Counseling Seminar

I. INTRODUCTION

This chapter focuses on counseling skills and assists the CFS in developing a counseling strategy. The session will build on the introduction to counseling from the beginning of the week by providing Solution-Focused Financial Counseling techniques to use within the eight-step financial counseling model. It also will provide the CFS with two opportunities for practical application of financial counseling and communication skills via role-play scenarios.

The first optional role-play activity is a set of three scenarios. The role-play is done in a round-robin style that allows the learners to experience the roles of counselor, client and observer. There are no numbers involved in these scenarios, as the purpose is to develop communication and listening skills. The second role-play is a full financial-counseling case. Learners again are given the opportunity to experience multiple roles. However, the client remains the same and the goal of the role-play actually is to solve the financial problem as well as identify the underlying issues.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** This chapter has no direct correlation to the PFMSC. Training techniques used include active lecturing and role-play.
2. **Information and Referral:** Referrals to appropriate resources should be provided by the CFS during the role-play portion of this session.
3. **Counseling:** Solution-Focused Financial Counseling skills introduced in Chapter 6 and listening skills introduced through various exercises are used to develop additional counseling skills, procedures and techniques. Learners have the opportunity to practice and/or demonstrate financial-counseling skills via counseling role-play practical applications.

II. LEARNING OBJECTIVE

Participating in a role-play activity, learners will demonstrate effective Solution-Focused Financial Counseling techniques.

III. OUTLINE

1. Introduction
   a. Introduction and Purpose
   b. Agenda
2. Review
   a. Optional Activity: Triad Exercise

b. The Eight-Step Counseling Cycle

c. Solution-Focused Financial Counseling

3. Counseling Fundamentals

a. Normalizing

b. Change

c. Client Has the Ability to Solve Problem

d. Client Feels Vulnerable

e. Couples Have Unique Needs

4. Financial-Counseling Procedures and Techniques

a. Introduction

b. Steps

i. Initial Contact

ii. Privacy Act

iii. Normalizing

iv. Expectations

v. Cost

vi. Data-Gathering

vii. Miracles and Exceptions

viii. Options

ix. Projected Column

x. Spending Plan

xi. Monthly Spending Record

xii. Closing

c. Counseling Forms

5. Measuring Success

6. Following-Up

7. Optional Activity: Counseling Session Demonstration

8. Activity: Financial-Counseling and Communication Skills Role-Play

IV. CHAPTER PREPARATION

Presentation Time: 140 minutes

Optional Triad Activity: 45 minutes

Lecture: 35 minutes

John Dough Role-Play: 60 minutes, including set-up, role-play and debrief

Presentation Materials

- PowerPoint slides, "Counseling"
- Student Manual Chapter 18
  - Interviewing Checklist
  - The Eight-Step Counseling Cycle
  - Solution-Focused Financial Counseling Facts to Remember
  - Financial-Counseling Procedures and Techniques
  - Financial-Counseilng Planning Sheet
  - PFM Client Information Sheet
  - PFM Case Activity Notes
  - PFM Case Closing Form
  - Role-Play Instructions
- Triad Activity Scenarios
- Role-Play Client Package
- Extra copies of Financial Planning Worksheet
- Newsprint or whiteboard and markers

Summary of Learner-centered Activities

- **Optional Triad Exercise:** Learners practice communication skills using short scenarios.
- **Optional Counseling Session Demonstration:** A learner is chosen to participate in a brief role-play demonstration of counseling techniques.
- **Counseling and Communication Role-Play:** John Dough: An extended group counseling session that allows the learners to practice what they have learned in the counseling sessions.

V. REFERENCES

Waddell, Fred. Solution Focused Financial Counseling in the New Millennium. Monetta, VA: Genesis Press, 2001.

Pulvino, Charles, and Lee, James. Financial Counseling: A Strategic Approach. Madison, Wis.: Instructional Enterprises, 1991.

VI. CONTENT

Slide 1

Introduction

Introduction and Purpose

We introduced some of the concepts involved in Solution-Focused Financial Counseling (SFFC) earlier this week. You will recall that we talked about using SFFC to focus on solutions versus explanations — what's going on presently and how things can be done differently in the future. Put in a different way, we could say that change occurs in the direction of our attention. We create change by paying attention to what we want to grow, not to the problems that we want to shrink — thus the focus on solutions. Remember that in SFFC there is no failure when working with clients seeking financial assistance; there are only other ways of doing things. The challenge is to help our clients explore those options and solutions that will improve their financial situation.

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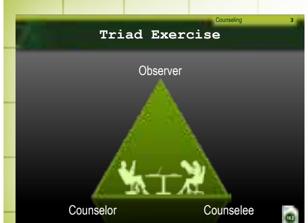
Agenda

In this chapter we will review the Eight-Step Counseling Cycle and the basics of Solution-Focused Financial Counseling that were introduced Monday. We also will discuss general counseling fundamentals and then move on to specific counseling procedures and techniques and how they relate to the Eight-Step Counseling Cycle. Finally, we will discuss how the CFS can measure success in counseling and the importance of follow-up. We will apply all of these procedures and techniques through a counseling session role-play when the lecture portion is concluded.



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Review

Optional Activity: Triad Exercise

Purpose: This activity provides each learner an opportunity to practice communication and counseling skills through role-playing common scenarios. It shows the effect of individual styles on the counseling experience. It can be done at the beginning of the counseling session or on Wednesday if time is available.

Time: 45 minutes

Materials:

- Triad Scenarios copies, one situation for each learner
- Student Manual Page 18.2 — Interviewing Checklist
- Timer (This is helpful when circulating so that full attention can be given to providing feedback instead of clock-watching.)

- Chapter 18 Slide 3 — It may be helpful to display the Eight-Step Counseling Cycle slide or refer learners to their Student Manuals 6-5 to remind them of the steps discussed Monday.

Procedure:

Three triad scenarios are included at the end of this chapter. Divide the class into groups of three. There are three roles to be assigned: client, counselor and observer. On a rotating basis, each member of the group will have an opportunity to practice a different role in the three different scenarios. One scenario is used in each round, and there are three rounds. By doing all three rounds, each person in the triad will practice a different role (client, counselor or observer); however, if time is short you can do just one or two rounds. It will be helpful if you copy each scenario onto an index card or separate piece of paper. Have enough copies of each scenario so each group gets one copy.

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REFER learners to page 18.2 in the Student Manual for the Interviewing Checklist. At the start of round one, provide each group client with one of the situations from the Triad Scenarios (make sure that each of the three people in the group have a different scenario card or copy.) The client should read their situation silently and prepare themselves to take on this role before talking with the counselor. The observer should read and familiarize themselves with the interviewing checklist to identify things to note during the counseling session.

Each round should consist of at least 8 to 10 minutes of role-playing with 3 to 5 minutes of feedback from the observer. At the completion of the first round, have the learners switch roles with a different learner from the group taking on the role of counselor, observer and client. Have the new client silently read their situation and proceed with the new counselor. Repeat this process for the third scenario.

Tell the learners that in each round, the observer should concentrate on identifying what the counselor did well in using the concepts and skills discussed in the SFFC session Monday, and what they can do to improve. This debrief is to be done within the group and not as a full class debrief. The Interviewing Checklist can be used to assist the observer.

NOTE: *This activity also can be done with a debrief between each scenario, if time permits. After the debrief, the next individual who is to play the client role is asked to bring the scenario card used previously and obtain a new role-play scenario. This allows each individual in the class to get up and move at least once during this segment.*

The instructor should circulate among the groups to keep the flow going and assist with debriefs as needed.

After all three rounds have been completed, conduct a brief general discussion of key learning points and the value of the activity, as time allows. Questions to ask during the debrief are as follows:

- What was effective?
- What was surprising?
- What was most difficult?
- What are some additional things of which we should be aware?
- What did you learn about yourself during the session?

- What was the presenting problem or pressing issue?
- What referrals were given?

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The Eight-Step Counseling Cycle

REFER learners to page 18.3 in the Student Manual, the Eight-Step Counseling Cycle. Briefly review the Eight-Step Counseling Cycle that was introduced Monday and the Financial-Counseling Planning Sheet that can be used as a CFS reference during a session.

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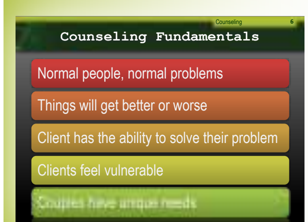
Solution-Focused Financial Counseling

REFER learners to page 18.4 in the Student Manual, Solution-Focused Financial Counseling Facts to Remember. REVIEW the information discussed Monday. An SFFC session structure is:

- Short-term
- Goal-oriented
- Task-centered
- Positive
- Encouraging

Now that we have reviewed very briefly the information covered in Chapter 6 on Monday, let's look at some general counseling fundamentals and then focus on some specific techniques that have proven quite useful in financial counseling. You will find that SFFC does not require any extensive background or formal training in counseling. As you already may have noticed, many of the counseling skills and techniques learned during various military leadership courses will serve you well when doing financial counseling. SFFC builds on these basic techniques such as eye contact, reflective listening, attentive posture, nodding to indicate understanding, positive attitude, mutual respect, empathy versus sympathy, self-disclosure, genuineness, sincerity, honesty, remaining non-judgmental, and asking open-ended versus closed-ended questions.



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Counseling Fundamentals

Normalizing

There are some general counseling fundamentals that are worth mentioning to put SFFC in perspective. First, we need to remember that clients are normal people with normal problems. Most of us have had similar problems at some point in our lives. Initially, most clients will be experiencing one or more of the full range of normal human emotions and feelings such as anxiety, sadness, anger, mild depression, failure or frustration.

Change

Second, it's important to realize that whatever the client's financial situation, it either will get better or worse even without intervention by a CFS. Financial situations rarely remain constant over time. Another way of looking at this is to recognize that regardless of what you do, things will change, and with the help of a trained CFS, we increase the likelihood of change in a positive direction.

Client Has the Ability to Solve Their Problem

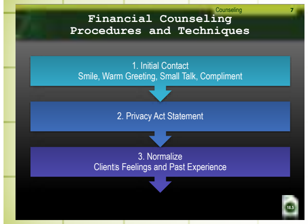
Third, most clients possess the ability to solve their own financial problems. They just need help in discovering what options and solutions exist. By using the Financial Planning Worksheet (FPW) in conjunction with SFFC, the CFS can help clients understand their present situation better and motivate them to explore various options that will improve their situation. By the time most clients get to a CFS, they have thought about various solutions to their problems, but they need help in organizing them and visualizing how implementation will improve their financial situation. It is important to ask clients what solutions they have been considering, not only to get them involved in solving their own problems, but also to empower them to develop confidence in their own problem-solving ability.

Clients Feel Vulnerable

Fourth, many clients will feel very vulnerable, at least initially, when asked to disclose their financial situation. Recall that the Navy refers to its program as the Personal Financial Management (PFM) program. It's worth highlighting the word "personal" here and understanding that when you are working with clients as a CFS, it becomes very personal very quickly to them. This is why building trust and confidence is so important to the SFFC process.

Couples Have Unique Needs

Last, it's important to understand that when working with married couples, there are a number of other considerations. By the time couples seek or are referred for financial counseling, they already have had a number of "intense discussions" about spending money and who played what role in their present financial situation. There is a tendency to blame each other for their difficulties. It's important for a CFS to remember that couples have different values regarding the use of money. The CFS should avoid playing the role of referee and reassure their clients that what they are experiencing is normal. Since both spouses are part of the problem, it is extremely important to get both involved in being part of the solution. This is why having both spouses present for financial counseling is desirable. In cases where a CFS can work with only one spouse, recognize that whatever plan is developed must be "sold" to the spouse who is not present. This presents some risks for your client who now must take on the role of "messenger." Joint ownership and joint commitment are essential for any financial plan to succeed in a marriage relationship. If these are not present, sabotage of the plan may occur either deliberately or through neglect.



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Financial-Counseling Procedures and Techniques

Introduction

REFER learners to page 18.5 in the Student Manual, Financial-Counseling Procedures and Techniques. EXPLAIN that what follows is a template for financial counseling that incorporates both solution-focused procedures and techniques and the FPW. Using every one of the 12 elements or steps will take considerable time but can be especially helpful if working with reluctant or unwilling clients who are referred for remedial counseling. Less time will be required if clients are asked to complete certain portions of the FPW before a counseling session. For clients whose presenting problems indicate that they are seeking preventive counseling or productive counseling, several of the following steps may not be necessary.

Initial Contact

Initial contact should start with a smile and warm greeting. Recognize that people may be apprehensive. It is important to make small talk or use humor to help them relax. Compliment them on their willingness to work with you, or for being on time, or for bringing their spouse, etc.

"I want to congratulate you on your willingness to work with me to improve your financial situation."

"Thanks for being on time and for bringing your spouse."

"It looks like you came prepared!"

Privacy Act

Explain the Privacy Act Statement and get the client to sign.

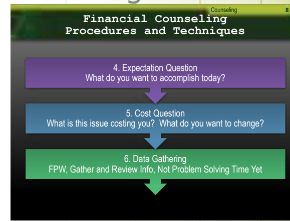
"Because I keep a record system, I need you to read and sign a Privacy Act Statement. You need to know that personal information discussed here stays here, unless you disclose something illegal or that is a violation of the UCMJ. Then I'll have to report that up the chain of command."

Normalizing

Normalize the client's feelings and past experience with personal finances.

"Most of us have experienced a financial crisis at some time in our lives."

"I understand it can be uncomfortable to discuss personal finances with others. However, we will need to take a close look at what's going on in order for both of us to understand your financial situation. Once we know exactly how things stand, we then can focus on solutions to improve your situation."



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Expectations

This is used to find out what the client wants or expects.

"What would you like to accomplish in the short time we have available? In other words, what do you want to take from this when you leave?"

This also will serve to help you and your clients identify their presenting financial problems.

Cost

The cost question helps the client to see how their presenting financial problems are affecting their life.

"I'm wondering, what do believe [problem] has cost you already, not just in terms of dollars, but also in terms of your ability to concentrate on your work, your job performance, your relationship with other key people in your life (for example, your family), in terms of self-confidence and self-respect, or in terms of peace of mind?" After they respond to this question, follow-up with what they want to change.

"What specifically do you want to change?"

Compliment client(s) on identifying their problem and their desire to make some changes in how they manage their personal finances. This is a good time to introduce the Financial Planning Worksheet (FPW).

"Congratulations on taking positive action to do something about your current financial situation. What I would like to recommend is that we use a Financial Planning Worksheet that has been developed especially for military members and their families. It will help us take a "financial snapshot" so that we can see exactly what your financial situation is as of today."

Emphasize to your client(s) that their FPW and the resulting plan that you will help them develop will be only as good as the information they provide. You also can remind them that it works like the old saying regarding the use of computers:

"This plan will be only as good as the figures that you provide. It's sort of like that old saying about using computers: 'garbage in, garbage out.' "

Data-Gathering

Use the FPW to begin the financial-planning process once you believe the client is ready. Avoid any judgments or assessments. Just gather or review the information provided. Avoid verbally or non-verbally confirming the client's self-limiting beliefs and statements. This is data-gathering time; it's not problem-solving time. *TRUST THE PROCESS! IT REALLY WORKS!* Once you have calculated the surplus or deficit and the debt-to-income ratio, ask the client how they feel about the accuracy of the numbers.

"Does a $200-a-month deficit sound about right to you?"

"Do you believe this is accurate, or is it too high or low?"

If the client says it is not accurate, you may want to review the income, expense and indebtedness information and look for discrepancies. Know that clients often underestimate their monthly expenses, because they usually keep no records. If the client confirms the bottom line, then you are ready to look at options or solutions that the client can implement.

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Miracles and Exceptions

For clients who are "stuck" on their problem, or who are particularly negative, now is an appropriate time to ask the miracle question.

"If a miracle were to happen tonight and the [problem] went away, what would your life be like—what would be different in the morning?"

This helps the client to view their future without their [problem]. It allows the client to imagine what life would be like when their [problem] has been solved. Give the client time to reflect on this question. This will move the client toward wanting to achieve resolution and will be a good opportunity for you to return to the FPW to complete the remaining sections.

You also may want to ask stuck or "tough" clients about exceptions to the problem.

"When does the [problem] not occur? What is happening when the [problem] doesn't occur? When was the last time the [problem] wasn't occurring? What was different about that time?"

Focusing on exceptions also enables the client to view their life without the problem. It allows you to "catch the client in their successes, not their failures."

Options

This is problem-solving time where the focus is on options and solutions to the client's financial situation.

"Now that we know the extent of the [problem] and what is going on, and we have had a glimpse of what the future could be like without the [problem], we can begin to look for possible options or solutions to deal with it. We will be looking at options in three areas: options to increase income, options to reduce living expenses, and options to reduce or manage the debt load better. I will record all of them on the FPW Action Plan."

Now also is a good time to ask the client about options they have been considering and to compliment them or validate their ideas for changing their financial situation.

"So, what have you done about this already?" (and what else, and what else)

"So, what have you thought about doing?" (and what else, and what else)

Get at least three options or contemplated actions. This is an opportunity to get the client involved in solutions to their own problems. Remember, compliment the client on their solutions.

Projected Column

Complete the projected column on the three pages of the FPW involving Income, Living Expenses and Indebtedness. Enter new dollar amounts in the Projected or "P" column based on the effect of implementing the various options discussed. When finished, calculate a new bottom line (surplus or deficit). If there is a surplus, compliment them on their hard work and willingness to consider new options or solutions to their financial situation.

"You've done some really good work here and have come up with a number of options that will help your current financial situation."

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Spending Plan

Next, show the client how to set up a Spending Plan based on their new spending targets using the Projected column figures. It is important to point out to your clients that the spending plan concerns how they spend their take-home pay and does not include any expenses or creditors paid by allotment. In the eyes of some financial experts, this is the most important part of the whole process, since the spending plan is really the "road map" for the client to use that will help them change their spending behavior. It also will give them the opportunity to assess their progress toward achieving their new spending targets.

"I will help you set up your spending plan for the first month and show you how it works and how you can use it to measure your success in achieving your new spending targets. Please remember that this plan only includes those expenses and creditors paid out of your take-home pay. We do not need to include those expenses or creditors paid by allotment, since they already are being paid."

Monthly Spending Record

At this time you will want to introduce the Monthly Spending Record, which is a method of tracking their actual spending in the various categories on a daily basis. Again, we are concerned only about expenditures involving take-home pay. At the end of each pay period, the expenditures in each category are totaled and entered in the Actual (what they actually spent) or "A" column.

"You will want to track your expenses carefully on a daily basis each pay period for several months. I will show you how to do the first month. This will allow you to discover where the 'leaks' are and how well you are doing in terms of achieving your new spending goals. It also may indicate where you need to make adjustments in future months. You will know that you have met your spending targets when the 'A' column totals for each month either equal or are less than the 'P' column totals. This will be a giant step on the road toward reaching your financial goals."

Closing

Ask about the client's expectations and bring closure to the session. Ask the client what they see themselves doing first when they leave your office.

"What do you see yourself doing first after you leave here today?"

Look for opportunities to reinforce and compliment your client's willingness to take action. Help the client visualize implementing their options and any difficulties they might have.

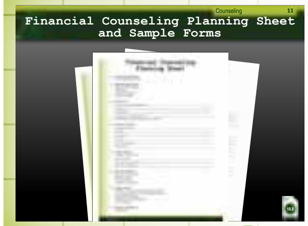
"What options will you implement immediately?"

"How will you know when they have been implemented?"

"What difficulties do you foresee in implementing these options?"

Establish a can-do mind-set. Rehearse accomplishing the various options and the likely outcomes when the client completes them. Lastly, set up an appointment for follow-up to review client's progress. Close by saying something positive.

"I can hardly wait to hear about your successes when we get together again."



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Counseling Forms

Refer learners to pages 18.8 through 18.11 in their Student Manual for a review of the counseling forms: Financial-Counseling Planning Sheet, PFM Client Information Sheet, PFM Case Activity Notes, and PFM Case Closing Form. TELL learners now that we have reviewed the Eight-Step Counseling Cycle and the basics of Solution-Focused Financial Counseling, and have set up specific procedures and techniques to apply SFFC, you may find the Financial-Counseling Planning Sheet helpful as it puts the two together in outline form. New counselors may find it helpful to use the detailed SFFC Procedures and Techniques during a session, while experienced counselors may find all they need is the outline form on the Planning Sheet. Other sample forms have been provided that may assist you in your data-gathering and with case notes.

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Measuring Success

ASK learners, after a financial-counseling session, how do you know if you were successful? The following are some indicators of a successful financial-counseling session:

1. The client actively participated during the session and especially was involved in expanding options and solutions to improve their present financial situation.
2. The client took ownership of their problem and the need to take positive action.

3. The client prioritized options and explored possible outcomes.
4. A positive change occurred in the client's mood and demeanor during the session. Especially revealing, in some cases, is when a client leaves verbalizing a sense of hope about the future and has a relieved look on their face.
5. The client is willing to come back for follow-up.
6. If the session involved a married couple, both spouses reached consensus on the financial plan that was developed and what options or solutions they were going to implement.

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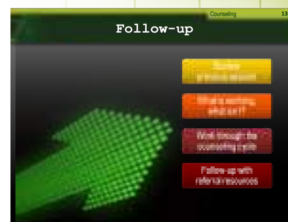

Following-Up

Follow-up is an important part of the counseling process and usually is required, especially for remedial counseling cases. It's worth mentioning again that SFFC is short-term counseling, meaning that the number of sessions will be limited (usually two to five) and usually will not exceed two to three months in duration. If more intense or lengthy counseling and assistance is required, referral to an appropriate civilian or military agency is recommended. When following-up with a client, it's usually helpful to review what was discussed in the previous counseling session. This can be done by using either the FPW itself or the Financial-Counseling Planning Sheet, depending on what type of record system a CFS chooses to keep. If the client keeps the only copy of the FPW, it's important to have them bring it with them during a follow-up session.

During a follow-up session, determine what is working and what isn't working and why. Help the client discover other solutions or options that will help them overcome any stumbling blocks. It may be necessary to revisit the FPW and modify some of the projected or "P" column entries in the monthly income, living expense or indebtedness pages. Again, record any new options or solutions in the Action Plan and modify the Spending Plan accordingly. Good follow-up is necessary to ensure that clients stay motivated, experience success, and gain confidence in managing their personal finances. Remember that there is no failure when working with financial clients — only other ways of doing things.

Optional Activity: Counseling Session Demonstration

Time: 5 minutes

Procedure: After reviewing the Financial-Counseling Procedures and Techniques, but before the Role-Play, you may want to demonstrate a "typical" counseling session using the procedures and techniques discussed. Ask for a volunteer who has experienced a financial problem in the past and who wants to participate in a brief demonstration. Arrange some furniture into a counseling set-up. Ask the volunteer to be the "client" for the demonstration. Ask that they remember back to the time when they were having financial problems and to "role-play" that time again, and just to follow your lead. The instructor should use the steps on the Financial-Counseling

Planning Sheet, as well as the techniques in the Financial-Counseling Procedures and Techniques, to conduct a brief counseling demonstration.

> **NOTE:** *Take a short break before starting the John Dough Role-Play Activity. EXPLAIN that when the class returns from the break, they will be conducting a counseling role-play, and the instructions are on page 18.12 of the Student Manual. Ask for volunteers to be a client for each group, and suggest that those learners with the most counseling experience volunteer for this role. When you have the right number of volunteers, put the class on break, and give the client volunteers the Client Profile Package to read during the break.*

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Activity: Financial-Counseling and Communication-Skills Role-Play

Introduction: The John Dough Role-Play is a counseling exercise designed to take a client and the CFS through a counseling case study from beginning to end. The class will be divided into groups, with three to six people per group. Instructor will need a place for each group to work on their role-play. Depending on classroom size, more than one group may be able to conduct their role-play in the classroom, as long as it doesn't get too noisy. Otherwise, have separate offices/spaces reserved before the start of the lecture. Each group will conduct the same role-play at the same time. The instructor team should circulate among the groups, observing and offering suggestions as needed.

Time: 60 minutes

Materials:

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Role-Play Instructions, Student Manual page 18.12

Client Profile Package (one complete package per group; each package includes Client Profile, Sample LES, Monthly Budget, Letter of Indebtedness, Certificate of Compliance, Copy of Contract)

Extra hard copies of Financial Planning Worksheet (one per group)

Procedure:

1. Before role-play, divide the class into several groups of four to six learners Choose one "client" volunteer per group and give each a Client Profile Package for their review (only the client volunteer sees the client package).
2. Explain the role-play to the class. Have each learner read the Role-Play Instructions, preferably during the break between the counseling lecture and the start of the role-play. Explain that the class will be divided into groups; each group will have a CFS and a client, and any remaining group members will be "advisers." Each group will conduct the same counseling session at the same time and should try to complete the session during the time allotted, following the procedures discussed during the counseling lecture. Suggest that each group use the Financial-Counseling Planning Sheet, Student

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on page 18.8 as a guide, and tell them they will need to bring ”into session” all the tools they would need for a normal counseling session (calculator, FPW, Privacy Act Statement, I&R information, etc.). Reinforce that when the ”client” is in the room and the group is ”in session,” only the client and the CFS may speak. If the advisers want to speak, or if the counselor needs help, they must call a ”freeze” or timeout and ask the client to leave the room; then they may discuss their strategy. When they are done and ready to go back ”into session,” they should call the client back into the counseling room and continue the session, with the advisers again being silent observers.

3. Ask the client volunteers to step aside for a moment. Divide the remainder of the class into the predetermined number of groups and tell each group where they will conduct their sessions. Tell each group that they need to select someone to be the ”starting” CFS. Each group can determine whether the starting CFS will see the whole session through to the end, or whether they will trade off. Groups should proceed to their site and prepare for the session per the Role-Play Instructions. The preparation should take no longer than 10 minutes.

4. While the groups are breaking out, gather the ”client” volunteers and ask for any questions or clarifications regarding the client profile. Tell each client volunteer with which group they will work.

5. The instructor team should circulate among the groups to ensure they are ready to begin. Each CFS should be prepared with FPWs, calculators, pencils, Privacy Act Statements, Financial-Counseling Planning Sheets, etc. Make sure the ”sessions” begin no later than 5 minutes after breaking into groups.

6. The instructor team should observe counseling techniques. If a CFS is in a jam, the instructor should feel free to call a freeze and do some coaching. Experience has shown that CFSs tend to jump right in and start the FPW and never ask for the client’s information (he brings his own budget with him, and the counselor should ask for and use it, rather than create a new one). CFSs also tend to refrain from asking personal questions. Be sure to include the ”advisers” on any coaching you may do with a group. Note: If the CFS asks the client for paperwork, the client should show the CFS everything from the Client Profile Package except the client profile.

Slide 15

7. When the allotted time is up, ask each group to stop where they are in the session and gather back in the classroom. Conduct a debrief by asking each CFS what was effective and ineffective, and what was difficult. Ask the clients to comment on the effectiveness of the session and what improvements they would recommend. The instructor team should offer its own observations on the sessions as well. You also may want to ask one of the groups to summarize the presenting problems, real reasons, and solutions to the role-play.

8. Solution: Point out the major issues — budgeting, overspending, tax-with-

holding status, the use of TRICARE, counseling — and the main referral is to NMCRS. It is within NMCRS policy to assist with car payments and insurance given this situation, but they likely would not assist an individual who is overspending with lifestyle purchases and then not making their car payments.

VII. FORMS

- Triad Exercise Scenarios
- Interviewing Checklist
- The Eight-Step Counseling Cycle
- Solution-Focused Financial Counseling Facts
- Financial-Counseling Procedures and Techniques
- Financial-Counseling Planning Sheet
- PFM Client Information Sheet
- PFM Case Activity Notes
- PFM Case Closing Form
- Role-Play Instructions
- Financial-Counseling Package for Client
  - Client Profile
  - Sample LES
  - Monthly Budget
  - Letter of Indebtedness
  - Certificate of Compliance
  - Fib's Auto Contract

Triad Exercise Scenarios

Situation 1:

Your soon-to-be ex-spouse has run up some serious debt on your joint accounts. He refuses to pay for any of it and says you owe it to him for all those years of putting up with you. You have no idea just how much debt has accumulated; how to stop him from ruining your credit; or where to go for help. Evaluations for E-6 are due, and you know that if the command gets wind of this, it could hurt your evaluation. You need to be able to handle this situation, but you are a bit overwhelmed by it.

Situation 2:

DFAS, for reasons known only to them, stops your sea pay of $200. Because of this shortage, the rent will be late again. Your landlord already assessed a late fee for last month and has started the eviction process. Your wife is very upset with you and the Navy for this situation. She threatens to take your 3-month-old and move in with her mother until "you get your act straight and act like a man." These words infuriate you, and you go drinking all night. You're late to quarters, and your DIVO does a PG-13 counseling chit on you. Now what?

You go see PSD, but their system is down. Time is ticking away, and you still haven't resolved this matter. You remember some guy at INDOC that helps with financial matters. His name happens to be on the POD, and his acronym is CFS.

You've heard about payday-loan companies that can help when you get in a financial bind. Not a bad idea. You need only $200 to cover expenses this month, but you can get up $500, and that extra cash certainly will come in handy.

Situation 3:

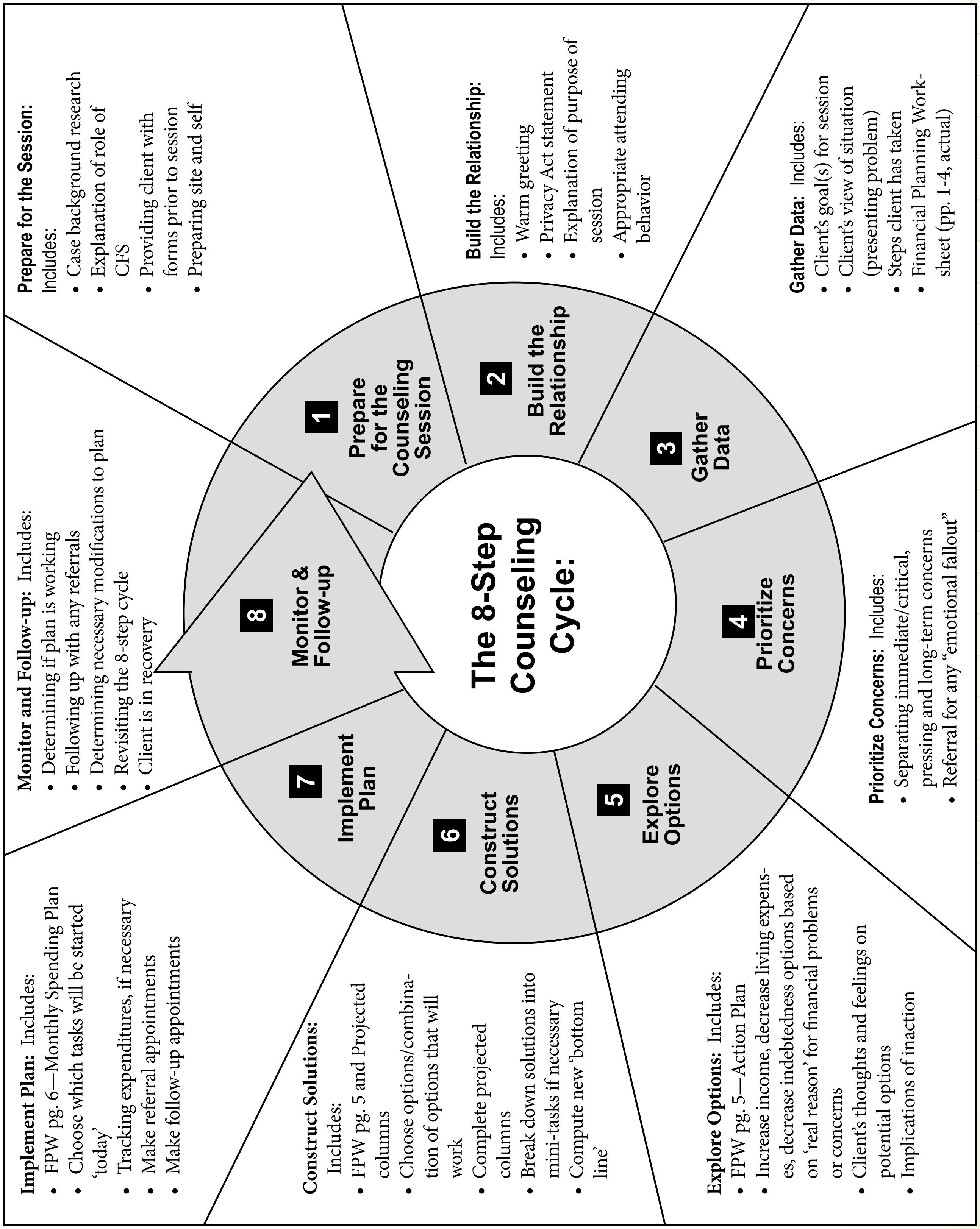
You would like to buy a house. However, you discover during the loan-application process that there are several errors on your credit report. The mortgage company declined your application. You need to go see someone, or call someone, or write to somebody, because this just isn't right. But, who do you call, who do you see, where do you send the letter? You remember an ad you saw about a "credit-repair clinic," and you think that's exactly what you need. What's a "Beacon score," anyway? And how can you improve yours? Perhaps your CFS can explain your Beacon score to you.

Interviewing Checklist

- ☐ Are you ready for the session? Right frame of mind? Counseling materials at hand?
- ☐ Is the client ready for the session? Appointment? LES? Expenses? Supporting documentation?
- ☐ Cordial greeting
- ☐ Explain your role
- ☐ Remain objective
- ☐ Privacy Act Statement
- ☐ What does the client want to achieve? What does the client perceive as the problem?
- ☐ What does the client believe has lead to/contributed to this problem?
- ☐ What has the client identified as immediate concerns/needs?
- ☐ Are there any immediate needs (i.e., basic security, food, housing, transportation, clothing, medical attention, childcare, safety issues?) These must be addressed before attempting any further rehabilitative counseling.
- ☐ Long-term concerns/needs? Referrals?
- ☐ Are there situations requiring change or crisis intervention?
- ☐ Evaluate needs vs. wants
- ☐ Eye contact
- ☐ Active listening skills
- ☐ Who is talking more, you or the client?
- ☐ Tell me…
- ☐ Pay attention to what the client is saying and what the client is NOT saying. Is there a big gap in the story?
- ☐ What action has the client already taken?
- ☐ What are possible options/solutions? Benefits and risks of each? Ramifications of action and/or inaction?
- ☐ Develop a plan — client must choose the options that are right for his/her family/life.
- ☐ Spending log/record
- ☐ Is monitoring/follow-up an option? Internal? External?
- ☐ Referrals?
- ☐ Leading questions/lead-ins:
    - How can I help you today?
    - What do you see going on financially in your life?
    - What do you see as the cause of the situation?
    - How do you want to handle this?
    - What options have you considered?
    - What have you done so far?
    - How did that work?

Reminder: These are cues/clues to you. The client should be providing the information and solutions. Your job is to guide them into solving their own problems.

The 8-Step Counseling Cycle



Solution-Focused Financial Counseling Facts To Remember

Solution focused counseling is a way of thinking, a way of conversing with clients, and a way of constructing solutions interactively.

The Solution Focused Financial Counseling session structure is:

1. Short-term
2. Goal-oriented
3. Task-Centered
4. Positive
5. Encouraging

SFFC builds on basic techniques such as eye contact, reflective listening, attentive posture, nodding to indicate understanding, positive attitude, mutual respect, empathy vice sympathy, self-disclosure, genuineness, sincerity, honesty, remaining non-judgmental, and asking open-ended vice closed-ended questions.

Counseling Fundamentals

1. Normal People, Normal Problems: remember that clients are normal people with normal problems. Initially, most clients will be experiencing one or more of the full range of normal human emotions and feelings such as anxiety, sadness, anger, mild depression, failure, or frustration.
2. Situation will get better or worse without your help: realize that whatever the client's financial situation, it will either get better or worse even without any intervention by a CFS. Recognize that regardless of what you do, things will change, and with the help of a trained CFS, we increase the likelihood of change in a positive direction.
3. Client has the ability to solve their problem: they just need help in discovering what options and solutions exist. The CFS's can help clients better understand their present situation and motivate them to explore various options that will improve their situation.
4. Clients feel vulnerable: this is why building trust and confidence is so important to the SFFC process.
5. Couples have unique needs: by the time couples seek or are referred for financial counseling, they have already had a number of "intense discussions" about spending money and who played what role in their present financial situation. There is a tendency to blame each other for their present difficulties. It's important for a CFS to remember that couples have different values regarding the use of money. Avoid playing the role of referee. It is extremely important to get both spouses involved in being part of the solution. In cases where a CFS can work with only one spouse, recognize that whatever plan is developed must be "sold" to the spouse who is not present. Joint ownership and joint commitment are essential for any financial plan to succeed.

Financial Counseling Procedures and Techniques

1. **Initial contact** should **start with a smile** and **warm greeting**. Recognize that people may be apprehensive. It is important to make **small talk** or use humor to help them **relax**. **Compliment** them on their willingness to work with you, for being on time, or for bringing spouse, etc.

   "I want to congratulate you on your willingness to work with me to improve you financial situation."

   "Thanks for being on time and for bringing your spouse."

   "It looks like you came prepared!"

2. **Privacy Act Statement** — Explain the Privacy Act Statement and get client to **sign.**

   "Because I keep a record system, I need you to read and sign a Privacy Act Statement. You need to know that personal information discussed here stays here, unless you disclose something illegal or that is a violation of the UCMJ. Then I'll have to report that up the chain of command."

3. **Normalize** client's **feelings** and **past experience** with personal finances.

   "Most of us have experienced a financial crisis at some time in our lives."

   "I understand it can be uncomfortable to discuss personal finances with others, however, we will need to take a close look at what's going on in order for both of us to understand your financial situation. Once we know exactly how things stand, we can then focus on solutions to improve your situation."

4. **Expectation question** — This is used to find out what the client **wants** or **expects**.

"What would you like to accomplish in the (short) time we have available? In other words, what would you like to leave here with?"

   This will also serve to help you and your clients identify their presenting financial problems.

5. **Cost Question** — Helps the client to see **how** their presenting financial problem/s is/are **affecting** their **life.**

   "I'm wondering, what [problem] has ***cost*** *you already, not just in terms of dollars, but also in terms of your ability to concentrate on your work, your job performance, your relationship with other key people in your life (e.g. your family), in terms of self-confidence and self-respect, or in terms of peace of mind?"*

   After they respond to this question, follow-up with what they want to change.

   "What specifically do you want to change?"

   Compliment client(s) on identifying what's going on and their desire to want to make some changes in how they manage their personal finances. This is a good time to **introduce the Financial Planning Worksheet** (FPW).

   "Congratulations on taking positive action to do something about your current financial situation. What I would like to recommend is that we use a Financial Planning Worksheet that has been developed especially for military members and their families. It will help us take a 'financial snapshot' so that we can see exactly what your financial situation is as of today."

   Emphasize to your client(s) that their FPW and the resulting plan that you will help them develop will only be as good as the information they provide. You can also remind them that it works like the old saying regarding the use of computers.

   "This plan will only be as good as the figures that you provide. It's sort of like that old saying about using computers, garbage in garbage out."

6. **Data gathering time.** Use the FPW to begin the financial planning process once you feel the client is ready. Avoid any judgments or assessments. Just **gather** or **review** the **information** provided. Avoid verbally or non-verbally confirming client's self-limiting beliefs and statements. This is data gathering time, it's **not** problem solving time. *TRUST THE PROCESS! IT REALLY WORKS!* Once you have calculated the surplus or deficit and the debt-to-income ratio, ask the client how they feel about the **accuracy** of the numbers.

   "Does a $200 dollar-a-month deficit sound about right to you?"

   "Do you feel this is really accurate, or is it too high or low?"

   If the client says it is not accurate, you may want to go back and review the income, expense and indebtedness information and look for discrepancies. Know that clients often underestimate their monthly expenses because they usually keep no records. If the client confirms the bottom line, then you are ready to look at options or solutions that the client can implement.

7. **Miracles and Exceptions** — For clients who are 'stuck' on their problem, or who are particularly negative, now is an appropriate time to ask the miracle question.

   "If a miracle were to happen tonight and the [problem] went away, what would your life be like – what would be different in the morning?"

   This enables the client to view their future without their [problem]. It allows the client to imagine what life would be like when their [problem] has been resolved. Give the client time to reflect on this question. This will move the client toward wanting to achieve resolution and will be a good opportunity for you to return to the FPW to complete the remaining sections.

   You may also want to ask stuck or 'tough' clients what the exceptions to the problem are.

   "When does [the problem] not occur? What is happening when [the problem] doesn't occur? When was the last time [the problem] wasn't occurring? What was different about that time?"

   Focusing on exceptions also enables the client to view their life without the problem. It allows you to 'catch the client in their successes, not their failures.'

8. **Discuss options.** This is **problem-solving time** where the focus is on options and solutions to the client's financial situation.

   "Now that we know the extent of the [problem] and what is going on, and we have had a glimpse of what the future could be like without the [problem], we can begin to look for possible options or solutions to deal with it. We will be looking at options in three areas: options to ***increase income****, options to* ***reduce living expenses****, and options to* ***reduce or better manage*** *the* ***debt load****. I will* ***record all*** *of them on the FPW Action Plan."*

   Now is also a good time to ask the client about options **they** have been **thinking about** and to **compliment** them or validate their ideas for changing their financial situation.

   "So, what have you done about this already?" (and what else, and what else)

   "So, what have you thought about doing?" (and what else, and what else)

   Get at least **three options** or contemplated actions. This is an opportunity to get the client involved in solutions to their own problems. Remember, **compliment** the client on their solutions.

9. **Complete the projected column** on the three pages of the FPW involving Income, Living Expenses and Indebtedness. Enter new dollar amounts in the Projected or "P" column based on the effect of implementing the various options discussed. When finished, calculate a new bottom line (surplus or deficit). If there is a surplus, **compliment** them on their hard work and willingness to consider new options or solutions to their financial situation.

   "You've done some really good work here and have come up with a number of options that will help your current financial situation."

10. **Spending Plan** — Next show the client how to set up a Spending Plan based on their new spending targets using the **projected column** figures. It's important to point out to your clients that the spending plan concerns how they **spend** their **take home pay** and does not include any expenses or creditors paid by allotment. In the eyes of some financial experts, this is the most important part of the whole process, since the spending plan is really the "road map" for the client to use which will help them change their spending behavior. It will also give them the opportunity to assess their progress toward achieving their new spending targets.

    "I will help you set up your spending plan for the first month and show you how it works and how you can use it to measure your success in achieving your new spending targets. Please remember that this plan only includes those expenses and creditors paid out of your take home pay. We do not need to include those expenses or creditors paid by allotment, since they are already taken care of."

11. **Monthly Spending Record** — At this time you will want to introduce the Monthly Spending Record, which is a method of tracking their actual spending in the various categories on a daily basis. Again we are only concerned about expenditures involving **take home pay**. At the end of each pay period, the expenditures in each category are totaled and entered in the **Actual** (what they actually spent) or **"A" column**.

    "What you will want to do is to carefully track your expenses on a daily basis each pay period for several months. I will show you how to do the first month. This will allow you to discover where the 'leaks' are and how well you are doing in terms of achieving your new spending goals. It may also indicate where you need to make adjustments in future months. You will know that you have met your spending targets when the 'A' column totals for each month either equal or are less than the 'P' column totals. This will be a giant step on the road toward reaching your financial goals."

12. **Closure** — Ask about client's expectations and **bring closure** to the session. Ask the client what they see themselves doing first when they leave your office.

    "What do you see yourself doing first after you leave here today?"

    Look for opportunities to **reinforce** and **compliment** your client's willingness to take action. **Help** the client **visualize implementing** the **options** and any difficulties they might have.

    "What options will you implement immediately?"

    "How will you know when they have been implemented?"

    "What difficulties do you foresee in implementing these options?"

    Establish a **can-do mindset**. Rehearse accomplishing the various options and the likely outcomes when the client completes them. Lastly, set up a day and time for **follow-up** to review client's progress. Close by saying something positive.

    "I can hardly wait to hear about your successes when we get together again."

Financial Counseling Planning Sheet

1. **Prepare for the Session**
   Case background research

2. **Build the Relationship**
   Smile and warm greeting
   Compliment
   Privacy Act Statement
   Normalize feelings

3. **Gather Data**
   What is the presenting problem? ______________________________
   Expectations______________________________
   Cost Question ______________________________
   What steps has client has taken? ______________________________
   Financial Planning Worksheet (pp. 1-4, actual)

4. **Prioritize Concerns**
   Immediate/critical:______________________________
   Pressing: ______________________________
   Long-term: ______________________________
   Referrals: ______________________________
   (Miracle Question)______________________________
   (Exceptions) ______________________________

5. **Explore Options**
   FPW pg. 5—Action Plan
   Increase income: ______________________________
   Decrease living expenses:______________________________
   Decrease indebtedness: ______________________________

6. **Construct Solutions**
   FPW pg. 5—Action Plan
   Projected column
   New 'bottom line'
   Compliment the client

7. **Implement Plan**
   FPW Pg. 6—complete the Monthly Spending Plan
   Tracking expenditures—Monthly Spending Record
   Bring Closure to Session
   Visualize Implementing Options
   Can-do mind set

8. **Monitor and Follow-up**
   Day and time

PFM Client Information Sheet

Form is used to collect client information. For a married couple, the active duty member is the primary client. File the completed form in the PFM case record.

Date Case Opened:	Date Case Closed:
Client's Last Name:	Client's First Name:
If spouse accompanies client, last and first name:	

Client Contact Incormation

Work Phone:	Home Phone:	E-mail:
Command:	Rank:	
Assigned FFSP Counselor:		

Command Contact Information (For Command-Directed Clients Only)

Name:	Phone Number:
Corresponding case activity note is written to document contact made with Command to provide required feedbac	

Quality Control Reviews

If this case is reviewed for quality control purposes, document date and reviewer name in this section. Not all case records will have a QC notation.	
Reviewer:	Date:
Reviewer:	Date:

PFM Case Activity Notes

Use this form to document contact and activity pertaining to a PFM case record. File this form in the PFM case record.

Client's Name:

Initial Contact Date:

Nature of Financial Issue(s):

Plan of Action:

Next Scheduled Appointment:

PFM Counselor: Signature:

Follow-up Contact Date:

Summary/Changes to Plan of Action:

Next Scheduled Appointment:

PFM Counselor: Signature:

Follow-up Contact Date:

Summary/Changes to Plan of Action:

Next Scheduled Appointment:

PFM Counselor: Signature:

Follow-up Contact Date:

Summary/Changes to Plan of Action:

Next Scheduled Appointment:

PFM Counselor: Signature:

Follow-up Contact Date:

Summary/Changes to Plan of Action:

Next Scheduled Appointment:

PFM Counselor: Signature:

Closing Date:

Closing Summary:

PFM Counselor: Signature:

PFM Case Closing Form

E&T Supervisor uses this form to conduct a quality control review of all closed PFM cases. File completed form in the PFM case record.

Client's Name:	**Review Date:**

PFM case record should include the following items.
Provide comments as appropriate.

- ☐ 1. Signed and witnessed Privacy Act Statement
- ☐ 2. Completed Financial Planning Worksheet
- ☐ 3. Summary of client's financial issues and plan of remediation on the first case activity note.
- ☐ 4. Follow-up activity notes, signed and dated.
- ☐ 5. Case closing summary completed by assigned FFSP staff member.
- ☐ 6. Case closed when assistance is no longer needed or after 45 days (but not more than 60 days) of no client contact.
- ☐ 7. Client Information Sheet present.
- ☐ 8. Ensure electronic record is deleted.

Role Play Instructions—ET1 John Dough

1. In your group, you will select one person to act as a Command Financial Specialist (CFS).

2. The role of the Command Financial Specialist is as follows:

   Two days ago, ET1 John Dough's division officer made an appointment with you, the Command Financial Specialist, because the command received a letter of indebtedness from Fib's Auto. Apparently, PO Dough has missed payments for the last two months. His division officer told you that normally Dough is a good worker, but last week was caught sleeping in his compartment.

   You called ET1 Dough after the appointment was arranged and asked him to bring in a copy of his LES and a list of his monthly living expenses and indebtedness. He stated that it would not be possible for his wife to accompany him for the appointment.

3. ET1 Dough will receive a role profile, with background information, from the instructor. The person acting as ET1 Dough is the client.

4. In your group, arrange the chairs as shown below. The CFS will counsel ET1 Dough. Remaining members of the group will act collectively as advisors to the CFS and may observe, but should not speak to the client. (As far as the CFS and ET1 Dough are concerned, they are not present.) If the advisors have suggestions or the CFS needs advice, someone calls "freeze," at which time the CFS and advisors have a conference to discuss strategy. ET1 Dough should walk away from the group as they discuss their strategy. After the discussion, call "unfreeze," and resume the role play. At any point, the group can decide to designate another CFS to provide opportunities for everyone to practice counseling skills.

5. Allow about five minutes for the Command Financial Specialist and advisors to plan their strategy for the counseling session.

6. Once the counseling encounter is over, the class will discuss ways in which the Command Financial Specialist and the advisors applied financial counseling and communication techniques.

Client Profile—ET1 John Dough

Name: ET1 John Dough
USN Command: USS Always Sail
Whole Years of Creditable Service: 18
Quarters: Renting civilian housing
Dependents: Wife, Mary; children, boy (12), girl (10), girl (5)
Tax-Filing Status: M0 (married, no exemptions)
Allotments: XYZ Bank/personal loan — $100; NMCRS — $10; ABC Discounts — $100

The command received a Letter of Indebtedness last week from Fib's Auto because you have missed the last two monthly payments. You owe Fib's $650 in back payments (two monthly payments of $325). Your next monthly payment is due in 10 days, and you are not sure if you can make this payment either.

Lately, things have been piling up on you at work and at home. The division officer had you in his office last week regarding your performance. One night last week, the problems were too much to handle. After taking care of your wife and kids, you went out and got drunk. The next morning, you were late getting to work and gundecked some PMS checks. When you tried to sleep it off in the compartment, you got caught. The division officer gave you a warning, because you have been a good performer in the past. Now all of this has happened!

Your 5-year-old daughter was born with a birth defect that requires her to wear leg braces. Last year, you and your wife were told that she also has a mild form of autism. The doctor recommended that your wife quit her job to stay home with the child. The special training and therapy she requires is very expensive, as are some of the special macrobiotic diets you're trying. Things have been snowballing for you since— especially with the loss of your wife's income. It seems that you always have "too much month left at the end of each paycheck." When the doctors made the initial diagnosis, you were so worried that you spent quite a bit of your own money on medical bills instead of waiting for TRICARE to pay.

Your wife stays so busy with your children that you never have time for each other anymore. It is starting to cause some tension between you and your wife, and your fights continue to increase from week to week. Every time you try to talk to her about it, she is too tired. You have been trying to make things better between the two of you by "treating" the family to more meals out and a few extra "goodies" around the house to make things easier for her.

The money you normally use to make the car payment just has not been available during the past two months because of extra expenses you have incurred. When you tried to negotiate with the credit manager at Fib's, he was not cooperative.

This role-play is a hypothetical situation. It is provided solely for training purposes.

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	910101	18	041122	NAVY	4015	THIS MONTH	A

	ENTITLEMENTS Type	Amount	DEDUCTIONS Type	Amount	ALLOTMENTS Type	Amount	SUMMARY	
							+ Amt Fwd	.00
A	BASE PAY	3369.90	FEDERAL TAXES	410.99	DISCRETIONARY ALT	100.00	+ Tot Ent	5463.97
B	BAH	1235.00	FICA-SOC SECURITY	208.93	DISCRETIONARY ALT	100.00	− Tot Ded	3103.35
C	CSP	480.00	FICA-MEDICARE	48.86	AFAF ALLOT	10.00	− Tot Almt	240.29
D	BAS	323.87	SGLI FOR 250,000	27.00	TRICARE DENTAL	30.27	= Net Amt	2120.33
E	CRA	55.20	AFRH	.50			− Cr Fwd	.00
F			MEAL DEDUCTION	286.75			= EOM Pay	
G			MID-MONTH-PAY	2120.32				
H								
I								
J								
K	B		C		D			E
L							$2120.33	
M								
N							DIEMS	RETPLAN
O							XXXXXX	REDUX
	TOTAL	5463.97		3103.35		240.29		

		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
F	LEAVE	15.0	3.0	.0	18.0	68.0	.0	0.0	.0	G		3849.90	11549.70	M	00	.00	1232.97

		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
H	FICA TAXES	3369.90	10109.70	626.79	10109.70	146.58	I		FL 3849.90	11549.70	M	00	.00	

		BAQ Type	BAQ Depn	VHA Zip	Rent Amt	Share	Stat	JFTR	Depns	2d JFTR	BAS Type	Charity YTD	TPC	PACIDN
J	PAY DATA	W/DEP	SPOUSE	23511	1200.00	1	A		4			30.00		

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

REMARKS: YTD ENTITLEMENTS: 16391.91 YTD Deductions: 2727.84

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 that 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 money 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 30 Sep.

"Ernd" is the cumulative amount of leave earned this fiscal year or current term of enlistment if service member re-enlisted/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" periodically will 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

Monthly Budget—ET1 John Dough

ENTITLEMENTS

Base Pay	$3,369.90
BAH	1,235.00
CSP	480.00
BAS	323.87
CRA	55.20
TOTAL ENTITLEMENTS	**$5,463.97**

DEDUCTIONS AND ALLOTMENTS

FITW (MO)	$410.99
SITW	0.00
FICA Social Security	209.93
FICA Medicare	48.86
SGLI	27.00
AFRH	0.50
Meal Deduction	213.00
Dental	30.29
Allotment – ABC Discounts	100.00
Allotment – XYZ Bank	100.00
AFAH Allotment	2.00
TOTAL DEDUCTIONS & ALLOTMENTS	**–1,149.57**
NET TAKE HOME PAY	**$4.314.40**

TOTAL NET MONTHLY INCOME

(NET + DISCRETIONARY DEDUCTIONS)

NET TAKE HOME PAY	$4,314.40
Allotment	100.00
Allotment	100.00
Allotment	10.00
SGLI	27.00
Dental	30.29
TOTAL NET MONTHLY INCOME	**$4,581.69**

MONTHLY LIVING EXPENSES

Rent	$1,200.00
Food	700.00
Electricity	100.00
Gas/Oil	60.00
Water/Sewage	30.00
Telephone	95.00
Gas for Car	100.00
Laundry	35.00
Auto Insurance	90.00
SGLI	27.00
Dental	30.29
Charity (allotment)	10.00
Newspaper	15.00
Internet	39.00
Magazines	10.00
Cable TV	95.00
Beauty Shop	45.00
Barber	20.00
Cigarettes	80.00
Soda	15.00
Beer/Wine	45.00
Dinner Out	350.00
Movies	90.00
Coffee Mess	6.00
Baby Sitter	350.00
Stamps	10.00
TOTAL MONTHLY LIVING EXPENSES	**$3,647.29**

DEBTS

CREDITOR	PURPOSE	BALANCE	MONTHLY PAYMENTS	APR
XYZ Bank (allotment)	Personal Loan	$ 2,400	$100.00	14%
NBD	Medical Bills	1,200	80.00	15%
Fib's Auto	Car	4,872	325.00	18%
Funny Money Card	Charge Card	1,180	75.75	18%
Good Life Store	Retail Charge Card	1,272	68.00	19%
E-Z Finance	Personal	4,000	150.00	20%
ABC Discounts (allotment)	Stereo/TV	1,450	47.00	19%
TOTALS		**$16,371**	**$840.75**	

Developed for: Command Financial Specialist Program

Letter of Indebtedness—ET1 John Dough

06/23/05

COMMANDING OFFICER
USS ALWAYS SAIL
FPO AE 09557-1516

RE: ET1 JOHN DOUGH

Dear Sir:

We wish to inform you of the activities of one of your crew members. ET1 John Dough currently is delinquent two payments on his account with Fib's Auto. The total amount due is $650, and his balance is $4,872.

We have attempted to work out an arrangement with him, but he has not responded to our requests. Let us assure you that we are in total compliance with all standards of fairness and disclosures. Please assist us in counseling your crew member.

Sincerely,

Butch Cassidy

Butch Cassidy
Collections Manager
Fibs Auto
9603 Shore Drive
Anywhere, USA

Certificate of Compliance—ET1 John Dough

Certificate of Compliance

I certify that Fib's Auto, upon extending credit to John Dough six months ago, complied with the full-disclosure requirements of the Truth-in-Lending Act and Regulation Z, and the Fair Debt Collection Practices Act (or the laws and regulations of the Commonwealth of Virginia), and that the attached statement is a true copy of the general and specific disclosures provided the obligor as required by law.

I further certify that the Standards of Fairness set forth in DoD Directive 1344.9 have been applied to the consumer-credit transaction to which this form refers. (If the unpaid balance has been adjusted as a consequence, the specific adjustments in the finance charge and the annual percentage rate should be set forth below.)

Harry Fibs
Authorized Representative

9603 Shore Drive
Street Address

Anywhere, USA
City, State and Zip Code

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	02	Ford Focus St Wagon	4 DR Wagon	4G3RF1234BB567890	X Personal Business

☒ Air Conditioning ☐ Radio ☒ 4-5 Speed Trans. ☐ Power Steering ☒ Other
☐ Sun Roof ☒ Stereo ☒ Automatic Trans. ☐ Custom Wheels
☐ Other (describe) ☒ CD

Odometer Miles: 86,905

THE FINANCE CHARGE IS CALCULATED ON A ☐ Precomputed ☒ Simple Interest Basis

FEDERAL TRUTH-IN-LENDING DISCLOSURES

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	**FINANCE CHARGE** The dollar amount the credit will cost you.	**AMOUNT FINANCED** The amount of credit provided to you or on your behalf.	**TOTAL OF PAYMENTS** The amount you will have paid after you have made all payments as scheduled.	**TOTAL SALE PRICE** The total amount of your purchase on credit, including your down payment of: $ 1300.00
18 %	$ 1290.00	$ 6509.00	$ 7800.00	$ 9100.00

YOUR PAYMENT SCHEDULE WILL BE

NUMBER OF PAYMENTS	AMOUNT OF PAYMENTS	WHEN PAYMENTS ARE DUE
24	$ 325.00	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

☒ $ 500 Deductible Collision and either

☒ 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. Broke-N-Down

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.

Wealth-Building Part I: Saving and Investing

I. INTRODUCTION

The Wealth-Building Seminar consists of two parts: Saving and Investing and Retirement Planning. The Saving and Investing chapter can be covered in 1 to 1.5 hours. This module is designed to develop knowledge and skills that will enable learners to save and invest effectively to achieve their own financial goals and to assist other members of the command to expand their knowledge base in this critical area.

Due to the complexity of the subject matter and a requirement for the presenter to possess sufficient background knowledge to field questions, this module provides more detail than normally can be presented in a 60-minute program. Additional detail is noted as Additional Instructor Information.

The instructor should have a listing of current rates of return and yields on all asset classes mentioned. Some updates are required to provide the most current information. Be sure to look for the update icon.

This training seminar is concluded at the end of Part II with an active review session involving the listening teams created here in Part I. This is an important step, as it enables learners to summarize and clarify lecture material while also providing feedback to the instructor on retention and comprehension.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** This chapter directly correlates to the PFMSC Saving and Investing Main Module. This module provides the opportunity to model the PFMSC. Learners have adequate exposure to the topic to allow them to present this training. Training techniques include quiz, match game, lecture and review activities.
2. **Information and Referral:** The Command Financial Specialist is charged with disseminating financial information to the command, and this chapter provides the learner with information that can be shared in a variety of ways, whether through training, bulletin boards, handouts, and/or POD/POW notes.
3. **Counseling:** The CFS often will meet with clients regarding saving and investing issues. At a minimum, a main goal of financial counseling is to move the client in the direction of wealth-building. This chapter will equip the CFS to counsel clients who face saving and investing issues.

II. LEARNING OBJECTIVES

Learners will demonstrate knowledge of the content presented by participating in a group listening exercise.

Learners will differentiate between components of the financial markets by participating in a group "What Is 'The Market'?" activity.

Learners will demonstrate an understanding of the impact of inflation by completing the "Has Inflation Affected You?" activity.

Using a group case study, learners will apply appropriate saving and investing suggestions to case study scenarios.

III. OUTLINE

1. Introduction
   a. Topics
   b. Activity: Listening Teams
   c. Starting Early
2. The Effects of Compound Interest and Time
3. The Financial-Planning Pyramid
   a. The Savings Level
4. The Tools of Saving
   a. Safety, Liquidity, Yield
   b. Regular Savings Accounts
   c. Certificates of Deposit
   d. Money Market Accounts
   e. U.S. Savings Bonds
5. Saving vs. Investing
   a. Time Frame
   b. Risk
   c. Inflation
   d. Optional Activity: Has Inflation Affected You?
   e. Taxes
   f. Compounding
6. The Tools of Investing
   a. Asset Classes

b. Fixed-Income: Bonds
c. Equity: Stocks
d. The Lessons
e. Mutual Funds
f. Optional Activity: One-Minute Review
g. What Is "The Market"?
h. Putting It All Together: The TSP Funds

7. The Techniques of Saving and Investing
   a. Pay Yourself First
   b. Participate in The Military Saves Campaign
   c. Maximize Any Tax-Deferred Investment Opportunities
   d. Make Regular, Steady Investments
8. Summary and Conclusion
   a. Take Action
   b. Optional Activity: Bump

IV. CHAPTER PREPARATION

Presentation Time: 60 to 90 minutes

Presentation Materials

- PowerPoint slides , "Saving and Investing"
- Optional Excel file: Compound Interest and Time
- Student Manual Chapter 19
  - Listening Teams
  - Compound Interest and Time: Rate of Return = 10 Percent
  - The Financial-Planning Pyramid
  - Has Inflation Affected You?
  - What Is "The Market"?
  - Thinking About Investing
  - Investing Resources
- White board, chalkboard or newsprint paper
- Markers or chalk
- Pens or pencils and blank paper for each learners

Preparation

- Review the chapter detail for update icons and be sure to have the most recent statistics for the presentation.
- If the session runs long, determine an appropriate breaking point and start again after lunch. Time has been allowed in Part II for this to happen. A natural breaking point occurs at the What Is “The Market”? Learner-centered Activity and again at the ”Techniques of Saving and Investing” section.
- Review the Listening Teams activity. Determine a method of creating new working groups. Allow time at the end of the complete seminar for this review activity.
- Determine a method of presentation for the What Is “The Market”? activity.

Summary of Learner-centered Activities:

- **“Has Inflation Affected You?”** A short activity showing how inflation increases the cost of things over time.
- **One-Minute Review:** A short review of content offering the instructor the opportunity to get the class to think about with which option they are most comfortable, and to point out that we all have the opportunity to create an individualized portfolio that balances our tolerance for risk and need for reward.
- **What Is “The Market”? Match Game:** Two optional presentation methods are described to introduce learners to key terms used in the financial marketplace.
- **Bump:** An energizer that summarizes key points at the end of a training session.

V. REFERENCES

Chilton, David. 1997. The Wealthy Barber. Rocklin, Calif.: Prima Publishing.

Downes, John, and Goodman, Jordan E. 1998. Dictionary of Finance and Investment Terms. Hauppauge, N.Y.: Barron’s Education Series Inc.

Edelman, Ric. 2003. The Truth About Money. Washington, D.C.: Georgetown University Press.

Garman, E. Thomas, and Forgue, Raymond E. 2006. Personal Finance, 8th Ed., Boston, Mass.: Houghton Mifflin Co.

Goodman, Jordan E. 2001. Everyone’s Money Book. Chicago, Ill.: Dearborn Trade.

Greenhut, John G. 2006. Mathematical Illusion: Why Dollar-Cost Averaging Does Not Work. Journal of Financial Planning, October 2006.

Pike, Bob, and Busse, Chris. 1995. 101 Games For Trainers. Minneapolis, Minn.: Lakewood Books.

Quinn, Jane Bryant. 2006. Making the Most of Your Money. New York, N.Y.: Simon and Schuster.

Robinson, Marc. 2000. Investing Basics. New York, N.Y.: Dorling Kindersley Publishing.

Stanley, Thomas J., and Danko, William D. 1996. The Millionaire Next Door. Atlanta, Ga.: Longstreet Press.

www.bankrate.com (current rate information)

www.bls.gov (Bureau of Labor and Statistics)

www.defenselink.mil/militarypay/ (OSD military compensation)

www.lifelines.navy.mil (Lifelines Services Network)

www.militaryonesource.com (Military OneSource Network)

www.savingsbonds.gov (TreasuryDirect and Savings Bond information)

www.militarysaves.org (Military Saves Campaign)

www.saveandinvest.org (FINRA Investor Education Web site)

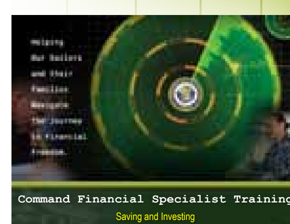
www.nko.navy.mil (Navy Knowledge Online)

www.ffsc.navy.mil (Fleet and Family Support Programs)

www.npc.navy.mil/careerinfo/staynavytools/ (StayNavy Web site)

VI. CONTENT

Slide 1



Introduction

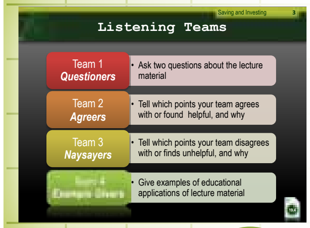
Now we are prepared to turn our attention to the end goal of Personal Financial Management — building wealth. The Wealth-Building Seminar is divided into two parts: Saving and Investing and Retirement Planning, which directly correlate to the PFMSC modules of the same names. When we have completed the Wealth-Building Seminar, you will be equipped to conduct training on these topics, provide your command with information, and conduct one-on-one counseling to help clients with their particular concerns. HOWEVER, be warned that you are not a financial adviser and cannot give out specific investment advice or recommendations. You may present knowledge and ideas, but be careful not to venture into advice-giving.

Slide 2

Topics

When you speak with your clients about saving and investing, you want to be sure to keep the discussion simple and understandable. The CFS who also is an experienced investor may forget that members often are not familiar with even the most basic investment terms and techniques. Therefore, we will start with a discussion of the basics, including savings uses and tools. Then we will talk about stocks, bonds and mutual funds, discuss some basic investing techniques, and finally we will look at ways to continue to gain knowledge.

At the completion of this training, we will end with an active review session involving listening teams. Let me take a moment to explain how this will work.



SM 19.4

Slide 3

Activity: Listening Teams

Purpose: This activity provides an active way to help learners to stay focused and alert during the training as teams are responsible for clarifying the lecture material.

Materials: Student Manual page 19.4, Listening Teams.

Procedure:

Divide the learners into four teams, and give each team one of the following roles. Inform each team that after the Wealth-Building presentations they will be asked to provide their responses to the rest of the class.

TEAM ROLE

1. Questioners

   Assignment: After the lecture, ask at least two questions about the lecture material.

2. Agreers

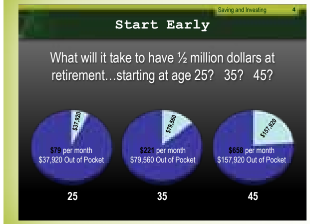
   Assignment: After the lecture, tell the class on which points your team agreed (or found helpful) and explain why.

3. Naysayers

   Assignment: After the lecture, comment on which points your team disagreed (or found unhelpful) and explain why.

4. Example Givers

   Assignment: After the lecture, give specific examples of educational applications of the lecture material (what do command members "need to know" about the topics?).



Slide 4

Starting Early

How much wealth is enough? How much should a person save each month or year? What is a good goal? A few years ago, the head of the Social Security Administration suggested that the average middle-aged person today will need at least $500,000 of their own money to retire comfortably (in addition to Social Security benefits and any employer-provided pensions). Are you on track to reaching a half-million dollars by the time you retire? Did you know that the earlier you start to save and invest, the less you need to put away? Let's get right to work on the importance of starting early by looking at an example.

A 25-year old investor would have to invest $79 per month at a rate of return of 10 percent, a total out-of-pocket expense of $37,920, to have $500,000 at age 65. If the investor delayed starting for 10 years, at age 35 a monthly amount of $221 would need to be invested, a total out-of-pocket expense of $79,560, to get the same $500,000 at age 65. What if the investor delayed until age 45? He or she would have to invest $658 each month, a total out-of-pocket expense of $157,920, to have a half-million by age 65. (All examples assume a 10 percent long-term rate of return, with taxes deferred.)

What does this example show? The earlier in life you start to invest, the less you have to save each month. This is the "magic" of compound interest and time. The sooner you begin to put money aside, the longer your money will be working for you. This is so important that it is almost impossible to overemphasize. Just like the key to building wealth is saving and investing, the keys to successful investing are pretty simple: start early in life, be consistent and disciplined, and let compound interest and time work for you.

It is possible to become a millionaire on a military paycheck. Today's investment marketplace offers many advantages to the small investor. This module explores how you can achieve financial freedom. It starts with a discussion of the basics, like using compound interest and time to your advantage, and includes savings uses and tools. Then it talks about stocks, bonds and mutual funds; some basic investing techniques; and finally, ways to continue to gain knowledge.

Slide 5

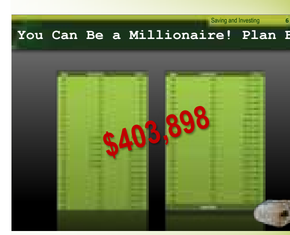
The Effects of Compound Interest and Time

REFER learners to page 19.5 in their Student Manual, Compound Interest and Time: Rate of Return = 10 Percent. Compound interest, simply defined, is when the money that your money makes, makes more money. This form shows four different plans to grow money.

SM
19.5

In the first column, Plan A, $3,000 is put away each year for six years (a total of $18,000 out-of-pocket) starting at age 21. Without ever saving another cent, if the money were left to grow at 10 percent per year with no withdrawals, the plan would amount to over $1 million by age 65.

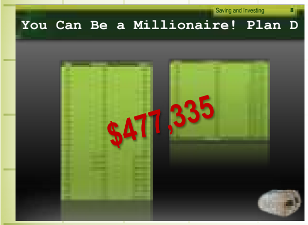
Slide 6



Plan B shows the result of a 10-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 investment, the total will end up being $403,898. That 10-year delay cost about $600,000!

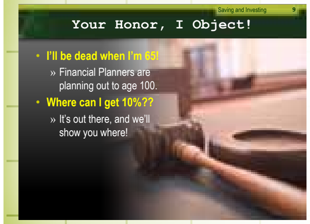
Slide 7

Plan C 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.



Slide 8

Plan D shows investment of a $30,000 lump sum over three years ($10,000 per year), starting at age 36. The growth would amount to $477,335.



Slide 9

Some service members object to these projections. Objections include, "But I'll be dead by the time I'm 65!" Actually, financial planners are planning out to 100 years of age these days. Another common objection is, "You can't get 10 percent anywhere that I know of!" Again, this is not true. Reasonable investment returns and where to get them will be discussed later in this program.

Earlier, a figure of $500,000 might have seemed impossible. After looking at these scenarios and how invested money, through the "magic" of compound interest and time, can grow into substantial sums, it clearly is possible (and easy if you start early) to reach twice that figure!

Slide 10

The Financial-Planning Pyramid

SM 19.6

Building wealth can be easy if you follow a few simple steps. Remember to keep first things first. What is the first thing to do? Once again, we turn to the Financial-Planning Pyramid, which provides a simple and organized approach to achieving your financial goals. For this session, we are going to look at Levels Two and Three of the pyramid. (Refer learners to page 19.6 in the Student Manual.)

Slide 11

The Savings Level

Once your management "tools" are in place, there is another level to emphasize before you start investing — you need to establish savings. Not until savings are established, especially emergency savings, should you move into the investment levels.

The Financial-Planning Pyramid shows that a sound savings plan consists of three components. These don't actually need to 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 situations such as emergency leave to visit a sick parent, car repairs, 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.

Reserve Fund. Money should be available in savings to cover those expenses that are predictable but do not occur on a monthly basis, such as car insurance, regular maintenance, taxes, birthdays, anniversaries and holiday spending. 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 5 years) such as buying a car, putting a down payment on a house, or financing a special vacation.

Where do you put your money 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.

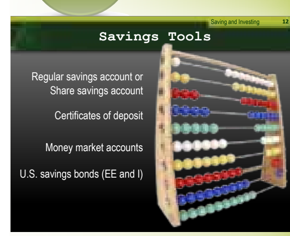
Safety. When you save and/or invest $1, you want to be certain you at least will get your $1 back. Is the account insured? How safe is the principal? Some products guarantee you'll get your money back, but others do not. You could lose some or all of what you invested.

Liquidity. How quickly and easily can you get to 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, such as equity in a real estate investment.

Yield (or Rate of Return). The yield is how much money your money earns. Some financial tools, such as 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 never can have all three factors working in your favor — there always will be a trade-off. The trade-off you are willing to accept will depend on your goals and your time frame for the money you have. For example: for your emergency fund, safety and liquidity will be most important, so you will have to sacrifice some yield.

Slide 12



The Tools of Saving

There are four options for savings: savings accounts, certificates of deposit, money market accounts, and U.S. Savings Bonds. Each should be evaluated in view of safety, liquidity and yield.

Regular Savings Accounts or Share Savings Accounts

- **Safety.** Guaranteed up to $100,000 (per Social Security number) if federally insured.

- **Liquidity.** No restrictions on withdrawals.
- **Yield.** Generally carry lowest rates of interest. (*Check for current rate ___________).*

Go to your local credit union or bank to open a regular savings or share savings account.

Certificates of Deposit (CDs) or Time Deposits

A deposit of a fixed sum of money for a fixed period of time.

- **Safety.** Guaranteed up to $100,000 if federally insured.
- **Liquidity.** Funds are invested for a fixed period, usually six months to five years. CDs may be liquidated at any time, but if it is prior to the maturity date, some interest may be forfeited.
- **Yield.** Higher than savings deposits; the longer the term, the higher the yield (*Check for current rate ___________).*

Minimum deposits (usually at least $500) are required. These often are called share certificates at credit unions. Go to your local credit union, bank or brokerage to purchase a CD.

Money Market Accounts

An interest-earning savings account offered by FDIC-insured institutions, with limited transaction privileges.

- **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 $100,000 per account. A money market account held at a brokerage or through a mutual fund typically will not be insured.
- **Liquidity.** Generally, there are no restrictions on withdrawals. Money market accounts may have 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. The yield varies with changes in interest rates. Money market accounts may be attractive if rates are rising rapidly. (*Check for current rate ___________).*

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.

U.S. Savings Bonds — EE and I

- **Safety.** Guaranteed by the U.S. Treasury.
- **Liquidity.** Can be redeemed after 12 months but subject to 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. (*Check for current rate ___________).*

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. (*Check for current rate ___________*).

Series EE Savings Bonds are an easy, convenient and disciplined way to begin your investing. The S-L-Y trade-off is that the yield is relatively low. If you are going to invest in Savings Bonds, make it a ***part*** of your investment plan but not ***all*** of it. Features of Series EE U.S. Savings Bonds include:

- Minimum investment is $25.
- Purchased for half of their face value, and the value of the bond builds 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 their full face value, and the value is adjusted for inflation.)
- Risk is lower than most investments, because the principal (amount you invested) and interest (amount your money earned) are backed by the full faith and credit of the U.S. government.
- Convenient to purchase via allotment from military paycheck, from a bank or credit union, or directly from the government at www.savingsbonds.gov.
- There are no commissions or fees.
- Interest earned on Savings Bonds is exempt from state and local taxes, and federal taxes are postponed until you redeem the bonds.
- Interest earned on bonds purchased by a person age 24 or older and used to pay certain qualified education expenses may be excluded from gross income. In other words, these can be an important element of an education savings plan for a child. (The bonds must be issued in the parent's name, not the child's, to get this tax benefit.)
- Savings Bonds earn interest for 30 years. They can be redeemed as early as 12 months after purchase, but if cashed in within five years of purchase there is a three-month interest penalty. Rates of interest change every six months.
- If the bond hasn't reached face value within 20 years, the government automatically will make an adjustment to get it to face value.

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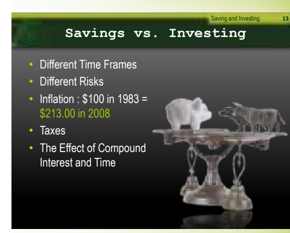

Saving vs. Investing

What is the difference between saving and investing?

After working on the Management Level of the Financial-Planning Pyramid, savings becomes the next critical step toward financial security. Don't start an investment plan until you have a solid emergency fund for a safety net. However, for long-range goals it is important to get a better rate of return than is available with savings tools, and it is here that we move up the pyramid to look at investment options.

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

As discussed earlier, 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 don't 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 never will 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 also can 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. Knowledge of investing will help you manage it.

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 consider when they weigh the risks of investing. If an investment drops in price, you have lost money at that point (assuming you have sold). However, market risk often is reduced when money is in a sound investment over a long period of time. Savvy investors often will 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, particularly fixed-income investments.
- **Inflation Risk.** 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 3.5 percent will cut the value of your money in half in 20 years.

Inflation

Inflation is an increase in the cost of goods and services. Inflation means that what costs $1 today will cost more than $1 in the future; for example, $100 in 1983 had the same buying power as $213 in 2008 (25 years).

The current inflation rate is *(Look up rate ___________).* Historically, the annual rate of inflation, also referred to as the "CPI" or consumer price index, has averaged 3.4 percent during the past 93 years.

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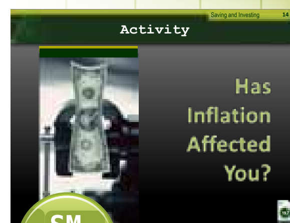


SM 19.7

Activity: Has Inflation Affected You?

Time: 5 minutes

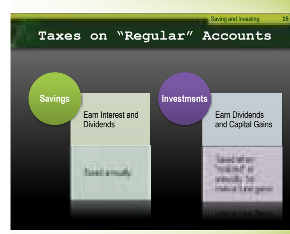
Materials: Page 19.7 in the Student Manual

Procedure: Ask learners to fill in the blank spaces for the prices of products in 1975. Allow about 3 minutes for completion and then poll the class for their responses to each item. Provide the correct answers:

Stamp	$0.10
Corn flakes	$0.39
Coffee	$2.79
Light bulbs	$0.43
Mustang	$3,261
Oil change	$4.88
Aspirin	$0.69
Pork chops	$0.29

Point out that not only does this show the impact of inflation but also that some items inflate at different amounts. You would need $3.96 today to buy what cost $1 in 1975.

Slide 15



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.

Regular Savings and Investment Accounts. There are three types of accounts that have an affect on taxes. The first is a regular savings or investment account that has no special tax treatment associated with it. Money earned on these accounts is taxed as follows:

- **On Savings.** Earnings on your savings are taxed each year. If you earn interest or dividends on your savings and/or checking account, you will receive a statement from the bank or credit union at tax time indicating how much you earned. You must include it as unearned income on your 1040, and you will be taxed on it at what is called your marginal income tax bracket (MITB), which usually is 15 percent or 25 percent for most military taxpayers. Typically taxes on savings are minimal, because earnings are minimal.
- **On Investments.** Earnings on your investments come in a couple of forms: dividends and capital gains. At the end of each year, tax statements are sent out noting the earnings on investments, and these earnings need to be included on tax returns. Here is an example of how taxes on investment tools can work:

One share of stock is purchased for $50 and sold for $60. The difference between the purchase price and the higher selling price is called a "capital gain." In this example, the capital gain of $10 will be taxed based on how long the investment was held and on the investor's income-tax bracket. Taxes are due only if there is a capital gain. If the investment is sold for less than the purchase price, the difference is called a "capital loss." In some circumstances, these types of losses can be used to offset gains when paying income taxes.

Mutual funds, on the other hand, pass capital gains to the investor every year, regardless of whether shares are sold. This will be discussed further later in this program. For now, be sure to keep all financial statements in order to calculate taxes due correctly.

The law regarding capital-gains taxes is subject to change. In the 2008 tax year:

Short-term capital gains (on investments held 12 months or less) are taxed at the investor's marginal income tax bracket (MITB) up to 35 percent.

Long-term capital gains (on investments held more than 12 months) are taxed at 0 percent for taxpayers in the 10 and 15 percent MITB, and 15 percent for taxpayers in the 25, 28, 33 and 35 percent MITBs. The 0 percent rate is expected to expire at the end of 2010 and bump to 15 percent.

Slide 16

Tax-Deferred Accounts. These accounts allow the investor to delay paying taxes on any earnings. They typically are used for retirement planning. Tax-deferred accounts include the military Thrift Savings Plan; civilian retirement plans such as a 401(k); and a regular "deductible" individual retirement account (IRA). An immediate benefit of these accounts is that the contributions made to them are deducted from paychecks BEFORE income taxes are calculated, so taxable pay is reduced. Special withdrawal rules apply to these types of accounts, and the money earned on them is taxed when it is withdrawn. Tax rates are the investor's MITB at the time of withdrawal.

The Roth IRA Account. The Roth IRA is a type of after-tax account. The money put into a Roth IRA cannot be deducted from income before taxes, so the contribution is considered an "after-tax" contribution. All withdrawals (contributions and earnings) made after a specified period are not taxed.

For more information on retirement plans, attend a "Retirement Planning" workshop at your local Fleet and Family Support Center, or visit your Command Financial Specialist.

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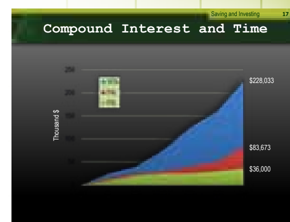

Compounding

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.

Here is one more example of how money can grow over time. Over 30 years, $100 saved monthly with no interest will equal $36,000. The same amount accumulating earnings at 5 percent will grow to about $83,673. This amount with a 10 percent rate of return grows to about $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 eventually will earn. Compound interest is a powerful force.

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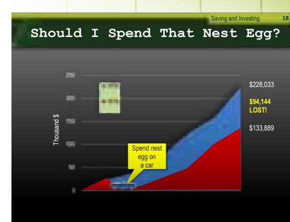

There is a difference, however, between what an investment can do on paper and what investors do in real life. Unfortunately, when some people see their money begin to add up, they feel a temptation to spend. Using the above example, what if after five years of saving the investor decided to use the approximately $7,800 that had grown (at 10 percent) to buy a car? Continued investing at the same rate would grow only 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 didn't cost you $7,800 but $94,144 when you account for the lost growth. The message? Save regularly, and leave it alone to grow.

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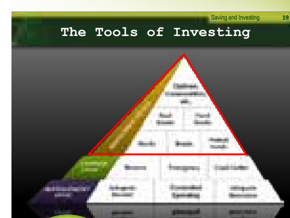

The Tools of Investing

So far this program has considered the magic of compound interest and time; the savings level of the Financial-Planning Pyramid; the differences between saving and investing; and 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. Let's now explore some of the more popular and useful tools available.

Slide 20

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 also are known as "debt" securities, but this is good debt, the kind where people owe YOU money and 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, precious metals (gold or silver) and collectible items; and a few others. Several of these are worthy of a more detailed discussion, because they are the best investment tools for Sailors and their families.

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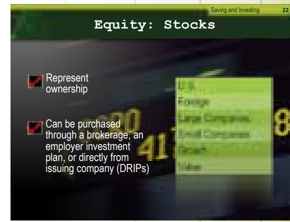
Fixed-Income: Bonds

Companies and governments issue bonds to fund their day-to-day operations or to finance specific projects. When you buy a bond, you are lending 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 usually are distributed twice a year.

- Bonds represent money owed to the investor — an IOU.
- Companies and governments (i.e., local, state 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 toward bankruptcy, etc.); or fall somewhere in between. As an investor, you need to research the "rating" of a bond to ensure you buy only ones that match your risk tolerance.
- Bond returns have averaged 3.7 to 5.5 percent during the past 81 years.
- Bonds are moderately liquid — you likely won't 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 typically are purchased through a brokerage.



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Equity: 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 currently are selling at a bargain (value).

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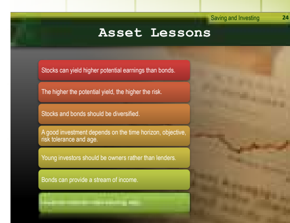
- Common stocks represent ownership in a company.
- Returns come from dividends and/or an increase in stock prices; dividends represent profits passed to shareholders.
- Stocks have averaged an annual return of 8 to 10 percent for the past 81 years.
- Stocks can be purchased through a brokerage (online 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 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.



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The Lessons

What should you be learning from this discussion of asset classes?

1. 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.
2. There always is 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 always should be prepared to lose money, but you also should expect a decent rate of return if you have done your homework.
3. 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.
4. 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.
5. For young people starting to invest, over long periods of time it usually is better to be an owner rather than a lender. Stocks have a higher return over extended periods than bonds and will provide the greater opportunity for long-term growth.

6. Use bonds to receive a stream of income (very useful for those in retirement).
7. This investing thing can be complex! It can be, but it doesn't need to be. There are several investment options that make investing easy almost to the point where it takes care of itself!

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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 regularly to the fund's shareholders. Many people choose to reinvest this money into their account. Whether they take the money or reinvest it, income tax still must be paid on the profits at the end of the year (unless the mutual fund is a tax-deferred account, which will be discussed later).

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Advantages. Mutual funds offer a number of advantages:

- **Professional Management.** An individual who invests in a mutual fund actually is 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 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 net asset value (plus any fees and charges) at any time.
- **Affordability.** Some mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

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Disadvantages. There also are some 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.** Net asset value may not be computed until many hours after a redeem order has been placed. Mutual funds generally calculate their net asset value 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.

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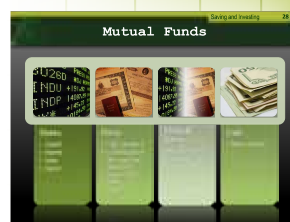

Types. Here are some of the common types of mutual funds:

- 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***

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Choosing a Mutual Fund. There are thousands of mutual funds available — how do you choose one? You can narrow the field 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 that is all the information you have available. Look for a fund with good returns over one, three, five and 10 years. 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 earned 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’ll pay to the person who sold you the fund. Loads can be as high as 8.5 percent 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 the fund.
- ► Funds also will have **annual expenses** (you won’t 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) that 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 also may 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 adviser, 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 also may be helpful to consult additional sources of information on mutual funds before investing. A wide range of information is available, and most of the information you need can be found easily by consulting rating services such as Morningstar or Lipper.

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Optional Activity: One-Minute Review

Time: 5 minutes

Materials: Pens and pencils, blank paper or newsprint

Procedure: Ask the class to write down as many of the tools of saving and investing as possible in 1 minute. Then ask for a volunteer to call out one tool from their list. Write their input on the board or newsprint, ask the volunteer if this is a tool of saving or a tool of investing, and note this on the paper (probable answers are below). Continue around the room until you have everyone’s input. Ask the class if they are comfortable with their understanding of each tool.

To close the review, ask the class, by show of hands, that if they could only choose one item, which tool would they choose? This should be a difficult choice, since some will opt for safety and some for higher returns. Point out that we are fortunate in our investment environment to be able to put together many different tools and create a portfolio that helps us to accomplish our goals and still allows us to sleep at night.

1. Savings account — Saving
2. Money market account — Saving

3. Certificate of deposit — Saving
4. Savings Bonds — Saving
5. Stocks — Investing
6. Bonds — Investing
7. Mutual funds — Investing
8. Hard assets (precious metals, real estate, collectibles) — Investing

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SM 19.8

Optional Activity: What Is "The Market"?

Time: 10 minutes

Materials: REFER learners to page 19.8 in the Student Manual, What Is "The Market"? Alternately, a game version of this has been programmed in PowerPoint on the 2007 PFMSC Standardized Curriculum, Saving and Investing folder, and the exercise can be done as a whole class using the game version.

Procedure: Choose your method of presentation. If using the paper version, divide the class into groups or allow them to work alone to match the proper term to its definition. Call out the names and allow learners to provide the number of the correct definition. Provide further detail on the term as required.

Answers to the paper version:

1. The S&P 500
2. The Nikkei
3. The Dow
4. The NYSE
5. The Wilshire 5000
6. The Barclays Capital U.S. Aggregate Index (formerly the Lehman Brothers U.S. Aggregate Bond Index)
7. The Wilshire 4500
8. The NASDAQ
9. The EAFE
10. The AMEX

This would be a good time to discuss a term that is used frequently but may not be understood completely. When you hear "the market" on TV, usually as in, "Today the market was…" to what does the term refer?

- **The Dow.** — The Dow Jones industrial average tracks the daily gains and losses of 30 stocks from the New York Stock Exchange that are considered to be key players in the market and the economy. In other words, the Dow is an index. An index is a tool for comparing your investment's performance against other similar investments. It is a measurement of the combined average performance of groups of similar securities. For the Dow, they take the value of all 30 stocks, run a formula on it each day (like an average), and then track the changes in that number every day.

- **The NASDAQ.** The North American Securities Dealers Automated Quotation System. The NASDAQ is a computerized trading system on which stocks (typically smaller companies or high-tech companies) are bought and sold. The NASDAQ doesn't exist anywhere — it is not a bricks-and-mortar place. Every day, an average of all the stocks traded on the NASDAQ is computed, and the change in that index, the NASDAQ Composite Index, is reported daily.
- **The S&P 500.** The Standard and Poor's 500 is an index that tracks the large-company stock population. S&P is a financial research and publishing company. The S&P tracks 500 large American stocks. It is like the Dow, only it includes more companies, and in fact the components of the S&P 500 can comprise 70 to 75 percent of the economic base of this country.
- **The Wilshire 4500.** This is an index of small-company stocks that reflects the rest of the market not included in the S&P 500.
- **The Wilshire 5000.** This is an index of 5,000 companies designed as a measure of the entire U.S. stock market.
- **The Barclays Capital U.S. Aggregate Index.** This is an index designed to measure both government and corporate bonds. This index formerly was known as the Lehman Brothers U.S. Aggregate Bond Index.
- **The NYSE.** The New York Stock Exchange is an actual building in New York City where stocks are bought and sold. Also, every day an index for all the stocks traded on the exchange is reported.
- **The AMEX.** The American Stock Exchange is another brick-and-mortar building where stocks are bought and sold, and there also is an index computed on it. It is the second-largest options-exchange market.
- **The Nikkei.** A place in Japan where stocks are bought and sold, and there also is an index computed on it.
- **The EAFE.** Computed by Morgan Stanley, this index tracks the performance of about 1,200 non-U.S. companies representing 21 countries in Europe, Australia, New Zealand and the Far East.

When you hear the term "the market," it may be in reference to all of these elements taken together. However, when you hear, "For the past 10 years the market returned…" that generally refers to the S&P 500, the broader U.S. market index.

These indexes can be a valuable way of determining how your investments are performing. For example, if you hold some stocks that are included in the S&P 500 and you want to see if your portfolio returns are keeping up with the market in general, you would compare your portfolio returns with the S&P 500 for the same period. If you held a mutual fund with technology stocks, you would be better to compare the return on your mutual fund to the NASDAQ, as that would be a better comparative index. If most of your stock or mutual fund investments are in foreign companies, you would compare the rate of return on your portfolio with that of the EAFE index.

Slide 32

Putting It All Together: The TSP Funds

A great way to understand how mutual funds and indexes relate to each other is to consider the Thrift Saving Plan funds. We will discuss the TSP in detail in the next session, but it is worth mentioning here, since we just discussed indexes.

Briefly, the TSP is a retirement savings and investment plan sponsored by the federal government. This plan allows for each member to invest a certain amount of money each month into one of 10 mutual funds. The majority of these funds have a portfolio that is exactly the same as some of the indexes just discussed, because they invest in the same securities as the index. Here are five of the TSP funds available, and the indexes on which they are based. This will help you better understand the TSP when we discuss it in retirement planning.

The TSP Investment Options				
G Fund U.S. Treasury Securities (specially issued for TSP, no index)	F Fund Bonds Based on Barclays Capital U.S. Aggregate Index	C Fund Stocks Based on S&P 500 Index	S Fund Stocks Based on Wilshire 4500 Index	I Fund Stocks Based on the Morgan Stanley EAFE Index

Slide 33

The Techniques of Saving and Investing

Pay Yourself First

Make sure you have adequate income to pursue a savings and investment plan and that you have adequate insurance. Save from the top of your spending plan versus the bottom (don't 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 — you won't miss it if you don't see it — or join the TSP.

Participate in the Military Saves Campaign

This program is sponsored by the Consumer Federation of America through an agreement with the Department of Defense. It is designed to encourage you to set your savings goals and provide suggestions and information on how to make that happen. The goal of the program is to help service members and families become financially prepared and put them on the path toward financial freedom. 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 401(k), 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.

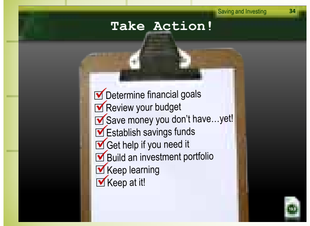
Make Regular, Steady Investments

Earlier in this discussion, an example was used that showed the impact of spending money that had accumulated in an investment account. Even if you continue investing at the same rate, you never will catch up to what you could have had if you hadn't withdrawn your money early. Keep in mind that investment performance isn't the same as investor performance. The stock market could be posting a return of 25 percent, but if you aren't investing regularly, you won't 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, time frame and risk tolerance. But if you are like most small investors, you don't have a large sum of money and are investing a smaller amount on a monthly basis. Keep at it, and don't stop the flow of money into your investments.

SM 19.9

REFER learners to pages 19.9 and 19.10 in their Student Manual for useful saving and investing resources.



Slide 34

Summary and Conclusion

Take Action

The investment markets never have been friendlier to small investors. Employer-provided retirement plans such as 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.

- **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 don't have it now, so you won't miss it when you invest it.
- **Establish Emergency, Reserve and Goal-Getter Savings Funds.** Goals should include having three months of expenses in emergency savings and putting aside about 10 percent of net income for long-term goals.
- **Get Help if You Need It.** Talk to trusted family, friends and co-workers and ask how they invest their money. Encourage members to meet with you or the Fleet and Family Support Center Financial Educator for additional information. Explore the possibility of hiring a financial professional (such as a certified financial planner) to help you with your plan if you need it.
- **Build an 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, start an investment club. Even if you plan to work with a broker, financial planner or other investment adviser, it still will help if you improve your knowledge about how you plan to invest; 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, also can be useful as long as you remain on guard for the sales pitch. Scan the Internet, or visit the local library and read some 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's why you have established a goal-getter or emergency fund.

Activity: Bump

Time: 5 minutes

Materials: Newsprint paper and markers

Procedure: Divide the class into groups of four to five. Give each team a piece of newsprint paper and markers. Tell the class that the object is to list one- or two-word statements that summarize key training points (examples: start now, tax-deferred). List as many words as possible in 1 minute. Everyone gets a marker to write on their team's sheet as quickly as possible. At the end of 1 minute, all writing stops. Ask the teams, one by one, to share the words on their list. Teams then "bump" or cross out from their lists any words that appear on any other team's sheet. The team with the longest list of unduplicated key words wins. Congratulate the class on their effort and creativity, and remind them that becoming wealthy is a lifelong journey — stay the course, and financial independence will be yours.

VII. FORMS

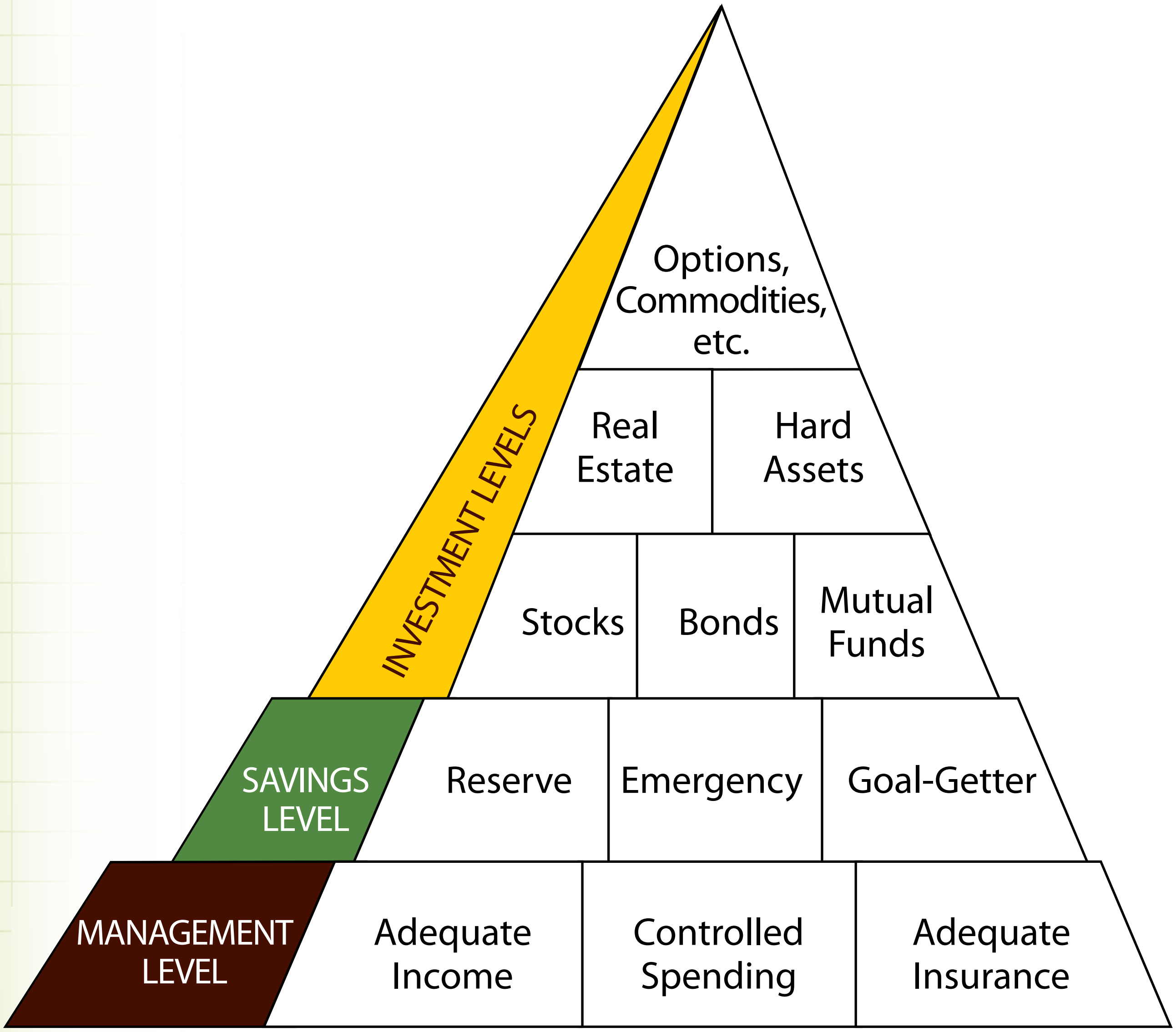
- Listening Teams
- The Financial-Planning Pyramid
- Compound Interest and Time: Rate of Return = 10 Percent
- Has Inflation Affected You?
- What Is "The Market"?
- Thinking About Investing
- Investing Resources

Listening Teams

My role is: ______________________________

My assignment is: ______________________________

Financial Planning Pyramid



Compound Interest and Time
(Rate of Return=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	

Has Inflation Affected You?

The government reports that inflation is relatively low about four percent a year.

It may not seem like much, however it does add up fast. Over time, inflation erodes the purchasing power of present-day dollars. Prices have jumped over the last 25-30 years. See if you can guess the prices of the following items from 1975 compared to 2005.

	1975	2009
First-Class Stamp		**$0.42**
Box of Corn Flakes (24 oz.)		**$3.19**
Jar of Instant Coffee (8 oz.)		**$3.99**
60-Watt Light Bulbs (2-pack)		**$1.29**
Ford Mustang (V6 standard coupe)		**$20,995**
Oil Change		**$39.99**
Bayer Aspirin (100 count)		**$8.59**
Pork Chops - (1 lb)		**$4.89**

What is “The Market”?

__________________1. An index that tracks the large company stock population and can comprise from 70 to 75% of the economic base of this country.

__________________2. A place in Japan where stocks are bought and sold, and there is also an index computed on it.

__________________3. Tracks the daily gains and losses of thirty stocks from the New York Stock Exchange that are considered to be key players in the market and the economy.

__________________4. An actual building in New York City where stocks are bought and sold. There is also an index computed on it.

__________________5. An index designed as a measure of the entire U.S. Stock market.

__________________6. An index designed to measure both government and corporate bonds.

__________________7. One of the most commonly referred to indexes of small-company stocks.

__________________8. A computerized trading system on which stocks (typically smaller companies or high tech companies) are bought and sold.

__________________9. This index tracks the performance of approximately 1200 non-US companies representing 18 stock markets in Europe, Australia, New Zealand and the Far East.

__________________10. The second largest options exchange market, this is another brick and mortar building where stocks are bought and sold which also an index computed on it.

AMEX	NASDAQ	Wilshire 4500
Barclays Capital U.S. Aggregate Index	Nikkei	Wilshire 5000
Dow	NYSE	Ivivagin dit; ium tem. Catus
EAFE	S&P 500	

Thinking About Investing

Tips for Using the Internet

The internet has provided widespread access to even the most specialized investment information, giving the small investor research and information they never before had access to. On-line trading provides instant access to accounts and near instantaneous executions of trades. In this fast-moving environment, users must exercise caution to know investment risks and guard against loss.

If you are thinking of using the internet for investment research, the National Association of Securities Dealers Regulation (NASDR) suggests these guidelines to safe surfing:

1. Be your own watchdog. The internet is vast, and regulator resources are limited.
2. Question all advice.
3. Always consult other resources in additional to the internet.
4. Do your own homework—don't take the word of an unknown source on the internet.
5. Use good judgment. If it seems too good to be true, it probably is.
6. Ask for professional help if something appears suspect. Notify regulators before you act.

If you are thinking of using the internet to conduct securities trades, the Securities Exchange Commission (SEC) offers these tips:

1. Before you trade, know why you are buying or selling, and the risk of your investment.
2. Set your price limits on fast-moving stocks: use limit orders to protect from fast-moving stock prices.
3. Know your options for placing a trade if you are unable to access your account online.
4. If you place an order, don't assume it didn't go through (and place subsequent orders). Talk to your firm if you are unsure.
5. If you cancel an order, make sure the cancellation worked before placing another trade.
6. If you trade on margin, your broker can sell your securities without giving you a margin call.
7. No regulations require a trade to be executed within a certain time. However, firms should not exaggerate or fail to tell investors about the possibility of delays.

Tips for Hiring a Financial Professional

Be sure to comparison shop for a financial professional just like you would for any other service. Financial professionals include:

- Financial Planners and Advisors (CFP, CFA, PFS)
- Insurance agents and brokers (CLU, ChFC)
- Tax preparers and Enrolled Agents
- Certified Public Accountants (CPA)
- Attorneys (Tax, Estate)
- Bankers
- Real Estate Agents and Brokers

Financial professionals get paid for their services in a variety of ways—commissions, fees, a combination of commission and fees.

The Securities Exchange Commission recommends the following questions to ask before hiring a financial professional:

1. Are you licensed with the states or the SEC?
2. Do you have disciplinary problems on file with the NASD or states?
3. How are you compensated?
4. What is your relevant experience as a financial professional?
5. What kind of special education or training have you received?
6. How would you describe your investment philosophy?
7. Do you understand my financial goals and risk tolerance?
8. What other clients do you have whom I could speak to?
9. What kind of periodic reports on my money should I expect from you?

Interview at least three financial professionals and choose the one that you feel most comfortable with, that you like, and that has satisfactorily answered the above questions.

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

Wealth-Building Part II: Retirement Planning

I. INTRODUCTION

Part II of the Wealth-Building Seminar focuses on Retirement Planning. Topics covered include estimating retirement needs; choosing between the High-3 and CSB/Redux retirement plans; and joining the TSP. Information about IRAs also is presented. The chapter includes 30 minutes that can be used to finish material from Saving and Investing, if necessary. It also includes 30 minutes at the end for the "Listening Teams" activity started in Chapter 19. This module covers all the material included in the Retirement Planning module of the PFMSC. Learners should have completed their personal Ballpark Estimate for homework and have the results printed out and available.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** This chapter directly correlates to the PFMSC Retirement Planning Main Module. This module provides the opportunity again to model the PFMSC training techniques. Students have adequate exposure to the topic to allow them to present this segment of training. Training techniques include lecture, guided note-taking, quiz and worksheets.
2. **Information and Referral:** Retirement information resources are presented and reviewed to assist in the dissemination of information.
3. **Counseling:** The Command Financial Specialist often is asked to provide counseling for members regarding their choice of retirement plan and retirement planning in general. This chapter will assist the CFS in meeting the needs of clients with retirement-planning issues.

II. LEARNING OBJECTIVES

Learners will complete a Ballpark Estimate worksheet to estimate their retirement-funding needs.

Learners will differentiate between three forms of individual retirement accounts — traditional, Roth and rollover — by correctly completing the "IRAs: What's the Difference?" activity.

Participating in the Listening Teams exercise, learners will designate key "need to know" topics for command members.

Using the Group Case Studies, learners will apply appropriate retirement-planning solutions to their specific scenario.

III. OUTLINE

1. Introduction
    a. Optional Activity: How Many Squares?
    b. What Are You Planning For?
    c. The Five Basic Steps of Retirement Planning
2. Consider the Factors
    a. Pre-Retirement Income
    b. Retirement Date
    c. Life Expectancy
    d. Compound Interest and Time
3. Calculate Income Needed
    a. Sources of Retirement Income
    b. Activity: The Ballpark Estimate
4. Committing to the Goals
    a. Committing Mentally
    b. Committing Financially
    c. Employer-Provided Pensions
    d. Military Retirement Plan (defined benefit)
    e. The Survivor Benefit Plan
    f. Thrift Savings Plan (defined contribution)
    g. Personal Savings and Investments
    h. Sources of Help
5. Re-evaluate and Revise
    a. Optional Activity: Retirement Planning: Your Hole-in-One Review Game
    b. Activity: Listening Teams Review

IV. CHAPTER PREPARATION

Presentation Time: 150 minutes

- 30 minutes for completion of Part I, if needed
- 90 minutes for the Retirement-Planning Training Materials
- 30 minutes for the Listening Teams Activity

Presentation Materials

- PowerPoint slides, "Retirement Planning"
- Student Manual Chapter 20
  - Planning for Your Retirement
  - Compound Interest and Time: Rate of Return = 10 Percent (Chapter 19)
  - Get a Ballpark Estimate for Your Retirement Needs
  - Military Retirement Pay Plans
  - Thrift Savings Plan Brochure
- White board, chalkboard or newsprint paper
- Markers or chalk
- Pens or pencils and blank paper for each participant

Preparation

Review the chapter detail for update icons and be sure to have the most recent information for the presentation.

Review the Listening Teams activity. Allow time at the end of the complete seminar for this review activity.

Summary of Learner-centered Activities

- **Optional Activity: How many squares?** A brief icebreaker to show people that things may not be what they seem (especially when it comes to choosing CSB/Redux).
- **IRAs: What's the Difference?: A quick review of IRA facts.** Can be done as a large group or individually.
- **Optional Activity: Retirement Planning: Your Hole-in-One!** A quick review game of the basics of retirement planning.
- **Listening Teams Review:** Provides an active way to help learners stay focused and alert during the training as teams are responsible for clarifying the lecture material. The wrap-up reveals lingering content questions and concerns and helps the learners determine "need to know" information for training purposes.

V. REFERENCES

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Quester, Aline O., et. al. 2005. *The Retirement Choice,* FY 2009. Arlington, Va.: Center for Naval Analysis.

Quinn, Jane Bryant. 1997. *Making the Most of Your Money.* New York, N.Y.: Simon and Schuster.

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www.defenselink.mil/militarypay/retirement/calc (OSD military compensation retirement calculator)

www.npc.navy.mil (StayNavy Web site with retirement calculators)

www.lifelines.navy.mil (Lifelines Services Network)

http://gosset.wharton.upenn.edu/~foster/mortality/perl/CalcForm.html (longevity calculator)

www.militaryonesource.com (Military OneSource Site)

www.tsp.gov (Thrift Savings Plan of the Uniformed Services)

www.ssa.gov (The Social Security Administration)

www.choosetosave.org/asec (The American Savings Education Council)

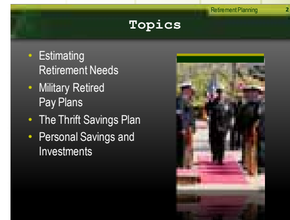
www.smartmoney.com (SmartMoney educational Web site)

www.financialengines.com (Financial Engines educational Web site)

www.morningstar.com (Morningstar Mutual Fund and Financial Research Web site, also available on NKO)

www.cna.org/nationalsecurity/rad/retirementcalc.aspx (CNA 2009 report and retirement calculator)

VI. CONTENT



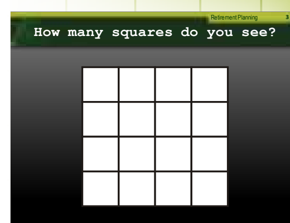
Slides 1 and 2

Introduction

This session will build on Part I of the Wealth-Building Seminar and provide an introduction to retirement planning, including estimating retirement needs, choosing the best military retirement plan, participating in the Thrift Savings Plan, and building personal savings and investments.

REMIND listening teams to continue working on their assignment as the session continues. Assure the learners that this session mirrors the Retirement Planning module in the PFMSC and not only will prepare them to work with command members on their retirement issues but also will prepare them to be able to educate members on the same.

SAY although final retirement may seem far in the future, 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, IRAs, 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.



Slide 3

Optional Activity: How Many Squares

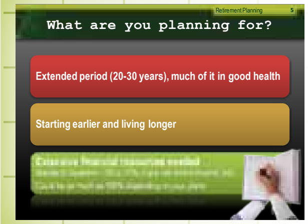
Time: 3 minutes

Preparation: None

Procedure: Display Slide 3 and ask participants how many squares they see. Accept all answers. The correct answer is 30. Show participants where all the squares are. Ask why they couldn't see them before and if they can see them now. Explain that things often are not what they seem, and sometimes you need someone to show you a different perspective in order for you to have a better understanding. Finish by telling them that this is exactly what this presentation will do — open their eyes to new options and new ways of thinking about retirement.

Slide 4

When talking about people and their success or failure with money, it quickly becomes apparent that success is much less dependent on the amount of money they have so much as what they do with what they have. In other words, financial success is about behavior more than it is about money. Individuals or families that fail financially don't plan to fail, but they do fail to plan. With just five basic steps, you can plan for a successful, worry-free financial future.

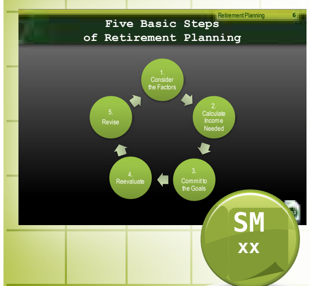


Slide 5

What Are You Planning For?

There was a time, not too long ago, when retiring from work meant a short period of ill health followed by death. People didn't live for long after retiring from active employment. The story is quite different today. Today's retirees can expect:

- An extended period of retirement, possibly 20 to 30 years, much of it in good health.
- To start retirement earlier and live longer than their parents or grandparents.
- To need extensive financial resources, often beyond what a pension and Social Security can provide. A standard guideline to estimate how much money is needed after retirement is to use 60 to 75 percent of pre-retirement income as a starting point. With longer lives, better health and early retirement, that figure could be as high as 100 percent.



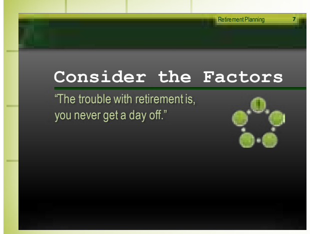
Slide 6

The Five Basic Steps of Retirement Planning

REFER learners to Page xx in the Student Manual, "Planning for Your Retirement: Five Basic Steps to Take Command of Your Future." SAY this model shows five basic steps to take to ensure you meet your retirement goals. They are:

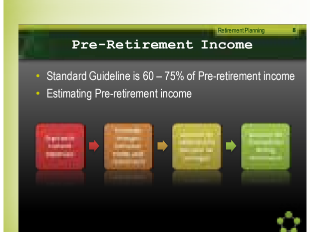
- Consider the factors.
- Calculate the income needed.
- Commit the appropriate amount to the appropriate tools.
- Re-evaluate.
- Revise.

We will cover each one of these in detail in the information that follows.



Slide 7

Consider the Factors



Slide 8

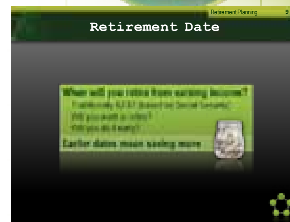
Pre-Retirement Income

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." A standard guideline used is 60 to 70 percent of your pre-retirement income as an amount you'll need during retirement. 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 (such as paying off a mortgage, etc.).

Slide 9

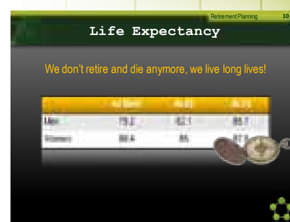
Retirement Date



The next step is to estimate a retirement date. When will you retire from earning income? Traditionally retirement has occurred somewhere from ages of 62 to 67. These ages are based on when Social Security benefits become available. However, maybe you won't 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's OK, because the last two steps in retirement planning are to re-evaluate your plan and revise it as things change.

Slide 10

Life Expectancy



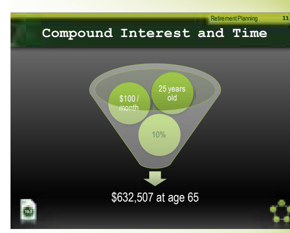
After considering the date of retirement, take some time to consider how long you might live and therefore how long your money needs to last. Our continuing commitment to good health and long life has prompted some financial planners to plan all the way out to 100 years of age for some clients. If that seems extreme, there actually are Web sites that have calculators that attempt to determine how long you will live. But, for our purposes, the data from the federal Centers for Disease Control and Prevention (February 2007) is adequate:

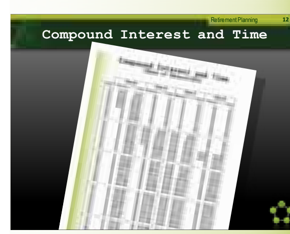
	At Birth	At 65	At 75
Men	75.2	82.1	85.7
Women	80.4	85	87.8

This chart shows that at birth, the life expectancy of men is 75.2 years and for women, 80.4. The older you live, the longer you are expected to live. For people who have reached age 65, the life expectancy increases for men to 82.1 years and for women to 85. For people who have reached age 75, the life expectancy is 85.7 years for men and 87.8 for women. We can use these statistics to make some logical assumptions about how long we might live.

Slide 11 and 12

Compound Interest and Time

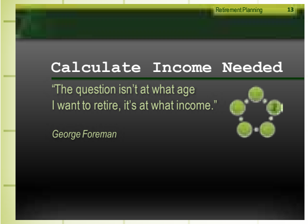




SM xx

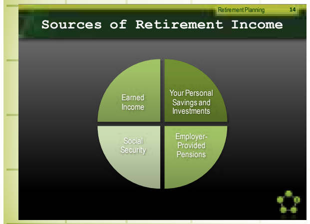
REFER learners to Page xx in Chapter 19 in the Student Manual. ASK them what they learned from the earlier discussion on compound interest and time. REMIND them of the power of starting early and leaving your money alone to grow at a good rate of return. Compound interest and time is the fourth factor to consider as you prepare to estimate your retirement needs — how soon can you start, how much can you save, and what rate of return you can get.

Slide 13 and 14



Calculate Income Needed

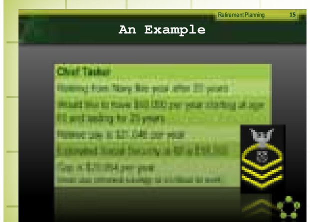
Once you have determined when you want to retire and have considered all the relevant factors, you are ready to calculate the income you will need and how much you have to save each month (or year) to reach your goal.



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. Retirement income rarely comes from all four sources equally. Let's look at an example.

Slide 15

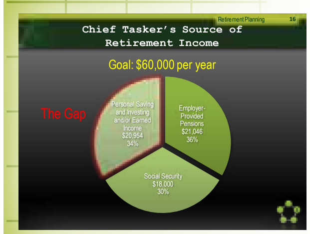


Chief Tasker is an E-7 retiring from the Navy after 20 years of service. He has made some estimates and determined he would like to have $60,000 a year when he retires for good at age 65. When he retires, he has decided to plan for a 25-year retirement (when he will reach age 90). The chief estimates his income as follows (using today's dollars):

- $21,046 from his military pension plan
- $18,000 from Social Security

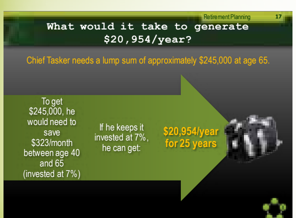
That leaves a gap of $20,954 that needs to come either from his own savings and investments or his continuing to work.

Slide 16

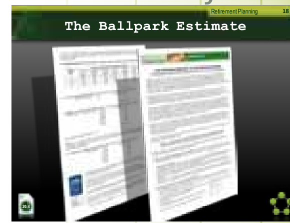


Based on this scenario, Chief Tasker's sources of retirement income would be distributed 36 percent from employer-provided pensions; 30 percent from Social Security; and 34 percent from personal savings and investments, earned income, or a combination of the two.

Slide 17



The next question Chief Tasker needs to answer is, "How much does he need to save each month between retiring from the Navy and retiring for good (25 years) to be able to fill the gap of $20,954 a year?" Calculations show that if he had a lump sum of $245,000 and invested it at 7 percent, he would be able to withdraw $20,954 a year from it and have it last 25 years. If he started at age 40, he would need to save $323 each month, invested at 7 percent, to have it grow to the needed $245,000. Of course, if the chief had started a bit earlier in his life, he would need to save a lot less.



Slide 18

Now that you understand the various factors that go into calculating retirement income, it is time to work on estimating your own retirement needs. This can be done easily using the Ballpark Estimate provided by the American Savings Education Council. You should have done this for homework and have a copy of the results today. If you didn't do it, you will have a chance now as we review the form.

Activity: The Ballpark Estimate

Time: 20 minutes

SM xx

Preparation: If an Internet connection is available in the classroom, go to www.choosetosave.org and click on the Ballpark Estimate link. If the Internet is not available, refer learners to the Student Manual pages xx and xx for the paper version. ASK the learners who completed the form for homework to take it out. If most or all completed their estimate for homework, ask them about their experience: *Was it easy or challenging? What was challenging? Were they surprised by the results? What do they plan to do, if anything, about the results? How would they encourage command members to complete their own Ballpark Estimate?* If most of the participants did not complete the estimate, there is time for it to be done in the class, following the procedure below.

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 they can get started immediately. If they already are saving for retirement, this estimate 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 the learners 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 learners can do it individually while you circulate and provide help as needed.

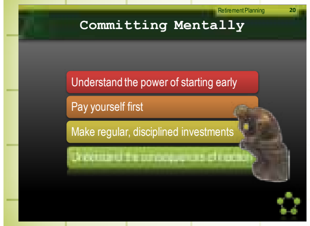
When all are completed, ask the class how they did, if they found it difficult, and if they found it helpful. ASK if they were surprised by the results and what they plan to do, if anything, about the results. ASK the whole class how they would encourage command members to complete their own Ballpark Estimate.

Commend everyone for taking this important step in retirement planning. Explain that it is an estimate and that as they get closer to retirement, they should be able to focus on more specific numbers. Suggest to the learners that they complete a Ballpark Estimate every few years or when they have significant life events such as a new job, new children, divorce, death, etc.

Slide 19

Committing to the 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 rarely is 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.



Slide 20

Committing Mentally

You have seen examples of the power of compound interest and time, so you also should see the power 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. 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're behaving like a millionaire!

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. About 25 percent 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 shrinking part, and it is available later and later in life.

Slide 21

Committing Financially

Committing financially means choosing the appropriate retirement tool and beginning to save and invest immediately. As mentioned earlier, there are four sources of retirement income:

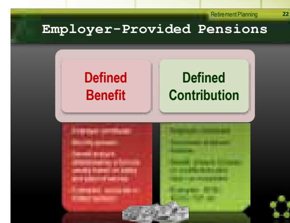
- Earned income during retirement
- Social Security
- Employer-provided pensions
- Personal savings and investments

Earned Income. It isn't 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: About 25 percent of "retired" Americans aren't 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 now is 67 for anyone born in 1960 or later. At least some Social Security benefits will be taxable for most military retirees. No matter what full retirement age is, you may start receiving benefits as early as age 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 also may request one by phone or by visiting www.ssa.gov/retire. You also can get a rough estimate of your future benefits from this Web site, as well as general information about Social Security.

Slide 22



Employer-Provided Pensions

There are two general categories of retirement pensions that are provided as a result of employment.

1. **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.
2. **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.

Slide 23

SM
xx

The Military Retirement Plan (Defined Benefit)

REFER learners to Page xx in the Student Manual, "Military Retirement Pay Plans." The cornerstone of any career service member's retirement always has been a military pension from the government — a defined-benefit retirement plan. Most civilians believe everyone in the military can "retire on half pay after 20 years," without recognizing that retirement pay does not reflect bonuses, housing allowances, and many other parts of military compensation. The military retirement plans are based on basic pay only.

There are three different retirement systems currently in effect depending on your DIEMS (date of initial entry into military service):

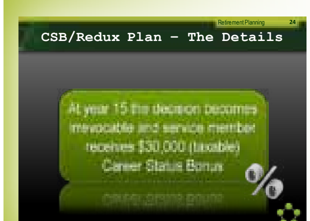
1. "Final Pay"
2. "High-3"
3. "CSB (Career Status Bonus)/Redux" or "High-3"

The key to determining which system applies is the date the member initially was obligated to begin active duty; that is, the day they first signed on the dotted line. If they had a delayed entry, it is the day they originally signed up. If they had broken service, it is the day they originally signed the paperwork to join; this may be earlier than their pay entry base date if the latter has been adjusted. For service academy graduates with no prior service, it is the date they reported to the academy. For ROTC scholarships, it is set by the beginning date, not by the graduation/commissioning day. For unusual situations, refer to PSD.

The Final Pay Plan. The original retirement system applies to anyone who initially entered the military before 8 Sep 1980. Individuals receive 50 percent of their monthly basic pay ("multiplier") if they retire at 20 years of service, plus 2.5 percent for each additional year of active service. This equals, but is not limited to, 100 percent for 40 years. This plan provides an automatic annual cost-of-living adjustment (COLA) equal to the consumer price index (CPI, which is the inflation rate).

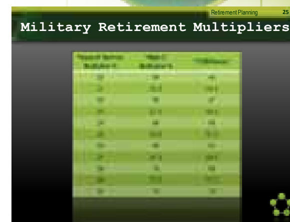
The High-3 Plan. This plan is based on the average basic pay during the highest paid 36 months of service, normally the final three years on active duty. It applies to anyone who initially came on active duty between 8 Sep 1980 and 31 Jul 1986. The multiplier is the same as under the Final Pay plan, 50 percent of basic pay at 20 years plus 2.5 percent per year for each additional year of active service. The COLA remains equal to the CPI. The High-3 plan results in a moderate reduction in total retirement benefits.

The CSB/Redux Plan. Anyone entering on or after 1 Aug 1986 must choose between taking the High-3 retirement plan or the CSB/Redux plan. The CSB/Redux plan has significant differences from High-3. Retirement pay still is based on the average of the highest 36 months of basic pay, but the multiplier is reduced to 40 percent at 20 years of service. The multiplier is increased by 3.5 percent for each additional year of service up to 75 percent for 30 years of service, and 2.5 percent for each year after 30 years, equaling 100 percent for 40 years of service. The longer a service member stays on active duty, the smaller the overall reduction under this plan. At year 15, members electing CSB/Redux receive the one-time $30,000 taxable Career Status Bonus. In addition, all annual cost-of-living adjustments are based on the CPI minus 1 percent instead of the full COLA offered under the other plans.



Slide 24

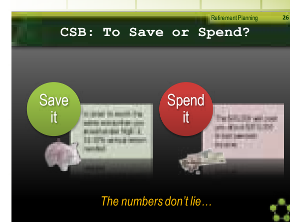
CSB/Redux Details. Members are given a six-month window to decide between the High-3 plan and CSB/Redux. The window begins at the 14½-year point, and the decision must be made, and becomes irrevocable, at year 15. If CSB/Redux is chosen, the CSB is paid to the member and the CSB/Redux rules are locked in — 40 percent versus 50 percent of basic pay, 3.5 percent increase in the multiplier, and a COLA of CPI-1 percent. There is a one-time catch-up at age 62, where the pay under CSB/Redux is increased to the amount it would have been had the member chosen High-3.



Slide 25

This chart shows the difference in the multipliers under the High-3 and CSB/Redux plans. Redux represents a substantial reduction in initial retirement benefits. The higher the grade and the lower the years of service at retirement, the greater the reduction in retirement income.

Years of Service	"High-3" Multiplier %	"REDUX" Multiplier %
20	50	40
21	52.5	43.5
22	55	47
23	57.5	50.5
24	60	54
25	62.5	57.5
26	65	61
27	67.5	64.5
28	70	68
29	72.5	71.5
30	75	75



Slide 26

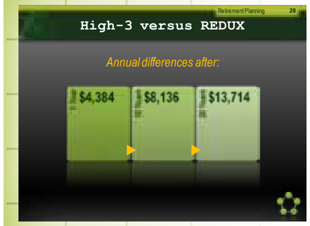
Taking the Bonus. Service members can do one of two things with the Career Status Bonus — save it or spend it. There is a reduction in benefits with either of these options.

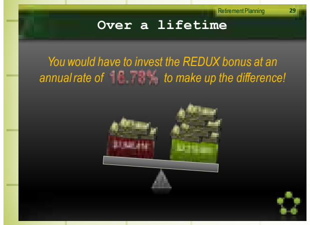
- **Save It.** The bonus money would have to be invested aggressively to come even close to providing the difference in retirement pay. Most reputable financial planners will use 10 percent to 11 percent as the maximum long-term growth rate that can be expected from a diversified all-stock portfolio. In fact, for the past 81 years, the stock market has returned, on average, 10 percent per year. A comprehensive study of the CSB/Redux option by the Center for Naval Analysis showed that in order to get the same or better value from the CSB/Redux decision as you would from High-3, the bonus would need to be invested fully at a virtually unattainable rate of return of 13 percent to 18 percent, depending on pay grade and tax bracket. Again, let's consider the case of Chief Tasker, an E-7 retiring after 20 years. In the 15 percent tax bracket, he would need an investment rate of return of 15.5 percent to get the same amount of money as he would have gotten under High-3. They didn't even factor in investing the money in a tax-deferred plan such as the TSP, since the TSP has risk (unlike the military pension plan, which is backed by the full faith and credit of the U.S. government) and is not inflation-protected — unlike the military pension plan.
- **Spend It.** If Chief Tasker were to spend the Career Status Bonus, $25,500 after taxes, it would cost him $319,060 in lost benefits. That doesn't look like a good deal.

Slide 27

Look at what the choice means on a month-to-month and annual basis. This chart shows the approximate initial monthly retirement checks a service member will receive under High-3 and CSB/Redux (January 2009 figures). As you can see, there is a significant difference of over $300 per month for retirement at 20 years.

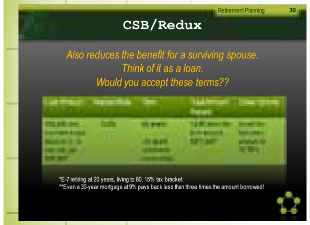
	High-3	CSB/Redux	Difference
E-6@20	1,565	1,252	-313
E-7@20	1,827	1,461	-366
E-7@22	2,040	1,744	-296
E-8@24	2,596	2,336	-250
E-9@30	4,170	4,170	None
O-4@20	3,139	2,511	-628
O-5@24	4,417	3,975	-442
O-6@30	6,830	6,830	None





Slide 28 and 29

Considered from the perspective of annual payments, the difference is substantial when CSB/Redux is chosen. For an E-7 retiring with 20 years, the year one annual payment under the High-3 plan is $21,920, and under CSB/Redux it is $17,536, a difference of $4,384. The difference at the 10-year point is $8,136, and at the 20-year point, due to the decreased multiplier and the COLA of CPI-1 percent, the difference in the annual amount is $13,714. Members should think very seriously about the substantial, long-term difference in retirement benefits before making their choice.



Slide 30

Other Disadvantages. Besides the clear decrease in the retirement benefit amount, choosing the CSB/Redux plan also results in a reduction in survivor benefits for a surviving spouse (since those benefits are based on the retired pay amount).

The Career Status Bonus is an early cash-out of your retirement plan. Think of it as a loan from your future benefits that you will spend the rest of your life repaying. If you were shopping for a $30,000 loan, would you accept these terms?

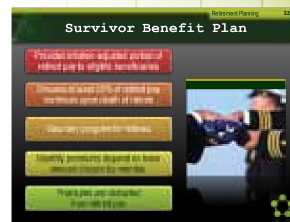
- Loan amount: $30,000
- Taxes: Must be paid, reducing spendable amount to $25,500, if not less
- Interest rate: Effectively 13.2 percent
- Term: 40 years or death, whichever comes later
- Total repaid amount: If you die 40 years after retiring from active duty, you will have repaid eight to 15 times the original loan amount. (Even a 30-year mortgage at a whopping 9 percent interest rate would pay back less than three times the original loan amount. Eight to 15 times the amount is astronomical.)

You always can invest the loan, but you need to find a guaranteed rate of return of 15.5 percent. But then, why borrow at all?

Slide 31

To Help You Decide. You now are an informed consumer. There are several retirement calculators available that are designed specifically to help service members make an educated decision on their retirement plan. These Web sites are listed at the bottom of your "Five Basic Steps" handout. If you need additional assistance, see your Command Financial Specialist, Command Career Counselor, or your Fleet and Family Service Center Financial Educator. You may want to read the study done by the Center for Naval Analysis, also included in your list of resources.

Slide 32

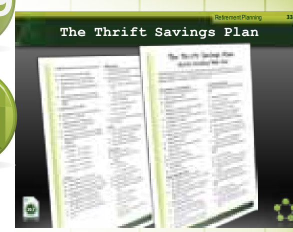


The Survivor Benefit Plan

Any military retirement-pay planning must include a bit of information on the Survivor Benefit Plan (SBP). SBP provides peace of mind to your survivors by allowing a designated beneficiary (typically a spouse or children) to continue receiving a portion of retired pay after your death. Since the plan you choose for retirement will affect the amount of SBP pay available, it is important to learn about this benefit. Plan on attending an FFSC SBP or Insurance brief, or meet with your career counselor or CFS for more information.

Slide 33

2009

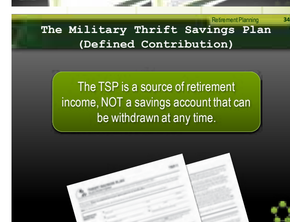


The Thrift Savings Plan (Defined Contribution)

SM
xx

REFER learners to Page xx in the Student Manual where they will find the Thrift Savings Plan handout listing all the details of this important benefit.

Slide 34



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). The TSP is open to all members of the uniformed services, active duty and ready reserve. 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 10 options; and you own all of your contributions and any earnings.

Slide 35

Contribution Amounts

Members can contribute up to 100 percent of their basic pay each month to the TSP in 2009 ("elective deferral") up to the total elective deferral limit of $16,500 (2009). This annual limit may be increased in later years by cost-of-living adjustments. The TSP cannot accept contributions that exceed the elective deferral limit.

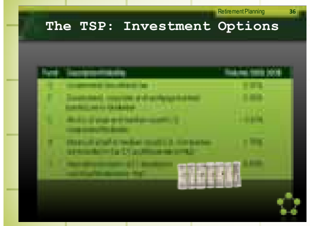
Members also can contribute up to 100 percent of any incentive and special pays (including bonuses) ("elective deferral") up to an annual limit of $16,500 (2009).

If a member receives tax-exempt "combat-zone pay," he can contribute up to the lesser of $49,000 (2009) each year or 100 percent of pay. Members must be enrolled currently in the TSP to contribute any incentive, special or bonus pays. Elections to contribute base, special or incentive pays can be made only during "open" seasons. Bonus pay can be contributed at any time.

Catch-up contributions are supplemental tax-deferred contributions available to TSP participants age 50 or older who already are contributing the maximum amount of regular TSP contributions for which they are eligible up to the maximum IRS elective deferral limit of $16,500 in 2009. Catch-up contributions have their own annual limit of $5,500 in 2009, with additional annual limit increases indexed to inflation.

Remember, in the TSP all money belongs to the member: both the contributions the member makes as well as any growth of the contributions.

There are no matching funds at this time.



Slide 36

TSP Investment Options

There are 10 funds available through the TSP. (There are five "L" funds. Returns quoted are for 1999 to 2008 for G, F, C, S and I funds.)

- **"G" Fund.** The Government Securities Investment Fund, which invests in special, non-traded U.S. Treasury securities guaranteed against any loss. The G Fund has a low level of volatility and a 10-year average return of 4.92 percent.
- **"F" Fund.** The Fixed Income Index Investment Fund that invests in government and corporate bonds and is designed to track the Barclays Capital U.S. Aggregate Index (formerly the Lehman Brothers U.S. Aggregate (LBA) Bond Index). The F Fund has a low to moderate level of volatility and a 10-year average return of 5.69 percent.
- **"C" Fund.** The Common Stock Index Investment Fund, which invests in stocks in the S&P 500 Index. The C Fund has a moderate level of volatility and a 10-year average return of (-1.40) percent.
- **"S" Fund.** The Small Capitalization Stock Index Fund, which 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 10-year average return of 1.74 percent.*
- **"I" Fund.** The International Stock Index Investment Fund, which 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 10-year average return of 0.84 percent.*

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"L" Funds. Consists of five pre-packaged portfolios with professionally determined asset allocation among the G, F, C, S and I Funds. Note: The L funds were started in 2005. The TSP Web site lists returns for the past four years, but no aggregate data is available yet.

Summary of TSP Lifecycle (L) Funds Annual Returns

Year	L Income	L 2010	L 2020	L 2030	L 2040
	%	%	%	%	%
2005*	2.15	2.99	3.40	3.59	3.92
2006	7.59	11.09	13.72	15.00	16.53
2007	5.56	6.40	6.87	7.14	7.36
2008	(-5.09)	(-10.53)	(-22.77)	(-27.50)	(-31.53)

* Returns for calendar year 2005 are calculated from the funds' inception on 1 Aug 2005.

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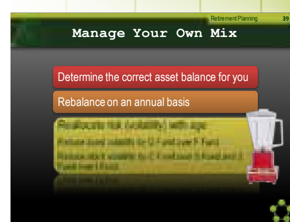
Investment Approaches in the TSP

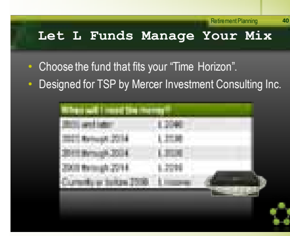
There are two investment approaches to using the TSP. The first is to choose your own investment mix from the G, F, C, S and I funds. The second is to choose one of the L funds with a time horizon that matches your retirement date.



Slide 39

Manage Your Own Mix

If you choose to manage your own mix, you need to determine the correct asset balance for you based on your age, time horizon, and risk tolerance. You will need to rebalance your mix on an annual basis, reducing your risk as you get closer to retirement age. For example, move bond money from the F fund to the G fund, and move stock money from the I fund to the S Fund to the C Fund.



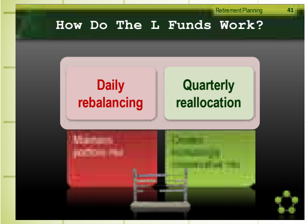
Slide 40

Let the L Funds Manage Your Mix

You can keep it simple by letting the L Funds manage the mix for you. Simply choose the fund that fits your "Time Horizon" by determining when you will need to use the money.

When will I need the money?

2035 and later:	L 2040
2025 to 2034:	L 2030
2015 to 2024:	L 2020
2008 to 2014:	L 2010
Currently or before 2008:	L Income



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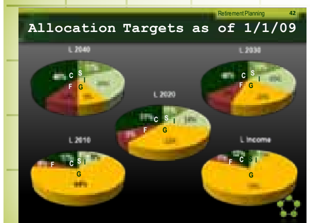
How the L Funds Work

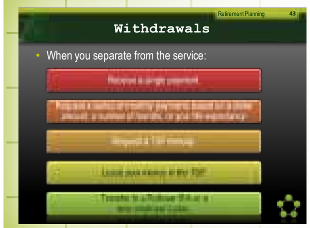
The L Funds are managed professionally to meet your retirement needs. Assets are rebalanced daily, maintaining your portfolio mix. Assets are reallocated quarterly (redistributed among the available funds), creating a more conservative (less risky) mix with age. When a fund reaches maturity (reaches the year for which it is named), it rolls to the next more conservative fund, and a new fund is added.



Slide 42

Life-Cycle Funds

These pie charts show how the mix of funds is rebalanced over time. As you can see, as the fund date approaches, the assets are moved from more volatile to less volatile funds until ultimately, in the L Income fund, three-quarters of the money is in the guaranteed "G" fund.

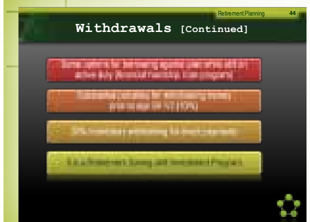


Slide 43

Withdrawals

When members separate from the service, they have several withdrawal options with their TSP money. They can choose to:

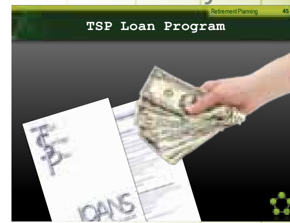
- Receive a single lump-sum payment.
- Request a series of monthly payments.
- Request a TSP annuity, in which case you must have at least $3,500 in your account.
- Leave the money in the TSP to continue growing (but cannot contribute any longer).
- Transfer the money in the TSP to a rollover or conduit IRA or to their new employer's plan (if the plan accepts the money).



Slide 44

There are some options for borrowing against the plan while still on active duty, but bear in mind there are substantial penalties for any withdrawal before age 59½, and there is a mandatory 20 percent withholding tax on certain withdrawals. A loan must be repaid between 1 and 5 years. At separation or retirement, the balance will be due, or it will be counted as taxable income. Interest is charged on the loan as well as a $50 fee.

The TSP is meant to be a retirement savings and investment program. If you need a loan, look to other resources rather than tapping into your retirement funds.



Slide 45

TSP Loan Program

While you are a member of the uniformed services, the TSP loan program gives you access to the money that you have contributed to your TSP account and the earnings on that money. You must be in pay status to obtain a loan, because your regular monthly loan payments are made through payroll deductions.

Reservists who drill only monthly (or less) should think seriously before taking a loan, because they may be unable to make the required monthly payments. Missed payments could result in negative tax consequences.

There are two types of loans — a general-purpose loan and a loan for the purchase of a primary residence. You can apply for a general-purpose loan with a repayment period of 1 to 5 years, or you can apply for a residential loan with a repayment period of 1 to 15 years.

No documentation is required for a general-purpose loan, but you must submit documentation (such as a contract for the purchase of your residence) to support the amount you are requesting for a residential loan.

You may have one general-purpose loan and one residential loan from your TSP account at any one time.

Minimum and Maximum Amounts

The minimum loan amount is $1,000. Therefore, you must have at least $1,000 of your own contributions and attributable earnings on those contributions in your TSP account to apply for a loan. The maximum loan amount is $50,000, depending on the amount you have contributed to your account; any outstanding TSP loans; and limits set by the Internal Revenue Code.

If you have both a civilian and a uniformed services account, the maximum loan amount available for you to borrow will be based on calculations that consider the account balances and outstanding loan balances for both accounts.

Interest Rates

The interest rate you pay for the life of the loan is the latest available interest rate for the G Fund at the time your application is processed. The interest you pay on the loan will go into your TSP account, along with repayments of the loan principal.

Fees

You must pay a one-time fee of $50 that covers the cost of processing and servicing the loan. The fee is deducted from the proceeds of the loan.

How Loans Affect Accounts

Although funds are restored to your account when your loan payments are posted, borrowing from your account will affect the final account balance available for your retirement.

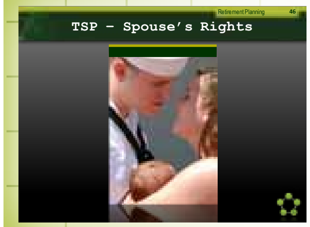
Because the TSP investment funds have different rates of return, the interest you pay on your loan (at the G Fund rate) is likely to be different from the rates of return on the other TSP funds. If you have invested in any fund(s) other than the G Fund, the earnings in your account when your loan is repaid in full are likely to be different from what your earnings would have been if you had not taken the loan. Thus, even though you pay back your loan with interest, you may have less money in your account when you retire than you would if you had not borrowed from it.

Estimating Loan Payments

If you are thinking about taking a loan from your TSP account, you may want to visit the loan calculator on the TSP Web site. The loan calculator can help you determine the estimated amount of your loan payments or the length of time it would take you to repay the loan. The calculator automatically uses the current interest rate.

Applying for a Loan

Information about applying for a loan, repaying the loan, and other details can be found in the TSP Loans booklet. Download a copy of it from the TSP Web site. You must wait 60 days from the time your loan is paid in full until you are eligible for another loan of the same type.



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Spouse's Rights

Even though the TSP is an individual account, spouses of participants have certain rights. Account owners can start, increase, decrease or stop contributions; change contribution allocations; or make interfund transfers entirely on their own. However, getting any money out — via loan or any withdrawal option — requires a spouse's written concurrence.

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Benefits of the Thrift Savings Plan

The benefits of participating in the TSP include:

- Contributions are pre-tax. This means 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, and it is easy to 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 before serving 20 years, the money still is yours.
- You can designate beneficiaries who you would like to receive the funds in the TSP in the event of your death.

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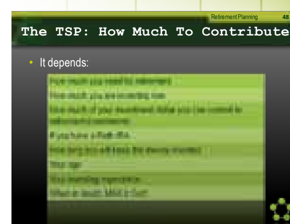
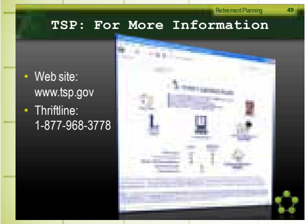


How Much to Contribute

How much you should invest in the TSP, and which fund you choose, depends on several factors.

- **How much you are investing now.** If you already have an aggressive investment plan in place, the TSP may or may not fit into it. If you are new to investing, the TSP may offer an excellent way to get started on an automatic investment plan.
- **How much of your investment dollars you can commit to retirement investment.** It may not be wise to commit all of your available investment dollars to the TSP, since you need to consider this money "tied up" until age 59½.
- **If you have a Roth IRA.** If contributing to the TSP means you have to decrease the amount going to your Roth IRA, it may not be a good alternative.
- **How long you will keep the money invested.** The TSP is designed to help achieve long-term retirement-planning goals. If you are going to use the money you put into the TSP for anything other than retirement, it may not be the best alternative.
- **Your age.** The younger you are, the more likely TSP should be a part of your retirement plan.
- **Your investing experience.** The TSP is an especially attractive option for people new to investing or who don't want to take a lot of time to do their own research.

There is a general rule in retirement planning that states "when in doubt, max it out." This is true for any tax-deferred investment opportunities.



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The TSP has telephone service (the"Thriftline") and a Web site that make it simple to transact business. The TSP Thriftline is 1-877-968-3778, and the Web site is www.tsp.gov.

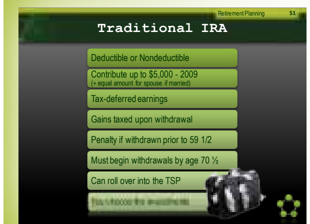
The Web site provides timely information and updates to the program. Here you will find rates of return, performance history, daily share prices, and fact sheets on each fund. You can view your participant statement online to check on the status of your account and to make changes to your account. However, to enroll in TSP or to start, change or cancel contribution amounts, you must go through your myPay account. There also are calculators to help you determine the future value of your investment, estimate loan payments, and determine what monthly payments your account could provide in the future. There is an additional link to the American Savings Education Council (ASEC) retirement-planning calculator.

Slide 50

Personal Savings and Investments

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 still can fund an IRA. An IRA is a tax-sheltered vehicle that is used to save for retirement. Money contributed to an IRA grows 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 still is tax-deferred. In both traditional IRAs, you are not taxed until withdrawal. In a Roth IRA, you never can deduct the contribution (therefore it is considered "after-tax" money), but you also never are taxed on the 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 now will apply to the money put into the mutual fund. A CD also can be designated as 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.



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Traditional IRA. Since members of the military are covered by an employer-provided pension plan, a traditional IRA can be either deductible or non-deductible depending on your income level. Accounts are individual, so 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 to your spouse's IRA.) Earnings grow tax-deferred, and the gains are taxed upon withdrawal. If the earnings are withdrawn before age 59½ there is a tax penalty assessed and taxes are due. Regular deductions must begin by age 70½. You choose the investments; in other words, the investments are "self-directed."

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Rollover IRA. A rollover IRA is a special type of IRA that holds money transferred from other retirement plans. You will recall from our discussion on the TSP that one of your options for withdrawal is to "roll" the money into a "rollover" IRA. Money from 401(k)s and 403(b)s — in fact, from any qualified retirement plan that allows it — can be rolled 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 the money will maintain its tax-deferred status (co-mingling money is not allowed). A rollover IRA also is a self-directed IRA; you choose the investments.

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Roth IRA. Money in a Roth IRA grows tax-exempt (the money grows non-taxed), since taxes never are due on the growth of Roth funds. You cannot take a tax deduction on contributions to a Roth IRA; but 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 easily can be passed to your heirs, as there are no distribution requirements. Roth IRAs are great deals for just about everyone.

Activity: IRAs: What's the Difference?

Time: 10 minutes

Material: REFER participants to Page xx in the Student Manual.

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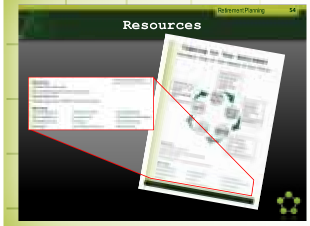
Procedure: Working individually or in pairs, direct the learners to complete the short quiz on Page xx. The quiz reviews the material presented on IRAs. When all are done, briefly review the answers and answer any questions the learners have.

IRAs: What's the Difference?

Fill in the blank to indicate to which type of IRA each statement applies.

1. Traditional IRA
2. Rollover IRA
3. Roth IRA

1. 1, 2, 3 Individual accounts only
2. 1 Contributions can be deductible or non-deductible
3. 1, 3 Contributions are limited to $5,000 in 2009
4. 1, 2, 3 Earnings grow tax-deferred (technically, earnings grow non-taxed in a Roth IRA)
5. 1, 2 Gains are taxed upon withdrawal
6. 1, 3 Catch-up provisions for people over 50
7. 2 Holds money transferred from other qualified retirement plans only
8. 2 Will not accept regular contributions
9. 1, 2, 3 You choose the investments
10. 1, 3 No tax deduction for contributions (always for the Roth; depends on AGI for traditional)
11. 3 No taxes paid on withdrawals
12. 1, 2, 3 Penalties for early withdrawal
13. 1, 2, 3 Loan provisions apply



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Sources of Help

There are many resources available to help members get started with retirement planning. These resources will be helpful for you personally and will be an important part of the information you provide to the command members in your role as a CFS.

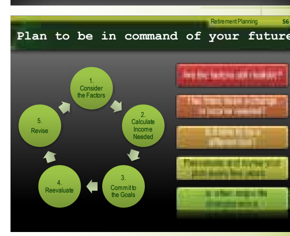
Government, Military and Non-Profit Agencies These are particularly helpful resources. Their online calculators usually include military benefits, which make it easier for you to get an accurate estimate. Their counselors often are familiar with these benefits as well. Financial Education Specialists and the TAMP staff at the Fleet and Family Support Centers are excellent resources. The RAO (Retired Affairs Office) may have information on other resources. The Navy Mutual Aid Association and the USAA Educational Foundation provide assistance with aspects of retirement planning. Commercial financial professionals in the civilian world, including those at Department of Defense-affiliated credit unions, offer both fee-based comprehensive financial-planning services and do-it-yourself planning tools available at little or no cost.

Internet Resources. 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 be only 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.

Assumptions. When using any type of calculator or working with a financial professional, be sure to use realistic assumptions for inflation and rates of return. A rate of inflation of 3 percent to 4 percent per year will reflect most time periods of 20 years of more accurately. For long-term rates of return on your investments, a reputable financial planner would use, at a maximum, 9 percent to 10 percent per year before retirement, and 7 percent to 8 percent during retirement. Many calculators automatically set for the rate of inflation and rate of return. Make sure they are realistic. Use the rates just mentioned as a guide.

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 choose will be paid; remember, you do not get something for nothing. Ask about your planner's education, training or special credentials. 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's your money; don't be pressured into anything.

Slides 55 and 56



Re-evaluate and Revise

Your final two steps in retirement planning are to re-evaluate your plan consistently and revise it as needed. Are the factors still realistic? Has there been a change in income needed? Is it time to use a different tool? Re-evaluate and revise when major life events occur and at least annually as you get within 10 years of your retirement.

With the steps outlined in this program, you are well on your way to building wealth and ensuring a comfortable (and affordable) retirement:

- Consider the factors.
- Calculate your income needs — update your Ballpark Estimate annually or with major life changes. Work with a financial professional if necessary.
- Commit to the goals — do some serious thinking and planning before you decide to take the CSB/Redux retirement plan. Join the TSP today, and commit a portion of future raises and bonuses to your retirement savings. You won't even miss it!
- Re-evaluate your factors periodically.

- Revise your plan to meet the needs of your new goals.
- Use all the resources available to you, especially while you are on active duty.
- Don't fail to plan, plan to succeed.

Optional Activity: Retirement Planning: Your Hole-in-One!

Time: 10 to 15 minutes

Retirement Planning: Your Hole-in-One! is a pre-loaded PowerPoint quiz included in the "Planning for Your Retirement" module of the PFMSC (2007). It can be used as a review tool for the content presented in this session. Follow the directions in the standardized curriculum. Note that some questions may need to be updated if there is data decay.

Activity: Listening Teams Seminar Review

Time: 15 to 30 minutes, depending on class size

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Procedure: The teams were created at the beginning of this seminar in Part I. REFER students to the Listening Teams Activity on Page xx in the Student Manual. Remind students of their team assignments:

Assignments:

TEAM ROLE

1. Questioners

   Assignment: After the lecture, ask at least two questions about the lecture material.

2. Agreers

   Assignment: After the lecture, tell the class on which points your team agreed (or found helpful) and explain why.

3. Naysayers

   Assignment: After the lecture, comment on which points your team disagreed (or found unhelpful) and explain why.

4. Example Givers

   Assignment: After the lecture, give specific examples of educational applications of the lecture material (what do command members "need to know" about the topics?).

Allow 5 minutes for the teams to discuss their assignments and responses. Call on each team to present their responses to the class. Pay particular attention to Group 4's responses. Ask the whole class to contribute to ways to educate command members about retirement planning.

Congratulate the class on their attention to detail and their hard work today.

VII. FORMS

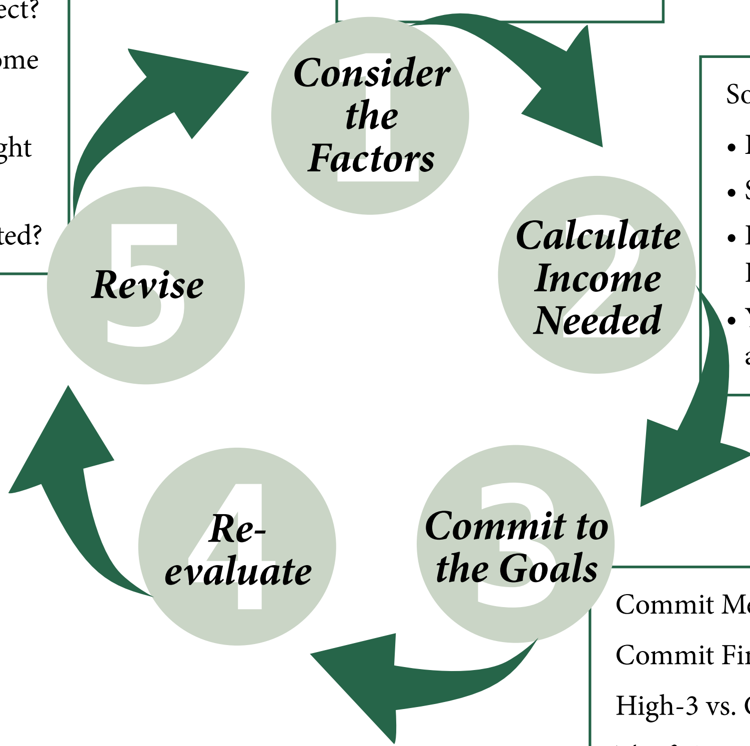
- Planning for Your Retirement
- Get a Ballpark Estimate for Your Retirement Needs
- Military Retirement Pay Plans
- Thrift Savings Plan Brochure

Planning for Your Retirement

Five Basic Steps to Take Command of Your Future

Pre-Retirement Income
Date of Retirement
Life Expectancy
Compound Interest and Time

Are factors still correct?
Have sources of income changed?
Are you using the right tools?
Are you still committed?



Sources of Income

- Earned Income
- Social Security
- Employer-Provided Pensions
- Your Personal Savings and Investments

Commit Mentally
Commit Financially
High-3 vs. CSB/Redux
Thrift Savings Plan
IRAs or Other Investments

Resources

Command Financial Specialist

Fleet and Family Support Center Financial Educator

Financial Professionals

"The Retirement Choice: FY 2009," Center for Naval Analysis

Web sites

www.saveandinvest.org
https://mypay.dfas.mil
www.militarysaves.org
www.tsp.gov
www.smartmoney.com
www.kiplinger.com
www.ssa.gov
www.militaryonesource.com
www.morningstar.com
www.defenselink.mil/militarypay
www.choosetosave.org
www.npc.navy.mil

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

=$________________

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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 of active service. This equals, but is not limited to, 100 percent for 40 years. 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 for each additional year of active service. 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 of service up to 75 percent for 30 years of service, and 2.5 percent for each year after 30 years, equaling 100 percent for 40 years of service. (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 to build financial stability and independence at retirement.

Description and Benefits

- Defined contribution plan, like a 401(k).
- 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 are made with pre-tax dollars, 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 identification number (PIN) 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 percent of base pay per year ("Elective Deferral").
- Can contribute up to 100 percent of Special and Incentive pays (including bonuses) per year ("Elective Deferral").
- Total annual contributions cannot exceed $16,500 (IRS regulations).
- Contributions come directly from pay (unless traditional IRA rolled into TSP).
- Tax-free zone contributions up to $49,000 per year (2009).
- 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 4.92 percent (2008).

F Fund: The Fixed Income Investment Fund

- Tracks Barclay's Capital U.S. Aggregate 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 5.69 percent (2008).

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 percent of the total market).
- Moderate/high risk, higher potential return: 10-year average (-1.40) percent (2008).

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: Average return since inception (May 2001) 1.75 percent (2008).

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: Average return since inception (May 2001) 0.84 percent (2008)

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 — (-31.53) percent
  - L2030 — (-27.50) percent
  - L2020 — (-22.77) percent
  - L2010 — (-10.53) percent
  - L Income — (-5.09) percent

Loans

- Borrowed from personal account.
- General-Purpose Loan: Repay 1 to 5 Years.
- Primary-Residence Loan: Repay 1 to 15 Years.
- Minimum: $1,000/Maximum: the lesser of either one-half of the account balance or $50,000.
- Loan application through TSP service office (usually 6 to 8 weeks to process).
- Not a substitute for an emergency fund.
- Must be repaid in full before 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 before age 59½.
  - Leave in TSP: Will continue to grow; still can move money around; cannot make additional contributions.
  - Transfer to next employer's 401(k).
  - 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.