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Financial Planning When Called To Active Military Duty

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Military reservists called to active duty are faced with some unique financial planning which needs to be done before leaving for military service.

Determine the impact any **change in income** will have. Many reservists find that their income drops from 10-50 percent upon being called to active duty since their military pay does not match what they make as civilians. Determine if the civilian employer will provide any income during a transition period; some employers provide all or a part of the difference between civilian and military pay for a defined time period such as three months.

Consider supplemental sources of income such as additional employment for nonmilitary household members. With a lower income, the household may qualify for some community assistance, either public or private, such as reduced or free lunches for school children.

Find out exactly **what the current financial situation is**. Fill out a net worth statement (Extension publication, *Financial Planning Form: Net Worth Statement*, G89-940) listing all assets and liabilities. If income drops significantly, look to assets to determine which, if any, could be sold for additional cash.

List all **credit debts** including home mortgages, automobile loans, credit cards, home equity credit lines, and student loans. Under the **Soldiers' and Sailors' Civil Relief Act**, creditors can only charge 6 percent simple interest on any debt existing before reservists are called to active duty while the person is on active duty. The debt must be the military person's and must be incurred before active duty begins.

A creditor can initiate a court proceeding to keep the original terms of the credit obligation but must prove that ability to repay the debt is "not materially affected by service in the military." Judicial approval is also required for any repossession or foreclosure. On the other hand, the court may order smaller or suspended payments while the debtor is on active duty if circumstances warrant.

Dependents are protected only on debts jointly signed with the military person. Any new credit advances

on a credit card, home equity account, or other open line of credit are not protected.

Credit cards may be canceled or accounts suspended by the creditor until the person leaves active duty. Some credit card companies do apply the 6% interest rate to all new purchases as well as old balances. Others apply all payments during active duty to principal or accrue no additional interest until the reservist leaves active duty.

Check life insurance coverage. Many group policies through employers do not continue or may include a clause which voids coverage during military service in a war. But there are life insurance companies that cater to the military including the Armed Forces Benefit Association (800-776-2322) and USAA (800-531- 8000). Check these sources and others if additional life insurance is needed.

Health insurance for dependents may be discontinued by civilian employers. If that will happen, dependents may use the government insurance plan, CHAMPUS. New deductibles will need to be met. Health care for dependents will also be available through military medical facilities but these facilities are not conveniently located for everyone. Under COBRA (Federal Consolidated Omnibus Budget Reconciliation Act of 1985), activated reservists can convert current group health policies from employers to individual coverage and pay group premium rates. Then CHAMPUS would become the secondary insurer for dependents.

If a **car or other vehicle** will not be used while the person is on active duty, notify the insurance company to get a reduction in premium and refund for any advance payments.

Like regular military personnel, reservists called to active duty will pay **income taxes** on their military pay and on any additional foreign- or hazardous-duty pay, but not on allowances for housing, food and uniforms. Any supplements paid by one's civilian employer will also be subject to income taxes. If a shooting war breaks out, all base pay for enlisted personnel becomes tax-free; the first monthly \$500 of an officer's income also becomes exempt from taxes.

All active military personnel stationed overseas get an automatic two-month extension of the federal April 15 filing deadline. But interest will accrue if money is owed to the government. Those who are not able to make tax payments because of a substantial income drop can apply for a deferment using Form 1175, Request for Deferment of Collection of Income Tax.

If the deferment is approved, taxes will not be owed until six months after the end of the initial tour of duty; no interest or penalty will accrue.

If supplementing income and negotiating credit debts does not adjust the budget enough, consider cutting down or cutting out expenses. List all expenses (Extension publication *Cash Flow Planning Form*, HEG85-202 may help). Don't forget irregular expenses such as insurance premiums. Look first to flexible expenses to see which ones can be cut. Develop a cash flow budget for three months at a time anticipating timing and amount of both expenses and income. The Extension publication, *Budgeting: The Basics and Beyond*, G93-1166-A, offers more information about developing a household budget.

If the person going on active duty is the one who usually handles the financial affairs of the household, be sure someone else (spouse or other trusted individual) knows where important papers and financial accounts (assets and debts) are located, who financial advisers are, when bills are due, how to balance the checking account, and other important information related to managing financial affairs for someone in their absence. The Extension publication, *A Record of Important Family Papers* EC85-2040, provides a place to record vital information.

Before leaving, revise wills and prepare a power of attorney for a spouse or other trusted individual so that person can sign financial and legal documents for the absent person on active duty. If needed, a letter of last instructions with additional information for survivors is also suggested.

Once on active duty, dependents will need to practice prudent money management. Keep accurate records of income and expenses; check records with budget projections frequently so any adjustments can be made. Practice resource conservation. Take care of what you have including your health. Plan shopping and errand trips. Cut out recreational and impulse shopping. Actively look for less expensive alternatives such as eating out less, carpooling, and sharing recreational and educational materials. Do not cut out all recreational activities since recreation is one way to control stress, but do look for free or inexpensive recreational opportunities. Above all, keep communication lines about money and the household's financial situation open so everyone knows where you stand. (Additional money-saving ideas are available in Extension publications *Living Resourcefully Fact Sheets*, 21-28.)

File NF9 under HOME MANAGEMENT

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