

**Preventive Financial Education
in the
Department of Defense: A Way Forward**



**AMERICAN LEADERSHIP & POLICY
FOUNDATION**

• PURE SOLUTIONS FOR A STRONG AMERICA •

FINAL REPORT

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In January 2015, the Military Compensation and Retirement Commission (MCRMC) reported a series of recommendations to modernize pay and benefits of the Uniformed Services to the President of the United States and Congress. One of the most critical recommendations focused on the frequency and quality of financial literacy training for service members and their families. The Department of Defense and the Joint Chiefs of Staff were encouraged to collaborate with non-profit organizations to make the improvements and implement the other recommendations from the Committee. The American Leadership and Policy Foundation (ALPF) is a registered 501(C)3 non-profit organization built by citizen leaders who are professionals with expertise in defense, national security, finance, and financial education. ALPF is acting on the MCRMC's recommendations, which supports our military and foundational goal to provide pure solutions and analysis for a strong America. The impact from the recommended changes to the retirement and benefits system will have an immediate and drastic impact on all service members and their families. ALPF considers preventive financial education a critical component to military readiness and quality of life for the All-Volunteer force throughout the benefits modernization process.

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“The opinions and views expressed in this paper are those of the authors alone and do not represent the views of the U.S. Government or Department of Defense.”

Introduction

Current language in the National Defense Authorization Act for Fiscal Year 2016 (NDAA FY16) directs the Secretary of Defense to commence force-wide Financial Literacy Training no later than six months after enactment. In addition, specific training for all service members will be made available in preparation for the one year opt-in window after the new retirement system takes effect. The ALPF proposal to build a preventive financial education program expands the current DoD support infrastructure, improves service members’ readiness, and develops a culture of personal financial responsibility.

Problem Statement

Current DoD Financial Literacy Education is insufficient to establish financial stability and support the mission readiness for service members and their families.

In May 2003, DoD formally launched a financial readiness campaign to address service members’ poor financial habits and increase financial management awareness, savings, and protection against predatory practices. Ten years later, statistics show that financial issues continue to be the fourth highest-ranking reason for security clearance loss. In FY 2013, 1,129 service members had security clearances revoked for financial reasons. A separate report shows financial difficulty is the second most common psychosocial stressor among service members who die by suicide. Three of the top five concerns among military respondents in another survey were related to finance, (e.g., pay and benefits, potential changes to retirement benefits and spouse employment). 90% of surveyed service members and their spouses indicated they would like to receive more preventive financial education and 82% indicated their spouse should be included in financial readiness courses. Most active duty service members (84%) agreed there should be greater focus on preventative financial education within their units or the military as a whole.

Financial readiness is essential to maintaining military family strength, individual resilience, and qualifying security clearances required for mission readiness. Financial readiness is considered part of overall military readiness.

Strategy Proposal

Expand current DoD infrastructure

The current reactive solutions approach for providing financial literacy is self-initiated or referral based through Military One Source. Service member educational resources are distributed online or by an installation's family readiness center. In addition, the annual Military Saves Campaign promotes general awareness with limited objectives to encourage individuals to save money and reduce debt. In eight years, the campaign reported over 200,000 individuals reached.

The proposed changes to the DoD retirement system will significantly impact more than one million service members and their families. Under the new proposal, approximately 85% of the force will receive some retirement benefits and be encouraged to start long-term retirement savings. While the proposed changes represent a major change, the blended retirement system is a key step in modernizing the Department's ability to recruit, retain, and maintain talent required for a viable and adaptive Future Force. Future service members will require more choice and flexibility in compensation and retirement. Furthermore, these changes provide additional options for the Department to attract and manage a military force that demands increasingly diverse technical skill sets in an evolving and competitive global economy. Once changes to the retirement system are announced, the demand for information from members and families will easily overwhelm present underutilized programs in current form.

A sound preventive financial education strategy requires a proactive approach to equip service members with requisite education in each major phase of their career and life. Combining education and assistance appears to achieve results as large as other leading policy options. Information and tools need to be customized to engage participants and form a culture of financial responsibility. Such educational efforts must be integrated with military training to

disseminate information widely and increase participation. This level of coordination requires centralized development and decentralized or local program management for implementation by the January 2017 deadline.

Collect Lessons Learned

The first challenge for the DoD is to collect lessons learned from existing Personal Financial Management Courses (PFMCs) from each service branch. Before the end of November 2015, the Office of the Secretary of Defense Personnel and Readiness (OSD P&R) should consolidate information from all services to perform a Strength, Weakness, Opportunity, and Threats (SWOT) analysis. Gathering and comparing curricula, participation rates, local installation personnel contacts, and other pertinent support information will set a benchmark for the development of a comprehensive program that effectively meets service member needs by February 2016.

Timing is Critical

Previous programs developed by Army Emergency Relief reported that PFMC students are an unusually receptive audience. The timing of presentation to this group seems uniquely suited for influencing individual financial behavior for new entrants to the labor force who are often living alone for the first time. At the start of a new career, recruits are more likely to develop individual financial stability than through a remedial training as a result of irresponsible decisions.

Reputable Instructors are Key

The Army found there was more influence on first year soldiers who received financial training from colleagues and roommates than classroom instructors or resource materials. Retired military instructors are typically the most trusted and received role models for students. This receptivity potentially increases the motivation both to listen and learn. Of the small number of soldiers demonstrating positive behavioral changes in financial matters, most received support and guidance from an older soldier with "good" financial habits.

Improve Service Member Readiness

Preventive Financial Education Standards

Curriculum development focuses on the needs of the participants in the major career milestones or life phases. An entire course will be designed for each phase, and the course will be comprised of several applicable modules. Single modules should be limited in scope by single topics. No topic should require more than 50 minutes of instruction.

Each topic should have defined learning objectives to progress participants toward measurable outcomes. The topic-based curriculum covers the most relevant topics for the service members. It generally provides practical advice (e.g., avoid variable rate mortgages) as opposed to broad principles (e.g., how to complete create a budget). Regardless of participant background, the objectives drive the purpose of the curriculum and exercises. An instructor's responsibilities are to ensure the objectives are met, and develop uniquely customized presentations. The materials required must remain flexible to accommodate varying group sizes to meet the needs of local units. Training bases will likely hold larger auditorium sized events infrequently where operational bases, on the other hand, may only accommodate small groups more frequently.

OSD P&R has the responsibility to consolidate lessons learned from all services. The reference library of resources will be the basis for selecting effective learning objectives that can be compiled in realistic modules for training purposes. Outsourcing the development and design of the material will be less resource intensive than hiring the expertise necessary for the effort. However, focus groups comprised of service members from target demographics should be consulted during the development phase.

Even with all the programs in place throughout the services, most active duty members rely on other resources for financial literacy. According to studies, 40% use personal banking institutions, 33% rely on family or friends, 35% reference the internet, and 37% are self-directed from books, webinars, podcasts, and media. Many of these resources can be redistributed to meet learning objectives throughout the courses.

The following topics can be used for developing the modules and course curriculum:

- reading the leave and earnings statement
- how to read basic pay scales
- understanding entitlements
- planning for temporary duty (TDY) and deployment income
- know your permanent change of station (PCS) moving allowances
- when/why/how to use travel or pay advances
- develop a debt management plan, savings deposit program
- Thrift savings plan
- survivor benefit plan options
- retirement plan options, documenting assets & liabilities
- off-duty education benefit options
- reviewing annual credit report
- the service-member's civil relief act (SCRA)
- Roth vs. Traditional IRA
- and establishing a financial foundation

Enterprise Education Tools

Many government websites provide reliable, unbiased articles and user friendly calculators for personal use. The MilitaryOneSource.mil and MilitaryInstallations.dod.mil websites are DoD funded and even provide personal counseling options for service members. The Thrift Savings Plan (TSP) also provides investment, retirement, and loan payment calculators designed for military or civilians in the DoD at the tsp.gov website. Additionally, the DoD is a member of the Congressionally chartered Financial Literacy & Education Commission (FLEC). The MyMoney.gov website is a product of FLEC and more than 20 federal entities that are coordinating and collaborating to strengthen financial capability and increase access to financial services for all Americans.

Outside of government, there are industry partners that also provide training, tools, and resources for service member use. The Financial Industry Regulatory Authority ([FIRA](#)) in collaboration with the DoD provides free calculators, analysis tools, scenario-based interactive [games](#) and quizzes to the public in promoting the Military Saves [week](#). FIRA also created a military specific [page](#) in support of spouse groups, military instructors, and individual service members. The Consumer Federation of America developed a Credit Score [Quiz](#) to expose misconceptions about improving credit scores. The Consumer Financial Protection Bureau recorded a pair of videos in support of their virtual training [series](#) for educators and service members. The Bank of America and the Khan [Academy](#) unveiled their partnership in simplifying topics-based lessons applicable to savings, credit, and family financial management issues. All of these sources can be utilized without any additional investment to recreate a unique DoD course with a high degree of saliency.

Develop a Culture of Personal Readiness

Define Major Career Milestones and Life Phases

Identifying the needs of the participants provides an outline for the curriculum in preventive financial education. Each phase poses a unique set of challenges that may be applicable to every service member at some point. The major career milestones and life phases listed are a starting point for developing a culture of financial responsibility:

- Basic Training
- Technical Training
- Arrival first duty station
- Vesting point for TSP (2 YOS)
- Professional Training
- Pre-Deployment
- Post-Deployment
- Re-enlistment
- Pre-Retirement

- ARC/ANG/Civilian transition
- Marriage
- Divorce
- Additional Dependents
- and Disability

Collaboration

Preventive financial education, along with support from unit leadership, will improve mission readiness. Course instructors must coordinate scheduled events with operations to prevent disruption to mission accomplishment. Participation must be mandated by leadership to ensure training is provided to all affected service members. Voluntary attendance to underemphasized events will not produce individual financial readiness or improved unit readiness.

Support groups within the military are excellent resources to improve long-term results from preventive financial education. Spouse clubs, unit morale groups, peer groups for officers and enlisted often meet informally to provide community service and participate in educational career development programs. Preventive financial education, facilitated by a qualified instructor, can encourage, inspire, and empower service members in an open non-attribution environment.

Numerous community based programs and services also target military families to provide emergency assistance, special tuition rates for higher education for military families, investment education, money management and saving, legal assistance, and information for surviving spouses and for wounded warriors, among others.

Continuous Evaluation & Process Improvement

An annual review must be required as an integral part of developing a comprehensive DoD preventive financial education program. Curriculum tools will constantly be validated to ensure they meet audience needs. Surveys conducted by the Defense Manpower Data Center (DMDC) prior to training events, after completed sessions, and throughout a service members' career will

help measure the impact and effectiveness of the program. Using DMDC as the single source for collecting information will provide consistency for reporting requirements to OSD P&R, Congressional Committees on Armed Services, and the President.

Evaluation should focus on service members needs and the development of personal financial readiness. Topics for surveys should include:

- status of financial literacy & preparation
- exploitation by predatory lenders & financial manipulators
- identify skill gaps
- effectiveness in delivery methods
- quality of materials or training provided
- usefulness of the tools
- level of understanding in using tools
- participation in personal budget management
- maintenance of emergency funding
- last time reviewed personal credit report
- management of credit card debt
- home ownership
- insurance coverage of service member or family
- and contributions to retirement savings

Many of these topics are already evaluated independently outside DoD. Such should be used to establish a benchmark for comparison after fielding a preventive financial education program.

Results from surveys should be evaluated by the OSD P&R in collaboration with development partners to reassess how to better meet required education standards. Such standards should have three main objectives: (1) provide awareness of financial options, (2) prepare the service member for life events (readiness) and (3) utilize analytical tools.

Associated Costs

The cost associated with increasing financial literacy training would be likely be offset, at least partially, by associated savings. DoD estimated it would save between \$13 million and \$137 million annually by providing service members and their families more protection against high-cost debt, consequently reducing the number of troops involuntarily separated because of financial problems. According to such estimates, between 4,703 and 7,957 military personnel would otherwise be involuntarily separated because of financial distress. The cost of separating one service member can be as much as \$57,333.

A small investment in financial education, however, could have a disproportionately large effect on employee participation in a Direct Contribution (DC) plan and in the plan's overall effectiveness. A 2008 study indicated that a provision to newly hired employees of relatively simple planning tools designed to aid their understanding of a company's DC plan increased enrollment by 12 to 21%. Such results reveal large differences in TSP contributions between the groups with those attending the course participating at higher rates and higher average levels than those who did not. The TSP results suggest an average increase in retirement savings of \$14-\$20 each month in the first two years and a decrease in credit balances and required monthly payments in year 1.

Based on the 2013 end-strength, the estimated number of training events required is 2,272,410. At an estimated cost of \$33 cost per training event by a Certified Presenter/Instructor in preventive financial education, DoD will require \$75M to cover training costs. As a condition, training sessions will not advocate for or market any financial products or services. The only additional support material required will be slides, computer(s), projector(s), and screen(s) for presentation. Training should be offered at fixed locations at all training bases and service schools across DoD. All other bases will provide temporary accommodations for the periodic training to support leadership's mission readiness requirements.

End Notes

The Financial Literacy Education across the DoD has failed to establish financial stability and mission readiness for service members and their families. The preventive financial education

program ALPF proposes expands the DoD infrastructure in order to improve readiness and develop a culture of personal financial responsibility. An effective preventive financial education strategy requires a proactive and holistic approach to equipping and educating service members with salient information for each phase of their career and life. Military training and preventive financial education must be integrated to disseminate information widely and increase unit mission readiness.

Curriculum development revolves around the major career milestones or life phases of participants. An entire course will be designed for each phase, from initial military training to pre-retirement. Multiple modules will be combined in each course, although each module will have single topics with defined learning objectives to progress the participants toward a measurable outcome. Unit mission readiness requires individuals to be financially ready. This includes maintaining qualifications for security clearances, developing individual resilience, and strengthening military families. Financial readiness is a key part of overall military readiness.