

# 10 FINANCIAL BENEFITS THAT MILITARY FAMILIES HAVE TO KNOW ABOUT

US military service personnel often experience unique life challenges. However, a career in military service also presents unique financial advantages.

Certain legal protections, tax advantages, and special programs can help service members offset the financial risks of service and gain a financial edge for themselves, their families, and their legacy.

Here are ten financial benefits that military families may take advantage of, or at least be aware of and consider.

## **1. Access to Low-Cost Retirement Savings Plans**

The average 401(k) incurs annual expense ratios between 1-2% of the assets in the account. Military service members have access to a much lower-cost option—the government-sponsored Thrift Savings Plan (TSP).

TSPs allow you to choose from five mutual funds, and also a “target-date” fund which automatically becomes more conservative the closer you get to retirement.

Best of all, the fees average less than half of the 401(k) industry standard—between 0.049% and 0.069% of the assets in the account.

The 2021 contribution limit for a TSP is \$19,500. In addition, if you are age 50 or older, you may be eligible to make a “Catch-up” contribution of an additional \$6,500. Military members serving in tax-free combat zones may even be able to contribute up to \$58,000. Roth TSPs are also available, and—even better—they do not have the income restrictions of Roth IRAs.

## **2. 10% Interest on Savings While in Combat**

The average service members deployed to combat zones can invest up to \$10,000 in a government-sponsored Savings Deposit Program (SDP).

SDPs grow at a guaranteed interest rate of 10% APY, compounded quarterly. You can keep the SDP up to three months after you return from combat deployment.

That 10% interest offers far superior growth to the 0.1% APY available from savings accounts, or even the 2-4% available from bonds or certificates of deposit. The fact that combat pay is tax-free should make it easier for the service member to invest the maximum amount in this low-risk, high-yield investment vehicle.

## **3. Tax-Free Retirement Savings**

Introduced in 1997, the Roth IRA is a popular alternative to the traditional IRA. Whereas traditional IRAs allow you to make tax-free contributions and take taxable distributions, Roth IRAs allow you to make after-tax contributions and take tax-free distributions.

What does this mean for military service members deployed to combat zones? Their combat pay is tax-free. If they contribute that tax-free income to a Roth IRA, the right to tax-free distributions means that this portion of their retirement savings is never subject to taxation.

## **4. Free College Tuition for Yourself, Your Spouse, or Your Child**

The Post-9/11 GI Bill is a major boon to service members who want to advance their education, or finance the education of a loved one, without the student debt.

The bill entitles eligible service members to the full cost of in-state tuition at public colleges and universities for up to four academic years.

Eligible service members can also opt for \$26,043 in annual tuition assistance for private or foreign colleges and universities.

The bill also entitles eligible recipients to a housing stipend and allotments for books and supplies.

Long-tenure military members can even confer these tuition benefits to a spouse or child.

### **5. Affordable Life Insurance**

Servicemembers Group Life Insurance is some of the most affordable life insurance on the market, with starting premiums of only \$300 per year with a maximum benefit of \$400,000, regardless of the age of the buyer.

The servicemember can also add \$100,000 in coverage to a spouse for as little as \$54 (for spouses under 35).

Comparably, life insurance on the open market averages out to higher premiums for less coverage, and it gets even more expensive the older the buyer gets.

### **6. Tax Advantages Through State-of-Residency Selection**

Servicemembers owe state income taxes in their state of residence (or “domicile”), even if they are on deployment in another state and even if their spouse and/or dependents join them on the deployment.

Military members can get strategic about this. For example, a servicemember deployed in Camp Pendleton in California but maintains his/her domicile in Texas can avoid high California state income taxes. Instead, they can take advantage of the fact that Texas has no state income tax.

### **7. Legal Protections in Case of Deployment**

The Servicemembers Civil Relief Act of 1940 shields military servicemembers from many financial consequences that can arise from deployment to active duty.

Examples include a 6% interest rate cap on loans taken out before deployment, as well as the right to terminate a lease if deployed away from home for more than 90 days.

### **8. Zero-Down-Payment Mortgage**

The US Department of Veteran's Affairs sponsors VA Loans, a type of mortgage loans that offer extremely favorable terms—most notably 100% financing with no down payment.

This might sound like a windfall, but servicemembers should be very careful about buying a house with no money down. Buying a home is not always the financial slam-dunk people treat it as. Traditional down payments are meant to guard against the fact that real estate can—and does—go down in value.

If you have to move and catch a bad market cycle, you could end up “upside-down”—owing more on the house than it is worth. This is a bad situation to find yourself in. The more money you put down, the more you are protected from this danger.

But if you buy low and for the long-term, a VA loan could be a beneficial decision, since any appreciation is pure profit.

### **9. Tax-Free Housing Allowance**

For the duration of their service, military personnel are entitled to a monthly subsidy to cover some or all of their rent or mortgage payments.

How much you get depends on your rank, location, and dependents. The Basic Allowance for Housing should be listed on your Leave and Earnings Statement.

### **10. Access to Low-Interest Loans**

Finally, military service members have access to a number of low-interest loan programs, usually reserved for emergencies and sometimes irrespective of the borrower's credit.

Each service branch maintains an emergency-relief fund, which personnel in financial distress can borrow in small amounts, interest-free. Many credit unions also offer low-interest, short-term loans to military members.

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