

Excerpts from the Participant Guide: GPS Core

Personal Financial Planning for Transition

Instructions Handout, Online Course Lessons: Developing a Spending Plan

Completing the Net Income Worksheets

ACTIVITY: Complete the income and savings portions of the worksheet.

Instructions: For the Income portion, you will need to pull information from your Leave and Earnings Statement (LES) and refer to page 2 of the Worksheet. For the Savings portion, you will need to refer to Page 3 of the worksheet.

To calculate your Income:

1. Copy all of your pay and allowances from your LES or use a current pay chart to calculate your gross pay.
 - a. **CAUTION:** This figure could be different from your taxable pay. All taxable items will have an asterisk (*) beside them in the entitlements section on your Personal Financial Planning Worksheet. If you're not sure what entitlements are taxable, please see your installation financial counselor or your installation finance office.
2. List all deductions from your pay. These may include:
 - Taxes
 - Servicemembers' Group Life Insurance (SGLI)
 - Family SGLI (FSGLI)
 - Traumatic Servicemember Group Life Insurance (TSGLI)
 - Thrift Savings Plan (TSP)
 - Health (Medical and Dental)
 - Advance pay
 - Overpayments
 - Armed Forces Retirement Home
 - Contributions or payments to military aid organizations
 - Allotments
3. Subtract your total deductions (B) from your gross pay (A) to calculate the take-home pay for the month (A minus B on the worksheet).
 - If you divide take-home pay by two, you should get the amount of your direct deposit.

To calculate your Total Net Monthly Income:

1. Add back all deductions that were made in the deductions section, except taxes and the Armed Forces Retirement Home assessment.
2. Then add any additional income – income from a part-time job, a spouse's income, rental property income, child support, etc.

Savings and Expenses Tab

To calculate your Savings:

1. List all of the money you save.
2. List any monthly amounts put into savings funds, as well as entries for investments and/or the Thrift Savings Plan (TSP).
3. Total the monthly savings and investment amounts.

LIVING EXPENSES:

Living expenses are the daily, weekly, and monthly items that we pay out in order to live – groceries, utilities, clothing, childcare, entertainment, etc. These expenses are captured on Tab 5 of the Personal Financial Planning worksheet.

Using the worksheet you've been completing thus far, work down the page and complete the "Actual" column.

Options for tracking expenses:

- Use the form tabbed Saving & Expenses on the worksheet.
- Keep a small notebook in your wallet or purse to record every purchase.
 - Write everything down – \$2 for an energy drink, \$6 for lunch, \$5 for coffee, \$15 you loaned to a coworker, etc.
- Keep receipts from every purchase and total them up at the end of the week.

NOTE: It is important to know the amount of your total net monthly income – the final income calculation on this page.

Debt Management

DEBT MANAGEMENT:

Indebtedness is your outstanding debt, along with the minimum payment required and the annual percentage rate (APR) charged. This is captured in the Indebtedness tab within the worksheet.

Items that fall into this category generally include:

- Credit cards (bank, department store, gas, etc.)
- Car loans
- Personal loans
- Consolidation loans
- Student loans
- Advanced payments
- Overpayments
- Indebtedness to military aid organizations, family and friends

Items **NOT** included as indebtedness:

- Your mortgage – for the purposes of this spend plan, your mortgage is considered a living expense.
- Any rental property you have that is not your primary residence.

TIP: If you know you spend money on an item, but don't know how much, consider tracking how much you spend for one or two pay periods and then update the worksheet.

Develop Your Spending Plan

INCOME SUMMARY:

- Total pay equals all military compensation.
- Total military compensation minus deductions equals take-home pay
- Take home pay is what you have to live on for the month.

The Summary information can be used to calculate the percentage of your net income that goes to expenses, to indebtedness, and to savings.

Often referred to as the “70 – 20 – 10 Rule,” financial experts suggest that the ideal distribution of your net income is:

- 70% to living expenses
- 20% to debt payments
- 10% to savings

These percentages will vary in different households based on different lifestyles, but these guidelines prove effective in helping build wealth and keeping debt to a reasonable level.

NOTE: Civilian pay periods may vary – monthly, bi-weekly, twice/month, or weekly.

Calculate Indebtedness

ACTIVITY: Calculate the indebtedness and summary section of the Financial Planning Worksheet.

Instructions: Complete the section on your worksheet that pertains to indebtedness. This summary will determine whether the budget has a surplus or deficit.

YOUR DEBT-TO-INCOME RATIO

Monitoring your debt-to-income ratio is a good way to get a quick check of your financial health. Under the 70-20-10 guidelines, the “20” is the debt-to-income ratio.

Steps to calculate your debt-to-income ratio:

- Determine your net monthly income by identifying everything you make in one month minus only what is being withheld for taxes.
- Total all monthly payments – Remember to exclude mortgage payments.
- Divide the “all monthly payments” figure by the total net monthly income to determine your debt-to-income ratio.
- Your minimum payments divided by net income multiplied by 100 is your ratio.

Scenario: Pete and Jennifer have a net monthly income (after taxes) of \$3,750. The total of their minimum monthly payments is \$680.

The debt-to-income ratio calculation would be:

- $680 \text{ (divided by) } 3750 = 0.18$
- $0.18 \times 100 = 18$
- Therefore, their debt-to-income ratio is 18%.

The following guidelines are used to determine a “safe” level of debt:

- **Less than 15%:** Use caution when taking on more debt
- **15% - 20%:** Fully extended; refrain from taking on additional debt
- **21% - 30%:** Overextended; don’t take on additional debt and establish a plan to pay down existing debt
- **More than 30%:** Seek help to reduce debt from a reputable debt-management source

Module 1.1: Develop Your Spending Plan

YOUR ACTION PLAN

On the Personal Financial Planning Worksheet, find your action plan. There are several steps you can take to address financial issues that you may have detected in your spending plan.

Considerations for positively affecting your debt-to-income ratio:

Ways to increase income:	Ways to decrease expenses:	Ways to decrease indebtedness:
<ul style="list-style-type: none"> • Spouse gets job • Active-duty person gets part-time job • Review and change tax filing status and exemptions • Enroll in federal or state programs (Women, Infants, and Children (WIC) or Supplemental Security Income (SSI)) 	<ul style="list-style-type: none"> • Cut back to basic cable • Bundle packages for cable, Internet and cell phone, when there is a savings • Eliminate your land line for cell phone • Check books out from library • Use public transportation or carpool • Turn off lights when not using • Ask for military discounts • Send e-mail rather than calling • Trade child-care duty or meal duties with another couple • Cook at home and pack your lunch • Shop at thrift stores 	<ul style="list-style-type: none"> • Pay off debts • Stop using credit cards • Pay down debt using a power pay plan • Shop for the lowest interest rates, refinance when possible • Consider consolidation loans • Seek help if you are in serious debt. Accrued interest and late fees may be waived by some creditors if you enroll in a non-profit debt management program

Resources and Help

A business would bring in a consultant if it started to run into financial problems. If you are having financial difficulties or need assistance creating a spending plan, get help.

Sources of help include:

- Military Personal Financial Readiness professional, located at your Installation Family Service Center.
- Debt management programs at financial institutions (both on and off the installation).
- Consumer Credit Counseling Services or other non-profit financial education organizations.