

**MOAA**  
INFO EXCHANGE<sup>SM</sup>

A PUBLICATION OF MILITARY OFFICERS ASSOCIATION OF AMERICA

**Seven Steps  
to a Better  
Military Retirement**



One  
Powerful  
Voice.

Sure, the switch to civilian life after a military career can be daunting. But a little planning can go a long way toward making the transition a smooth one. And we've made the job easier for you with these seven simple steps you need to follow to enjoy your post-military career and lifestyle.

# 7 Steps to a Better Military Retirement

Is there life after the military? Follow these steps for a smooth transition.

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# 1 Look Before You Leap

## WEIGH YOUR OPTIONS BEFORE DECIDING ON A SECOND CAREER

You may be facing mandatory retirement, but if not, be sure it's the right time for you to retire. If you truly enjoy what you're doing now, keep doing it!

If you want to explore work options outside of the services, make a list of the work skills you possess and tasks you enjoy performing. Then investigate the civilian job market to see if there's a career that will allow you to continue using those skills – or easily grow into a new skill set.

And don't forget to tailor your second career planning to seek out jobs that will compensate you at your desired earnings level.

**Bottom Line:** Leaving the military is a major life change. Don't assume you'll figure it all out once you retire.

## 2 Start Your Job Search

### DON'T PUT OFF “SELF-MARKETING” PLANNING

When it comes to changing careers, the first maxim you'll hear is “start planning early.” As obvious as this sounds, a surprising number of officers don't see the need — or take the time — to prepare for what is often a highly competitive civilian job market.

Many officers have so internalized the “mission before self” perspective that they work long hours at their military jobs right up to the end. So they don't start planning for post-service employment until the day they walk off the installation. The hard truth is that very few military people can expect to land a choice second career simply by presenting their credentials. As basic as it sounds, you owe it to yourself — and your family — to plan better than that.

**Bottom Line:** You need to start laying the groundwork at least one year before submitting your retirement application. It takes time to plan, research and network if you're going to find the right career opportunities.

# 3 Compare Apples to Apples

## KNOW WHAT YOUR SERVICE IS WORTH

Many active duty officers are tempted by the lure of high-paying jobs in the private sector. Before you leave the military for what seems to be a lucrative civilian job, however, be sure that you are comparing apples to apples.

To get an accurate picture, you have to take your nontaxable military benefits into account. Nontaxable Basic Allowance for Housing (BAH), Basic Allowance for Subsistence (BAS), and special pay all significantly increase your overall compensation package. Ensure you “gross up” your nontaxable benefits and add them to your base salary to come up with your true pay. For instance, an O-4 with 14 years of service receives \$5,571/month in base pay (2004 Pay Chart) and BAH (Washington, DC MHA, with dependents) of \$2,191/month. Assuming a 30% combined tax bracket, the monthly pretax value of the BAH is \$3,130 ( $\$2,191 \div 0.70$ ), for a combined monthly compensation of \$8,701— or \$104,412 annually!

**Bottom Line:** Make sure you do your homework before jumping into the private sector. MOAA’s Military to Civilian calculator can help: <http://www.moaa.org/financialcenter>

# 4 Develop a Financial Plan

Financial plans are like diets – most people know they need one, yet very few people take the time to follow one seriously. Studies routinely show that those who create and maintain a written financial plan not only achieve greater financial success and peace of mind but also reduce stress over financial issues.

The average American today has saved less than \$17,000 for retirement by the time he/she reaches age 65. Clearly, planning ahead is crucial. Fortunately, most officers will have military retired pay, Social Security, savings, and investments — and possibly second-career retirement plans — for financial support during retirement. By drawing up — and sticking to — a financial plan, you can make sure your nest egg is large enough to meet your needs in retirement.

MOAA's Financial Planning Guide can help! This guide, designed for military officers, will help you take the first steps on the road to financial freedom, and is supported by our Web-based Financial Education Center ([www.moaa.org/financialcenter](http://www.moaa.org/financialcenter)).

**Bottom Line:** Think of your financial plan as a road map. It helps you develop and define your short-and long-term goals, take stock of where you are today, and map a route to financial independence.

# 5 Understand Your Retired Pay

Understanding how your military retired pay is calculated is essential for proper financial planning. Currently, there are three military retirement pay systems:

- Final Pay (entered active duty prior to September 8, 1980)
- High-3 (entered active duty between September 8, 1980 and August 1, 1986, and those who have turned down the CSB/REDUX)
- CSB/REDUX (entered active duty on or after August 1, 1986 and elected the CSB)

For more information about the three systems, visit <http://www.defenselink.mil/militarypay>.

Knowing the exact dollar amounts you can expect to receive can help you determine the age at which you can leave the workforce entirely and still maintain the lifestyle you want.

## CSB/REDUX

Servicemembers who complete 15 years of service face a “cash vs. retirement” decision – and they don’t get a second chance. You will be offered a one-time \$30,000 cash bonus in return for a lower retirement payout and smaller cost-of-living adjustment (COLA) on your retired pay. There’s no other way to say it: This is a bad deal! Accepting this one-time payment could cost you 10 to 20 times as much in lifetime retired pay.

The plan reduces initial retirement payouts by 20% and limits the annual COLA increases to 1%. Because nearly half of your total retired pay comes from COLAs, this double-whammy results in the loss of \$250,000 to \$500,000 or more in retired pay. At age 60, a 20-year REDUX retiree’s paycheck is one-third lower than a retiree who stuck with the High-3 Program.

**Bottom Line:** Don’t sacrifice tomorrow for a one-time gain — decline the CSB/REDUX plan.

## 6 Understand the Survivor Benefit Plan

Created in 1972, the Survivor Benefit Plan (SBP) provides a government-subsidized and inflation-protected income stream for your spouse and/or children after you die. Because your military retirement pay ceases when you die, SBP is a great way to ensure your family continues to receive a portion of your retirement pay.

Your decision whether to enroll in SBP depends on your unique financial situation. SBP, by itself, will not provide sufficient income to your survivors, but it's a valuable part of any estate plan. When you retire, you will be enrolled automatically in the Survivor Benefit Plan (SBP) unless you explicitly decline it — and your spouse consents in writing to that declination. This decision must be made before you retire.

SBP provides a maximum of 55% of the retiree's base annuity for a cost of 6.5% of retired pay. For example, a retiree with \$2,500/month in military retired pay who elects full SBP provides an income continuation benefit to his or her spouse of \$1,375/month. The original SBP law reduced SBP benefits to as low as 35% of retired pay for survivors age 62 and older. That reduction was ordered eliminated by 2008. This translates to a 55% lifetime benefit for all SBP annuitants, which makes SBP an attractive income insurance program.

**Bottom Line:** There is a reason why nearly 79 percent of retiring officers elect SBP coverage. Make sure you do your homework and get the facts before you turn it down.

# 7 Don't Skimp on Insurance

For most retiring officers, SBP alone isn't enough for estate planning. Few retirees can live on their military retired pay, and even fewer spouses could live on a fraction of that, even if they also receive Social Security income.

**Insurance** – such as life insurance and property insurance – is designed to protect you and your family against catastrophic loss. As such, insurance should play a key part in any financial plan.

**Life insurance** – protection for those who are financially dependent on you comes in several types: term and permanent/cash value policies. Term life insurance offers pure protection while permanent insurance combines a term insurance policy with a savings and investment component.

On active duty, most officers carry \$250,000 of Servicemen's Group Life Insurance (SGLI) coverage in addition to their automatic (and free) DIC coverage. But SGLI coverage expires 120 days after retirement. All retiring members, including disabled and other medically at-risk members, are guaranteed eligibility to convert their SGLI to equivalent Veterans Group Life Insurance (VGLI) coverage. This is a great deal for those who have medical problems, but most others can do better with non-government life insurance.

If you are reasonably healthy, it pays to shop around because there are plenty of life insurance policies out there that will be less expensive than VGLI.

While **Health Care Coverage** is provided by the military for retirees and their families eligible for TRICARE, some costs aren't covered. You are responsible for significant deductibles, cost shares, and excess charges – and these costs can add up quickly. A TRICARE supplement helps limit your exposure.

**Property insurance** protects automobiles, homes, boats, and expensive personal articles. Consider carrying as high a deductible as you can afford – \$500 for auto insurance and \$1,000 for homeowner's insurance – to keep the premiums more affordable.

A **Long Term Care** insurance policy might be a good place to put any insurance savings. A plan for Long Term Care, sometimes called assisted living, is insurance to care for you or your spouse when you're no longer able to do so. Neither Medicare nor TRICARE covers it, and costs are rising. Most people begin to think about Long Term Care in their 50s, and if they decide to purchase a plan, do so by their 60s. The younger and healthier you are, the less expensive these plans are. So don't put off thinking about it, and do your homework.

**Bottom Line:** Don't be complacent and assume that you're covered with military retirement pay and SBP. Find out which insurance options will safeguard you and your family.

## Take Your First Step – with MOAA

MOAA offers a variety of counseling services, online tools and publications geared toward helping you make the transition to post-military life:

**Transition Counseling/Job Placement:** Widely acknowledged as the best in the business, MOAA's The Officer Placement Service (TOPS) offers public transition presentations, private counseling sessions, résumé assistance, and a unique listing of more than 11,000 jobs through more than 2,000 employers and executive recruiters. Check out TOPS at [www.moaa.org/tops](http://www.moaa.org/tops) or e-mail [tops@moaa.org](mailto:tops@moaa.org).

**Survivor Benefit Plan (SBP) and Other Military Retirement Benefits Counseling:** MOAA's Benefits Information Department can help if you need guidance or information about your benefits. Call 1-800-234-6622 or e-mail [beninfo@moaa.org](mailto:beninfo@moaa.org).

**Life Insurance:** Retiring officers who "comparison shop" for alternative plans with reliable insurance carriers will find that MOAA's life insurance plans are among the very best available. Check them out by calling 1-800-247-2192, e-mail [moaa@marshpm.com](mailto:moaa@marshpm.com), or visit [www.moaainsurance.com](http://www.moaainsurance.com).

**TRICARE Supplemental Health Insurance:** MOAA's plans are second to none, and no plan at a similar price has a shorter pre-existing conditions period (6 months). For information on these plans, call 1-800-247-2192, e-mail [moaa@marshpm.com](mailto:moaa@marshpm.com), or visit [www.moaainsurance.com](http://www.moaainsurance.com).

**Long Term Care Insurance:** MOAA's partnered with the industry leader to offer a long-term care program. See their offerings at [www.moaainsurance.com/long\\_term\\_care.html](http://www.moaainsurance.com/long_term_care.html) or call 1-800-698-7943. Comparison shop with the Federal Long Term Care Insurance Program Web site at [www.ltcfed.com](http://www.ltcfed.com).

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## MOAA MEMBER SERVICES

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**Career Planning** – Our award-winning TOPS program offers job fairs, résumé help, interviewing and salary negotiation tips, and more.

**Benefits Counseling** – MOAA’s experts provide members with assistance and advice relating to military benefits and entitlements, health coverage, and finances.

**Financial Services** – You can turn to MOAA for the valuable resources you need to plan for retirement, save for college, and manage your finances.

**Health, Life and Long Term Care Insurance** – Members can take advantage of insurance options that supplement their military entitlements.

**Legislative Advocacy** – Since 1929, MOAA has been fighting to preserve the interests of all military personnel, and their families on Capitol Hill.

**Member Discounts** – MOAA could save you hundreds of dollars when you take advantage of the special member-only pricing on everything from legal services to your next vacation.

**Military Officer magazine** – MOAA’s award-winning magazine offers diverse feature articles, reports on legislation, and much more.

**FOR MORE DETAILS ON THESE MEMBER SERVICES  
PLEASE VISIT [WWW.MOAA.ORG/PRODUCTS](http://WWW.MOAA.ORG/PRODUCTS)**



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## THE MOAA INFO EXCHANGE<sup>SM</sup>

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For more than 75 years, MOAA has been fighting for the interests of officers and their families. We understand the challenges that you face because we're officers just like you — and we're ready to share our expertise and experience. The MOAA library of guides and reference tools is available to help you navigate the challenges that arise at each stage of life.

Survivor Benefits

Preparing for Your Second Career

Financial Planning

National Guard and Reserve Retirement Benefits

Military Retirement

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