price your vehicle at Dealer Invoice, subtract any dealer holdbacks or incentives, add 3–5% dealer profit, and start your offer here. When working with a dealer who provides you with pricing information, make sure you know the source—it could be biased. Your best bet will be to do price research on your own from sources you know are reliable. Check out Internet sites, especially www.edmunds.com and www.nada.com. These sites will price a new or used car, and also have information on buying and selling, financing and insurance. Additional resources include:

Public Libraries: One of the very best sources of information on car pricing, where many of the below items can be found.

Kelley Bluebook and NADA Pocket Guides: List suggested retail and loan values for specific makes and models of used cars. These are guidelines, not law. Factors such as mileage, options, and physical condition of the car affect its value. These guides offer great starting figures. They can be found on the Internet at www.kbb.com and www.nada.com.

IntelliChoice Car Cost Guides: Besides the dealer cost and sticker price, lists items such as resale value, economic value, maintenance costs, etc.

Consumer Reports/Consumers Union Price Service: Each April issue is devoted to cars and pricing, and they offer a low-cost service to provide the dealer cost for particular makes, models, and options.

Edmund's Car Prices Buyer's Guide: Available in hard copy as well as online, similar to the IntelliChoice guide.

WEB (Optional) Consider taking participants to either www.edmunds.com or www.nada.com for a web tour. Solicit responses from participants when inputting different types of cars.

NOTE Internet Web sites are listed on the *Sources of Help* handout.

Fair Pricing Terminology

Invoice Price: What the manufacturer charges the dealer. (Dealer's cost may actually be less due to rebates and incentives, etc.)

Base Price: Cost of the car with the standard equipment and basic warranty.

Destination Charge: What the manufacturer charges to deliver the vehicle to the dealer.

MSRP—Manufacturers' Suggested Retail Price: The recommended retail price as suggested by the dealer and posted on the vehicle. Dealers can sell a car for whatever they choose. MSRP averages 10–11% higher than the dealer invoice price.

Monroney Sticker Price: Price listed on the sticker on the car. Includes base price, installed options, destination charges and fuel economy information.

Dealer Sticker Price: Monroney sticker price plus suggested retail price (MSRP) of any options installed by the dealer.

NOTE Remind participants of Web sites listed on the *Sources of Help* Handout.

WEB Consider taking participants on virtual tour of one/more of the Web sites.

A/V **Slide 9:** Leasing

What about leasing?
If you are thinking about leasing instead of buying, you need to understand the difference in the contracts and some of the issues that are unique to people who live the military lifestyle. There are often mileage restrictions, charges for excessive wear and tear, and limits on where you can take a leased vehicle. The next section talks about negotiating skills and legal rights, and these concepts apply to leasing as well as buying. Refer to the handout for specific differences between leasing and buying.

Consider leasing only if:

You can limit your annual mileage. Leases have mileage limits commonly ranging from 10,000 to 15,000 per year. If you exceed the limit, you will face high per-mile fees at the end of the lease.

You take excellent care of your vehicle and do not plan to customize it. When you turn the car in at the end of the lease, you can be charged for any "wear and tear" considered excessive. The car must also be in original condition so that the dealer can resell it, so customizing (painting flames on the side, etc.) is out of the question.

You want to drive a new car every few years and do not mind never-ending car payments. It is often more economical to buy a car and keep it as long as possible. However, if you like a shiny new car every few years you will end up with continuous car payments anyway.

You will not have to relocate. Most leases will not allow you to take the car out of the country, and many will not even allow you to move out of state.

HO *Leasing vs. Buying*

NOTE Facilitator may want to be knowledgeable about other areas of "lease-speak" such as:

- *Capitalized cost*—selling price of the car, on which the rest of the lease calculations will be based.
- Capitalized cost reduction—down payment made, which lowers the amount on which the lease is based.
- *Residual value*—the predicted value of the car at lease end, after depreciation. The difference between the capitalized cost (after any reduction) and the residual value is the amount the dealer predicts the car will depreciate over the lease term. Put simply, this is the amount paid for the privilege of driving the car over the lease term, plus a finance charge.

- *Money factor*—the finance charge (interest) charged on the lease amount, expressed as a decimal used to figure part of the monthly lease payment.

Slide 10: Their Negotiation Strategies

Tricks of the Trade

Most salespeople are reasonable, honest individuals. Some, however, are not above trying some techniques designed to pressure you into making a commitment you may not be ready to make. Beware and be aware of these tactics. Should you encounter them, you might choose to tell the salesperson you are aware of their tactics and prefer they not try them, to ask to see a different salesperson, or to simply leave. The handout, *Car Sales Tricks of the Trade* lists several tactics you should be familiar with.

Put-To Ride: When a salesperson cannot convince you to buy today, he/she insists that you leave your trade-in at the dealership keep the new car overnight, and drive it home. This way no other dealership can see your trade-in, your neighbors and relatives see the car, you fall in love with it and have a hard time saying no to purchasing the car when you have to bring it back the next day.

Bait and Switch: When a dealership runs an ad with a picture of a well-equipped car with a price of a stripped down model to entice you to come in. You are then shown the stripped down model and quickly switched to the well-equipped one with a higher price tag.

Low-balling: This occurs when the salesperson quotes you a price on a car that is lower than the current market price. This is done to assure that you will return to him/her before signing with anyone else just to see if the offer still stands. At this point, the salesperson will tell you that he/she cannot sell the car for that low a price because the sales manager will not allow it. **High-balling:** This is the same as low-balling, except that a high trade-in allowance figure is offered to you. Again, you come in later and the manager will not allow it.

Padding: Adding charges that increase the dealers' profit at the time you sign the contract; i.e., undercoating, protection packages, dealer installed options, credit life insurance, disability insurance, and extended warranties, etc.

Good Guy/Bad Guy (Mutt and Jeff Routine): When the salesperson plays the role of the "good guy" and the manager plays the "bad guy" to enhance the image of the salesperson. The salesperson and manager may even stage an argument in front of you, with the salesperson trying to persuade the manager to give you a lower price. Once you believe that the salesperson is on your side, you drop your guard and become an easy mark.

Your Car: When the salesperson keeps referring to the car as "your car" to get you unconsciously to accept ownership of the car. Once accomplished, it is easier to get you to sign the contract.

A Assign each table or group one of the Car Sales Tricks. Give them five minutes to come up with some consumer strategies to combat these tactics. Ask a group leader to share one or all of the responses.

HO *Car Sales Tricks of the Trade*

A/V **Slide 11:** Your Negotiating Strategies

Negotiating Skills

Salespeople are trained in the art of selling. In the majority of instances, their pay includes a commission based on the sale price of the vehicle, so they have a vested interest in getting as high a price as possible for the car. When you walk into a car dealership the salesperson views you as a profit package: you might buy a new car, you might buy high-profit extras in the finance and insurance office, you might finance the car through the dealership, you might trade in a used car they can resell, you might have your new car serviced at the dealership, and you will hopefully become a return customer the next time you are buying a new car. You present quite an opportunity to the dealership and this can work in your favor when negotiating.

While the salesperson wants to start high, your goal is to get as much car as you can for as little as you can. There are a lot of stories about sleazy salespeople and tactics—do not let them determine your behavior. Treat the sales force and anyone else at the dealership with the dignity you would expect for yourself—but learn how to negotiate and do it effectively. Remember, the number one rule for all deals is "everything is negotiable!" Here are some negotiating tips to help you hone your skills:

- **Information:** The salesperson's goal is to get as much information about you as possible. With your name, military status, and particularly your Social Security Number, a car dealer can determine what you might pay for a car and, at the least, institute a credit history check (even without your knowledge or permission). You need only give them your first name.
- **Trade:** Do not forget there are three elements to the car deal: the purchase price, the financing, and the trade-in. The dealer will try to combine them and you need to keep them apart. Practice saying the phrase, "That's not important right now."
- **Money Down/Deposit:** Do not advertise how you will pay for the car. Again, use the phrase "That's not important right now." If they ask for a deposit, do not pay it (unless you are absolutely certain you will buy the car). Research clearly shows that people who have put down

a deposit are much more likely to buy the item, even if they prefer something else! You will have to return even if you change your mind and may have trouble getting your money back. If the car you were looking at actually is sold, they will find another for you to purchase, so do not feel pressured.

- **Discounts:** If the salesperson offers a discount, ask if it will apply a week later (in many cases, it will). If they do not bring up the subject, ask for one. Even the “one price/no haggle” dealers might discount options, etc. You never know unless you ask.
- **Like the Car:** One of the goals of the salesperson is to get you to say you “like the car.” The sooner he/she can establish an emotional connection between you and the car, the more likely you are to buy it.
- **Shop Twins:** Some models have identical twins on other car lots with different nameplates on them. If a car you are interested in is one of them (for example, the Chevrolet Suburban, GMC Yukon XL and Cadillac Escalade ESV are twins—triplets, really; the Dodge Dakota and Mitsubishi Raider are twins, also) be sure to consider its twin and choose the one for which you can get the best deal.
- **Paying by Cash:** Stating up front that you intend to pay by cash could work against you. The dealership and the salesperson make more money when they find the financing for you and lose this profit if you pay cash. If you tell the dealership that you will use 100% financing, they may give you a better deal on the sale because they plan to make up the profit on the back end of the deal. This gives them more of an incentive to offer a discount. The best route, however, is to refuse to address financing at all until you have negotiated a fair price.
- **Options:** Dealer-installed options are frequently available at other sources and much cheaper than buying through the dealer. Often, they are unnecessary (like rust proofing), cheaper if done yourself (like fabric and paint protectant) and sometimes can even void your warranty (like undercoating). If there are options already on a car that you do not need, tell them to remove the options. Many times, they will just leave them on and not charge you.
- **Road Test:** This is one of the most overlooked steps in buying a car (particularly a used car). When you road test a car, really test it! Drive it as closely as you can to your actual driving conditions: stop and go traffic, long trips, highway acceleration, rough roads, etc. Turn the radio off and listen carefully. Try every knob and switch. Leave the salesperson behind if possible; if not, ask him or her to be quiet and even sit in the back seat. Try and minimize any distractions; for example, you may want to consider leaving any children at home with a babysitter. If you are considering buying a used car, be sure to have a trusted, independent mechanic check it out before you make the purchase.

- **Extended Warranty:** Extended warranties or service contracts are more dealer profit than value to the purchaser. They are meant to take over when the manufacturer's warranty runs out. New cars have excellent reliability, often making an extended warranty completely unnecessary. If you do decide to purchase an extended warranty, shop around. You can usually buy something very similar from an insurance company for much less.
- **Best Time to Buy:** There is absolutely no consensus among experts as to the best time to buy. Therefore, buy only when you need a new vehicle and have done all of your homework.
- **Take Your Time:** Never buy the first thing you see. Sleep on such a major decision overnight. There will always be others to choose from if "your car" is sold.
- **180-Degree Turn:** If you do not like what you hear, do not be shy about turning around and leaving. Remember, it is your money and your decision.

A/V **Slide 12:** Deal #2: The Financing

Remember to negotiate three separate deals: The purchase price of the new car, the financing, and the deal on the trade-in. As mentioned earlier, this alone will save you hundreds, if not thousands of dollars. Things to consider in the financing deal include:

- Where to finance.
- The cost of money—finance charges.
- Contracts.
- Common financing pitfalls.

A/V **Slide 13:** Where to Finance

Credit Unions: Credit Unions are a good place to look because of their non-profit status and competitive terms. By law, federal credit unions can only calculate interest using the "simple" method. Also, your credit union may have an in-house buying service available. You must be a member and have fairly good credit.

Banks: Banks are usually your next best option and are very similar to credit unions with the exception of operating to generate profit. Banks will also require you to have good credit.

Auto Dealerships: Dealerships usually do not have the amount of cash on hand needed to finance a purchase, so they customarily have a relationship with a finance company for this purpose. Consumers who agree to finance a car "through the dealer" frequently find themselves making payments to a finance company, not the dealer. By choosing to use one finance company over another, dealers are frequently paid a percentage of the loan as a commission. This is passed directly on to you, the purchaser, along with the normal cost of financing the loan.

There are some benefits to financing with the dealer, however. It can be extremely convenient (one-stop shopping), and since the dealer probably has multiple finance relationships they may be able to get an especially good deal. Ideally you should arrange your financing ahead of time and get pre-approved for a loan at your credit union or bank. But in the interest of shopping around, it does not hurt to see what the dealer has to offer.

Finance Companies: Vary widely in interest rates and often cater to credit risks by charging very high rates. Some are affiliated with a particular manufacturer and can have special rates as incentives for certain models.

Internet: Many Internet sites that deal with car buying also deal in financing or have links to financing alternatives.

A/V **Slide 14:** The Cost of Money: Finance Charges

The Cost of Money: Finance Charges

So that you can talk knowledgeably about your financing terms, we will discuss the different types of interest. Interest is expressed as an Annual Percentage Rate (APR) but is computed in several different ways.

Add-on Interest: Interest for the total amount of the loan is computed for the length of the loan and added to the principal. This is an expensive option, since you pay interest on the entire loaned amount for the entire year, even though you are reducing the balance you owe each month. For example, financing $1000 for one year at 12% add-on interest would result in a finance charge of $120.00.

Simple Interest: Paid on the outstanding balance only and by far the most reasonable to the consumer. Credit Unions are required by federal law to charge simple interest only. For example, financing $1000 for one year at 12% simple interest would result in a finance charge of $66.19.

Usury Laws: State usury laws limit the amount of interest that can be charged on a loan. Know what the limits are in your state and read contracts thoroughly before signing. The Federal Truth-In-Lending Law requires that the Annual Percentage Rate (APR) be disclosed in the financing documents. Read the fine print and have contracts checked by an attorney before signing.

Slide 15: Contracts

Dealers can make a profit from the sale of the car as well as from extra fees, options, and services they add to the contract. Carefully considering which options or services you need ahead of time will help avoid unnecessary expense. If you are not prepared, the first you will hear of some of the extra profit-makers will be when negotiating the contract.

Contract Provisions

Here are some other things to look for when reviewing a contract:

Federal Truth-In-Lending Disclosures: Federal law requires these boxes to have a certain appearance and to include the annual percentage rate, total finance charge, total amount financed, total of payments and the sales price disclosed.

Physical Damage Insurance: This is required, but can almost always be obtained elsewhere more cheaply. The property liability insurance offered by some dealers is only for their protection and not yours. In the event the car is totaled, it will compensate the dealer for their loss and do nothing for you.

Mechanical Repair Coverage: If you purchase an extended warranty or service contract, be sure you understand the term or mileage coverage (whichever occurs first and the deductible you are responsible for paying) as well as what is covered or excluded. This is where automotive dealers make the most money. Remember that often these are pure profit for the dealer and overpriced. To receive the covered repairs, you may be required to bring the car to the same dealership; this is not only inconvenient if you have moved away, but can also lead to markups in repair costs so that your cost share is much higher than anticipated.

Car Protection Packages: Examine these aftermarket items and make sure that, if you really need them, they cannot be obtained more cheaply elsewhere (they usually can).

Credit Life/Disability Insurance: If you are covered by other life or disability insurance is credit, life, or disability really necessary? Often it is very high priced for the amount of coverage involved and protects the dealer or finance company. If you are so disabled you cannot work, are you likely to need a car?

Taxes, License, Registration, Title, and Processing Fees: Try to pay as many of these up front as possible, to avoid having to pay interest on them if they are included in the financing. Be sure they are itemized so that you know which fees are truly the government fees and which are processing fees (pure profit for the dealer). Charges in this category may include sales and use taxes, title fee, registration fee and property taxes.

Be on the lookout for “Junk Fees,” like D&H, (Delivery and Handling). Although most fees are not negotiable, duplicate fees added by the dealer, such as D&H when you are already paying a Destination Fee, can be negotiable.

Contract Strategies:

Read the Fine Print: Someone once said, “the big print giveth, and the small print taketh away!” Read every word on the contract, front and back, and be sure you understand what it says. Get help from your Navy Legal Services Office if you need it.

Power of the Pen: If you do not understand or approve of something in the contract, line it out and initial it and have the salesperson initial it. This legally removes the item. Better yet, demand a new contract with the offending items removed.

Do not Leave any Blanks: Everything should be filled in and items left off should read “$0.00,” “N/A,” be lined out, or otherwise denoted. Something simply left blank could be filled in later to your detriment.

Take to Legal before Signing: If you are not 100% sure of every word in the contract, bring it to Navy Legal Services for an explanation before you sign. Again, if the dealer refuses to let you take it with you before signing, walk away—this is a sure sign something is wrong.

A/V **Slide 16:** Common Pitfalls

Common Dealership Financing Pitfalls

If you are going to sit in the “F&I” (Finance and Insurance) room, the editors of Edmunds.com at www.edmunds.com suggest you watch out for these common pitfalls:

PITFALL #1: Many consumers do not know what their credit rating is when they apply for an auto loan. The strength of their credit score largely determines what kind of interest rate they will receive. Therefore, it is critical to make sure your credit report is in the best shape possible before shopping for a car.

SOLUTION: Order a copy of your credit report and look for items that may stand in the way of you getting a good rate. Correct any issues or errors promptly. Are all of your lines of credit in good standing? Are there any signs of identity theft? The credit bureaus will tell you how to correct errors when they send you the report.

PITFALL #2: Many consumers are tempted to overspend once they get to the dealership.

SOLUTION: Bring a printout of your budget to the dealership as a reminder of what you plan on spending. Be sure to bring any printouts of pricing you have done.

PITFALL #3: Most consumers arrive at the dealership without having researched the current interest rates being offered in the marketplace, so they have no idea if they are being offered a competitive rate.

SOLUTION: Use the Internet as a research tool to compare rates. Check out Web sites like www.bankrate.com for national averages and the Web site of your own financial institution.

PITFALL #4: Most consumers arrive at the dealership without approved auto financing in hand. This is either because they are not aware of all the financing options available or they assume they will qualify for a low rate at the dealer. This approach deprives the consumer of bargaining power when it comes to negotiating the lowest possible interest rate.

SOLUTION: Become an “empowered buyer” by getting a no-obligation loan before visiting the dealership. Having your own loan could save you significant money. For example, a 60-month $26,000 loan at 4.49 percent can save the consumer about $1,500 over the life of the loan, compared to a loan at 6.56 percent.

PITFALL #5: Many dealers offer a choice between discounted (or zero percent) financing or a rebate – but not both. Consumers may erroneously assume that the zero-percent loan will deliver the most savings.

SOLUTION: Sometimes it is better to take the cash rebate and apply it against the purchase price of the vehicle – and then use your own preapproved car loan to finance the vehicle.

PITFALL #6: The F&I officer may try to confuse you by “intertwining” different elements of your deal. For example, he or she may say, “We will give you an extra-low price on the vehicle, but this interest rate is the best we can do.”

SOLUTION: Consumers should “unbundle the deal” and keep it three separate transactions: The Purchase, The Trade-In, and The Financing. Avoid discussions that can take you off of this track, such as “how much can you afford to spend per month?” With financing, focus on the APR, not the monthly payment.

PITFALL #7: By the time they get to the finance department, many consumers are mentally worn out and do not review the contract thoroughly before signing. As a result, they may agree to buy things they did not plan on (such as an extended warranty, rust-proofing, etc.).

SOLUTION: Before you sign any papers or hand over any money, check the figures in the contract and understand all the charges. The sudden appearance of extra fees should be questioned. Sometimes, dealers add extra fees—so-called "junk fees"—to retake profit they have lost by selling cars at invoice.

PITFALL #8: The consumer feels rushed, pressured and confused by the dealership's staff. In some cases these buyers have second thoughts about completing the deal—but sign the documents anyway.

SOLUTION: Consumers who feel out of their comfort zone should walk away. The buyer—not the seller—should be the one in control of the process. Remember, the federal "cooling off" law does not apply to cars.

If you do your homework ahead of time and know what to expect before entering the F&I room, the paperwork process can go quickly and easily. But more importantly, you will receive a deal on your auto loan that you can feel good about for the life of the car.

A/V **Slide 17:** Deal #3: The Trade-In

Only after all homework has been done and the purchase price and financing are negotiated, should you address the issue of your trade-in with a dealer.

Trading-in vs. Private Sale: In many instances, you can get more for your trade-in if you sell it yourself. The dealership cannot give you full retail value in most cases because they must resell the vehicle and make a profit. On the other hand, trading your car in at the dealership can make for a quick transaction and could save you some tax dollars. If you buy a new car and it costs $20,000, and you trade-in a car that costs $12,000, in most states you will only pay sales tax on the difference, $8,000, rather than the full $20,000 (at 6% sales tax, that results in a savings of $720).

Determine a Fair Price: Use the same methods used in determining what to pay for the car you are purchasing to get a fair price for your trade. Price your used car using resources like the *NADA Book*, the *Kelley Blue Book,* or *Edmunds Used Car Guide*. These resources will provide you with a price range (not a specific price) for your vehicle, from trade-in value to loan value to retail value (aka "blue book value").

Determine the Dealer Price: Many people choose to trade in their vehicle to avoid the hassle and delay of selling themselves and accept some loss in the price of the exchange. The pricing guides list "trade-in" values for each model, which are reliable guidelines to determine if the dealer is offering a fair price. Note, however, that the condition of the vehicle will affect the pricing.

What if you owe more than it is worth?—This is called being "upside-down" on your trade or having "negative equity" and often occurs in the first few years of paying for a new car. This occurs because so much depreciation takes place in the early period of ownership. If you really want to trade in such a vehicle, the deficit amount will be added to the price of the car you are purchasing. This will probably leave you even more "upside-down" in the new vehicle. You can see the importance of ensuring the affordibility of a new car as a first step in the process, to make sure the last step is not repossession!

Slide 18: Your Legal Rights

Consumers have some standard rights under federal laws, but their state rights vary from state to state. Once again, the best legal preparation is to research the car purchase and know what you are agreeing to before signing any contracts.

State Lemon Laws: Most states have a Lemon Law, which enables consumers to get either a new vehicle or get their money back when the vehicle cannot be repaired to conform to the standards of the warranty.

Consumer Leasing Act: A 1976 amendment to the Federal Truth in Lending Act requires disclosure of the cost and terms of consumer leases and also places substantive restrictions on consumer leases.

Odometer Reading: It is illegal to ever turn back or reset an odometer, even if a new engine is installed on the car. A statement of the odometer miles is required with every purchase. Average mileage per year in America is 15,000 miles, and the Attorney General estimates that one-third of all vehicles have had the odometer spun. The DMV can provide you with the number of owners your vehicle has had, and this information plus the age and condition of the car, can help you estimate whether the mileage is suspiciously low.

Used Car Buyer's Guide: "As Is" versus Implied/Expressed Warranty—This sticker is required by federal law to be placed in the window of all used cars sold by dealers. For your own protection, an outside mechanic should inspect any used car before you buy and any promises made by a dealer should be put in writing. Very few assurances are provided by "implied" warranties and you want everything to be "expressed." The Buyer's Guide sticker states:

- *If there is a warranty and what protection the dealer provides.*
- *If there is no warranty, that the car is bought "as is" and the dealer will not be responsible for any subsequent problems.*
- *That any car can be subject to major problems and lists them.*

Magnuson-Moss Warranty Act: A federal law that protects the buyer of any product that costs more than $25.00 and comes with an express written warranty. This law applies to any product that you buy that does not perform as it should, including cars. This law guarantees a car buyer that certain minimum requirements of warranties must be met and provides for disclosure of warranties before purchase. A consumer may pursue legal action in any court of general jurisdiction in the United States to enforce rights under this law.

State Automobile Repair Facilities Act: Many states have enacted laws that deal specifically with businesses that repair vehicles. The rules, which vary from state to state, may deal with issues like required disclosures on written estimates, unauthorized charges, invoices, disposition of replaced parts and unlawful acts and practices. To find out if your state has an auto repair facilities act, contact your State Attorney General, consult the Consumer Action Handbook, or use a search engine on the Internet.

A/V Slide 19:

Complaint Resolution

If you experience a problem, you should follow these guidelines:

Speak to the Dealer First. In many cases, they have a reputation to protect and may be willing to quickly resolve problems at this level. If the dealer is part of a chain, speak next to the company regional representatives since they also have an interest in preserving the reputation of their good name.

Contact a Professional Organization: If the dealer is a member of a professional association like the Better Business Bureau, NADA, NIADA, local area ADA, etc., they have dispute resolution processes to assist you.

Contact Your Government Resources. If these steps fail, contact the Office of Consumer Affairs of your state Attorney General and the Armed Forces Disciplinary Control Board for investigation and possible prosecution.

Slide 20: Sources of Help

Sources of help with budgeting and counseling include your Command Financial Specialist and your local Fleet and Family Support Center. It is recommended that you have any contract reviewed at your Navy Legal Service Office before signing.

Information about new and used cars, performance ratings and methods for calculating payments can be found on the Web sites listed here as well as those listed on your *Sources of Help Handout*.

Optional Participant Activity: Car Buying Jackpot Review Game

NOTE **Game Directions**

Thoroughly familiarize yourself with all the questions and answers and any backup information.

Practice on your computer then practice in a classroom making sure you know how to use the slide package. Check to see that hyperlinks and sounds are in working order.

If you save your game, you may write over your template which can interfere with the hyperlinks. It is best to not save games played with the class. However, the template on the disk will always be a fresh one, since it is read-only.

Decide in advance if you will divide your participants up into teams or if the class will answer as individuals. Decide on scoring, team names, and prizes, if any.

For games where teams will be competing to be the first to answer a question, you may want to have a "spotter" at the front or back of the room to help choose which hands go up first. Make sure the group knows that ultimately you are the arbiter in any questionable situations.

Jeopardy Style

The Jeopardy-style games are fashioned after the popular TV game show, but due to copyright restrictions are called "Jackpot" games. There are twenty-five questions (five topic areas with five questions each), including a "daily double," and a final jackpot option. Upon opening the game, make sure macros are enabled and go to slideshow format.

Navigating: When you click on the title slide you will be brought to the main game board slide. For the first answer/question chosen, click on the amount and you will be taken to the "answer" slide for that amount. Click on the slide for the question. After the question is shown, you will see a small game board icon in the lower right hand corner of the screen. When you click on that, you will return to the main game board slide. The amount of the answer/question just chosen should appear darkened so it cannot be selected again. Note that if you do not click on the game board icon, you will be brought to the next answer/question slide. This may be an option if you are not going to play the whole game but want to ask a few questions by way of review.

Sounds: When the answer is shown and the question given is wrong, you can click anywhere on the large amount panel on the left of the slide for the "wrong question" sound. When the correct question is given, click on the slide for the question to appear, and you can click on the amount panel again for applause. The sounds are optional.

Scoring: The game does not automatically keep score, but does track answers that have been used by darkening the number. You can keep score, you can have someone from each team keep score or you can hand out play money.

Extras:

Daily Double: Category 3, $300 answer is the daily double. The person who chooses this answer gets to provide the question and can bet up to the amount the team currently has won.

Final Jackpot: When all answers/questions have been used, you have the option of using the "Final Jackpot" question. Click on any of the Category blocks across the top of the screen on the main game board slide to go to the Final Jackpot. Contestants can "bet" as much money as they have, and if they give the correct question they are rewarded with the amount they bet. Once you have shown the answer, click on the "Final Jackpot" panel on the left hand side of the game to start the music. When the music is done playing, time is up and questions must be given. Click to move to the final question slide.

Question Bank for Car Buying Jackpot

Categories: Your Money, Deals, Tricks of the Trade, The Trade-in, Legalese

YOUR MONEY

100 A: The first step in the Purchase Deal.
Q: What is determining how much you can afford?

200 A: The financial tool used to figure out how much car you can afford.
Q: What is a Budget or Financial Plan?

300 A: The average household is fully extended at this debt load.
Q: What is 15–20%?

400 A: The best deal for the consumer for calculating interest.
Q: What is Simple Interest?

500 A: Maintenance, insurance, operating expenses and taxes should not take more than this much of your monthly income.
Q: What is 10%?

DEALS

100 A: Where most of the homework and negotiation happens.
Q: What is The Purchase Deal?

200 A: The options are to sell it to the dealer, privately or at auction.
Q: What is The Trade-in Deal?

300 A: Considerations are where to go, interest rates, and contracts.
Q: What is The Finance Deal?

400 A: They are professionals, trained and experienced in the art of sales.
Q: What are dealers?

500 A: The #1 rule for all the deals.
Q: What is “Everything is Negotiable?”

TRICKS OF THE TRADE

100 A: Often unnecessary charges such as undercoating, protections packages, and dealer installed options that increase the dealer’s profit.
Q: What is Padding or Dealer Add-ons?

200 A: When you are switched from the advertised, stripped down model to the well-equipped one with a higher price tag.
Q: What is Bait and Switch?

300 A: A high trade-in allowance for the trade or low price for the new vehicle is offered to get you to return for negotiations.
Q: What is High and Low Balling?

400 A: When the customer takes the car home and the salesperson hopes that he or she will fall in love with it like a warm puppy.
Q: What is Put-to-Ride?

500 A: When the salesperson and manager play “good guy/bad guy” for dramatic effect to win the confidence of the customer.
Q: What is the Mutt and Jeff Routine?

THE TRADE-IN

100 A: The commonly used quote for market value for a used vehicle.
Q: What is “Blue Book” Value?

200 A: A popular magazine with an April auto issue.
Q: What is *Consumer Reports?*

300 A: When you owe more than what the car is worth.
Q: What is “upside down?”

400 A: The difference between trade-in value and retail price in used car publications, why the dealer cannot give full retail value in most cases, and why it is worth selling the car yourself.
Q: What is Dealer Profit?

500 A: Key Web sites for finding fair new and used car prices.
Q: What are www.edmunds.com or www.nada.com and www.kbb.com?

LEGALESE

100 A: The "As Is" sticker required by Federal Law.
Q: What is the Used Car Buyers Guide?

200 A: State Laws protecting buyers from defective new vehicles that cannot be repaired and conform to the standards of the warranty.
Q: What are Lemon Laws?

300 A: Navy Legal Services Office will give head of the line service if you bring one of these in.
Q: What is an unsigned contract?

400 A: The Federal requirement that ensures key financial information is highlighted in a contract.
Q: What is the Federal-Truth-in-Lending Act?

500 A: True or False: State laws regarding automobile issues are uniform across the fifty states.
Q: What is false?

FINAL JACKPOT

A: This is one of the most important personal financial documents you should review before you purchase a car in order to know your credit rating.
Q: What is a credit report?

Million Dollar Sailor
Module Seven: Car Buying Strategies

Participant Notes Page

1. Three methods for overcoming high pressure sales tactics include:

2. Methods for researching a fair price for a car include:

3. Two of your legal rights in the car buying process are:

4. Two sources of help with car buying include:

Notes:

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Three Deals of Car Buying

Deal #1: The Purchase

How much can you afford?
- Total Amount
- Down Payment
- Monthly Amount
- Prepare a Spending Plan
- Calculate Debt-to-Income Ratio
- Check Your Credit Report

What type of car should you buy?
- New or Used
- Size and Style
- Safety and Performance
- Cost to Insure

Where should you buy?
- Dealership
- Private Seller
- Internet
- Car Buying Service

What is a Fair Price?
- Invoice vs. MSRP
- Library and Internet
- New and Used Car Cost Guides

Exercise your legal rights
- Read all the contract details
- Do not leave any blanks
- Do not buy unnecessary and unwanted items
- Use the power of the pen
- Have NLSO check out contract before signing
- Take action if you have a complaint

Deal #2: The Financing

Where will you finance?
- Credit Union
- Bank
- Dealership
- Finance Company

How much will the money cost?
- Simple Interest
- Add-on Interest

Avoid Common Pitfalls
- Know your credit rating
- Know what current interest rates are
- Get pre-approved
- Know the best deal available
- Do not be rushed or pressured

Negotiate a great deal
- Do your homework
- Take your time
- Limit the information you give out
- Shop twins
- Ask for discounts
- Take a road test
- Avoid unnecessary add-ons
- 180-Degree Turn

Know the 'Tricks of the Trade'
- Put to Ride
- Low- and High-Balling
- Bait and Switch
- Padding
- Mutt and Jeff Routine
- "Your Car"

Deal #3: The Trade-In

Trading vs. Selling

What if you owe more than the car is worth?

What is a fair price?
- What is the dealer willing to pay?
- Only negotiate after you are done with your purchase and financing on your new vehicle.






Determining Car Payments

When purchasing a vehicle, the most commonly asked question is:
"How much will my monthly payments be?"

The answer of course will depend on the amount financed, the number of months financed, and the interest rate.

Remember, the larger your down payment, the less your monthly payment.

To use the chart, the following steps apply:

1. Cross the interest rate with the number of months you wish to finance for and locate your multiplier.
   For example:
   6.5% at 36 months is .0306490,
   6.5% at 48 months is .0237150,
   and 6.5% at 60 months is .0195661.
2. Multiply the total amount you plan to finance by the multiplier and you will have your monthly payment.
   For example:
   $10,591.00 at 6.5% for 36 months =
   $10,591.00 x .0306490 = $324.60 per month,
   $10,591.00 at 6.5% for 48 months =
   $10,591.00 x .0237150 = $251.17 per month,
   $10,591.00 at 6.5% for 60 months =
   $10,591.00 x .0195661 = $207.22 per month.

	36 Months	48 Months	60 Months
4%	0.0295240	0.0225791	0.0184165
4.5%	0.0297469	0.0228035	0.0186430
5%	0.0299709	0.0230293	0.0188712
5.5%	0.0301959	0.0232565	0.0191012
6%	0.0304219	0.0234850	0.0193328
6.5%	0.0306490	0.0237150	0.0195661
7%	0.0308771	0.0239462	0.0198012
7.5%	0.0311062	0.0241789	0.0200379
8%	0.0313364	0.0244129	0.0202764
8.5%	0.0315675	0.0246483	0.0205165
9%	0.0317997	0.0248850	0.0207584
9.5%	0.0320329	0.0251231	0.0210019
10%	0.0322672	0.0253626	0.0212470
10.5%	0.0325024	0.0256034	0.0214939
11%	0.0327387	0.0258455	0.0217424
11.5%	0.0329760	0.0260890	0.0219926
12%	0.0332143	0.0263338	0.0222444
12.5%	0.0334536	0.0265800	0.0224979
13%	0.0336940	0.0268275	0.0227531
13.5%	0.0339353	0.0270763	0.0230098
14%	0.0341776	0.0273265	0.0232683
14.5%	0.0344210	0.0275780	0.0235283
15%	0.0346653	0.0278307	0.0237899






Leasing vs. Buying

	Leasing	Buying
Ownership	You do not own the vehicle. You get to use it but must return it at the end of the lease unless you choose to buy it.	You own the vehicle and get to keep it at the end of the financing term.
Up-front Costs	Up-front costs may include the first month's payment, a refundable security deposit, a capitalized cost reduction (like a down payment), taxes, registration and other fees, and other charges.	Up-front costs include the cash price or a down payment, taxes, registration and other fees, and other charges.
Monthly Payments	Monthly lease payments are usually lower than monthly loan payments because you are paying only for the vehicle's depreciation during the lease term, plus rent charges (like interest), taxes, and fees.	Monthly loan payments are usually higher than monthly lease payments because you are paying for the entire purchase price of the vehicle, plus interest and other finance charges, taxes, and fees.
Early Termination	You are responsible for any early termination charges if you end the lease early.	You are responsible for any pay-off amount if you end the loan early.
Vehicle Return	LEASING: You may return the vehicle at lease-end, pay any end-of-lease costs, and "walk away."	You may have to sell or trade the vehicle when you decide you want a different vehicle.
Future Value	LEASING: The lessor has the risk of the future market value of the vehicle.	You have the risk of the vehicle's market value when you trade or sell it.
Mileage	LEASING: Most leases limit the number of miles you may drive (often 12,000-15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. You will likely have to pay charges for exceeding those limits if you return the vehicle.	You may drive as many miles as you want, but higher mileage will lower the vehicle's trade-in or resale value.
Excessive Wear	LEASING: Most leases limit wear to the vehicle during the lease term. You will likely have to pay extra charges for exceeding those limits if you return the vehicle.	There are no limits or charges for excessive wear to the vehicle, but excessive wear will lower the vehicle's trade-in or resale value.
End of Term	At the end of the lease (typically 2-4 years), you may have a new payment either to finance the purchase of the existing vehicle or to lease another vehicle.	At the end of the loan term (typically 4-6 years), you have no further loan payments.

"Keys to Vehicle Leasing" brochure (in English and Spanish) containing some of the information included at this vehicle leasing site is available from Publications Fulfillment, MS-127 Board of Governors of the Federal Reserve System Washington, DC 20551, Telephone: (202) 452-3244 or 3245.






Sources of Help—Car Buying

Agencies

- Command Financial Specialist
- FFSC—Financial Educators
- Armed Forces Disciplinary Control Board
- Better Business Bureau
- State Attorney General or Consumer Protection Agencies
- Credit Unions—Car Buying Assistance Programs
- National and local Automobile Dealers Associations (NADA)

Information

- Consumer Magazines
- Kelley Blue Book and NADA Official Used Car Book
- New Car Pricing Guides (Edmunds, Intellichoice)
- Your Local Library

Remember

- Do your homework.
- Keep it three separate transactions: the purchase, the financing, the trade-in.
- Have used cars checked by a trusted mechanic before purchase.
- Have NLSO check the contract before signing.
- Beware of the “tricks of the trade.”
- Prepare a budget to know what you can afford.

Web Sites

www.lifelines.navy.mil

www.consumerworld.org

www.nada.org

www.kbb.com

www.edmunds.com

www.intellichoice.com

www.autobytel.com

http://autos.msn.com

www.autoweb.com

www.autopedia.com

www.carfax.com

www.carlemon.com

www.highwaysafety.org

www.annualcreditreport.com

www.federalreserve.gov/pubs/leasing

www.bankrate.com

Questions to Ask Car Dealers

About Special Dealer Promotions:

Does the advertised trade-in allowance apply to all cars, regardless of their condition?

Does a large trade-in allowance make the cost of a new car higher than it would be if you didn't have a trade-in?

Is the dealer who offers high trade-in allowances and free or low-cost options actually giving you a better price on the car than another dealer who does not offer such promotions?

Does the dealer's invoice reflect the costs of options, such as rustproofing or waterproofing, that have already been added to your car? What are other dealers charging for these options?

Does the dealer have other cars in stock without expensive added features? If not, can the dealer order one?

Are the special offers available only if you order rather than buying it off the lot?

Can you take advantage of all special offers simultaneously?

About Low Interest Dealer Financing:

Will you be charged a higher price for the car to qualify for the low financing?

Does the low-rate financing require a larger-than-usual down payment? Say 25%-30%?

Are you required to pay the loan off in a shorter period of time, say 12 or 24 months, in order to qualify for the low-rate financing? If this is the case, your monthly payments will be higher.

Do you have to buy extra merchandise or services to qualify for the low-rate financing?

Is the financing available for a limited time only, and does it require that you take delivery of the car by a specific date?

Does the low interest rate apply to all cars or only certain models in stock?

If a manufacturer's rebate is offered, are you required to give it to the dealer to qualify for the financing?

Remember, careful shopping will help you decide which financing, which car, and which options are best for you!






Car Sale Tricks of the Trade

Bait and Switch

When a dealership runs an ad with a picture of a well-equipped car with a price of a stripped down model to entice you to come in. You are then shown the stripped down model and quickly switched to the well-equipped one with a higher price tag.

Solution: Demand to see the manager to express your dissatisfaction. Ask for a large discount. If they are not willing to deal, leave.

Padding

Adding charges that increase the dealers' profit at the time you sign the contract; i.e., undercoating, protection packages, dealer installed options, credit life insurance, disability insurance, extended warranties, etc.

Solution: Read the contract very carefully, on your own time. Refuse to sign if it is not what you originally agreed upon.

Put-to-Ride

When a salesperson cannot convince you to buy today, he/she insists that you leave your trade-in at the dealership, keep the new car overnight, and drive it home. This way no other dealership can see your trade-in, your neighbors and relatives see the car, you fall in love with it and have a hard time saying no to purchasing the car when you have to bring it back the next day.

Solution: Refuse to take the new car home overnight, and take your trade-in off the dealer's lot.

Your Car

When the salesperson keeps referring to the car as "your car" to get you unconsciously to accept ownership of the car. Once accomplished, it is easier to get you to sign the contract.

Solution: Keep reminding the salesperson that you have not yet decided to purchase the car and make it "your car."

Low-and High-Balling

Low-balling occurs when the salesperson quotes you a price on a car that is lower than the current market price. This is done to assure that you will return to him/her before signing with anyone else just to see if the offer still stands. At this point, the salesperson will tell you that he/she cannot sell the car for that low a price because the sales manager will not allow it. High-balling is the same as low-balling, except that a high trade-in allowance figure is offered to you. Again, you come in later and the manager will not allow it.

Solution: When faced with low-or high-balling, leave and start working with another dealer!

Mutt and Jeff Routine

When the salesperson plays the role of the "good guy" and the manager plays the "bad guy" to enhance the image of the salesperson. The salesperson and manager may even stage an argument in front of you, with the salesperson trying to persuade the manager to give you a lower price. Once you believe that the salesperson is on your side, you drop your guard and become an easy mark.

Solution: Leave the scene and think about the offer overnight before purchasing the car. Comparison shop in the meantime.






Installment Sale Contract for Titled Vehicle and Equipment

Account No	**Dealer No.**
Buyer (and Co-Buyer) Name(s) and Residence Address(es) John Dough USS Always Sail FPO AE 09557-1516	**Creditor** (Seller) - Name and Business Address Fib's Auto 9603 Shore Drive Anywhere, USA

After thorough examination, Buyer hereby buys from Seller, grants Seller a security interest in, and acknowledges delivery and acceptance of the following described property ("Property") at the price and upon conditions herein stated, this Contract being valid only upon purchase and acceptance by assignee. This sale is not contingent upon financing on terms satisfactory to the parties hereto.

DESCRIPTION OF PROPERTY

New or Used	Year	Make and Model	Body Type	Vehicle Identification Number	Primary Use Intended
Used	2001	Buick Skylark	4 DR SEDAN	4G3RF1234BB567890	X Personal Business

X Air Conditioning Radio X 4-5 Speed Trans. Power Steering X Other
Sun Roof X Stereo Automatic Trans. Custom Wheels
Other (describe)

Odometer Miles: 106,091

THE FINANCE CHARGE IS CALCULATED ON A Precomputed X Simple Interest Basis

FEDERAL TRUTH-IN-LENDING DISCLOSURES

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS	TOTAL SALE PRICE
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf.	The amount you will have paid after you have made all payments as scheduled.	The total amount of your purchase on credit, including your down payment of: $ 8980.00
18 %	$ 1171.00	$ 6509.00	$ 7680.00	$ 1300

YOUR PAYMENT SCHEDULE WILL BE

NUMBER OF PAYMENTS	AMOUNT OF PAYMENTS	WHEN PAYMENTS ARE DUE
24	$ 320.00	Monthly Beginning 6 mos. ago
A Final Payment of	$	Due On

Late Charge. If a payment is not paid in full within 7 days after it is due, you will pay a late charge of 5% of amount of payment due.
Prepayment. If you pay off early on a Contract with a precomputed finance charge, you will be entitled to a refund of part of finance charge. If the finance charge is calculated on a simple interest method, you may have to pay a prepayment penalty.
Security Interest. You are giving a security interest in the Property and related equipment being purchased and in our right of setoff.

ITEMIZATION OF AMOUNT FINANCED

1.	Cash Price (including any accessories, services, and taxes)		$ 5997.00
2.	Total Downpayment = Net Trade-in $ 0.00 + Cash Downpayment $	$ 1300.00	
	Your trade-in is a (YEAR) (MAKE) (MODEL)		$ 1300.00
3.	Unpaid Balance of Cash Price (1 minus 2)		$ 4697.00
4.	Other Charges Including Amounts Paid to Others on Your Behalf:		
	A. Cost of Required Physical Damage Insurance Paid to the Insurance Company Named Below - Covering Damage to the Vehicle	$ 710.00	
	B. Cost of Optional Mechanical Repair Coverage for Certain Mechanical Repairs	$ 720.86	
	C. Cost of Optional Credit Insurance for the Term of this Contract Life $ 0.00 Accident and Health $ 0.00 Total	$ 0.00	
	D. Official Fees Paid to Government Agencies	$ 19.52	
	E. Taxes Not Included in Cash Price	$ 198.62	
	F. Government License and/or Registration Fees (itemize)	$ 125.00	
	G. Government Certificate of Title Fees	$ 38.00	
	H. Other Charges (Seller must identify who will receive payment and describe purpose) to Road USA for Car Club	$ 0.00	
	to for		
	Total Charges and Amounts Paid to Others on Your Behalf		$ 1812.00
5.	Amount Financed — Unpaid Balance (amount of credit you will receive) (3+4)		$ 6509.00






Insurance. If any insurance is checked below, coverage will become effective only if insurer issues a policy or certificate which will describe the terms and conditions of coverage.

Optional Credit Insurance. Credit life and accident and health insurance are not required to obtain credit and will not be provided unless you sign below and agree to pay the additional cost(s).

TYPE	PREMIUM		SIGNATURE OF INSURED PARTY	BIRTH DATE
Credit Life Insurance	$	I want Credit Life Insurance		
Joint Credit Life	$	We want Joint Credit Life Insurance		
Accident & Health Insurance	$	I want Accident & Health Insurance (Buyer only)		

Required Physical Damage Insurance. Physical damage insurance is required, but you may obtain it from anyone you choose who is acceptable to the Creditor. If obtained through Creditor, the following applies.

Insurance Company: Guaranteed Expense Term: 15 months Cost for Term: $ 710

$ x 500 Deductible Collision and either

X Full Comprehensive including Fire, Theft, and Combined Additional Coverage

$ ____________ Deductible Comprehensive including Fire, Theft, and Combined Additional Coverage

Fire, Theft, and Combined Additional Coverage

Optional, if desired

Towing and Labor costs   Rental Reimbursement   CB Radio Equipment

Optional Mechanical Repair Coverage. If Buyer selects this optional coverage, the cost will be listed on line 4B on reverse.

INSURANCE CO. ____________________

TERM 36 months or 36,000 miles, whichever occurs first

TERM ____________________

DEDUCTIBLE $25 $50 $__________

NO LIABILITY INSURANCE INCLUDED

Receipt of Goods and Promise to Pay. You agree that you have received the vehicle and/or services described above and have accepted delivery of the vehicle in good condition. You promise to pay the Creditor the Total Sales Price shown above by making the Total Downpayment and paying the Creditor the Total of Payments in accordance with the Payment Schedule shown above and all other amounts due under this contract.

DO NOT SIGN THIS CONTRACT BEFORE YOU READ IT OR IF IT CONTAINS BLANK SPACES.
YOU ARE ENTITLED TO AN EXACT COPY OF THE CONTRACT YOU SIGN.

Buyer acknowledges receipt of a filled-in copy of this Contract and agrees to all terms and conditions hereof.

BUYER'S SIGNATURE John Dough   CO-BUYER'S SIGNATURE ____________________

ACCEPTED Fibs Auto   BY Fred Salesman
CREDITOR   SIGNATURE AND TITLE

[FOR DEMONSTRATION PURPOSES ONLY]

Note: Actual documents will contain fine print on reverse. READ ALL THE FINE PRINT. Be sure to ask questions if you need clarification.

Module Eight: Home Buying

Module Length: 60 Minutes

Million Dollar Sailor

Home Buying

Module Description:

For many individuals, home ownership is an important milestone on the road to the financial freedom, and home equity is a major contributor to their net worth. The Million Dollar Sailor Home Buying Module is designed to increase the knowledge and comfort level of first time and repeat homebuyers. It is divided into three segments: 1) assessing your situation; 2) knowing the market; and 3) understanding the financing.

The first segment focuses on the individual and addresses the factors involved in making the decision to buy or rent, identifying the difference between housing wants and housing needs and determining how much house you can afford. The second segment addresses the real estate market and reviews the factors that affect the resale value of a house as well as considerations when working with the different types of real estate professionals. The final segment concentrates on the financing involved and explains the options available when it comes to securing financing for a home purchase. Discussion items will include the major types of lenders and loans, common pitfalls, and strategies to reduce the life of the housing loan.

Learning Objectives:

Upon completion of this 60-minute module, participants will demonstrate their ability to:

- Identify at least two factors to consider in deciding whether to rent or buy a home.
- Calculate the approximate home price they can afford.
- Identify at least one factor that affects the resale value of a home.
- State two factors to consider when choosing a real estate agent.
- Identify different types of mortgage loans.
- Name at least one method to reduce the life of their home loan.

Materials Needed:

- MDS Home Buying PowerPoint Slides
- Computer/Internet and PowerPoint Projector
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper
- Current Military Pay Tables

- Handouts:
  - *Setting Your Price Range*
  - *Figuring Your Monthly Payments*
  - *Calculating Your Debt-to-Income Ratio*
  - *Checklist for Your House Hunt*
  - *Rental Search Worksheet*
  - *Interviewing Agents*
  - *Module Eight Participant Notes Page*
  - *Checklist for Financing Your Purchase*
  - *Mortgage Shopping Worksheet*
  - *Ten Important Questions to Ask Your Home Inspector*

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——. Personal Financial Management Standardized Curriculum. Washington D.C.: Commander, Navy Installation Command, 2007.

——. SECNAV Instruction 1754.1B. Washington D.C.: Office of the Secretary of the Navy, 2005.

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Ramsey, D. The Total Money Makeover. Nashville: The Thomas Nelson Group, 2007.

Real Estate Advertising Service Company. “MLS Multiple Listing Service Listings.” 2008. Multiple Listing Service. 18 November 2008. <http://www.mls.com/>.

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

A/V **Slide 1:** Home Buying

HO *Module Eight Participant Note Pages*

For some of you, the thought of buying a home may be the furthest thing from your mind right now. Others may have already been through the process at least once or picture it in their near future. Either way, buying a home is or will be, in all likelihood, one of the largest investments you make in your lifetime. The decisions surrounding that purchase will be greatly affected by your personal needs as well as changes in the housing market and the economy.

A/V **Slide 2:** Agenda

This training module will provide objective information and cover the major factors you will need to consider when purchasing your first (or next) home. It is divided into three segments that address and explain how to:

Assess your situation. The decision of whether or not to buy a home forces you to take a good look at your personal situation. How long will you be at this duty station? What do you want in terms of a house? What do you need? What can you afford?

Know the Market. There have been tremendous changes in the housing market over the past twenty years as real estate has waffled back and forth between its “boom” and “bust” cycles. Where are we now? Is it a buyers’ market? A sellers’ market? How do you find a good real estate agent?

Understanding the Financing. There are many different options when it comes to securing the financing. What are the major options? Which one is best? What are some of the major pitfalls?

This module is designed to answer all of these questions and provide you with objective information that can be useful in buying a house in the next few months or in the future.

A/V **Slide 3:** Assess Your Situation

Let us begin by focusing our attention on you: the potential home buyer. Before you jump into the purchase of a home, it is essential that you take a good look at your own personal situation and how it can affect your decision.

The Buying Decision: Should you buy or rent? When is it better to do one over the other?

Wants and Needs: What is it you are looking for in a home?

Your Housing Budget: How much house can you afford?

A **Buying versus Renting** (5 Minutes)

Instruct participants that they will have two minutes to complete the following activity as a group. Assign half of the room or half of the participants to list as many advantages to buying a home as they can in two minutes. Ask the remaining tables of participants to identify as many advantages of renting a home as they can in two minutes.

Options: For larger groups, you can also assign tables to list as many of the disadvantages to buying a home and renting a home that they can in two minutes.

At the end of the two minutes, ask one person from each group to report one or two of the findings of the group.

Slide 4: Decision Factors

To evaluate whether renting or buying is best for your family, consider some of the pros and cons of each choice.

Renting may be a better choice if…

- Y*ou move a lot*. Unless you live in one place at least a few years, you may lose money when selling your home.
- *You are unfamiliar with the area*. Before taking the plunge and buying a home, you may want to identify a neighborhood and rent there first to determine its ultimate long-term desirability.
- *You are low on cash*. You need to have money saved to cover the down payment and initial costs involved in purchasing a home. Renting for a while in order to save for a down payment and closing costs makes sense and can pay off in the long run.
- *You do not care to commit the time, effort, and expense of maintaining a home*. The costs of maintaining a home greatly exceed those of renting. If the only way you can imagine to fix a clogged drain in the bathtub is to call a landlord, then you should probably rent.
- *You prefer more fixed expenses*. Home ownership is associated with more variable and unplanned expenses.
- *You do not want to lose any equity* (although, you will not gain any equity, either).
- *You do not mind being unable to personalize your home*. Often with renting you take the dwelling as-is, and the landlord may not be willing to let you paint or change anything.
- *You do not need or want the tax advantages that come with owning a home*.
- *You do not want to be a landlord*. Many military homeowners become landlords if they cannot sell their home. If you do not want to be a landlord, renting may be better.

Buying may be better if…

- *You are ready for stability and a sense of community*. Buying a home automatically commits you to a region and a neighborhood. You become very interested in the zoning laws, the tax rates, the city's/county's plans for expansion and growth, and the appearance of your neighbor's property.
- *You have the knowledge of location, location, location*. In other words, you have done your homework and investigated different factors associated with the area that could affect your satisfaction with your choice and your ability to resell the property.
- *You have money for the large initial investment*. The costs associated with buying a home require you to have a lump sum of money up front.
- *You have the time to devote to maintenance*. You like to remodel and personalize your home.
- *You can handle variable expenses*. There are a lot of variable, unplanned expenses when you own a home.
- *You want your equity to grow.* If you are moving to an area enjoying high appreciation in the value of residential property, your equity can grow and offset the costs of selling should you be transferred. Equity in a home is also an excellent component of retirement planning, as the mortgage is paid off and equity in the home grows.
- *You can afford to buy a home that will allow you to itemize on your tax return*. It must be expensive enough that the interest paid and real estate taxes nearly equal or exceed the standard deduction.
- *You do not mind the possibility of becoming a landlord*. If you buy a home and have to move, you may be unable to sell it for profit, or unable to sell it at all (depending on the home, location, market, etc.).

A/V **Slide 5:** The Right Mix

A **Housing Wants and Needs** (2 Minutes)

Tell participants that you want them to visualize their dream house. Ask them to picture its location, number of bedrooms, and the features it would include.

Instruct them to take 60 seconds and individually write down as many of the features of the house they see or want on a separate piece of paper.

When the time is up, ask them to take the list they have created and write an "N" next to anything that represents a need and a "W" next to anything that represents a want.

We all have wants and needs when it comes to choosing a home, and along with a sound budget, they each factor into our housing decision. Your "needs" list will narrow your search by eliminating those houses that are wrong for you. Your "wants" list will help you choose among the remaining possibilities.

Needs must be first priority. It is essential that you chose a home with the minimum it takes to make the house acceptable. Examples of **needs** include:

- Enough square footage for comfortable living.
- Enough bedrooms to accommodate your family.
- Adequate number of bathrooms.
- Garage or basement for storage needs.
- Lot size to accommodate children's play area.
- Adaptations for handicapped.
- Proximity to a specific school.

Wants are additional items that make one house more desirable than another. Examples of **wants** include:

- Carpeting color, paint color, exterior color, roof color, etc.
- Specific features such as a pool, wood floors, bay windows or select fixtures.
- A nice view of surrounding landscape.
- Specific brand/types of appliances.

Make a list of the things that are important to you when purchasing a home. Make it a family decision, if applicable. Try to balance your needs and wants. Start by thinking about your present home and identify which features you really like.

A/V **Slide 6:** Calculate Your Budget

HO *Setting Your Price Range*
Figuring Your Monthly Payments
Calculating Your Debt-to-Income Ratio

Let us assume that you have decided to buy a house, and you have determined your needs. Your next action step should be to ensure your finances are in order before you even begin looking at houses. In the *Millionaire Money Management* module, we discussed the importance of using a written budget that outlines your income, your expenses and your current spending habits. This will be especially critical when it comes to purchasing a home.

Using the information from your budget or from the current Military Pay Tables, use the handout *Setting Your Price Range* to determine price limits for your home search. Considering homes that are beyond a comfortable price limit will only result in frustration and wasted energy. The upper limit of your price range is the mortgage loan amount for which you qualify. However, keep one thing in mind—you may not want to purchase a home whose price is at your upper limit—some people refer to that as being "house rich and cash poor." Make an honest assessment of your lifestyle. There may be other things you like to do rather than put most of your budget into house payments and maintenance.

> **NOTE** Encourage participants to take away the handout *Calculating Your Debt-to-Income Ratio* to determine whether their ratio is within standard guidelines for mortgage lenders. Inform participants that this handout uses a different debt-to-income ratio because it includes their mortgage.

A **Setting Your Price Range** (10–15 Minutes)

Allow participants 10–15 minutes to complete the *Setting Your Price Range* Handout. For those who finish early, encourage them to calculate their monthly payments on their maximum purchase price using the *Figuring Your Monthly Payments* Handout.

As we discussed in the *Credit Management* Module, it is recommended that you check your credit report before making any large purchase because your potential lenders will be looking at it also. Lenders base mortgage loan decisions on many different factors, including your credit score. Their judgment about your ability to repay the loan may also be based on the application you fill out, which will list income, expenses and assets, as well as a personal interview.

Payment history considerations include:

- Number of accounts paid as agreed.
- Delinquent accounts: 1) length of past-due status; 2) total number of past due items; and 3) how long it has been since you had a past due payment.
- Negative public records or collections.

Basically, lenders are looking for a high credit score, which means a low level of recurring debt, a long history of repaying on time, steady and reliable employment, and sufficient assets, such as money in savings or investments.

A/V **Slide 7:** Know the Market

HO *Checklist for Your House Hunt*
Rental Search Worksheet
Interviewing Agents

Once you have made your decision to buy and you have determined your housing needs and your housing budget, you need to take a look at the real estate market. Does the market favor buyers or sellers? If you are not planning on living in a home for a long time, there are certain things that you will need to consider that affect the resale value of the home. Chances are, you will need a real estate professional to guide you through the process and to help you navigate through the housing market. It is important that you understand the differences among the types of real estate agents and how to choose one who is right for you. Finally, it is critical that you are aware of current trends in the housing market that affect the price of various homes.

A/V **Slide 8:** Location, Location, Location!

It is common to hear that the three most important considerations in purchasing a home are location, location, and location. How to find a good location:

- Find a good city map and the classified ads section of your local newspaper.
- Survey prospective neighborhoods.
- Get to know various areas by selecting a dozen homes from the ads and make a day of visiting them.

The idea here is not to find "the" house, but to narrow your search to the most desirable neighborhood. Remember it is much easier to fix up a house than a neighborhood. It is important to visit desired locations at different times of the day to assess things such as safety, noise level and interaction among neighbors.

A/V **Slide 9:** Resale Considerations

In addition to location, there are many other factors that go into determining the perfect location for a home and its ability to be resold. You need to consider not only what is attractive to you, but what is attractive to the general population.

School District: If you have children, the school system and its reputation will be critically important to you. If you do not have children, still investigate the school system, as it will be an important factor in the resale of your home.

Proximity to highways or mass transit: Many people have very strong feelings about the distance they drive from home to work. This defines the areas where they are willing to look for a home.

Crime Statistics: How safe is the neighborhood? Contact the local police department to get crime statistics for different neighborhoods as this information is important to everyone.

Slide 10: Selecting a Real Estate Professional

Real Estate Agents: Choosing the right real estate professional can be an important element in the home buying process, even if you are handling some of the details yourself.

A real estate agent can help:

- Target suitable neighborhoods.
- Tell you which homes are available.
- Identify home costs.
- Compare the cost per square foot of nearby homes that have recently sold.
- Assess your financial situation.
- Manage the myriad details of your purchase.

Professionals associated with real estate include:

Principal Broker: A self-employed individual who is licensed to operate a real estate office. May work independently or hire other agents. All real estate professionals must work under a principal broker's license.

Realtor: Is a member of the National Association of Realtors, a state Realtor's association and a local Board of Realtors. The Realtor's Code of Ethics also binds them. Realtors may access the Multiple Listing Service (MLS), a local computerized database of for-sale homes. Through the MLS, a realtor can give you a detailed printout on each listed home you plan to consider.

Agent: The generic name for any licensed real estate professional (e.g., broker, realtor). The three kinds of agents are:

- *Listing Agent:* Signs up the home seller with a broker and "lists" the home with the MLS. As a buyer, you may never meet the listing agent. When the house sells, both the listing agent and the selling agent split part of their commission with their respective brokers.
- *Selling Agent:* Usually learns about the for-sale house through the MLS, and then finds the buyer. Though this is the agent that works with the buyer, he/she legally represents the seller and must get the best possible deal for the seller.
- *Buyer's Agent:* Helps the buyer find the house, terms and conditions most favorable to the buyer. The relationship is defined in a contract. Buyer's agents usually split part of their commission with their brokers or may charge a fee for services.

No matter what kind of agent you choose, you should ensure it is someone you are comfortable with. The *Interviewing Agents Handout* lists specific questions you should ask an agent and credentials you should look for before agreeing to work with them. While it may be tempting to look for the agents and companies that have the most signs in the neighborhoods, they may not be the best to work with buyers. They tend to concentrate on listing property. Asking friends and co-workers for a personal recommendation is still one of the best ways to find a good agent.

Slide 11: Do It Yourself

Many people prefer not to use a real estate agent to help them purchase a home. The Internet is very helpful in this area. Also, networking with family and friends can help you find the right home for sale. Other options include:

- **FSBO:** This acronym stands for “For Sale by Owner” and refers to homeowners who decide to sell their home without a real estate agent. Many sellers who choose to sell via FSBO do so to avoid paying a commission to a broker, typically six percent of the selling price of the property in many parts of the country. If a seller markets a home as a FSBO, and a buyer who is not working with an agent wants to buy this home, the seller pays no commission because no real-estate agents are involved. If a buyer who is represented by an agent is interested in a FSBO home, that buyer’s agent may request the owner to pay him or her a commission or finder’s fee for bringing the buyer.
- **Rent to Own:** Many rental properties give the option of purchasing the home, and will even apply rent payments to the purchase price.
- **Foreclosures:** Foreclosures can be downright bargains. Look in the newspaper for houses for sale by the Department of Veterans Affairs (VA), Department of Housing and Urban Development (HUD), and Federal Housing Administration (FHA), Resolution Trust Corporation (RTC), Federal Deposit Insurance Corporation (FDIC) and other government agencies. Some local lenders may have foreclosed properties for sale. These are called Real Estate Owned (REO). Some come with excellent terms while others are sold at public auctions and require cash payment or a letter of credit. Many foreclosures need repairs ranging from cosmetic to structural. Ask your local agent for lists and acquisition information.
- **Multiple Listing Service (MLS):** Most real estate sales are listed in a computer-based system called the Multiple Listing Service or MLS. The MLS is accessible to anyone at www.mls.com.

Slide 12: Searching for a Home

Remember the ancient Latin principle of commerce, “Caveat Emptor” (let the buyer beware). Use the handout *Checklist for Your House Hunt* to help you evaluate features you like—and do not like—in a home. The *Checklist for Your House Hunt* Handout can also help you develop your “needs” and “wants” list. A few things to consider:

- **Price per Square Foot:** When comparing homes, it is important to know the price per square foot of each, especially if you are unfamiliar with local property values. To establish the price per square foot divide the home's asking price by its square footage. Price per square foot can serve as an objective benchmark to help you establish a home's value relative to other similar-sized homes in the area.
- **Insurance Factors:** You should also consider any unique features which may affect the cost of insuring the home. Insurance may be higher for older homes, homes built on a slope or homes located in areas prone to natural disasters such as hurricanes, forest fires or flooding.
- **Builder:** Research the reputation of a home's builder. Start with the State Consumer Protection Agency or the State's Attorney General. You can also go to the Better Business Bureau website and look at a report on the home builder.
- **Utility Costs:** Examine previous owner's utility bill to get a sense of routine costs.
- **Water System:** Rural homes usually have a septic system and a well. Ask to see copies of the percolation (perc) test made before the septic system was built. It will show whether the drainage on the property is adequate to handle waste disposal. Also ask to see reports certifying the quality of the home's well water.
- **Home Buyers Warranty:** Ask the seller to provide a home buyers warranty. They can be purchased for $1000 -$2000 and cover major repairs such as the furnace, roof, plumbing, etc. The cost can be reflected in the purchase price of the house.

Use property value information to highlight or eliminate certain neighborhoods. If your budget limits you to $200,000, for example, it really makes no sense concentrating on (and perhaps falling in love with) a neighborhood where the average sale prices are in the $300,000 range. It is far better to focus on those areas where the average sale prices are well within your budget range, looking for a neighborhood that will give you the best value for your money.

For those interested in renting a home, a comparable handout, the *Rental Search Worksheet*, can assist renters in a similar way.

A/V **Slide 13:** Understanding the Financing

Understanding the financing is the final and sometimes most complicated of the home-buying process. When deciding among your financing options, it is critical that you shop around, compare costs and terms, and negotiate for the best deal.

We will discuss the major options when it comes to securing financing for a home purchase. We will talk about the mortgage options available, in addition to the options available that can save YOU money versus those that earn more money for the bank. We will talk about the different types of lenders and loans, along with the common pitfalls you will want to avoid. And because we do not want to have a mortgage payment forever, but rather be financially free, we will discuss some strategies to reduce the life of the housing loan that can allow you to use your money for building wealth versus repaying debt.

Slide 14: Choosing Lenders and Comparing Loans

Checklist for Financing Your Purchase
Mortgage Shopping Worksheet

The consequences of your lender and loan decisions may affect you for as long as you own your home and sometimes longer. Getting the best deal at the time of purchase can reduce the "life of the loan" costs by thousands of dollars which can be used other places in your financial portfolio.

Lenders: Home loans are available from several types of lenders including banks, mortgage companies and credit unions. Different lenders may quote you different prices, so you should contact several lenders to make sure you are getting the best price.

Brokers: You can also get a home loan through a mortgage broker. Brokers arrange transactions rather than lending money directly, or in other words, they find a lender for you. A broker's access to several lenders can mean a wider selection of loan products and terms from which you can choose. Brokers will generally contact several lenders regarding your application, but they are not obligated to find the best deal for you unless they have *contracted* with you to act as your agent. Consequently, you should consider contacting more than one broker, just as you should with other lenders.

Choosing a Lender: Finding a reputable lender with a variety of mortgages and attractive loan rates is important. Friends and co-workers can be an excellent source for finding a lender, and your realtor should also make recommendations. Use a lender that offers several options, is knowledgeable about those options, and takes the time to explain them to you.

Comparing Loans: The handout, *Checklist for Financing Your Purchase,* has the typical steps involved in obtaining a mortgage, including documents to bring with you when you visit a lender. The handout *Mortgage Shopping Worksheet* provides an extensive list of variables that you can use to compare different loans and lenders. When comparing loans, pay special attention to:

- *APR—Annual Percentage Rate:* The total interest rate of a mortgage, including the stated loan interest as well as any up-front interest paid in starting the loan.
- *Discount points:* A discount point is one percent of the loan amount, paid at closing. The lower the interest rate, the higher the number of points. You want to go for the lowest APR possible.
- *Loan origination fee:* A loan origination fee is a charge imposed by the lender for processing the loan, payable at closing. The loan origination fee is generally about one percent of the loan amount and is applied toward the lender's cost of making the loan. The buyer usually pays it. You may negotiate the payment of points and loan origination fees with the lender. In a hot buyers' market, many sellers will pay all or some of these closing costs.
- *Lock-in Options:* Lenders may offer different options to "lock-in" the interest rate at the time you apply for the mortgage. Lenders usually honor guaranteed lock-in rates for a specific time, such as 45 or 60 days or more. If you close the transaction within that period, the lender guarantees to provide the interest rate you locked in, regardless of whether the rates rise or fall during the interim. Be sure to get a written lock-in agreement if you choose to lock in your rate. If rates are anticipated to decrease before you close on the loan, you may prefer to let the interest rate and points "float," to give them time to go down.

Slide 15: Down Payments

Another factor that influences financing is a down payment, or money you agree to pay, usually in a cashier's check, at the time of purchase towards the price. Your down payment will probably affect your price range because the loan amount is based on the purchase price, minus the down payment. Typical down payments for various loans are:

- **Conventional:** 20% of the loan amount, with a minimum requirement of five to ten percent. Conventional loans are not guaranteed or insured by the federal government.
- **FHA (Federal Housing Administration):** three to five percent. Available in all 50 states. Government insured.
- **VA (Veterans' Administration):** No down payment required. Loan amounts are generally higher than FHA. Both FHA and VA maximum loan amounts change periodically. Guaranteed by the Department of Veterans Affairs.

Slide 16: Common Mortgage Loans

There are many types of loans to choose from. A bank or credit union, and many educational and mortgage Web sites can help you determine the best type of loan for you. Mortgage calculators can help you determine how much loan you can afford, what your monthly payments will be, and evaluate the different types of loans available. Common loan types include:

Fixed-Rate Loans: These are the most popular loans in the market because they offer stable, consistent payments throughout the life of the loan. The most common is the 30-year fixed rate. Other options are the 15-year (save half the interest over a 30-year), the 20-year (saves thousands of dollars of interest over the 30-year), and the relatively new 40-year (reduces the payment below a 30-year but adds three times the loan amount in interest).

Adjustable Rate Loans: This is a variable interest rate that fluctuates according to the financial index; they are tied to the type of adjustable rate mortgage obtained. Some features that make them attractive even when the fixed interest rate is low are:

- First-year rate (the teaser rate) is usually one or two points below the market rate.
- Interest rate is capped. It can rise only five or six points over the life of the loan.
- Rise of interest rate is limited to one or two points a year depending on type of loan.
- May result in less interest is paid with an ARM than with a 30-year fixed rate mortgage.
- May be best for homebuyers who stay in a home no more than five to seven years.

FHA Loans: Government-backed Federal Housing Administration loans are designed for first-time or lower-income homebuyers. The interest rate is usually less than conventional loans. FHA loans are available in both fixed-rate and adjustable-rate mortgages. The down payment is three to five percent of the loan amount. There are limits to the maximum loan amount.

VA Loans: Loans available to veterans of the United States Armed Forces backed by the Department of Veterans Affairs. Have your lender check the current VA funding fee. No down payment is required. The seller must pay points. If seller is reluctant to pay points, buyer can increase offering price to include the cost of points. Congress controls maximum loan amounts. Check with your lender for current maximums. You may want to explore other mortgage loan options rather than use your VA. If you have to sell and a buyer comes along who wants to assume your mortgage, then your VA will be unavailable to you until that mortgage is cleared by a home sale with a substitution of a completely new mortgage.

Processing time for conventional loans can take four to six weeks, for VA and FHA loans, six weeks to two months.

It may be helpful to become pre-qualified over a phone with a lender to see how much you are able to borrow. You may improve your ability to negotiate if you also become ‘pre-approved,” that is to obtain a commitment from your lender.

Slide 17: Borrower Beware

Interest-Only Mortgage: An-interest only mortgage allows you to pay only the interest for a specified number of years. Since there is no payment on principle, a borrower who takes this type of loan is depending on the housing market to increase the value of the home. Most interest-only mortgages have adjustable interest rates, which means that the interest rate and monthly payment will change over the term of the loan. The interest-only mortgage payment period is typically between three and ten years. After that, your monthly payment will increase even if interest rates stay the same, because you must pay back the principal as well as the interest.

80/20 Mortgages: An 80/20 mortgage is essentially two mortgage loans which equal the total amount of the purchase price. The first mortgage being 80% and the second mortgage covering the remaining 20%. The first is typically at the going rate for a conventional mortgage, the second is usually significantly higher.

Subprime Lending: A general term that refers to the practice of making loans to borrowers who do not qualify for market interest rates because of problems with their credit history. A subprime loan is one that is offered at a rate well above the prime rate, which is a benchmark that banks set for establishing interest rates for other loans. A subprime loan is, by definition, a loan made to someone who could not qualify for a more favorable rate. Subprime borrowers typically have low credit scores and histories of payment delinquencies, charge-offs, or bankruptcies. Because subprime borrowers are considered at higher risk to default, subprime loans typically have less favorable terms than their traditional counterparts. These terms may include higher interest rates, regular fees, or an up-front charge.

Some common practices in the sub-prime market include: excessive fees, abusive pre-payment penalties, kickbacks to brokers, loan flipping, unnecessary products, mandatory arbitration, and steering and targeting. All of these practices fall under the category of “predatory lending.” Protect yourself by being aware of and avoiding any of these practices.

Slide 18: Negotiating the Deal

Use Comps to Establish Property Value: A list of *comparable sales* during the last six months is important to determine property values. Ask your agent for a list of “comps” which shows the price and square footage of neighborhood homes which have sold recently. Remember that besides the comps, there are many intangibles that go into determining the asking price for a house, including the market conditions, location and the buyer's emotional attachment to the home. If you are planning to buy a home without the assistance of an agent, there are sources of information available to you online through your state and local offices of property taxation.

Present Offer to Purchase Contract: When you find the home you want, the next step is to *present an offer to purchase contract* which may be accepted, rejected or countered by the seller. If a counter offer is made, you, in turn, may accept it, reject it or make another counter offer. This process continues until both parties agree or until one of you refuses to negotiate further. Be certain to put everything in writing.

- Set your price.
- List personal property you may wish included, such as the refrigerator, washer and dryer, curtains, dining room ceiling fan, etc.
- List needed repairs that you want the current owner to complete.
- List any contingencies, or circumstances that must be met in order for you to go through with the sale such as selling your current house, getting financing, a positive home inspection, etc.

Earnest Money: You may be asked to put down an earnest money deposit, which although not required, shows your "good faith" while negotiating. The amount of the earnest money deposit may vary, usually $500 up to 10% of the sale price. If you cancel the contract, the earnest money deposit is usually forfeited to the seller; therefore, try to limit the amount of the deposit. Earnest money is applied to the total purchase price of the home.

Home Inspection: Many home purchasers, either in the desire to save the money that a good inspection costs, or due to simple ignorance, have spent enormous sums of money repairing items that any good home inspector would have pointed out. Any offer you make to purchase should be contingent upon a whole house inspection with a satisfactory report. Not only will you sleep much sounder after you have moved into the house, a professional inspection can give you an escape hatch from a contract on a defective house. If the contract is written contingent on an acceptable inspection, any defects in the home must be either repaired or monetarily compensated for. If you are not satisfied, you have the option to cancel the contract.

HO *Ten Questions to Ask Your Home Inspector*

Closing Costs

Closing cost are fees that are paid in order to “close” or complete the mortgage loan. They usually total approximately two to four percent of the loan amount and may be paid by the buyer or seller. Their costs are based on national averages and may vary based on different home factors. Some examples of closing costs include: appraisals, attorney’s fees, credit reports, loan origination fees, recording fees, surveys, title searches, and pest inspections.

The important thing to remember is that most of these fees are negotiable!

At closing, the buyer will also pay a number of recurring costs up-front with the money placed in escrow with the mortgage company and drawn when needed. These costs include Private Mortgage Insurance (PMI), Mortgage Insurance Premium (MIP), VA funding fee, homeowner’s insurance (14 months), property taxes (3 months) and interest.

A/V **Slide 19 :** Reducing Payback Time

Many Americans think that they will always have a mortgage and always have a car payment as a way of life. Stop and think. How much money could you be investing each month if you did not have a mortgage? How much interest could you earn over five years? Ten years?

Reducing the payback time on your mortgage may not be easy. Paying off your mortgage will definitely involve some sacrifices in the present, but the dividends for the future can be tremendous. There are two ways a buyer can reduce the payback time on a loan:

Apply for a shorter-term loan: You can do this with a surprisingly modest monthly payment increase compared with a 30-year loan. Take a look at the table shown on the PowerPoint slide to see the difference between a 15- and 30-Year Loan.

U% Median House Price was obtained from www.realtor.org.

The median house price in the United States for 2007 was $217,900. With a six percent interest rate, this would translate to a monthly payment of $1837 with a 15 year loan versus $1306 for a 30 year loan. While a difference of $531 is a lot of money on a monthly basis, look at how much savings this adds up to over the course of the loan—nearly $140,000. This figure is even underestimated considering that most lenders offer lower interest rates for loans with shorter maturities, generating even more savings. Additionally, with a sound spending plan in place, this income has additional earning potential when used for building wealth through savings and investments.

Prepay the principal: A second option is to prepay the principal of the loan which effectively reduces a 30-year fixed-rate loan's payback time to 20, 15, or even 10 years. If you are a disciplined money manager, and if your loan has no prepayment penalty, you may consider paying-off a 30-year mortgage in 15 years and one month by doubling the principal payment each month. Or you can take a 30-year loan and pay it back in 20 years in one of the three following ways:

- Make an extra lump sum payment each year.
- Increase monthly payment by 1/12th.
- Pay bi-weekly; that means making one-half mortgage payment every other week.

Be sure to fully explore the cost of such prepayments, making sure there are no prepayment penalties or additional fees associated with prepayment. Be advised that many homeowners choose a 30-year mortgage with the intention of treating it as a 15-year mortgage, but fail to do so. Too many other budget items or unplanned expenses get in the way of making those extra payments. So if you are truly committed to paying off your mortgage sooner and you have the discipline to manage your money effectively, make it automatic with a 15-year loan.

A/V **Slide 20:** Sources of Help

NOTE Engage Participants in the summary review by using the interactive questions such as those listed here.

Evaluate Your Needs and What You Can Afford

? Q *What are some factors that could make renting a home a good choice?*

(Possible responses include: frequent moves, unfamiliar with the area, insufficient savings, no desire for home maintenance, not concerned about tax advantage, fear of losing equity, prefers fixed expenses no desire to be landlord.)

? Q *What are some factors that could make buying a home a good choice?*

(Possible responses include: ready for stability, knowledge of location, have large initial investment, able to do maintenance, can handle variable expenses, desires equity growth, can benefit from itemization, can handle being a landlord.)

? Q *What are some of the factors to consider when determining how much house you can afford?* (Possible responses include: your net worth, your debt-to-income ratio, monthly payments.)

Research the Housing Market

What are some things to look for when choosing a real estate professional?

(Possible responses include: what type of agent they are, referrals from friends, etc.)

What are some things to consider about when considering the resale of your home?

(Possible responses include: school district, proximity to highways and mass transit, crime statistics.)

Understand the Financing

What are some types of mortgages lenders and mortgage options you can choose?

(Possible responses include: conventional, FHA, VA, fixed rate, adjustable rate, 80/20, etc..)

What are some strategies for reducing the life of you home loan (paying it off early)?

(Possible responses include: shorten the loan—15 years, pre-pay the principal: extra lump sum payment, increase monthly payments, make bi-monthly payments.)

Use Your Resources

What are some Sources of Help for getting more information about home buying and the home buying process?

Million Dollar Sailor
Module Eight: Home Buying

Participant Notes Page

1. Identify at least two factors to consider in deciding whether to rent or buy a home.

2. Factors that affect the resale value of a home include:

3. When choosing a real estate agent, two factors to consider are:

4. Identify different types of mortgage loans.

5. One method for reducing the length of a home loan is:

Notes:

Setting Your Price Range

1. **Gross annual income** (include spouse's income)
   (Weekly before-tax income, times 52) ____________
2. **Gross monthly income** (Line 1 divided by 12) ____________
3. **Divide line 2 by line 1, multiply by 100** ____________
4. **Monthly debt limit** ____________
   - A. Debt ratio (Line 2 times .36) ____________
   - B. Monthly payments ____________
     - Auto loans/leases ____________
     - Student loans ____________
     - Credit cards (5 percent of balance) ____________
     - Installment debt (furniture, appliances) ____________
     - Child support/alimony ____________
     - **TOTAL** ____________
   - C. Debt limit (Line 4A minus 4B) ____________
5. **Maximum monthly housing expense**
   (principal, interest, taxes and insurance) (Smaller of Lines 3 or 4C) ____________
6. **Maximum monthly principal and interest** (Line 5 times .90) ____________
7. **Maximum 30-year mortgage amount**
   (Line 6 divided by interest rate factor, then multiplied by 1,000) ____________
8. **Maximum purchase price** (Line 7 times down payment factor) ____________

Percentage Down-payment	Down-payment Factor	Market Interest Rate	Interest Rate Factor
20%	1.250	5%	5.37
15%	1.176	6%	6.00
10%	1.11	7%	6.65
5%	1.053	8%	7.34
		9%	8.05
		10%	8.78
		11%	9.53
		12%	10.29
		13%	11.07

Figuring Your Monthly Payments

Interest Rate	Interest Rate Factor (per $1,000 financed)	
	15 Years	30 Years
5%	$7.91	$5.37
5.5%	$8.17	$5.68
6%	$8.44	$6.00
6.5%	$8.71	$6.32
7%	$8.99	$6.66
7.5%	$9.27	$6.99
8%	$9.56	$7.34
9%	$10.14	$8.05
10%	$10.75	$8.78

Helpful Web sites with Information and Calculators:

www.hud.gov

www.homeloans.va.gov

www.freddiemac.com

www.bankrate.com

www.fool.com

www.navyfcu.org

www.kiplinger.com/tools

Calculating Your Debt-to-Income Ratio

Most agents and lenders will calculate this information for you, free of charge and with no obligation. They will provide you with an approximate amount you may be able to borrow. Some lenders will go a step further, offering pre-approval before you buy a home. Being pre-approved is like being a cash buyer and may give you more bargaining power when you shop for a home. Use this worksheet to find your approximate debt ratio, including a borrowing limit.

1. Write in your gross annual income. ____________________
   (Multiply your weekly before-tax income by 52.)

2. Write in your gross monthly income. (Divide line 1 by 12.) ____________________

3. Establish your approximate house payment limit, including principal, interest, taxes and insurance (PITI). (Multiply line 2 by .28.) ____________________

4. Calculate your monthly debt ratio limit. (Multiply line 2 by .36.) ____________________

5. Write in and add up the items below to find your debt ratio limit:

   Auto loan/lease payments. ____________________

   Student/other loans. ____________________

   Credit cards. ____________________

   Installment debt. ____________________

   Child support/alimony. ____________________

   New house payment limit. (Copy the number on line 3.) ____________________

   TOTAL DEBT [ ]

6. To calculate your debt ratio, divide the number in the Total Debt box by the number you wrote on line 2. ____________________

7. Compare your estimated debt ratio on line 6 to the limit you wrote on line 4. ____________________

Your new home price range is probably right if your debt ratio is below 36%. If it is right at 36%, you are probably right at the upper limit of your price range and should consider whether unplanned expenses might prevent you from making your new house payment. If your debt ratio exceeds 36%, you need to reduce your debt, increase your down payment or reduce the price you pay for your home.

Checklist for Your House Hunt

Attach other printouts and pictures to this Checklist.

ADDRESS ________________________________

DATE OF VISIT ____________________________

HOUSE __________________________________

Asking price ______________________________

Square footage ____________________________

Price per square foot _______________________

FHA/VA financing __________________________

Other financing ____________________________

Floor plan ________________________________

Number of bedrooms/bathrooms ____________

On what side does sun rise/set? ___________

Real estate taxes ___________________________

Number of Stories __________________________

SIZE OF ROOMS:

Bedroom (master) __________________________

Bedroom #2 _______________________________

Bedroom #3 _______________________________

Bedroom #4 _______________________________

Master bath _______________________________

Master closet ______________________________

Kitchen __________________________________

Family dining area _________________________

Formal dining area _________________________

Living ___________________________________

Family room ______________________________

Other ____________________________________

Year constructed ___________________________

Builder __________________________________

Parking __________________________________

INTERIOR:

Appliances ________________________________

Attic _____________________________________

Attic vents ________________________________

Basement _________________________________

Ceiling fans _______________________________

Closets ___________________________________

Electric garage door opener ________________

Estimated utility costs ____________________
(ask to see bills)

Fireplace(s) _______________________________

Floor covering _____________________________

General condition __________________________

Heating/ventilation/central air ____________

Humidifier ________________________________

Insulation ________________________________

Kitchen __________________________________

Lead-based paints used? ___________________
(Harmful if ingested, common in older homes)

Plumbing _________________________________

Radon levels _______________________________

Security system _____________________________

Stairs ____________________________________

Utility room _______________________________

Wallpaper _________________________________

Wall (check for cracks) _____________________

Window coverings __________________________

Wiring ___________________________________

EXTERIOR:

Deck/porch/patio ___________________________

Doors ____________________________________

Foundation/grading/drainage _______________

Gutters and downspouts ____________________

Landscaping _______________________________

Lot size ___________________________________

Pavement condition _________________________

Roof _____________________________________

Septic system ______________________________






Siding materials ______________________

Sprinkler system ______________________

Swimming pool/hot tub ________________

Trees ______________________________

Windows (single/double paned) __________

NEIGHBORHOOD:

Security ____________________________

Snow removal ________________________

Susceptibility to flood, earthquake, etc. _____

Traffic _____________________________

Trash removal ________________________

Accessibility during inclement weather _____

Adjacent property (its zoning, owner(s), and intended use) ______________________

Airports ____________________________

City services _________________________

DRIVE TIME TO:

Work _______________________________

Schools _____________________________

Shopping ____________________________

Church _____________________________

Major highways ______________________

Entertainment/culture _________________

Landfills ____________________________

Near hazardous/noxious activities? ________

NOISE:

Airport _____________________________

Freeway ____________________________

Railroad tracks ______________________

Neighbors/Pets ______________________

OTHER:

Overall appearance ___________________

Percent houses for sale and rent in area _____

Police/fire ___________________________

Power lines __________________________

Privacy _____________________________

Restrictions__________________________
(e.g. satellite dishes, outbuildings)

Public transportation _________________

SCHOOL DISTRICT:

Daycare ____________________________

Elementary __________________________

Middle School _______________________

Junior High __________________________

Senior High __________________________

GENERAL:

Affordability _________________________

Investment value ______________________

Resources

www.ambest.com (Insurance Rating)

www.annualcreditreport.com (Annual Credit Report)

www.ashi.org (Certified Home Inspector Locator)

www.bankrate.com (Current interest rates on all types of loans and mortgages)

www.craigslist.com (All-purpose bulletin board with Real Estate rentals and sales for every state)

www.fool.com (Motley Fool Investor's Web site, Home Buying Education)

www.freddiemac.com (Home Buying Information and Education)

www.fsbo.com (For Sale By Owner resources)

www.greatschools.net (School Ratings)

http://homebuying.about.com (About.com Homebuying)

www.homeloans.va.gov (VA Home Loan Guarantee Program)

www.hud.gov (U.S. Department of Housing and Urban Development)

www.lifelines.navy.mil (Lifelines Services Network)

www.militarybyowner.com (Real Estate Network for Sales and Rentals)

www.mls.com (Multiple Listing Service)

www.ffsp.navy.mil (Fleet and Family Support Center)

www.ourfamilyplace.com (Our Family Place Resource Center)

www.realtor.com (National Association of Realtors)

www.responsiblelending.org (Center for Responsible Lending, A Resource for Predatory Lending Opponents)

www.saveandinvest.org (NASD Military Investor Education)

www.schoolmatters.com (Standard & Poor's School Statistics)

Rental Search Worksheet

	Rental A	Rental B	Rental C	Rental D
TERMS AND CONDITIONS				
Date available				
Rent amount				
Rent due				
Deposit				
Pet rules/deposit				
Late payment charges				
Length of lease				
Penalty for breaking lease				
Physical changes allowed				
Subletting				
Utilities included				
Water/Sewer				
Heat				
Garbage/Recycling				
Other				
DWELLING				
Square footage				
Bedrooms				
Living/family room				
Dining area				
Kitchen				
Air conditioning				
Fireplace				
Furnace type				
Number of outlets				
Bedroom privacy				
Blinds/curtains				
Cable TV connection				
Number phone jacks				
High speed Internet				
Carpet				
Hardwood floors				
Closet space				






	Rental A	Rental B	Rental C	Rental D
Storage				
Furniture				
Light Fixtures				
Natural Light				
Paint/wall condition				
Patio/balcony				
Pets allowed				
Upstairs/downstairs				
View				
Water pressure				
Age of appliances				
Counter space/drawers				
Dishwasher				
Garbage disposal				
Gas/electric				
Microwave				
COMMUNITY				
Parking				
Noise level				
Appearance				
Lighting				
Laundry facilities				
Garbage disposal				
Bike racks				
Elevators/stairs				
SAFETY				
Fire extinguishers				
Locks on all doors				
Outside lighting				
Smoke detectors				
Emergency exits				
Window locks				
Gated entrance				
Screens				
NEIGHBORHOOD				
Public transportation				
Highway access				
Distance to school/work				
Community age				
Shopping				
Bank				
Post Office				

Interviewing Agents

Q*: How long have you been selling residential real estate?*

A: ____________________________________

(Three or four years of full-time activity is generally enough to impart a solid foundation.)

Q*: Are you a full-time salesperson?*

A: ____________________________________

(There are some very good part-time agents, but in the absence of a personal referral, go with full-time experience.)

Q*: Are you a licensed REALTOR?*

A: ____________________________________

(REALTORS are well-trained and must conform to a strict Code of Ethics.)

Q*: Do you have access to a Multiple Listing Service?*

A: ____________________________________

(A Multiple Listing Service is a computerized database providing a fast, convenient way to gather useful information about most of the local for-sale homes.)

Q*: Will you represent me or the seller in the transaction?*

A: ____________________________________

(Generally, agents represent the seller. However, buyer's agents, who represent the buyer, are becoming more common. Consider interviewing both types.)

Q*: Would you work as a buyer's agent? If so, how would your fee be handled?*

A: ____________________________________

(Buyer's agent fees usually are included in the purchase price, as are the selling agent fees.)

Q*: Will you give me the names of several people who have bought their homes through you during the past three months?*

A: ____________________________________

(If yes, call and ask if the buyers were satisfied. If no, find another agent.)

Q*: How many buyers are you working with right now? How many sellers?*

A: ____________________________________

Q*: How long will our contract be valid?*

A: ____________________________________

Q*: How familiar are you with my preferred community?*

A: ____________________________________

Q*: How many homes have you sold in the last year?*

A: ____________________________________






Checklist for Financing Your Purchase

- [ ] Decide the length of loan (15-year and 30-year are the most common) the type of loan (adjustable-rate and fixed-rate loans predominate), and how much money you qualify for.
- [ ] Compare service, interest rates and fees of several lenders before selecting one.
- [ ] A real estate agent can help you find a lender if you are new to town.
- [ ] Discuss with real estate agent and loan officer the current trends in interest rates and the option of locking in a rate for your purchase.
- [ ] Complete a mortgage application with a loan officer. Bring last two paycheck stubs, W-2s, employment information, last two months checking and savings account statements, current loan statements.
- [ ] Lender requests appraisal of home, survey of property and verifications of your employment, bank balances and credit history.
- [ ] Lender gives you “good faith estimate” showing your expected costs at closing.
- [ ] It typically takes two to six weeks for verification letters to be returned and paperwork to be processed.
- [ ] A loan officer evaluates your application and the underwriter approves the loan.
- [ ] On closing day, you sign the mortgage agreement. The lender pays the closing or settlement agent, the agent pays the seller.
- [ ] You are ready to move in!

Mortgage Shopping Worksheet

	Lender 1		Lender 2	
Name of Lender				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
	Mortgage 1	Mortgage 2	Mortgage1	Mortgage 2
Basic Information on the Loans				
Type of Mortgage: fixed rate, adjustable rate, conventional, FHA, other? (If adjustable, see below)				
Minimum down payment required				
Loan term (length of loan)				
Contract interest rate				
Annual percentage rate (APR)				
Points (may be called loan discount points)				
Monthly Private Mortgage Insurance (PMI) premiums				
How long must you keep PMI?				
Estimated monthly escrow for taxes and hazard insurance. Estimated monthly payment (Principal, Interest, Taxes, Insurance, PMI)				
Fees (Different institutions may have different fee names and charge different fees. Below are some typical fees you may encounter.)				
Application fee or Loan Processing fee				
Origination fee or Underwriting fee				
Lender fee or Funding fee				
Appraisal fee				
Attorney fees				
Document preparation and recording fees				
Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
Credit Report fee				
Other fees				
Other Costs at Closing/Settlement				
Title search/Title insurance				
For lender				
For you				
Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow				
State and local taxes, stamp taxes, transfer taxes				
Flood determination				
Prepaid Private Mortgage Insurance (PMI)				
Surveys and home inspections				
Total Fees and Other Closing/Settlement Cost Estimates				

	Lender 1		Lender 2	
Name of Lender				
	Mortgage 1	Mortgage 2	Mortgage1	Mortgage 2
Other Questions and Considerations about the Loan				
Are any of the fees or costs waivable?				
Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (For example, three years? Five years?)				
Are extra principal payments allowed?				
Lock-ins				
Is the lock-in agreement in writing?				
Is there a fee to lock-in?				
When does the lock-in occur—at application, approval, or another time?				
How long will the lock-in last?				
If the rate drops before closing, can you lock-in at a lower rate?				
If the loan is an adjustable rate mortgage:				
What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and of any changes to the monthly payment?				
What is the index that the lender will use?				
What margin will the lender add to the index?				
Credit life insurance				
Does the monthly amount quoted to you include a charge for credit life insurance?				
If so, does the lender require credit life insurance as a condition of the loan?				
How much does the credit life insurance cost?				
How much lower would your monthly payment be without the credit life insurance?				
If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				






Ten Important Questions to Ask Your Home Inspector

1. **What does your inspection cover?**

   The inspector should ensure that the inspection and inspection report will meet all applicable requirements in your state and will comply with a well-recognized standard of practice and code of ethics. You should be able to request and see a copy of these items ahead of time and ask any questions you may have. If there are any areas you want to make sure are inspected, be sure to identify them up front.

2. **How long have you been practicing in the home inspection profession and how many inspections have you completed?**

   The inspector should be able to provide his or her history in the profession and perhaps even a few names as referrals. Newer inspectors can be very qualified, and many work with a partner or have access to more experienced inspectors to assist them in the inspection.

3. **Are you specifically experienced in residential inspection?**

   Related experience in construction or engineering is helpful, but is no substitute for training and experience in the unique discipline of home inspection. If the inspection is for a commercial property, then this should be asked about as well.

4. **Do you offer to do repairs or improvements based on the inspection?**

   Some inspector associations and state regulations allow the inspector to perform repair work on problems uncovered in the inspection. Other associations and regulations strictly forbid this as a conflict of interest.

5. **How long will the inspection take?**

   The average on-site inspection time for a single inspector is two to three hours for a typical single-family house; anything significantly less may not be enough time to perform a thorough inspection. Additional inspectors may be brought in for very large properties and buildings.

6. **How much will it cost?**

   Costs vary dramatically, depending on the region, size and age of the house, scope of services and other factors. A typical range might be $300-$500, but consider the value of the home inspection in terms of the investment being made. Cost does not necessarily reflect quality. HUD does not regulate home inspection fees.

7. **What type of inspection report do you provide and how long will it take to receive the report?**

   Ask to see samples and determine whether or not you can understand the inspector's reporting style and if the time parameters fulfill your needs. Most inspectors provide their full report within 24 hours of the inspection.

8. **Will I be able to attend the inspection?**

   This is a valuable educational opportunity, and an inspector's refusal to allow this should raise a red flag. Never pass up this opportunity to see your prospective home through the eyes of an expert.

9. **Do you maintain membership in a professional home inspector association?**

   There are many state and national associations for home inspectors. Request to see the inspector's membership ID, and perform whatever due diligence you deem appropriate.

10. **Do you participate in continuing education programs to keep your expertise up to date?**

    One can never know it all, and the inspector's commitment to continuing education is a good measure of his or her professionalism and service to the consumer. This is especially important in cases where the home is much older or includes unique elements requiring additional or updated training.

From www.hud.gov






Million Dollar Sailor

Banking and Financial Services

Module Nine: Banking and Financial Services

Module Length: 60 Minutes

Module Description:

Becoming a Million Dollar Sailor involves choosing financial institutions and financial services that support your personal financial goals. Choosing among the many options involves evaluating your personal needs and comparing costs.

This MDS Banking and Financial Services Module is designed to educate Sailors on the basic concerns with banking in today's environment including selecting financial institutions, understanding the products and services they provide and safe practices for electronic banking.

Learning Objectives:

At the end of this 60-minute module, participants will be able to:

- Identify the products and services provided by most credit unions and banks.
- State three practical strategies associated with electronic banking.
- Identify an appropriate financial institution for the individual's or family's needs.
- Describe the civilian, military, and legal ramifications of bounced checks.
- Name three sources of help for banking issues.

Materials Needed:

- Computer/Internet and PowerPoint Projector
- MDS Banking and Financial Services PowerPoint Slides
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper
- Post-It Paper/Masking Tape
- Handouts:
  - *Terms of Banking Worksheet*
  - *Banking and Financial Services Resources*
  - *Module Nine Participant Notes Page*

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——. OPNAV Instruction 1740.5B. Washington D.C.: Office of the Chief of Naval Operations, 2007.

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A/V **Slide 1:** Banking and Financial Services

HO *Module Nine Participant Note Pages*

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

Anyone who receives a paycheck has a need for banking and financial services. One of the first decisions new military members have to do is choose a credit union or bank for the direct deposit of their military pay. Properly maintaining your financial accounts is the first step in establishing a credit history. Financial institutions offer a wide array of products and services to meet your needs. From a basic checking account to complex investments and loans, today's financial institutions have it all. Yet, with all of these options, choosing one to handle your particular financial needs can seem like a difficult and confusing task. This program will help you understand all the products and services available to you, pick the ones that best meet your needs, and manage them appropriately.

Although there is much to consider, it is best to select a financial institution, the same way you would choose any product or service—first evaluate your needs and then compare costs. You should also consider what is most important to you in a banking relationship. Do you want to develop a personal, long-term customer relationship with a bank? Do you

deploy or travel frequently? If you prefer to do your banking by telephone or online, you will want to explore the types of electronic services each bank has to offer. Once you have identified your needs, evaluating and comparing the services and fees is a much simpler task.

Slide 2: Agenda

Financial Products and Credit Unions: What is the appropriate financial institution for your needs? What does each one offer? We will take a look at the products and services provided by most credit unions and banks to help you determine which is best for you.

Banking Services: What are the differences between ATM cards, check cards and debit cards? Which is best? What are your liabilities if you lose them? Do you do your banking online? How does that work? What are the security measures you need to put in place? What happens when you deploy? We will discuss the features and issues surrounding different banking services.

Where to Complain: Where can you turn when there is a problem? We will discuss where you should seek help and the steps you should take if you experience a problem.

Expensive Mistakes: What are some of the most expensive mistakes that people make with their banking services? What are some of the little mistakes that add up over time? What are the ones that hold legal consequences? We will discuss some of the most common banking mistakes that you should make every effort to avoid.

Mismanagement Consequences: What happens if you bounce a check? What happens if you miss an electronic payment? We will cover specific military and civilian consequences of financial mismanagement as they pertain to banking issues.

Sources of Help: Where do you go for help? Where do you go for answers? Sources of help will be addressed.

Terms of Banking 10 Minutes

Terms of Banking

Explain to participants that you will do a brief assessment of their knowledge of banking terms and practices. Distribute the *Terms of Banking* Handout and allow participants about five minutes to complete the answers. You can have them work individually or in teams. Briefly review answers when complete or have learners check their responses as material is covered in the module.

Answer Key

- A promise to pay. **(1, Check)**
- The ability to log on to the Internet and access your account, check account balances, transfer money, and even pay bills electronically. **(15, Online Banking)**
- Blank, Restrictive and Special. **(7, Check Endorsements)**
- Tied in to your checking account, transactions are deducted from checking at the time of use. **(2, Check Card)**
- Illegibility, empty spaces, not signing, using a pencil. (**13, Common Checkwriting Errors)**
- A non-profit organization that is owned by its members. **(3, Credit Union)**
- Used like a check, money is taken from your account at the time of sale and deposited in the retailer's account. Some require a PIN. **(9, Debit Card)**
- Only one person is responsible for the account. **(14, Individual Checking Account)**
- Make an entry in this every time you use your account: deposits, withdrawals, ATM transactions, checks, etc. **(12, Checkbook Register)**
- Money is taken from another source (savings, line of credit, etc.) and deposited into your checking account to cover checks written on it. **(5, Overdraft Protection)**
- Money put into these at a credit union or bank, is NOT insured. **(4, Investments)**
- More than one person is responsible for the account. **(10, Joint Checking Account)**
- Often shown as "POS" on your bank statement, this is a purchase you used your check or debit card for. **(16, Point of Sale)**
- The person at your command who has specialized financial education just so he or she can help you with your money management. **(8, Command Financial Specialist)**
- Make sure and safeguard this number, it is used when you use your ATM, debit or check card, or to access your accounts on-line. **(11, PIN)**
- Various fees you pay the financial institution to have an account. **(6, Service Charges)**

A/V **Slide 3:** Banks and Credit Unions

Most people just starting out in their jobs will choose either a bank or a credit union as their financial institution. What is the difference? They both offer the same types of products and services. However, a credit

union is a non-profit organization that is owned by its members. Because of the non-profit status, interest rates on loans tend to be lower and interest rates on savings accounts tend to be higher. Defense credit unions are available to military members. They provide accounts which can follow you as you move to new locations.

A commercial bank, on the other hand, is a for-profit organization owned by shareholders. Because of their for-profit status, interest rates on loans tend to be higher and interest rates on savings accounts tend to be lower. They offer many other financial services too.

A/V Slide 4: Choosing a Financial Institution

When deciding on a financial institution, consider the following factors:

Convenience: How easy is it to put money in and take it out? Are there tellers or ATM machines close to where you work and live? Or would you receive most of your service via the telephone or Internet? Can you make direct deposits and other electronic transfers?

Range of Services Offered: Even though you may only start with a basic savings or checking account, look for an institution that offers a wide variety of services. Be especially mindful of online banking opportunities, which are very convenient for military members. Check out a credit union or bank's Web site before opening any accounts.

Minimum Deposit Requirements: Some accounts can only be set up with a minimum dollar amount. If your account goes below the minimum, no interest is paid or you are charged extra fees.

Limits on Withdrawals: Can you take money out whenever you want? Are there any penalties for doing so?

Interest: How much (if anything) is paid and when daily, monthly, quarterly, and yearly? To compare rates offered locally to those from financial institutions around the nation, visit www.bankrate.com.

Deposit Insurance: Look for a sign that says your money is protected by the Federal Deposit Insurance Corporation. Credit union accounts have similar protection from the National Credit Union Administration.

Service Fees: What are they? Just ask. By law, institutions must tell you about all applicable service charges you will be charged.

A/V **Slide 5:** Financial Products and Services

Savings and Checking Accounts: When it comes to finding a safe place to put your money, savings accounts and checking accounts are popular choices. Each has different rules and benefits that fit different needs.

In a savings, or “share savings” account, you deposit your money into the credit union or bank, and it is kept safe for you. The institution will also pay you a small amount of interest for keeping your money with them. You can withdraw your money at any time directly from the bank, through an automated teller machine, an ATM, or transfer money from one account to another in person or online. Checking accounts work like a savings account, except you can write a check out to a person or business using money in the account. Personal checking accounts (as opposed to business accounts) can be either individual, only one person is responsible for the account, or joint, more than one person is responsible for the account.

Online Banking Services: Online banking has become a regular service offered by most financial institutions allowing you to conduct banking transactions over the internet using a personal computer, mobile phone or PDA. These services can be particularly valuable to military members who travel and move often. Access to online services is established with your bank or credit union. They will provide you with an access or log-in number, help you choose a password, and show you how to access the services.

Debit/ATM /Check Cards: A debit card is a banking card enhanced with automated teller machine (ATM) and point-of-sale (POS) features so that it can be used at merchant locations. A debit card is linked to an individual’s checking account, allowing funds to be withdrawn at the ATM and point-of-sale without writing a check. Each financial institution creates an identity for its debit card to customize the product and differentiate it in the market. Debit cards can also be called deposit access cards.

Credit Cards: You can apply for a credit card at your credit union or bank, usually a MasterCard or Visa. If you qualify, the institution will give you a line of credit that you can use. Each month you receive a bill with a minimum monthly payment. You have to pay interest charges to use the credit card if you carry a balance. Before applying for a credit card, attend a Credit Management class at your Fleet and Family Support Center.

Loans: Credit Unions and Banks offer a wide array of loans, for personal use, for automobile purchases, and for purchasing a home (a mortgage).

Investments: Most credit unions and banks also offer investment products. Unlike savings and checking accounts, where your money is insured, investment purchases made at a bank or credit union are not insured. However, if you need an investment product, your credit union or bank might be an excellent place to start your search.

Other Products and Services: Many banks offer other products and services such as Money Orders, Cashier’s Checks, Notary Services, Wire Transfers, Safety Deposit Boxes.

Education: Again, most credit unions and banks offer various types of financial education. This can come in the form of brochures and booklets available at their branch offices or included in statements; it may be in courses offered at local branches or it may be provided online. Many also offer some type of credit counseling for those who carry too much debt.

Slide 6: Checking Accounts: Features and Fees

A check is a promise to pay—a guarantee that there is enough money in your checking account to cover the amount of the check. Checks are a widely accepted method of payment. They are convenient and safer than cash. A check is also a legal document—writing a check without money in the bank to back it up is illegal. Canceled checks provide proof of payment if there is a dispute. Checks account for 60% of all retail non-cash payments. When you are looking for a checking accounts and their associated costs, look into the following factors:

Interest: Does the account pay interest? What is the rate?

Minimum Balance: Is there a minimum balance required to open the account? Do you have to maintain a minimum balance to avoid paying a service charge? If you go below a certain amount in checking and/or savings, you will be charged a fee averaging about $10.00/month. Be sure to find out the minimum amount required and the charge. It may be more cost effective to have a noninterest bearing account and avoid the service fees.

Fees: Checking accounts come with many other associated fees.

Account Fees. Is there a monthly fee for the account or a charge for each check you write? Some accounts only charge a fee if you write more than a certain number of checks per month. Is there a minimum or maximum amount for any one check? Are there a maximum number of checks you can write per month? If you write more, what is the charge? How much will new checks cost? Can they be ordered online? Institutions prefer you use checks with your name and address printed on them. You can order checks through your financial institution or it may be less expensive to order them from a mail-order company. If you use a source other than your financial institution, be sure you send along a check re-order form to ensure that the numbers on the check are printed correctly. Never write your social security number on a check. Never write a credit card number or phone number on your check either. You are not required to do this by law. Such information could lead to identity theft.

ATM Fees. What are the ATM fees? Some financial institutions may charge to use their own ATMs, even if you are a customer. The fees averaged $1.64 in 2006. You will almost always be charged if you use another institution's ATM.

Stop Payment Fees. When you change your mind about paying, you have the right to stop payment on any check you write. You must make the stop payment before the check reaches the bank. Be sure to allow the bank reasonable time to carry out your request. There is usually a charge for this service. Be prepared to give the bank complete information about the check—banks rely on computers to find the check and place the stop order on it. You should also be prepared to defend your actions to the person or company to whom you issued the check. There may also be a charge by the company if their policy states that charges apply for a check returned for "any reason." The stop order is usually valid for six months. After that, the holder may attempt to cash the check again.

Overdraft Protection. Does the bank offer overdraft protection? If you write a check for more money than you have in your account, what happens? You may be able to link your checking account to a savings account to protect yourself. Interest rates on overdraft services are very high and many financial institutions will still charge nonsufficient fund fees (NSF) to your account in addition to any interest charges that accrue. Financial institutions usually charge $25.00 to $35.00. They may pay the check or honor the debit and overdraw the account, or they may not honor it at all but will still charge you the NSF fee. Ask about availability, cost, type of overdraft protection, and repayment plans available. Bounced check laws vary by state and can range from a misdemeanor for small checks (less than $200 in some areas) to a felony for large checks. Generally, these laws are for people who repeatedly bounce checks. Yes, you can be put in jail for repeated, willful bouncing of checks.

Insured Account. Is the account protected by Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association (NCUA) insurance? Are your funds secure if there is an issue with the bank?

A/V **Slide 7:** Check Clearing and Funds Availability

Funds Availability: There are legal limits to how long a financial institution may delay a customer's ability to use deposited funds. Business days do not include Saturday, Sunday and federal holidays.

On the first business day after a deposit is made, the following is available:

- Cash.
- First $100 of check.
- Government, cashier, certified or teller checks.
- Checks written on the same bank to which the deposit is made.

On the second business day after a deposit, the following is available:

- Checks written on local banks.

On the fifth business day after a deposit, the following is available:

- Out of town checks.

A/V **Slide 8:** Clearing Procedures, Check 21

The new Check Clearing for the 21st Century Act (often referred to as Check 21) allows banks to clear checks electronically instead of exchanging actual paper checks. Banks no longer have to return original checks with your monthly statements or even when there is a problem with a particular check. Check 21 creates "substitute checks" which you can use as legal representations of the originals. Ordinary check images, which some banks have provided for years, are NOT substitute checks. It has always been a good idea to get canceled checks with your monthly statement. Now you will want "substitute checks" each month. Banks usually take at least a day or two to process paper checks, but electronic processing can happen almost immediately. This means you have less "float" time between when you write a check and when the money is actually taken out of your account. This could increase the chance that one of your checks will bounce due to insufficient funds. Having your employer deposit your paycheck directly into your account can help you cope with the change in "float" time. Quicker clearing also means less time to stop payment on a check.

A/V **Slide 9:** Expensive Mistakes

Some of the mistakes made with checking accounts can be costly. Some of these are common reasons why you may find it difficult to balance your checkbook, others are actually illegal, and you can be prosecuted.

Not Subtracting ATM Fees or Service Charges: You account for any fees incurred and record them in your register. In addition, must read your monthly statement to make sure it matches what you have recorded in your transaction register.

Post-dating Checks: Post-dating checks can be risky if you ask someone to hold a check and he or she cashes it anyway. Banks will pay the check immediately of there are sufficient funds; otherwise, the check will be returned and result in the loss of NSF and returned check charges.

Splitting Check Pads between Joint Account Holders: Make sure both parties involved know the status of the account. Maintain a central transaction register and use duplicate checks for ease in remembering to whom the check was written.

Writing Checks Before the Money is in the Bank: This can could be considered check "kiting"—make sure money is always in the bank when you write a check. The check may clear sooner than you expect and be returned. "Kiting" occurs when you have two accounts at two separate financial institutions and write checks to deposit money back and forth when you have no funds in either account—risky business and definitely illegal.

Not Balancing the Monthly Statement: This is important to do this every month so you will know what charges were incurred during the month, what deposits/withdrawals were made, and the month-end balance. The only way to detect errors, either yours or the financial institution's, is to balance your statement. If you ask a millionaire what is going on in the latest television craze, they probably cannot tell you, but their checkbook is balanced.

Not Recording Checks Written or Debits made in the Register: As mentioned before, the checkbook register is one of the most important parts of checking account management. Accurate record-keeping is vital to maintaining a good account. Financial institutions can give updates over the phone if there is a question about a check, but most have converted to automated systems and prefer that you use them. You may want to consider duplicate checks to avoid this problem.

Addition or Subtraction Errors: If you balance your checkbook manually follow up by using a calculator. Some checkbook covers even include a calculator for this purpose.

Omitting Automatic Deductions: If you have payments arranged on automatic deduction, be sure to know the date the payment is deducted from your account and record it in your register. Tip: record these on the same day you record your salary.

A/V **Slide 10:** Couples and Money Management

If you are married, or sharing financial accounts with someone, you will need to decide who will have primary control of the checkbook. Both individuals should know how to write and record account transactions (checks, check cards, debit cards, deposits and withdrawals) and balance the account. Again, splitting a pad of checks is not recommended due to the problem of recording the checks in a common register. This is generally a bad idea!

Some couples opt for having separate checking accounts with each person having responsibility for different bills. Other couples have three accounts, one for each person and their individual money and bills, and a third that they both put money into and from which they pay joint household bills. Based on your service in the military, you will have some unique banking needs. Deployment is a specific example. The deployed individual may have trouble with stores accepting out-of-state checks and the distances

involved can make it difficult to keep a joint account balanced. Military couples may want to consider having more than one account:

- A primary account to be used for the normal at-home expenses.
- A second account for the deployed spouse. You can set up an automatic transfer to this account from the main account.
- Use the split pay option—designate a portion of your pay to be deposited to the ATM on board ship.

Remember that your military paycheck must be deposited via DDS, so you must have an account somewhere in order to receive your pay. The key to successful money management for couples is finding the right system that works for them and that is done through communication. Talk to your partner and decide on the best method for the two of you to manage your checking account.

A/V **Slide 11 :** Check, Debit and ATM Cards

A **Can and Cannot Do** (5–10 Minutes)

Materials: Flipchart or whiteboard and makers.

Allowing participants to work in groups, ask them to define the following terms and list what they can and cannot do: 1) Check Cards; 2) Debit Cards; 3) ATM Cards.

Using a flipchart or whiteboard, write the three headings across the top: 1) Check Cards; 2) Debit Cards; 3) ATM Cards. Allow the group leader, or various members of the group to contribute factors of what each card can and cannot do. Review responses as a group, adding any additional information not mentioned by the groups.

Summarize the exercise by providing the following information: A check card usually looks like a credit card but it is tied to your checking account. You can use your check card just like you would a check. Any time you use a check card, the transaction is almost immediately deducted from your checking account. When you use it for a purchase, the transaction is referred to as "POS" or "Point of Sale" transaction and will show up like that on your account statement. Some financial institutions offer a check card/debit card combination. It will have a Visa or MasterCard logo on the front.

Debit and ATM cards are another way to access your checking and/or savings accounts. With the debit or ATM card and a PIN (Personal Identification Number) you can use an ATM to withdraw cash, make deposits, or transfer funds between accounts. Some ATMs charge a fee if you are not a member of the ATM network or are making a transaction at a remote location. Retail purchases can also be made with a debit card.

Again, you must have a PIN and/or sign for the purchase. Many retailers will give you the option of getting "cash back" when you use a debit card. Like the check card, the money is almost immediately withdrawn from your account when you use a debit or ATM card.

Slide 12: ATM Safety

Your ATM card provides a convenient method of withdrawing funds from your checking or savings account and making deposits. While you can obtain balance information with your ATM card, it is not reliable and should not be used to verify your register balance. ATMs are very convenient to use overseas. They are usually less expensive than the fee charged to change money at other locations.

ATMs and ATM cards are great tools for money management, but if you do not manage them wisely you can get into trouble. Remember these tips:

- Limit ATM use to those machines that are in enclosed locations with adequate lighting.
- If possible, visit ATMs with a group of friends, and use the machine at a popular time.
- Sign the back of your ATM card as soon as you receive it.
- Memorize your PIN number and do not give it to anyone. Do not write your PIN number on your card or keep the number in your wallet.
- Be aware of people around the ATM. Do not let anyone watch you enter your PIN number.
- Put your money away safely before exiting the ATM area.
- Keep track of all of your ATM transactions. When you take money out of the ATM it DOES come out of your account.

Slide 13: Online Banking Services

Online banking has become a regular service offered by most financial institutions allowing you to conduct banking transactions over the Internet using a personal computer, mobile phone or PDA. These services can be particularly valuable to military members who travel and move often. Access to online services is established with your bank or credit union. They will provide you with an access or log-in number, help you choose a password, and show you how to access the services. Typical round-the-clock online banking services include:

- Accessing a listing of all accounts and balances.
- Transferring funds between accounts.
- Applying for loans and credit cards.
- Purchasing Certificates of Deposit.

- Receiving and paying bills via online bill-paying services.
- Downloading account information directly into personal finance software.

Slide 14: Managing Your Money Online

The Internet offers the potential for safe, convenient new ways to shop for financial services and conduct banking business, any day, any time. However, safe online banking involves making good choices—decisions that will help you avoid costly surprises or even scams.

Confirm that an Online Bank Is Legitimate: Whether you are selecting a traditional bank or an online bank that has no physical offices, it is wise to make sure that it is legitimate and that your deposits are federally insured. Read key information about the bank posted on its Web site. Most bank Web sites have an “About Us” section or something similar that describes the institution. You may find a brief history of the bank, the official name and address of the bank’s headquarters, and information about its insurance coverage from the FDIC. Protect yourself from fraudulent Web sites. Watch out for copycat Web sites that deliberately use a name or Web address very similar to, but not the same as, that of a real financial institution.

Verify the Bank’s Insurance Status: To verify a bank’s insurance status, look for the familiar FDIC logo or the words “Member FDIC” or “FDIC Insured” on the Web site.

Keep Personal Information Private and Secure: Starting July 2001, banks are required to give you a copy of their privacy policy once you become their customer, regardless of whether you are conducting business online or offline. You may also see a copy of it posted at the bank’s Web site. By reviewing this policy you can learn what information the bank keeps about you, and what information, if any, it shares with other companies. Banks may want to share information about you to help market products specific to your needs and interests. If you do not wish to participate in information sharing, however, you have the right to prevent your bank from sharing your private personal information with parties not affiliated with the bank, except in certain limited circumstances.

As of July 2001, your bank should provide a clear method for you to “opt out” of this type of information sharing. You may have heard that some companies track your Web browsing habits while at their site, to understand your interests and then to market particular services or promotions. You may want to ask whether your bank tracks your browsing habits if these practices concern you. Also, your Web browser may enable you to block the ability of outside companies to track your browsing habits. Your bank and your Internet service provider may have more information about how to protect your privacy online. The Internet is a public network. Therefore, it is important to learn how to safeguard your banking information, credit card numbers, Social Security Number and other personal data. Look at your bank's Web site for information about its security practices or contact the bank directly. Also learn about and take advantage of security features such as encryption and PINs.

Use a System for Tracking Your Transactions: If you move money out of your checkbook, keep your register current. When you make a transaction online you will be given a confirmation number. Be sure to record all of these numbers, the date of the transaction, and a description of the transaction, so you can match it up with your bank statement when it comes in.

> **NOTE** Reinforce the concepts of safe computing, identity theft, and filing a complaint which can be found on the handout *Sources of Help for Military Consumers* when discussing online banking.

Know Your Rights as a Consumer

Know Where to Complain

NOTE For more information on federal banking regulations, log on to the FDIC's Consumer Rights Web page. If you would like to review the regulations, you can look them up at www.federalreserve.gov/regulations.

A/V **Slide 15:** Where to Complain

HO *Banking and Financial Resources Handout*

If you have a dispute with a bank, you should handle it as you would any other consumer complaint—start with the bank. The bank has a chain of command for handling complaints. Banks listen to your complaints because if you move your money to another bank, they lose money. Here is the chain of command that you should follow:

- Customer Service Representative.
- Branch Manager (if it is a branch).
- Bank President.
- Bank Regulator: If you know your bank's primary regulator, you may file your complaint online or via email.
- FDIC and other agencies.

If you still have a complaint, there are a number of federal, state and local agencies listed on the *Banking and Financial Resources Handout*.

A/V **Slide 16:** Consequences of Financial Mismanagement

In addition to embarrassment, there are a number of negative results of poor checking account management and financial mismanagement in general. Consequences range from personal to professional.

Hefty Service Charges: Mistakes are usually accompanied by fees and service charges that can leave you further in the financial hole.

Impact on Military Career: Financial mismanagement in general affects consideration for reenlistment, retention, duty assignments, special programs, promotions, security clearances and discharges. Depending on the severity of the charge it could qualify for punishment under UCMJ Article 123a and 134—with a maximum punishment ranging from dishonorable discharge to five years confinement at hard labor or Other Than Honorable (OTH) Discharge.

Reported to CRA: Bounced checks may be reported to a Credit Reporting Agency (CRA) and included in your credit report. When potential lenders or creditors look at your credit report to decide whether to loan money or advance credit to you, they will see the bounced check report and it will have a negative impact on their decision. Future employers also have access to this information.

Impact on Future Checking Accounts and Credit Purchases: You may suffer an inability to have an account because of unsatisfactory record with CheckCorp or other electronic check verifying companies. This may also affect your ability to secure credit for future purchases.

A/V **Slide 17:** Changing Financial Institutions

A Bank of You (10 Minutes)

Materials Needed: Flipchart Paper, markers, Post-Its, masking tape

Break participants into small groups of four to eight learners. Allow teams to work at a table or in an area of the room with a sheet of flipchart paper taped to the wall.

Instruct teams that they are creating a bank that markets their services to the military. Ask them to come up with a name of their bank and write it at the top of the paper. Writing directly on the flipchart or using post-it notes, have participants list the services they would provide to make their bank marketable to a prospective Navy customer. Allow participants about five minutes to write their responses. Then ask participants to walk around the room and look at the flipcharts for the other group's "banks" and the services they provide. Instruct them to write any additional ideas they have for their bank on the post-it notes and add it to their list. Review and debrief by selecting a group leader to communicate one or more of the features or services of the team's "bank."

The time will come when you will transfer and move out of the area and may need to change financial institutions. From this exercise, you should have gathered ideas about what to look for in terms of meeting your needs as a military customer.

Some additional advice for changing financial institutions:

- *Do not close your old account until you have opened a new one*—otherwise, where will your DDS go during the time you have no account? Wait until you get to your new duty station to shop for your new institution and open your account.
- *Check out the federal credit unions on your new base for a great deal*. Then, when you have your new account, change your DDS to the new account. Do not close your old account until you get your first DDS into your new account. Be mindful of any other payments that you have coming out of your old checking account, such as automatic car payments. When you switch financial institutions, you will want to have those automatic payments coming out of your new account as well. Be sure to arrange that with the new bank once you are sure they are receiving your DDS.
- *An option you may wish to consider, if eligible, is opening an account with a large military-affiliated bank or credit union that has branches and ATMs worldwide*. This will allow you to utilize the same checking account throughout your career and avoid the potential pitfalls of account switching.

A/V **Slide 18:** Sources of Help

There are other sources of help available to you that are not available to people who are not in the Navy or another armed forces branch:

- Command Financial Specialist.
- Fleet & Family Support Center Financial Education Specialist.
- Navy Legal Services Office (NLSO).
- Armed Forces Disciplinary Control Board.
- Navy-Marine Corps Relief Society.

Million Dollar Sailor
Module Nine: Banking and Financial Services

Participant Notes Page

1. Financial products and services provided by most credit unions and banks include:

2. Three practical strategies associated with electronic banking are:

3. Factors to consider when determining an appropriate banking institution:

4. Consequences for bounced checks include:

   Civilian

   Military

   Legal

5. Three sources of help for banking issues include:

Terms of Banking

1. Check
2. Check Card
3. Credit Union
4. Investments
5. Overdraft Protection
6. Service Charges
7. Check Endorsements
8. Command Financial Specialist
9. Debit Card
10. Joint Checking Account
11. PIN
12. Checkbook Register
13. Common Checkwriting Errors
14. Individual Checking Account
15. Online Banking
16. Point of Sale

_____ A promise to pay.

_____ The ability to log on to the Internet an access your account, check account balances, transfer money, and even pay bills electronically.

_____ Blank, Restrictive and Special.

_____ Tied in to your checking account, transactions are deducted from checking at the time you use it.

_____ Illegibility, empty spaces, not signing, using a pencil.

_____ A non-profit organization that is owned by its members.

_____ Used like a check, money is taken from your account at the time of sale and deposited in the retailer's account. Some require a PIN.

_____ Only one person is responsible for the account.

_____ Make an entry in this every time you use your account: deposits, withdrawals, ATM transactions, checks, etc.

_____ Money is taken from another source (savings, line of credit, etc.) and deposited into your checking account to cover checks written on it.

_____ Money put into these at a credit union or bank that is NOT insured.

_____ More than one person is responsible for the account.

_____ Often shown as "POS" on your bank statement, this is a purchase for which you use your check or debit card.

_____ The person at your command who has specialized financial education just so he or she can help you with your money management.

_____ Make sure and safeguard this number, it is used when you use your ATM, debit or check card, or to access our accounts online.

_____ Various fees you pay the financial institution to have an account.






Banking And Financial Services Resources

- **Command Financial Specialist.**
- **Fleet and Family Support Center.**
- **Navy Legal Services Office.**
- **Armed Forces Disciplinary Control Board.**
- **Navy-Marine Corps Relief Society.**
- **The Consumer Action Handbook at www.consumeraction.gov.**

State chartered banks and trust companies that are members of the Federal Reserve System are covered by the Federal Reserve System: **Division of Consumer and Community Affairs Board of Governors of the Federal Reserve System** 20th & C Streets, NW Washington, DC 20551 202-452-3693 (Complaints Only) 202-452-3204 (Public Affairs) TTY: 202-452-3544 www.federalreserve.gov	State chartered banks that are members of the Federal Reserve System are regulated by the Federal Deposit Insurance Corporation: **Division of Supervision and Consumer Protection Consumer Response Center** 2345 Grand Blvd., Ste. 100 Kansas City, MO 64108 703-562-2222 (Virginia Residents) Toll free: 1-877-ASK-FDIC (275-3342) TTY: 1-800-925-4618 (Toll free) Fax: 816-234-9060	State chartered banks are also regulated by state banking authorities. See the Consumer Action Handbook at www.usa.gov for a complete listing of state banking authorities.
Banks with National in the name or N.A. after the name are regulated by the Comptroller of Currency, U.S. Department of the Treasury: **Comptroller of the Currency Customer Assistance Group** 1301 McKinney St., Ste. 3450 Houston, TX 77010 Toll free: 1-800-613-6743 www.occ.treas.gov	Federal savings and loans and federal savings banks are regulated by the Office of Thrift Supervision, Department of the Treasury: **Office of Thrift Supervision Compliance Policy** 1700 G St., NW Washington, DC 20552 202-906-6000 Toll free: 1-800-842-6929 www.ots.treas.gov	Federally chartered credit unions are regulated by the National Credit Union Administration: **National Credit Union Administration** 1775 Duke St. Alexandria, VA 22314-3428 703-518-6300 Toll free: 1-800-827-9650 (Fraud Hotline) Toll free: 1-800-778-4806 (Inspector General Hotline) E-mail: pacamail@ncua.gov www.ncua.gov






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Million Dollar Sailor

Wealth Building

Module Ten: Wealth Building: Saving and Investing/Retirement Planning

Module Length: 120 Minutes

Module Description:

Becoming a Million Dollar Sailor on a military paycheck is an attainable goal. In order to have our money earn more money and help us reach this goal faster, we must save, invest and plan for retirement.

The Million Dollar Sailor Wealth Building Module is divided into two parts: 1) Saving and Investing and 2) Retirement Planning. Saving and Investing is designed to develop knowledge and skills that will enable participants to save and invest effectively to achieve their short-term and long-term financial goals. Retirement Planning is designed to help the Sailor estimate retirement needs and explore investment options.

Learning Objectives:

Upon completion of this two- hour module, participants will be able to:

- Name at least three financial tools that can be used for short-term savings.
- Name at least three financial tools that can be used for long-term investing.
- Define the concept of compound interest and explain its benefit to the small investor.
- State three elements of a sound investing plan.
- Demonstrate how to calculate retirement needs.
- State the benefits of multiple retirement options including Traditional and Roth IRA's and the Thrift Savings Plan.

Materials Needed:

- Computer/Internet and PowerPoint Projector
- MDS Wealth Building PowerPoint Slides
- Optional Excel File—Compound Interest and Time
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper
- Calculators
- Handouts:
  - *The Financial Planning Pyramid*
  - *Compound Interest and Time*

- *Investing Resources*
- *Get a Ballpark E$timate® for Your Retirement Needs*
- *Military Retirement Pay Plans*
- *Thrift Savings Plan*
- *Module Ten Participant Notes Page*

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A/V **Slide 1:** Wealth Building

HO *Module ten Participant Note Pages*

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

So far we have spent the majority of the training discussing how to better manage our money, use credit wisely and protect our assets. All of these topics are critical to financial freedom. But we also need to be proactive in making our money work for us and for our future. To become a Million Dollar Sailor, we do not want to earn just enough money to get by; we want to build wealth that will provide us with a good life for the future. We need to save and invest.

Saving and investing generates many different emotions for people. For some it gets their juices flowing, but for others, it makes them feel nervous and overwhelmed. But, in addition to a good money management plan, you need a plan for your money to earn more money. Giving up your daily four-dollar latte may balance your budget, but it will never earn you a million dollars until it is invested. It is like trying to win at sports by only playing defense. You need to play to win. Millionaires play the game of money to win, while non-millionaires play the game of money "not to lose."

It is possible to become a millionaire on a military paycheck because today's investment marketplace offers many advantages to the small investor. This module explores how you can build wealth and achieve financial freedom.

A/V **Slide 2:** Agenda

What Does It Take to Be a Millionaire?

Everyone wants to know the secret to becoming a millionaire. Many books, Web sites and training materials have been devoted to the topic. But the secret to making a million dollars is not really a secret at all. It involves more common sense and discipline.

Starting Early: Most of you sitting here today have one of the biggest advantages of saving and investing already in your corner: your age.

Starting early is one of the most influential factors in making money. You can be a millionaire if you start early and make smart choices (and avoid impulsive ones). You will reap a larger financial reward with a smaller initial investment the earlier you start.

Compound Interest: Starting early allows you to take full advantage of compound interest. Compound interest is when your initial investment plus time and interest yields more money at a certain rate of return. It is the magic ingredient to saving and investing.

Building Sound Plan: Reaching your financial goals does not happen by accident. It involves building a strong financial plan consisting of savings and investments that you fully understand.

Investing for Long Term: The best way to get rich is to get rich slowly. When it comes to wealth building, perseverance wins. Sprinters do not. Most "get rich quick" plans are based on a lie or an undisclosed risk. True wealth-building is hard and it takes time. If it were easy, everyone would do it, and everyone would be rich.

A/V **Slide 3:** How to Make a Million by 60

What does it take to make a million dollars? Are you on the right track to reach this goal by the time you retire? How much would you need to start putting away each month to make a million dollars based on your age?

You will not make a million dollars by starting to save when your car is paid off, when you make rank or when your kids get out of diapers. Making a million dollars is not just a matter of math, but a matter of time. The earlier you start to save and invest, the less you need to put away. Take a look at the example provided on this slide.

Let us say that you waited until age 45 to start saving for retirement. If your goal was to have $1 million by age 60, you would need to put away well over $2000 a month or $87 per day. If you started at age 35, you would need to put over $800 per month or nearly $30 per day, which is still a lot of money. At age 30, you would need to put away about $500 per month which equates to about $17 per day… okay getting easier. Better yet, at age 25 you would need to put away about $300 per month or about $10 per day.

Finally, at age 18, to make a million dollars by age 60, you would need to save about $155 per month or approximately $5 per day. Think about it. What could you do today to put $5 back in your budget? You could be a million dollars richer by investing the amount it costs to buy a gourmet cup of coffee, a pack of cigarettes or by packing your lunch if you do it consistently.

You can always learn more about financial management and you can always invest more in your future, but the one thing you cannot do is turn back time.

Becoming a millionaire might not be a financial goal for everyone, but the Social Security Administration recommends that the average middle-aged person today will need at least one-half million dollars of their own money in order to retire comfortably. This figure is in addition to their Social Security benefits and any employer-provided pensions.

Slide 4: Compound Interest

As we mentioned in the beginning of the Million Dollar Sailor program, compound interest is a critical factor in building wealth. Along with starting early, compound interest is the key to making your money grow like a snowball rolling down hill. The money you earn in interest is added back into the principal that continues to generate more interest. Compound interest is different from simple interest, where the interest is not added to the principal (there is no compounding). The only way to overcome taxes and inflation is to put the power of compound interest and time to work with a long-term, disciplined investment plan. If you do not earn interest at least at the rate of inflation on your investment, then you are losing money every year.

Slide 5: Compound Interest

Compounding

Here is one more example of how much money can grow over time. Saving $100 monthly, without interest, will equal $36,000 over thirty years. The same amount accumulating at five percent interest will grow to about $83,673. This amount with a ten percent rate of return grows to over $228,033.

This example, along with earlier examples, shows again that the greater the rate of return and the longer your money works for you, the more you will eventually earn. Compound interest is a powerful force.

Compound Interest and Time: Rate of Return = 10 Percent

Refer participants to the *Compound Interest and Time: Rate of Return = 10 Percent* handout. This form shows four different Plans to earn money (or increase wealth).

Optional: Explain the significance of compound interest as it is shown in the four plans on the handout. In the first column:

Plan A: Every year, for six years $3,000 is put away (a total of $18,000 out-of-pocket) starting at 21 years old. Without ever saving another cent, if the money were left to grow at ten percent per year with no withdrawals, the plan would amount to over $1 million by age 65.

Plan B: This plan shows the result of a ten year delay in the same investment. Rather than investing $3,000 for six years starting at age 21, this scenario starts at age 31. For the same out-of-pocket expense the total will end up being $403,898. That ten-year delay cost $600,000!

Plan C: This plan shows what the investments would add up to if, at the 31 year point, the investor put away $3,000 a year every year up to age 65, a total out-of-pocket expense of $105,000. Will it equal Plan A? No, the return in this scenario would be $894,380.

Plan D: This plan shows an investment of a $30,000 lump sum over three years ($10,000 per year), starting at age 36. The growth would amount to a total of $477,335.

A/V **Slide 6:** Spending the Nest Egg

Powerpoint TIP The "spent" opportunity cost growth appears on the PowerPoint Slide three successive mouse clicks.

There is a difference, however, between what an investment can do on paper and what investors do in real life. Unfortunately, when some people see their money begin to add up they feel a temptation to spend. Using the above example, what if after five years of saving the investor decided to use the $7,800 that had grown (at ten percent) to buy a car? Continued investing at the same rate would only grow to $133,889 instead of the $228,033 if *all* the money had been left to grow. In other words, you could say that the car did not cost you $7,800, but $94,144 when you account for the lost growth. The message? Compound interest only works when you use it. Save regularly and leave it alone to grow.

NOTE Refer participants to the *Financial Planning Pyramid*.

A/V **Slide 7:** Building a Solid Financial Plan

As we discussed in Module Three, Millionaire Money Management, building wealth starts with having a sound financial plan, such as that which is modeled in the *Financial Planning Pyramid*. The *Financial Planning Pyramid* suggests that the foundation of any good financial plan be made up of adequate compensation (meaning not just your pays and allowances, but taking advantage of ALL of the benefits that come with being in the Navy), and some method for controlling spending—a budget or spending plan—which includes the wise use of credit. In addition, everyone needs some insurance protection (life, health, property, disability and/or liability). Insurance is not designed to make you rich but to keep you from becoming poor (protect against financial loss) in the event of an accident or disaster. In other words, if you need protection, buy insurance—if you want to build wealth buy an investment product.

Once the needs at the base of the Pyramid are met, an effective and systematic savings and investing plan should be implemented.

Slide 8: Saving versus Investing

NOTE Refer participants to the *Financial Planning Pyramid*.

How does investing differ from savings? They differ in the time-frame in which the money is needed, in the higher risk associated with investment tools, in the impact of inflation and taxes on investment earnings, and in the significant effect of compound interest and time.

Time Frame: It is most appropriate to use savings tools for short term financial goals—money to be used in five years or less. If the money is needed for a goal in five or more years, investment tools that offer the potential for a higher yield are the best option. This is because in the short-term, money that is placed in investment tools is subject to market fluctuations, and the investor has a higher risk of losing money. The longer your investment horizon (the distance from making the investment to using the investment), the better your ability to lower some of the risk of market fluctuations.

Risk: There is risk involved in every type of investment tool. These risks differ, depending on what investment product is used. Many people never invest their money because they are afraid of losing any of it—they do not want to take on any risk whatsoever—so they keep all their money in a low-earning savings tool. Unfortunately, doing that may mean they will never achieve their financial goals because they never take advantage of the bigger earnings available in the investment market. Some risk can be minimized through diversification (not putting all your money in one investment type), which will be addressed later. Some risk can also be minimized by investing for the long term, as discussed above. In fact, the riskiest thing you can do with your money is to do nothing at all. Risk is not something to be feared, but to be managed. Among the most common types of risk are:

Physical Risk: Theft, loss of principal.

Market Risk: The ups and downs of the stock market. This is what most people think of when they consider the risks of investing. If an investment goes down in price, you have lost money at that point (assuming you have sold). However, market risk is often reduced when money is in a sound investment over long periods of time. Savvy investors will often invest more of their money when the market is “down” in value, because they see it as a big sale, and what could be a better time to buy than when a sale is in progress?

Interest Rate Risk: The price of some investments fluctuates with changes in interest rates, particular fixed-income investments.

Inflation: Inflation is an increase in the cost of goods and services. Inflation means that what costs a dollar today will cost more than a dollar in the future; for example, $100 in 1982 had the same buying power as $220 in 2008. In 2008, the rate of inflation, also referred to as the Consumer Price Index (CPI), was $215.3. Historically, the Consumer Price Index, has averaged 3.4 percent over the last 93 years. Inflation risk is probably the greatest risk to your money over the long term. In order to keep ahead of inflation in your long-term savings/investments, you will need to accept a greater degree of other risks. An annual inflation rate of only 3.5 percent will cut the value of your money in half in 20 years.

U% For updated statistics on the Consumer Price Index, look for the CPI tables found on the Web site for the Bureau of Labor Statistics at www.bls.gov/CPI.

Taxes: Along with risk and inflation, taxes become a bigger consideration when working with investment tools, and therefore provide another difference between saving and investing. Taxes are calculated differently depending on the type of investment account opened and the length of time the investment is held.

Compounding: We have already seen the effect of compound interest and time and its effect on your investment.

NOTE Refer participants to the *Financial Planning Pyramid*.

A/V **Slide 9:** Savings Plans

After working on the Management Level of the Financial Planning Pyramid, savings becomes the next critical step towards financial security. Not until savings are established, especially emergency savings, should you move on into the investment levels.

The Financial Planning Pyramid shows that a sound savings plan consists of three components. These do not need to actually be three separate accounts (although some people find it easier to keep the money separate that way) but should be three separate "accountings."

Emergency Fund: These are cash reserves set up in a safe, easy-to-access savings account to provide money for unexpected financial emergencies like emergency leave to visit a sick parent, repairs on the car, etc. The amount in the emergency fund is an individual decision, but a commonly used guideline for military members is to have one to three months of expenses set aside. Should you plan on getting out of the service, three to six months is recommended.

Reserve Fund: Money should be available in savings to cover those expenses which are predictable but which do not occur on a monthly basis, such as car insurance, regular maintenance, taxes, birthdays, anniversaries, and holiday spending. To average the cost of these events over the period of a year, calculate the annual expense and divide it by 12, and put that amount aside monthly.

Goal-Getter Fund(s): The purpose of this fund is to provide savings for short-term goals (money needed in less than five years) such as buying a car, putting a down payment on a house, or financing a special vacation.

A/V **Slide 10:** Saving Tools

What do you put your money "in" when you are filling up your savings funds? Typically you will use some type of savings tool. Before discussing the different types available, though, it is important to understand the three main factors used to evaluate the appropriateness of a saving or investing tool (or "product"). These factors are safety, liquidity, and yield.

Safety: This is the uncertainty that when you save and/or invest one dollar you will get at least your dollar back. Is the account insured? How safe is the principal? Some products guarantee you will get your money back, others do not… you could lose some or all of what you invested.

Liquidity: This is how quickly and easily you can access your money. Some money is available immediately, such as money in a savings or checking account. Other money could take a long time to get at, such as equity in a real estate investment.

Yield (or Rate of Return): This is how much money your money earns (i.e., the rate of return). Some financial tools, like a savings account, usually have a low rate of return, while others, like a growth stock, have the potential for high returns.

When considering the **"S-L-Y"** factors it is important to know that you can never have all three factors working in your favor—there will always be a trade-off. Which trade-off you are willing to settle for will depend on your goals and timeframe. For example, for your emergency fund, safety and liquidity will be most important, so you will have to sacrifice some yield.

There are four options for savings: savings accounts, certificates of deposit, money market accounts, and U.S. Savings Bonds. Go to your local credit union or bank to open a regular savings or share savings account. Each should be evaluated in view of safety, liquidity, and yield.

Regular Savings Accounts or Share Savings Accounts:

Safety—Guaranteed up to $250,000 (per Social Security Number) if federally insured.

Liquidity—No restrictions on withdrawals.

Yield—Generally carry lowest rates of interest *(Current rate: 1.04%, January 2009*).

Updated statistics on interest rates and yield can be found at www.bankrate.com.

Certificates of Deposit (CDs) or Time Deposits: A deposit of a fixed sum of money for a fixed period of time. Go to your local credit union, bank or brokerage to purchase a CD.

Safety—Guaranteed up to $250,000 if federally insured.

Liquidity—Funds are invested for a fixed period, usually six months to five years. CD's may be liquidated at any time, but if it is prior to the maturity date you may incur a penalty or forfeit some interest.

Yield—Higher than savings deposits; the longer the term, the higher the yield (*Current rates for six months: 1.96%; one year 2.35%; five years 2.80%, January, 2009)*. Minimum deposits (usually at least $500) are required. Often called share certificates at Credit Unions.

Updated statistics on interest rates and yield can be found at www.bankrate.com.

Money Market Accounts (MMA): An interest-earning savings account offered by FDIC-insured institutions, with limited transaction privileges. Go to your local credit union, bank, or a brokerage to open a money market account. Remember that many brokerages may help you open a money market FUND account, which will not be insured. For savings purposes, an insured money market ACCOUNT is appropriate.

Safety—Safe, but may not be federally insured, depending on where the account is maintained. A money market deposit account at a bank or credit union should be insured up to $250,000 per account. A money market account held at a brokerage or through a mutual fund will typically not be insured at all.

Liquidity—Generally, there are no restrictions on withdrawals. May be a large minimum deposit required, a required minimum balance, fees for withdrawals, and/or limited check-writing privileges.

Yield—Generally low, but higher than regular savings. Varies with changes in interest rates. May be attractive if rates are rising rapidly (C*urrent rate 1.86%, January 2009)*.

Updated statistics on interest rates and yield can be found at www.bankrate.com.

US Savings Bonds—EE and I: Series EE Savings Bonds are purchased for half of their face value, and the value of the bond builds up over time to achieve full face value ("Original Maturity"). For example, an EE Bond with a face value of $100 is purchased for $50. It is guaranteed to reach its

face value in 20 years. Note: I-bonds are purchased at full face value, and grow with inflation-indexed earnings for up to 30 years.

Safety—Guaranteed by the U.S. Treasury.

Liquidity—Can be redeemed after 12 months, but receive a three-month interest penalty if held for less than five years.

Yield for Series EE bonds: A fixed rate of return determined twice a year.
Yield for I-bonds: Yield is indexed for inflation and has two parts a fixed rate of return and a variable, semi-annual inflation rate.

U% Rates for US Savings Bonds can be found at www.savingsbonds.gov.

NOTE Refer participants to the *Financial Planning Pyramid*.

A/V **Slide 11:** The Tools of Investing

So far this program has considered the magic of compound interest and time, the management and savings levels of the financial planning pyramid, and the differences between saving and investing. We have also discussed some characteristics of both saving and investing tools, namely safety, liquidity and yield. Moving up the pyramid to the investment levels, one can see that various tools are available to help us achieve our investment goals. Remember, not until income is being managed and sufficient savings established, especially emergency savings, should you move on into the investment levels. We will now explore some of the more popular and useful tools available.

A/V **Slide 12:** Asset Classes

There are three main types of asset classes available to investors. An asset class is a group of securities that have similar characteristics, behave similarly in the marketplace, and are subject to similar laws. The three are equities (stocks), fixed-income (bonds), and cash equivalents (money market instruments). Everything else is a combination of these three.

When you invest in equity—when you buy a stock—you become an owner. When you invest in fixed-income—buy a bond—you become a lender. Often fixed-income securities are also referred to as “debt” securities, but this is good debt, the kind where people owe YOU money, not the other way around. A well-planned financial portfolio will have a combination of equities, fixed-income and cash, depending on investment goals, time-frame and risk.

The *Financial Planning Pyramid* lists some of the better known forms of equity and debt: stocks (equity), bonds (fixed income or debt), mutual funds (explained below), hard assets (things you can touch) such as real estate, gold or silver, and collectible items. Several of these are worthy of a more detailed discussion because they are the best investment tools for Sailors and their families.

Slide 13: Fixed Income: Bonds

Bonds: Companies and governments issue bonds to fund their day-to-day operations or to finance specific projects. When you buy a bond, you are loaning your money for a certain period of time to the issuer, be it General Electric or Uncle Sam. In return, bond holders get back the loan amount plus interest payments, which are usually distributed twice a year. Here is some specific information related to bonds:

- Bonds represent money owed to the investor—an IOU.
- Companies and governments, i.e., cities, states and federal governments, issue bonds.
- Bonds can be very safe (guaranteed by the full faith and credit of the U.S. Government), have a high risk of default (if a company is heading towards bankruptcy, etc.) or fall somewhere in between. The investor needs to research the "rating" of a bond to ensure you only buy ones that match your risk tolerance.
- Bond returns have averaged 3.7—5.5% over the past 81 years.
- Bonds are moderately liquid—chances are you will not get money out of a bond the same day you need it.
- Bonds have a fixed interest payment, so they usually provide a reliable stream of income.
- Bonds are typically purchased through a brokerage.

Slide 14: Equity: Stocks

Stocks: Common stocks are the classic equity investment. You can buy stocks in U.S. companies, foreign companies, large companies, small companies, companies that analysts think will grow (growth), and companies that analysts think are currently selling at a bargain (value). Here is some specific information related to stocks:

- Common stocks represent ownership in a company.
- Returns come from dividends and/or an increase in stock prices; dividends represent profits passed on to shareholders.
- Stocks have averaged an annual return of 10–12% for the past 81 years.
- Stocks can be purchased through a brokerage (online or in person), through an employer investment plan, or even directly from the company that sells the stock through a dividend reinvestment plan (DRIP).
- Developing an individual stock portfolio takes research and time. Financial experts suggest having 10 to 30 different stocks in a portfolio in order to be well-diversified.
- Stocks normally are the best long-term way to beat inflation and represent the best opportunity for long-term growth of your money.

Slide 15: Mutual Funds

Mutual Funds: Mutual funds provide an easy alternative to selecting individual stocks or bonds. A mutual fund is a company that pools money from many investors and invests in the different asset classes or some combination of them. The combined holdings the mutual fund owns are called its portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. Mutual funds make money for shareholders in several ways:

- The investments the fund owns may pay dividends (stocks) or interest (bonds).
- When the manager sells an investment for a profit, there will be a capital gain.
- There will be an increase in share price (Net Asset Value or NAV) if the fund performs well.
- Dividends and capital gains must be paid out regularly to the fund's shareholders.
- Many people choose to reinvest dividends and gains right back into their account. Whether they take the money or reinvest it, income tax must still be paid on the profits at the end of the year.

Here are some of the common types of mutual funds:

- Funds invested in the *stock market.*
- Funds invested in the *stock market and bond market.*
- Funds invested in the *bond market.*
- Funds invested in the *money market.*

Slide 16: Mutual Funds

Advantages:

Professional Management: An individual who invests in a mutual fund is actually hiring a professional money manager to research, select and monitor the performance of the portfolio.

Diversification: Mutual funds can offer automatic and immediate diversification. When you diversify, you put your money in a mixture of different individual securities; if one performs poorly, the others may make up for it. Diversification helps spread the risk and also the opportunity. This can be difficult to do for a new investor developing his or her own portfolio independently—it takes time, education, and larger investment amounts. Mutual funds make diversification easy and cost-effective.

Liquidity: Shares can be redeemed at NAV (plus any fees and charges) at any time.

Affordability: Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases or both.

Good for the Small Investor.

Disadvantages:

Costs Despite Negative Returns: Sales charges, annual fees and other expenses must be paid annually whether or not the fund makes money. Also, there is the possibility of having to pay taxes even when the fund performed poorly, depending on when the shares were purchased.

Lack of Control: The portfolio is determined by the manager, not the investor. The investor may not be able to determine the exact makeup of the portfolio at any given time.

Price Uncertainty: NAV may not be computed until many hours after a redeem order has been placed. Mutual funds generally calculate their NAV after the major U.S. exchanges close.

Not Insured: Mutual funds are not federally insured like deposits in a bank or credit union. You can lose your money.

Complex Records: Mutual funds can be complex when it comes to tracking purchases, sales and earnings over long periods of time. Keep all end-of-year statements.

A/V Slide 17:

Choosing a Mutual Fund: There are thousands of mutual funds out there—how do you choose one? You can narrow the field when choosing a mutual fund by looking at the following:

Your Goals and Objectives: The objective of the fund should match your objective. For example, if you just want your money to grow, go with a large "growth" fund.

The Fund's Performance History: Although past performance is not an indicator of future performance, sometimes it is all you have to go on. Look for a fund with good one-, three-, five- and ten-year returns. The returns should be at least as good as other funds in its category and its benchmark index.

Management: The manager's performance history and his or her length of time with the fund may help in the decision. The longer the manager has been with the fund, the more you can rely on getting the same returns the fund has gotten in the past.

Costs: There are costs to buying mutual funds. You can buy "no-load" funds, where no commission is charged, or "loaded" funds. A "load" is a sales commission you will pay to the person who sold you the fund. Loads can be as high as 8.5%, and can be assessed when the fund is purchased (front-load), or redeemed (contingent deferred sales charge or back-load). If you are going to buy a mutual fund with a load, be sure you are satisfied with the services of the person who is selling you the fund. Funds will also have **annual expenses** (you will not see them taken out of your account, but they affect fund performance.) All loads, expenses, and fees are disclosed in the fund prospectus.

Services: Many mutual funds are part of a larger organization (called a "family" of funds) which will offer many funds with different investment objectives. Investors may be permitted to transfer money to a different fund at little or no charge as their goals or investment outlook changes. Some funds allow withdrawals by check writing. Other services may also be available.

Buying a Mutual Fund: Mutual funds can be purchased through a full-service broker, discount broker, financial planner, a bank or credit union investment advisor, or directly and easily from a fund family via the phone and the mail. A financial service professional can provide both a prospectus and an annual report for a mutual fund. When dealing with a fund directly, the prospectus will be sent when you request information on the fund. It may also be helpful to consult additional sources of information on mutual funds prior to investing. A wide range of information is easily available and most of the information you need can be found by consulting rating services such as Morningstar or Lipper.

A/V **Slide 18:** Deciding Among Options

Summary on Investing

- Assets are neither good nor bad, but there are good and bad uses. Which investment is best for an investor depends on the time horizon, objective, risk tolerance and age.
- There is always the S-L-Y trade-off to consider. The higher the potential yield of an investment, the higher the risk (lower the safety). We already said you should always be prepared to lose money, but you should also expect a decent rate of return if you have done your homework. Do not invest money you cannot afford to lose.
- A well-balanced portfolio will contain a combination of asset classes (stocks, bonds, cash), and the stocks and bonds chosen should be diverse as well.
- For young people starting to invest, over long periods of time it is usually better to be an owner rather than a lender. Stocks have a higher return over extended periods of time than bonds and will

provide the greater opportunity for long-term growth. It should be clear that an investor can have higher potential earnings by putting money in the stock market than by putting it in bonds or in a savings product.

- Use bonds to receive a stream of income (very useful for those in retirement).
- Focus on the long term. Getting rich quick just does not work.
- Investing can be complex, but it does not need to be… there are several investment options that make investing easy almost to the point where it takes care of itself!

NOTE This is a suggested break point.

A/V **Slide 19:** Planning for Retirement

Saving and investing is important for many things in your future, but your retirement is probably the most important of them all. Although final retirement may seem like a very long way off, the earlier you start planning for it the easier it will be. In fact, the best time to begin planning for retirement is when you first start earning income, because that is when you begin to have access to some of the excellent retirement programs that are available, including employer-provided pensions, IRA's, and the Thrift Savings Plan. Also, the earlier you start saving for retirement the less you have to put away, because time is on your side.

When talking with people and their success or failure with money, it quickly becomes apparent that success is much less dependent on the amount of money but rather what they do with their money. In other words, financial success is about behavior more than it is about money. Individuals or families that fail financially do not plan to fail, but they do fail to plan. With just five basic steps, you can plan for a successful, worry-free financial future.

A/V **Slide 20:** The Five Basic Steps of Retirement Planning

This model shows five basic steps to take to ensure you meet your retirement goals. They are:

- Consider the factors.
- Calculate the income needed.
- Commit the appropriate amount to the appropriate tools.
- Reevaluate.
- Revise.

We will cover each one of these in detail in the information that follows.

Slide 21: Consider the Factors

Pre-Retirement Income: When trying to determine how much income you want during retirement, the best place to start is with your annual pay just before you retire, called your "pre-retirement income." Some experts say that it will take more than 70% of pre-retirement income to meet our financial needs in retirement due to the fact that we are living longer lives. Although this is a somewhat arbitrary number, the younger you are the more difficult it is to get a good estimate of retirement needs, so the guideline gives a great place to start. If you prefer, or if you are closer to retirement (within 10 to 15 years), you can get a more specific amount by considering your current expenses, estimating changes in expenses and income, accounting for inflation, and estimating fluctuations in expenses during retirement (like paying off a mortgage, etc.).

Retirement Date: The next step is to estimate a retirement date. When will you retire from earning income? Traditionally retirement has occurred somewhere between the ages of 62 and 67. These ages are based on when Social Security benefits become available. However, maybe you will not want to retire at all, but plan on continuing to earn some level of income as long as you can. Perhaps you will want to retire earlier, which would mean saving more in your younger years. In order to begin planning, you need to pick a retirement date. If the date changes over time, that is okay, because the last two steps in retirement planning are to reevaluate your plan and revise it as things change.

Life Expectancy: After considering the date of retirement, take some time to consider how long you might live, in other words, how long your money needs to last. Our continuing commitment to good health and long life has prompted some financial planners to plan all the way out to 100 years of age for some clients.

According to the Center for Disease Control (March, 2007), overall life expectancy has increased to 77.8, with the life expectancy of women being 80 and the life expectancy of men being 74.7. These numbers continue to go up as you age, since the older you live, the longer you are expected to live. For people who have reached the age of 65, the life expectancy increases for men to 81.8 years and for women to 84.7 For people who have reached the age of 75, the life expectancy is 85.5 years for men and 87.5 for women. We can use these statistics to make some logical assumptions about how long we might live.

Life expectancy tables can be found at the Web site for the Center for Disease Control at http://www.cdc.gov/nchs/fastats/lifexpec.htm.

Compound Interest and Time: Finally, as we have previously discussed, compound interest and time have a huge effect on your retirement plans. The total amount of your retirement investments will vary depending on what investment vehicle you chose, how much you invested and the age you started.

Slide 22: Sources of Retirement Income

Once you have determined when you want to retire and have considered all the relevant factors, you are ready to calculate the income you will need and how much you have to save each month (or year) to reach your goal.

Sources of Retirement Income: There are four sources of retirement income: Social Security, employer-provided pensions, your personal savings and investments, and earned income if you choose or need to continue working. Rarely does retirement income come from all four sources equally.

Earned Income: It is not necessary to spend a lot of time on this, as it is hoped that you will have enough other financial resources so that you can choose not to work if you like. Keep in mind, however, the statistic mentioned… 25% of 'retired' Americans are not really retired at all, they HAVE to work.

Social Security: Social Security remains an important part of retirement planning for most Americans. The age for receiving full benefits is now 67 years old for anyone born in 1960 or later. At least some Social Security benefits will be taxable for most military retirees. No matter the full retirement age, you may start receiving benefits as early as 62. Every individual should obtain a copy of his or her personal Social Security Benefits Statement as part of retirement planning. The Social Security Administration mails a copy to everyone around the time of their birthday. You may also request one by phone or by logging on to www.ssa.gov/retire. You can also get a rough estimate of your future benefits from this Web site, as well as general information about Social Security.

Employer-Provided Pensions: There are two general categories of retirement pensions that are provided as a result of employment: defined benefit plans and defined contribution plans.

Defined Benefit Plan: A defined benefit plan is the traditional company pension plan. It is called "defined benefit" because the ultimate retirement benefit is definite and determinable as a dollar amount or as a percentage of wages. To determine these amounts, defined benefit plans usually base the benefit calculation on a combination of years of employment, wages, and/or age. These plans are funded entirely by the employer and the responsibility for the payment of the benefit and all risk on monies invested to fund that benefit rests with the employer. The military retirement plan is a defined benefit plan.

Defined Contribution Plan: A defined contribution plan is a qualified retirement plan in which the contribution is defined, but the ultimate benefit to be paid is not. Contributions come from the employee and a portion may or may not be matched by the employer. In such plans, each participant has an individual account. The benefit at retirement depends on the amounts contributed and on the investment performance of that account through the years. In such plans, the investment risk may rest solely with the employee because of the opportunity to choose from a number of investment options. These plans take many forms and include 401(k) and 403(b) plans, and the Military Thrift Savings Plan.

Personal Savings and Investments: The final source of retirement income is what the individual has saved and invested for him or herself. Some retirement investments, such as Individual Retirement Accounts, or IRAs, have the added incentive of growing tax-deferred.

A/V **Slide 23:** Ball Park E$timate

A **The Ballpark E$timate (**20 minutes)

Preparation: Classroom Internet access and computers for all participants, or print paper copies of the *Ballpark E$timate* for all participants along with pencils and calculators. Download the most recent version of the Ballpark E$timate from www.choosetosave.org/ballpark/.

Procedure: Explain to participants that they will walk out of this session with at least a "ballpark estimate" of what they need to be saving for retirement so that they can get started right away. If they are already saving for retirement, the *Ballpark E$timate* will show them if they are on track to meet their goals. If time allows, you can read through the opening information on the estimate; but if time is short, go right to step one and walk participants through the calculations.

Have participants complete steps one through six of the worksheet. Remind them that the total amount in step six is an annual amount and that if they want a monthly amount they should divide it by 12. You can complete the steps as a group, or participants can do it individually while you circulate and provide help as needed.

When all are completed, ask the class how they did, if they found it difficult, and if they found it helpful. Ask if anyone wants to share how much they need to be saving to reach their goals. Commend everyone for taking this important step in retirement planning. Explain that it is a ballpark estimate and that as they get closer to retirement they should be able to zero in on more specific numbers. Suggest to the participants that they complete the *Ballpark E$timate* every few years or when they have significant life events such as a new job, new children, divorce, death, etc.

Slide 24: Committing to Your Goals

Once you know how much you need to save and invest, you must commit to the goal, both mentally and financially. Remember, financial success is rarely about the amount of money you have, and it is always about your behavior. So commit now to the behavior that will put you in command of your retirement.

Committing Mentally and Financially

Finally, think long and hard about the consequences of inaction. Talk to senior members of your command and ask them about their investing experiences. Ask trusted family members and friends about how they prepare for retirement. Chances are more than a few of them will tell you they wished they had started early. Delaying means having to dedicate a lot more money to your plan later in life. If you choose not to do anything at all, be assured that statistically things do not take care of themselves. Nearly 25% of retired Americans have to continue working to maintain a nominal standard of living. Social Security, although still a part of retirement planning, is a smaller and smaller part, and it is available later and later in life.

You have seen examples of the power of compound interest and time—you should also see the impact and importance of starting early. The earlier you begin to save and invest for a specific goal, the less you need to put away since compound interest and time will do the rest. Be sure to pay yourself first. This means paying from the TOP of your paycheck, not the bottom… make savings a priority. There are many tools for you to choose from. The easiest way to do this is to set up an allotment, or join the Thrift Savings Plan (TSP). This will establish a habit of regular, disciplined investments… now you are on your way to becoming a millionaire!

Slide 25: Thrift Savings Plan

What is the TSP?

The TSP is a retirement savings and investment plan sponsored by The Federal Government. It is a "qualified" defined contribution plan; therefore it has the same type of savings and tax benefits as a 401(k)-type of plan. The TSP is open to all members of the Uniformed Services, Active Duty and Ready Reserve. The purpose of TSP is to provide retirement income to supplement your retirement paycheck. With the TSP, you choose to join or not (it is optional), you choose the contribution amount (which comes directly out of your pay), you choose the investments from ten different options, and you own all of your contributions and any earnings.

Attributes of the Thrift Savings Plan include:

- Contributions are before tax. This means that the contribution amount is deducted from gross pay BEFORE federal income taxes are calculated, thereby reducing your taxable pay and your annual tax bill.
- Contributions grow tax-deferred—you are not taxed on the earnings in the TSP until you make withdrawals.
- Contributions can be set up to occur automatically, which presents the opportunity for regular, disciplined investing.
- The TSP has very low administrative costs and expenses. High costs and expenses can reduce the rate of return.
- The TSP is easy to start, allocate and re-allocate money. Most of the transactions can take place over the phone, at the TSP Web site, or via www.mypay.gov.
- You can take the TSP with you. With the defined benefit retirement plan a member must stay in the Navy 20 years to get it. With the TSP, the money always belongs to you, and if you leave the service prior to serving 20 years, the money is still yours. You can designate beneficiaries who you would like to receive the funds in the TSP in the event of your death.
- You must keep your money in your TSP account until you are 59½. If you withdraw prior to this age there is a tax penalty. Regular deductions must begin by age 70½.
- The current (2009) TSP contribution limit is $16,500.

WEB (Optional) Take participants on a virtual tour of TSP at www.tsp.gov.

A/V **Slide 26:** TSP Investment Options

There are ten funds available through the TSP. (There are five different "L" Funds. Returns quoted are for 1997-2007 for G, F, C, S and I, and 2006 for L Funds.)

G Fund: The Government Securities Investment Fund, which invests in special, non-traded US Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a ten-year average return of 5.12%.

F Fund: The Fixed Income Index Investment Fund invests in government and corporate bonds and is designed to track the Lehman Brothers U.S. Aggregate (LBA) bond index. The F Fund has a low to moderate level of volatility and a ten-year average return of 6.01%.

C Fund: The Common Stock Index Investment Fund invests in stocks in the S&P 500 Index. The C Fund has a moderate level of volatility and a ten-year average return of 5.88%.

S Fund: The Small Capitalization Stock Index Fund invests in small and medium size companies in the U.S. and is designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund has a moderate to high level of volatility and a ten-year average return of 7.66%.

I Fund: The International Stock Index Investment Fund invests entirely in non-U.S. companies and is designed to track the EAFE index. The I Fund has a moderate to high level of volatility and a ten-year average return of 8.53%.

L Funds: Consists of five pre-packaged portfolios with professionally determined asset allocation among the G, F, C, S and I Funds. Since inception in August 2005, returns have averaged 7.36% for L 2040, 7.14% for L 2030, 6.87% for L 2020, 6.40% for L 2010, and 5.56% for L Income.

A/V **Slide 27:** Personal Retirement Accounts

Individual Retirement Accounts, or IRAs, provide an excellent opportunity for anyone with a paycheck and their spouse, including service members, to save and invest for retirement. Even if you contribute to the TSP you can still fund an IRA. An IRA is a tax-sheltered vehicle that is used to save for retirement. The funds contributed to an IRA grow tax-deferred. Sometimes the amount contributed can be deducted from income taxes (if you are below certain income levels—as in a traditional deductible IRA). If you are above certain income levels the contribution cannot be deducted (traditional non-deductible IRA), but the growth is still tax-deferred. In both traditional IRAs you are not taxed until withdrawal. In a Roth IRA you can never deduct the contribution (therefore it is considered “after-tax” money), but you are also never taxed on the investment growth. In most cases, a Roth IRA is the best option.

For any type of IRA used, the account owner must make the decision as to which saving or investment tool will be used to fund the account. For example, a mutual fund could be designated as an IRA and the IRA rules will now attach to the money put into the mutual fund. A CD can also be designated an IRA. In fact, the money placed in most common investments can be designated as an IRA and thus become subject to the unique rules and regulations of the Individual Retirement Account. For new investors, it is important to gain a basic level of knowledge in saving and investment products, or seek the advice of a financial professional in order to make a good IRA investment decision.

Traditional IRA: Since members of the military are covered by an employer-provided pension plan, a Traditional IRA can be either deductible or nondeductible depending on your income level. Accounts are individual, there are no “joint” IRAs. You can, however, contribute to one for yourself and one for your spouse. Contributions for both traditional and Roth IRAs are limited to $5,000 per year for 2009. (That would be $10,000 total if making maximum contributions to your own and your spouse's IRA.) For 2009, if you are over 50 years of age, your limit increases to $6,000. Earnings grow tax-deferred and the gains are taxed upon withdrawal. If the earnings are withdrawn prior to age 59½ there is a tax penalty assessed and taxes are due. Regular deductions must begin by age 70½. You choose which investments you will put your money into; in other words, the investments are "self-directed."

Rollover IRA: A rollover IRA is a special type of IRA that holds money transferred from other retirement plans. One of your options for withdrawal is to roll the money over into a "rollover" IRA. Money from 401ks and 403bs, in fact from any qualified retirement plan that allows it, can be rolled over into this type of IRA. Typically the money will stay in the account, separate from other retirement funds. You cannot make regular contributions to a rollover IRA, but you can add funds from other qualified retirement plans. It is important to separate tax-deferred funds into a rollover IRA so that the money will maintain its tax-deferred status (co-mingling money is not allowed). A rollover IRA is also a self-directed IRA; you choose the investments.

Roth IRA: Money in a Roth IRA grows tax-exempt (the money grows non-taxed) since taxes are never due on the growth of Roth funds. You cannot take a tax deduction on any contribution to a Roth IRA; therefore at retirement all the money can be withdrawn tax free, forever. Although designed for retirement, some money can be taken out of a Roth IRA after as few as five years, with no taxes or penalties due. Traditional IRAs can be converted to Roth IRAs, but all taxes are due and payable in the year of conversion. Money in a Roth IRA can be easily passed on to your heirs as there are no distribution requirements. Roth IRA's are great deals for just about everyone.

A/V **Slide28:** Focus on the Long Term

Pay Yourself First: Make sure you have adequate income to pursue a savings and investment plan and that you are adequately insured. Save from the top of your spending plan versus the bottom (do not save whatever is left after all of your expenses are paid; make your savings and investments a regular expense, too.) Set up a savings allotment, contribute to a TSP account or do both. You will not miss it if you do not see it!

Participate in the Military Saves Campaign: Military Saves is a social marketing campaign to persuade, motivate and encourage Americans to save money and reduce consumer debt. The parent campaign, America Saves, is sponsored by Consumer Federation of America (CFA) and is a non-profit partner in the DoD Financial Readiness Campaign. Military Saves engages leadership in promoting wealth building messages and conducting campaigns for military members to set savings goals, open savings accounts, make regular contributions to household savings, increase debt payments, and participate in financial education programs. Contact your CFS, Fleet and Family Support Center, or www.militarysaves.com to enroll.

Maximize any Tax-Deferred Investment Opportunities: When you have all the necessary savings funds in place, decide how much money you can invest regularly and how much of that amount will go into retirement accounts. Put the maximum amount possible into any tax-deferred opportunities. These would include the Thrift Savings Plan (TSP), a 401k, and an IRA. However, once money is put into retirement accounts it cannot be withdrawn without a penalty. Therefore, it is wise to put some of your available dollars into retirement accounts and some into regular, taxable accounts. (Refer to the Financial Planning Pyramid).

Make Regular, Steady Investments: Earlier in this discussion, an example was used that illustrated the impact of spending money that had accumulated in an investment account. Even if you continue investing at the same rate, you will never catch up to what you could have had if you had not withdrawn your money early. Keep in mind that investment performance is not the same as investor performance. The stock market could be posting a return of 25%, but if you are not investing regularly, you will not see your investments grow. If you have a lump sum of money to invest, research the options, consult a professional, and invest it in an appropriate investment tool for your goals, timeframe and risk tolerance. But if you are like most small investors, you do not have a large sum of money and are investing a smaller amount on a monthly basis… keep at it, and do not stop the flow of money into your investments.

WEB (Optional) Using the Internet, take the participants on a brief virtual tour of Military Saves by accessing www.militarysaves.com.

A/V **Slide 29:** Take Action

The investment markets have never been friendlier to small investors. Employer-provided retirement plans like the TSP, the Internet, and mutual funds make investing easy and effective. Remember, the riskiest thing you can do with your money is to do nothing at all… inflation will guarantee that you will move away from building wealth as the value of your money erodes. So keep first things first, and put your money where it can grow for you.

Determine Financial Goals: Set both short and long-term goals and determine which types of investments are appropriate for the time horizons associated with each.

Review your Budget: Cut expenses, pay down your debt, and determine how much you can put into savings and investments each month. Pay yourself just like you would pay any other bill—except pay yourself first!

Save Money You Don't Have… Yet: Commit a portion of every future raise to your investment plan. You do not have it now, so you will not miss it when you invest it. Participate in Military Saves.

Establish Emergency, Reserve and Goal-Getter Funds: Goals should include having three months of expenses in emergency savings and putting aside about 10% of net income for saving and investing.

Get Help if Needed: Talk to trusted family, friends and co-workers and ask how they invest their money. Make an appointment to see your Command Financial Specialist or Fleet and Family Support Center Financial Educator for additional information. Explore the possibility of hiring a financial professional (like a Certified Financial Planner) to help you with your plan if you need it.

Build Investment Portfolio: Maximize tax-deferred opportunities. Choose a mutual fund or the stock of a company you have researched. Interview and hire a financial professional if you prefer to have assistance.

Keep Learning: New information is available all the time and the investment environment changes frequently. Read books and magazines, attend classes, talk to fellow investors or start an investment club. Even if you plan to work with a broker, financial planner, or other investment advisor, it will still help if you improve your knowledge about what you plan to invest in; no one is as interested in your family's financial future as you are. A course on investing at a local community college or adult education center can be interesting as well as informative. Free seminars, given by individuals and organizations in financial services as a way to attract potential clients, can also be useful as long as you remain on guard for the sales pitch. Scan the Internet, visit the local library, read financial magazines and newspapers.

Keep At It: Finally, once you get started—keep at it! Continue saving for both short and long-term goals. It takes time to produce virtually anything worthwhile. Never take money out of your TSP, IRA or other long-term investments for short-term objectives—that is why you have established a goal-getter or emergency fund.

A/V **Slide 30:** Sources of Help

Sources of help for saving and investing as well as retirement planning include your Command Financial Specialist and your local Fleet and Family Service Center Financial Educators.

Internet Sources: There are many retirement planning calculators on the Internet that enable you to do at least some of your planning on your own. Remember, the results will only be as good as the data you input.

Many of these calculators do not accurately reflect the impact of an inflation adjusted employer pension, such as a military retirement check.

Selecting a Professional: Use caution when seeking a financial professional. There are a many good stockbrokers, insurance agents, and independent financial planners, but not all are fully knowledgeable about retirement planning. Most should provide a free initial consultation; beyond that, some work on a fee basis, while others are paid through commissions on products they sell. Find out how the professional you work with will be paid; remember, you do not get something for nothing. Ask about her or his education, training, or special credentials your planner might have. A licensed CFP (Certified Financial Planner) for example, has been through a detailed advanced program, passed a rigorous examination, and agreed to abide by a comprehensive set of planning standards and a code of ethics. Always check at least two and compare their recommendations. Give yourself time to make the best decision. Remember, it is your money; do not be pressured into anything.

A/V **Slide 31:** Savings and Investing Roadblocks and Road Signs

A **Roadblocks and Road Signs** (15 Minutes)

Instructions: Break participants up into groups of 6-8 learners. Advise learners that every new financial habit is met with barriers. This exercise will enable them to think about ways to minimize these barriers.

Materials Needed: flipchart paper or whiteboard/markers

Make flipcharts or use a whiteboard with pictures or labels for the following signs:

1. Detour
2. One-Way
3. Merge
4. Slow Down
5. Caution
6. Stop

Discussion: Using what they have learned about saving and investing, ask each group to identify at least five (and up to ten) ways that these road signs might be interpreted or applied to saving and investing. Have one group leader report results to the entire class when complete.

Participant Notes Page

1. Compound interest helps your money earn more money and overcome the effects of:

   ____________________ and ____________________ .

2. Three factors to consider when evaluating saving and investing tools are:

   ____

   ____

   ____

3. Three tools that can be used for short-term savings include:

   ____

   ____

   ____

4. Three tools that can be used for long-term investments include:

   ____

   ____

   ____

5. Contributions made to your Thrift Savings Plan grow ____________________ , meaning they will not be taxed until you make withdrawals.

6. With a Roth IRA, contributions are not ____________________ ,

   but money can be withdrawn ____________________

   after the "seasoning" period and age 59½.

Compound Interest and Time (Rate of Reurn=10%)

	Plan A		Plan B		Plan C		Plan D	
Age	Payment	Total	Payment	Total	Payment	Total	Payment	Total
21	$3,000	$3,300	$0	$0	$0	$0	$0	$0
22	$3,000	$6,930	$0	$0	$0	$0	$0	$0
23	$3,000	$10,923	$0	$0	$0	$0	$0	$0
24	$3,000	$15,315	$0	$0	$0	$0	$0	$0
25	$3,000	$20,147	$0	$0	$0	$0	$0	$0
26	$3,000	$25,462	$0	$0	$0	$0	$0	$0
27	$0	$28,008	$0	$0	$0	$0	$0	$0
28	$0	$30,808	$0	$0	$0	$0	$0	$0
29	$0	$33,889	$0	$0	$0	$0	$0	$0
30	$0	$37,278	$0	$0	$0	$0	$0	$0
31	$0	$41,006	$3,000	$3,300	$3,000	$3,300	$0	$0
32	$0	$45,107	$3,000	$6,930	$3,000	$6,930	$0	$0
33	$0	$49,617	$3,000	$10,923	$3,000	$10,923	$0	$0
34	$0	$54,579	$3,000	$15,315	$3,000	$15,315	$0	$0
35	$0	$60,037	$3,000	$20,147	$3,000	$20,147	$0	$0
36	$0	$66,041	$3,000	$25,462	$3,000	$25,462	$10,000	$11,000
37	$0	$72,645	$0	$28,008	$3,000	$31,308	$10,000	$23,100
38	$0	$79,909	$0	$30,808	$3,000	$37,738	$10,000	$36,410
39	$0	$87,900	$0	$33,889	$3,000	$44,812	$0	$40,051
40	$0	$96,690	$0	$37,278	$3,000	$52,594	$0	$44,056
41	$0	$106,359	$0	$41,006	$3,000	$61,153	$0	$48,462
42	$0	$116,995	$0	$45,107	$3,000	$70,568	$0	$53,308
43	$0	$128,694	$0	$49,617	$3,000	$80,925	$0	$58,639
44	$0	$141,564	$0	$54,579	$3,000	$92,317	$0	$64,503
45	$0	$155,720	$0	$60,037	$3,000	$104,849	$0	$70,953
46	$0	$171,292	$0	$66,041	$3,000	$118,634	$0	$78,048
47	$0	$188,422	$0	$72,645	$3,000	$133,798	$0	$85,853
48	$0	$207,264	$0	$79,909	$3,000	$150,477	$0	$94,438
49	$0	$227,990	$0	$87,900	$3,000	$168,825	$0	$103,882
50	$0	$250,789	$0	$96,690	$3,000	$189,007	$0	$114,270
51	$0	$275,868	$0	$106,359	$3,000	$211,208	$0	$125,697
52	$0	$303,455	$0	$116,995	$3,000	$235,629	$0	$138,267
53	$0	$333,800	$0	$128,694	$3,000	$262,492	$0	$152,094
54	$0	$367,180	$0	$141,564	$3,000	$292,041	$0	$167,303
55	$0	$403,898	$0	$155,720	$3,000	$324,545	$0	$184,033
56	$0	$444,288	$0	$171,292	$3,000	$360,300	$0	$202,437
57	$0	$488,717	$0	$188,422	$3,000	$399,630	$0	$222,680
58	$0	$537,589	$0	$207,264	$3,000	$442,893	$0	$244,948
59	$0	$591,348	$0	$227,990	$3,000	$490,482	$0	$269,443
60	$0	$650,482	$0	$250,789	$3,000	$542,830	$0	$296,387
61	$0	$715,531	$0	$275,868	$3,000	$600,413	$0	$326,026
62	$0	$787,084	$0	$303,455	$3,000	$663,755	$0	$358,629
63	$0	$865,792	$0	$333,800	$3,000	$733,430	$0	$394,492
64	$0	$952,371	$0	$367,180	$3,000	$810,073	$0	$433,941
65	$0	$1,047,608	$0	$403,898	$3,000	$894,380	$0	$477,335
	$18,000		$18,000		$105,000		$30,000	






Investing Resources

Books

- *Barron's Dictionary of Finance and Investment Terms.*
- *Get a Financial Life: Personal Finance in your Twenties and Thirties*, by Beth Kobliner.
- *Investing from Scratch: A Handbook for the Young Investor*, by Marc Robinson.
- *Making the Most of Your Money*, by Jane Bryant Quinn.
- *Master Your Money Type*, by Jordan E. Goodman.
- *Personal Finance* by E. Thomas Garman and Raymond E. Forgue.
- *The Millionaire Next Door (Series)*, by Thomas J. Stanley, Ph.D. and William D. Danko, Ph.D.
- *The Total Money Makeover*, by Dave Ramsey.
- *The Truth About Money*, by Ric Edelman.
- *The Wealthy Barber*, by David Chilton.
- *Who's Afraid to be a Millionaire*, by Kelvin Boston.
- *Women and Money*, by Suze Orman.

Newspapers and Magazines

- Barron's
- Fortune
- Investor's Business Daily
- Kiplingers
- Money
- Mutual Funds
- Smartmoney
- Wall Street Journal

Internet Sites

Consumer Organizations

www.consumerreports.org

www.consumerworld.org

Financial Planning and Education

www.aaii.com

www.afcpe.org

www.choosetosave.org

www.fpanet.org

www.kiplinger.com

www.militarysaves.org

www.nefe.org

www.ffsp.navy.mil

www.ricedelman.com

www.saveandinvest.org

Government Agencies

www.bls.gov

www.consumer.gov

www.fdic.gov

www.federalreserve.gov

www.ftc.gov

www.loanconsolidation.ed.gov

www.pueblo.gsa.gov

www.sec.gov

Investing

www.411stocks.com

www.businessweek.com

www.dailystocks.com

www.fool.com

www.fundalarm.com

www.hoovers.com

www.iclub.com

www.moneycentral.msn.com

www.morningstar.com

www.savingforcollege.com

www.savingsbonds.gov

www.smartmoney.com

www.superstarinvestor.com

www.valueline.com

www.zacks.com

Retirement

www.choosetosave.org/asec

www.defenselink.mil/militarypay

www.lifelines.navy.mil

www.militaryonesource.com

www.ssa.gov

www.tsp.gov

Taxes

www.irs.gov






Choose to Save.® Ballpark E$timate®

Get a Ballpark E$timate® of Your Retirement Needs.

The ChoosetoSave.org and American Savings Education Council's Planning and Saving Tool

Forget, for a moment, the complexity of planning and saving for a comfortable retirement. Use this print form Ballpark E$timate® worksheet to get an initial fix. Want a more "sophisticated" number? Go online at www.choosetosave.org and use the interactive version with more assumptions that you can change. By simplifying some issues, such as projected Social Security benefits and earnings assumptions on savings, the print version of Ballpark offers users a way to obtain a rough first estimate of what Americans need for retirement. The worksheet assumes you'll realize a constant real rate of return of 3% and that wages will grow at the same rate as inflation; however, it does provide the user an opportunity to take into account longevity risk.

For example, let's say Jane is a 35-year-old woman with two children, earning $30,000 per year. Jane has determined that she will need 70% of her current annual income to maintain her standard of living in retirement. Seventy percent of Jane's current annual income ($30,000) is $21,000 (Question 1). Jane would then subtract the income she expects to receive from Social Security ($12,000 in her case) from $21,000, equaling $9,000 (Question 2). This is how much Jane needs to make up for each retirement year.

Jane expects to retire at age 65 and if she is willing to assume that her life expectancy will be equal to the average female at that age (86), she would multiply $9,000 by 15.77 for a result of $141,930 (Question 3). Since Jane does not expect to retire before age 65, she does not answer Question 4. Jane has already saved $2,000 in her 401(k) plan. She plans to retire in 30 years so she multiplies $2,000 x 2.4 equaling $4,800 (Question 5). She subtracts that from her total, making her projected total savings needed at retirement $137,130. Jane then multiplies $137,130 x .020 = $2,742 (Question 6). This is the amount Jane will need to save in the current year for her retirement (it is assumed the annual contribution will increase with inflation in future years).

It is important to note that the calculation above assumed Jane would have an average life expectancy for a female already age 65. However, this will produce an amount that is too low in approximately ½ of all cases. If instead Jane wanted to have a sufficient amount ¾ of the time, she would base her calculations on a life expectancy of 92 (see the grid on step three of the calculation). This would necessitate multiplying $9,000 by 18.79 for a result of $169,110. All the remaining calculations would be similar and the contribution for the first year would increase to $3,286.

If Jane would prefer to save enough to have a sufficient amount 90 percent of the time, she would assume a life expectancy of 97. This would require a first year contribution of $3,671.

Planning for retirement is not a one-size-fits-all exercise. The purpose of Ballpark is simply to give you a basic idea of the savings you'll need to make today for when you plan to retire.

If you are married, you and your spouse should each fill out your own Ballpark E$timate® worksheet taking your marital status into account when entering your Social Security benefit in number 2 below.

1. **How much annual income will you want in retirement?** (Figure at least 70% of your current annual gross income just to maintain your current standard of living; however, you may want to enter a larger number. See the tips below.)
   $________________

   Tips to help you select a goal:
   → 70% to 80% — You will need to pay for the basics in retirement, but you won't have to pay many medical expenses as your employer pays the Medicare Part B and D premium and provides employer-paid retiree health insurance. You're planning for a comfortable retirement without much travel. You are older and/or in your prime earning years.
   → 80% to 90% — You will need to pay your Medicare Part B and D premiums and pay for insurance to cover medical costs above Medicare, which on average covers about 55%. You plan to take some small trips, and you know that you will need to continue saving some money.
   → 100% to 120% — You will need to cover all Medicare and other health care costs. You are very young and/or your prime earning years are ahead of you. You would like a retirement lifestyle that is more than comfortable. You need to save for the possibility of long-term care.

2. **Subtract the income you expect to receive annually from:**
   - Social Security — If you make under $25,000, enter $8,000; between $25,000 - $40,000, enter $12,000; over $40,000, enter $14,500 (For married couples - the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher.) –$________________
   - Traditional Employer Pension — a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) –$________________
   - Part-time income –$________________
   - Other (reverse annuity mortgage payments, earnings on assets, etc.) –$________________

   This is how much you need to make up for each retirement year: =$________________

Now you want a Ballpark E$timate of how much money you'll need in the bank the day you retire. For the record, we assume you'll realize a constant real rate of return of 3% after inflation and you'll begin to receive income from Social Security at age 65.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below.

Age you expect to retire:	**Choose your factor based on life expectancy (at age 65):**					
	Male, 50th percentile (age 82)	Female, 50th percentile (age 86)	Male, 75th percentile (age 89)	Female, 75th percentile (age 92)	Male, 90th percentile (age 94)	Female, 90th percentile (age 97)
55	18.79	20.53	21.71	22.79	23.46	24.40
60	16.31	18.32	19.68	20.93	21.71	22.79
65	13.45	15.77	17.35	18.79	19.68	20.93
70	10.15	12.83	14.65	16.31	17.35	18.79

$______________

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below.

Age you expect to retire:		Your factor is:
	55	8.8
	60	4.7

+$______________

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan).

If you plan to retire in:		Your factor is:
	10 years	1.3
	15 years	1.6
	20 years	1.8
	25 years	2.1
	30 years	2.4
	35 years	2.8
	40 years	3.3

–$______________

Total additional savings needed at retirement: =$______________

Don't panic. We devised another formula to show you how much to save each year in order to reach your goal amount. This factors in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below.

If you want to retire in:		Your factor is:
	10 years	.085
	15 years	.052
	20 years	.036
	25 years	.027
	30 years	.020
	35 years	.016
	40 years	.013

=$______________

EBRI
Employee Benefit Research Institute®

2121 K Street NW
Suite 600
Washington, DC 20037
www.ebri.org
www.choosetosave.org

This worksheet simplifies several retirement planning issues such as projected Social Security benefits and earnings assumptions on savings. It reflects today's dollars; therefore, you will need to re-calculate your retirement needs annually and as your salary and circumstances change.

It also assumes that your wages will increase in the future at the same rate as inflation. This compares with the 2005 intermediate assumptions by the Social Security trustees that wages will increase 1.1 percentage points faster than inflation. Situations in which the wage growth is larger than the inflation rate will often require a higher rate of savings than this worksheet suggests. Unfortunately, a paper worksheet using an example where wage growth is not equal to inflation would be much more complicated.

Should you want a ballpark estimate that allows you to assume a wage growth that is different from the rate of inflation, you will need to go to http://www.choosetosave.org/ballpark and use the interactive ballpark estimate worksheet.

The American Savings Education Council (ASEC) mission is to make savings and retirement planning a priority for all Americans. ASEC is a program of the Employee Benefit Research Institute Education and Research Fund. For information on becoming an ASEC Partner, visit www.asec.org

Military Retirement Pay Plans

PLAN	APPLIES TO	PROVISIONS
Final Pay Plan	Those who entered service prior to September 8, 1980	After 20 years of service retirees get 50% of their basic pay on the day they retire, plus 2.5% for every additional year beyond 20, up to a maximum of 75% of basic pay. Annual COLA equal to CPI.
High Three Plan	Those who entered the military between September 8, 1980, and July 31, 1986	After 20 years of service retirees get 50% of basic pay on the day they retire, plus 2.5% for every additional year beyond 20, up to a maximum of 75% of basic pay. The retired pay is figured on the average basic pay during the service member's highest paid 36 months of service. Annual COLA equal to CPI.
CBS/Redux Plan	Those who entered the military on or after August 1, 1986	Service members will choose, on their 15th anniversary of military service, between two plans: a) "The High Three" Plan, OR b) A $30,000 cash payment at the 15th year of service and reduced benefits after 20 years of 40% of basic pay, with 3.5% added for each additional year up to a maximum of 75% of basic pay. (Promise to stay until retirement is a condition of receiving the cash payment.) Annual COLA equal to CPI-1%.






The Thrift Savings Plan: Wealth-Building Made Easy

The Thrift Savings Plan (TSP) is a retirement savings and investment plan designed to supplement (not replace) the military retirement check. It can provide retirement income in addition to your military pension and Social Security, helping build financial stability and independence at retirement.

Description and Benefits

- Defined contribution plan, like a 401k.
- Optional for participants.
- All contributions and earnings belong to the owner.
- Portable—you can take it with you to another employer or tax-deferred plan.
- Contributions go in pre-tax and earnings are tax-deferred.
- Not subject to attachment for commercial debt.
- Choice of investment options.
- Flexible withdrawal/transfer options upon separation from service.
- Individual accounts.
- Personal PIN number for account access.
- Beneficiary designation.
- Money is invested at all times.
- No sales charges or account fees; very low fund expenses.
- Can join at any time.

Participation Rules

- Open to Uniformed service members.
- Can contribute up to 100% of base pay per year (2007) (“Elective Deferral”).
- Can contribute up to 100% of Special and Incentive pays (including bonuses) per year (2007) (“Elective Deferral”).
- Total annual contributions cannot exceed $15,500 (IRS Regulations).
- Contributions come directly from pay (unless Traditional IRA rolled into TSP).
- Tax-free zone contributions up to $49,000 per year.
- Tax-free zone contributions accounted for separately (once tax-free, always tax-free).

Investment Options

G Fund: The Government Securities Investment Fund

- Managed by Thrift Investment Board.
- U.S. Treasury Securities.
- Rate set monthly by Treasury Department.
- No negative return in its history.
- Generally lowest returns over long-term: 10-year average 5.12% (2007).

F Fund: The Fixed Income Investment Fund

- Tracks Lehman Brothers U.S. Aggregate (LBA) bond index.
- High quality notes and bonds (no junk bonds) representing all areas of investment-grade bond market.
- Some interest rate risk, moderate return: 10-year average 6.1% (2007).

C Fund: The Common Stock Index Investment Fund

- Tracks S&P 500 Index.
- Common stocks of 500 largest U.S. corporations.
- Represents all sectors and industries of the U.S. Stock Market (about 75% of the total market).
- Moderate/high risk, higher potential return: 10-year average 5.88% (2007).

S Fund: The Small Cap Stock Index Investment Fund

- Tracks Wilshire 4500 Index.
- Represents all listed public companies in the U.S. Stock Market not in the S&P 500.
- High risk, potentially higher return: S Funds were introduced in 2001 Average since inception 7.66%.






I Fund: The International Stock Investment Fund

- Tracks Morgan Stanley EAFE Index.
- Diversified holdings from 21 countries in Europe, Australia, Asia and the Far East.
- Additional political risk and foreign currency risk.
- Highest risk, high potential return: I Funds were introduced in 1998 Average since inception 8.35%.

L Funds: The Lifecycle Funds

- Five different funds that are different mixes of the G, F, C, S, and I Funds.
- Mixes are tailored to different time horizons based on year of retirement.
- L funds introduced in 2005.
- Diversification across other funds provides the highest possible rate of return for the amount of risk taken.
- 2007 Returns:
  - L2040—7.36%
    L2030—7.14%
  - L2020—6.87%
  - L2010—6.40%
  - L Income—5.56%

Loans

- Borrowed from personal account.
- General Purpose Loan: Repay 1–5 Years.
- Primary Residence Loan: Repay 1–15 Years.
- Minimum: $1,000 / Maximum: the lesser of either half the account balance or $50,000.
- Loan application through TSP service office (usually 6-8 weeks to process).
- Not a substitute for an emergency fund.
- Must be repaid in full prior to separating from service.

Withdrawals

- Withdrawals while on active duty very limited: documented financial hardship.
- Upon separation from service, many withdrawal options for tax-deferred money:
  - Cash out: Taxes and penalties prior to age 59½.
  - Leave in TSP: Will continue to grow; can still move money around; cannot make additional contributions.
  - Transfer to next employer's 401k.
  - Transfer to Traditional IRA.
  - TSP annuity option.
- Tax-deferred contributions and earnings taxable when withdrawn.

Forms

- TSP-U-1: Enrollment; increase contributions; decrease contributions; stop contributions.
- TSP-U-3: Beneficiary designation.
- TSP-U-50: Contribution allocation; interfund transfers (account reallocation).

Resources

- www.tsp.gov: TSP Web site.
- www.choosetosave.org/asec: Financial calculators.
- TSP Thriftline.
  - 1-877-968-3778
  - 1-404-233-4400 (OCONUS)
- Command Financial Specialist (CFS).
- Financial Educator at FFSC.
- Booklets available online at TSP Web site:
  - Summary of TSP for the Uniformed Services.
  - Guide to TSP Investments.
  - TSP Loan Programs.
  - TSP In-Service Withdrawals.
  - TSP Annuities.
  - Withdrawing Your TSP Account After Leaving Federal Service.






Million Dollar Sailor

A Million Dollars Worth of Resources

Module Eleven: A Million Dollars Worth of Resources

Module Length: 90 Minutes

Module Description:

The Million Dollars Worth of Resources Module serves to summarize and complete the Million Dollar Sailor Training Program by reviewing key concepts learned in each module in conjunction with resources that can assist Sailors and their families.

Learning Objectives:

At the conclusion of this 90-minute module, participants will be able to:

- Identify at least three sources of assistance for financial counseling and/or planning that are of no cost to military service members.
- Identify at least one FFSC Financial Education Program that could further assist them in financial planning.

Materials Needed:

- Computer/Internet and PowerPoint Projector
- MDS A Million Dollars Worth of Resources PowerPoint Slides
- Chart Paper or Whiteboard/Markers
- Pens, Pencils, Paper
- Handouts:
  - *Case Study 1: Chief Rockefeller*
  - *Case Study 2:YN1 Vanderbilt*
  - *Case Study 3: Lieutenant Hilton*
  - *Million Dollar Sailor Content Review*
  - *Personal Financial Action Plan*
  - *Module Eleven Participant Notes Page*

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A/V **Slide 1:** A Million Dollars Worth of Resources

HO *Module Eleven Participant Note Pages*

NOTE Refer participants to their *Participants Notes Page* handout for this module. Encourage them to use complete the information on the sheet as a means of reinforcing the course material and to use the space provided for any additional notes.

You have worked hard for your money, often times placing your life on the line for the security and freedom of this country. You deserve the right to live in financial freedom. Throughout this Million Dollar Sailor training, we have discussed several resources that can assist you with getting on or maintaining your course on that path. Unlike your civilian counterparts, you can take advantage of these educational programs and services at no cost. This module serves as a brief review of the services that are available to you, including specifically how each one can assist you on your journey to becoming a Million Dollar Sailor.

NOTE Facilitators may want to consider having guest speakers from some of the resources discussed so that they can provide information in more detail. All guest speakers should be approved by your supervisor and should sign a non-solicitation agreement. As certain guest speakers may be used to provide direct service as opposed to classroom training, it may be necessary to assist speakers in presenting material and encouraging active class participation. Speakers should be limited to approximately ten minutes each.

A/V Slide 2: The Millionaire Myth

Remember the Millionaire Myths that we discussed at the very beginning of the Million Dollar Sailor Program? We busted some of the myths such as the beliefs that those millionaires are smarter or luckier than the rest of us.

> Trainer Note
> Pictures of famous millionaire will appear on the mouse click.

? Q *What individuals (alive or deceased) come to mind when you think about “millionaires”?*

(Possible responses include: Rockefeller, Henry Ford, Donald Trump, Oprah, Martha Stewart, J.K. Rowlings)

Sometimes these individuals or others like them, perpetuate the Millionaire Myth that only the most extraordinary people, through their own rugged individualism, can overcome insurmountable odds in achieving their dreams of wealth.

Another Millionaire Myth is that we are in this alone and are on our own. It is the belief that no matter what, we can all pull ourselves up by our own bootstraps, buckle down, work hard and eventually we will succeed. And it is true that many millionaires have overcome many obstacles on their road to wealth and have been successful due to their own determination, but they were not in it all by themselves… and neither are you.

You have, at your disposal, a million dollars’ worth of resources to assist you with your financial goals (most at no cost to you). The purpose of this course is NOT to provide you with “seven easy steps to financial freedom” and send you on your way with a “good luck” and a handshake. These “Sources of Help” exist not just as a sanctuary where you can go (or have to go) when you are in financial trouble. These are resources for you to use so that you can establish or maintain your course on a path to financial freedom and security.

A Resource Recap (5 Minutes)

Working as a group, give participants one to two minutes to list as many resources as they can remember that were discussed in the Million Dollar Sailor Training. Have the group with the highest number of resources go first and report their responses, or take turns going around the room, having each group provide one or two resources. (Optional) You may want to award a small prize for the group with the most resources listed.

A/V **Slide 3:** Sources of Help

There are many places to get information and assistance. This list outlines services where you can meet and/or speak with an individual to discuss your personal needs. We will take a look at each in slightly more detail.

- Your Command Financial Specialist
- Fleet & Family Support Center
- Navy Legal Service Office (NLSO)
- Navy Marine Corps Relief Society (NMCRS)

- Bank or Credit Union Financial Counselors
- Consumer Credit Counseling Services

NOTE Ask participants if they are currently holding the collateral duty of CFS. Ask if there is anyone who is thinking about becoming a CFS in the future. Lead participants in a round of applause for these individuals.

A/V **Slide 4:** Your Command Financial Specialist

According to *OPNAV Instruction 1740.5B*, all regular and reserve commands, permanent detachments, and departments having 25 active duty personnel shall have a trained CFS to coordinate Personal Financial Management (PFM) Education. The responsibility of the CFS is to provide education and training, information and referral and financial counseling. Your CFS has been trained in how to assist you in developing, reviewing or changing your personal spending plan utilizing the Financial Planning Worksheet used in the Million Dollar Training Program (both the paper and pencil and electronic versions). Your CFS can also assist you in methods to reduce your debt faster using the Full Steam Program.

A/V **Slide 5:** Your Fleet and Family Support Center

Did you notice your local Fleet and Family Service Center is listed as a source of help in every topic of the Million Dollar Sailor Training? In addition to your CFS, your Fleet and Family Support Centers have Financial Educators to assist you with just about every financial topic that affects Sailors and their families. In addition to educational courses on all of the programs we have talked about in Million Dollar Sailor, there are other programs offered that you may want to explore. The Million Dollar Sailor Training was meant to give you the information you need to be successful financially, but if you are looking for more in-depth information about a specific topic, consider coming to a FFSC training. FFSCs also offers personal and couples counseling that may become necessary when financial issues create significant personal or marital stress.

WEB Refer to Web site www.ffsp.navy.mil. Consider taking a virtual tour of the Web site if time permits.

A/V **Slide 6:** Navy Legal Services Office

The legal complexities of today can make the world we live in an especially intimidating place. Whether it is a new or used car, renting an apartment or buying a home, paying taxes or writing a will, the legal intricacies are there to confound us all, adding stress in our lives. Navy Legal should be your first stop for any legal matter, no matter how small. If a legal assistance attorney is unable to resolve the case or a specialized attorney is needed, the legal assistance attorney will refer you to a civilian attorney, normally through a local lawyer referral service, who can handle the case.

Slide 7: Navy Marine Corps Relief Society

The NMCRS provides many of the same services as those provided by your CFS and FFSC in terms of financial education and personal counseling. Navy-Marine Corps Relief Society is a private non-profit charitable organization sponsored by the Department of the Navy. NMCRS operates nearly 250 offices ashore and afloat at Navy and Marine Corps bases throughout the world. Its mission is to provide, in partnership with the Navy and Marine Corps, financial, educational, and other assistance to members of the Naval Services of the United States, eligible family members, and survivors when in need, and to receive and manage funds to administer these programs. While services may vary upon location, the services NMCRS provide include:

- Interest Free Loans & Grants
- Education Programs
- Budget Counseling Services
- Food Lockers
- Infant Layettes/ Budgeting for Baby
- Thrift Shops
- Visiting Nurse Services
- Survivor Benefit Information
- Widow's Assistance

Consider providing a virtual tour of NMCRS at www.nmcrs.org

Slide 8: Debt Counseling

There are several places to consult for debt counseling including Navy Federal or your local bank or credit union. Frequently banks have counselors that can assist you with budgeting and may have debt reduction programs based on eligibility. If your financial situation is severe, you may also want to contact Consumer Credit Counseling Services, particularly in cases where you may be considering bankruptcy. Utilizing debt management may have some implications for your credit record, so it is advised that you speak with a professional and take advantage of other services first.

Navy Federal Credit Union: www.navyfcu.org/

Consumer Credit Counseling Services: www.cccsstl.org/

Slide 9: Electronic Resources

Your Sources of Help for Military Consumers lists many resources you can contact by phone or email to assist with you financial matters. Listed here

are just a few of the many military, state and federal resources you have at your disposal. Many of their Web sites provide educational information as well.

NOTE Refer Participants to the *Sources of Help* handout.

Slide 10: Case Studies (20 Minutes)

Case Studies

Suggested method: Break participants up into small groups and assign each group one or all of the case studies. Instruct each group to have one person from the group report the findings.

Optional method: Allow participants a few moments to work on the case studies individually and then debrief as a group.

We have learned about many different financial topics as well as many sources of help. To follow are three case studies that will require you to put what you have learned to work. For each of the following case studies, please address the following:

- What is the core issue or problem?
- Provide at least two suggestions for dealing with the issue.
- Identify at least two resources where the individual could attain more information.

Slide 11: Case Study One: Chief Rockefeller

- Chief Rockefeller is deployed when he receives word from his wife of foreclosure proceedings on his house.
- The bank has not received his mortgage payment despite his pay allotment.
- His wife needs to pay $2000 immediately to stop the foreclosure proceedings.

Core Issue

- Allotment in his pay has not gone through causing him to fall behind on his mortgage payments.
- His wife needs $2000 immediately.

Suggestions & Resources

- Contact PSD or look on myPay to check on the allotment status for error.
- Consult Navy Marine Corps Relief for possibility of emergency loan.
- Contact bank directly to explain error and to try to negotiate payment terms.

- Consult Navy Legal Services Office regarding the foreclosure proceedings.

Slide 12: Case Study 2: YN1 Vanderbilt

- YN1 Vanderbilt returned from Iraq with a severe injury.
- He is being cared for by his parents who are struggling on a limited income.
- They are concerned about out-of-pocket costs of physical therapy and increased living expenses with caring for him in their home.

Core Issue

- Medical and living expenses for Vanderbilt and his parents.

Suggestions & Resources

- Have parents contact Navy Legal Service Office for base privileges including overall access, commissary and medical clinic.
- Contact FFSC for information and referral.
- Contact TRICARE for relief with medical expenses.
- Call the Wounded Warrior Hotline 1-800-984-8523.

Slide 13: Case Study 3: Lieutenant Hilton

- LT Hilton just returned from an individual deployment with a lot of extra cash.
- She pays off her credit cards every month, but cannot account for all her spending.
- She is thinking about investing but does not know much about her options.
- She is also thinking about buying a house.

Core Issues

- LT Hilton has no written spending plan. Although she is saving money and paying her bills, she cannot account for all of her spending.
- LT. Hilton lacks information and knowledge about investment options.

Suggestions

- Start by developing a spending plan to track expenses, identify short-term and long-term goals and plan for the future.

- Research different investment options for her short-term goal (buying a house) and long-term goal (retirement planning).

Resources:

- FFSC or CFS for financial counseling and assistance with developing a budget.
- FFSC (or CFS) for educational programs on saving and investing, retirement planning and home buying.
- Internet resources for saving and investing, retirement planning, TSP and home buying.

Slide 14: Becoming a Million Dollar Sailor

Remember the strategies for becoming a Million Dollar Sailor. Becoming a millionaire is not a matter of implementing “three easy steps.” It takes time and discipline. But the strategies to achieving millionaire status, combined with that time and discipline can be grouped into three discrete categories.

1. **Live Within or Below Your Means.** Understand what income you have coming in, have a balanced budget, protect your assets and be a wise consumer –especially when it comes to big purchases like a car or a home.
2. **Clean up the Past.** Reduce or eliminate the debt that you may have acquired along the way, and implement a budget that prevents you from falling back into indebtedness.
3. **Invest in the Future.** Learn about the different options you have when it comes to savings and investments—particularly those that pertain to your retirement that have specific tax benefits.

And while you are putting these sound money management principles to work, make sure to take advantage of all the resources you have at your

disposal, especially those that are provided by the military at no cost to you.

Slide 15: Million Dollar Sailor

MDS Content Review: Stop, Start, Continue

At the beginning of the Million Dollar Sailor Program you may have been asking yourself, “What can this program do for me?” We hope that as we have gone through each of the modules that address specific ways to improve your financial portfolio, you saw three specific benefits to be achieved through financial freedom:

1. **Strengthen Your Military Career**
2. **Manage Your Money**
3. **Build Wealth**

A/V **Slide 16:** Million Dollar Sailor Personal Plan of Action

HO *Million Dollar Sailor: Personal Financial Action*

We have covered a wealth of information over the past two days to contribute to your knowledge of becoming a Million Dollar Sailor—your own blueprint for achieving personal financial freedom. Earlier in the training, we discussed SMART goals and how important they are to the financial planning process. Now that you have completed the training, we would like you to revisit and possibly revise your financial goals as well as the action steps that you intend to initiate to achieve those goals.

NOTE Thank participants for coming. Answer any final questions. Provide any contact information for needed follow-up. Request participants complete any evaluation materials. Award Certificates.

Participant Notes Page

1. According to OPNAV Instruction 1740.5B, all regular and reserve commands, permanent detachments, and departments having 25 active duty personnel shall have a trained ______________________________ to provide financial management education and support.

2. Fleet and Family Support Centers provide free ______________________ and individual ______________________ for financial and other related issues.

3. You can have home and auto agreements reviewed at no cost through

   ____

4. ______________________ is a non-profit, charitable organization operating on military bases providing services such as interest free loans and grants, need-based scholarships and budget counseling services.

5. Two providers of debt counseling services include:

   ____

   ____

Notes:

____

____

A Million Dollars Worth of Resources Case Study

Identify the core issue surrounding the financial circumstances and identify at least three sources of assistance for the Sailor.

Case Study 1: Chief Rockefeller

- Chief Rockefeller is deployed when he receives word of foreclosure proceedings on his house from his wife.
- The bank has not received his mortgage payment despite his pay allotment.
- His wife needs to pay $2000 immediately to stop the foreclosure proceedings.

Core Issues:

1. ______________________________

2. ______________________________

3. ______________________________

Sources of Help:

1. ______________________________

2. ______________________________

3. ______________________________

A Million Dollars Worth of Resources Case Study

Identify the core issue surrounding the financial circumstances and identify at least three sources of assistance for the Sailor.

Case Study 2: YN1 Vanderbilt

- YN1 Vanderbilt returned from Iraq with a severe injury.
- He is being cared for by his parents who are struggling on a limited income.
- They are concerned about out-of-pocket costs of physical therapy and increased living expenses with caring for him in their home.

Core Issues:

1. ______________________________

2. ______________________________

3. ______________________________

Sources of Help:

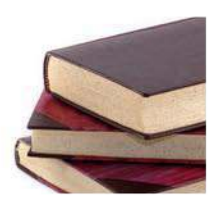
1. ______________________________

2. ______________________________

3. ______________________________





A Million Dollars Worth of Resources Case Study

Identify the core issue surrounding the financial circumstances and identify at least three sources of assistance for the Sailor.

Case Study 3: Lieutenant Hilton

- Lt Hilton just returned from an individual deployment with a lot of extra cash.
- She pays off her credit cards every month, but cannot account for all her spending.
- She is thinking about investing for retirement but does not know much about her options.
- She is also thinking about buying a house.

Core Issues:

1. ______________________________

2. ______________________________

3. ______________________________

Sources of Help:

1. ______________________________

2. ______________________________

3. ______________________________

Million Dollar Sailor Content Review
Stop, Start, Continue

Take a few minutes to review all that has been discussed during Million Dollar Sailor.

Write at least one thing that you are going to STOP or change as a result of the training.

Write down at least one thing that you are going to START doing right away as a result of this training.

Write at least one thing you are going to CONTINUE doing as a result of the training.

Stop	
Start	
Continue