

## Transitioning to Civilian Life: Five Financial Recommendations



Transitioning from the military to civilian life is a huge change that involves critical financial considerations. We've put together a list of financial recommendations for you to consider before separating.

### 1. Put together an [emergency fund](#).

An emergency fund is a sum of money that is set aside specifically for *expensive* emergencies. Ideally, an emergency fund contains enough money to cover three to six months of your normal living expenses. Transitioning out of the military isn't an emergency, but if you don't have a job lined up that you can walk into right away, having an emergency fund can help you meet your financial obligations while you begin your civilian life.

Keep in mind that leaving the military will likely mean additional expenses. For example, once you separate you will no longer receive a Basic Allowance for Housing (BAH) and will need to cover your own housing costs. Even if you are not able to save six months of rent, insurance, utilities, transportation, food, and other family expenses, remember that having some savings is better than none. Your civilian career may have less stability than military service; having money put aside to cover unexpected expenses will provide you with comfort during an ever-changing situation.

### 2. Know your future tax situation.

While you are always required to file federal taxes, some states do not have an income tax, meaning that you won't have to pay taxes to both the state and federal government. Even among the states that do have income tax, there may be special tax treatment for income from pension plans – meaning that different states will treat your military retirement income differently. Familiarize yourself with the tax rate in the state where you will reside after leaving the military to avoid unpleasant surprises when you next file.



**Note:** According to [TurboTax](#), the following states *do not* tax military retirement income: Alabama, Alaska, Arkansas, Connecticut, Florida, Hawaii, Illinois, Iowa, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, South Dakota, Tennessee, Texas, Washington, West Virginia, Wisconsin, and Wyoming.

If you're retiring from the military and plan to work in a civilian career, your tax bracket may also shift, increasing your tax liability. This is due to having income from two sources – your pension and your new salary. This is not a reason to refrain from taking civilian employment after separation, but you will need to budget for higher taxes.

### 3. Understand your coverage options.

#### Health Insurance

Health insurance is crucial, but it can be pricey. Be sure to factor any health insurance costs into your new expenses for budgeting purposes and when calculating your emergency fund. If you or a family member were to experience a medical issue without health insurance, it could dramatically impact your financial situation, so be sure you have coverage when you separate. Fortunately, there are many options

- **If you have a civilian job lined up**, make sure that you understand all the health care benefits offered and budget for your share of any premium costs associated with different benefit levels.
- **If you are retiring from the military**, you are eligible for insurance through [TRICARE](#).
- **If you are separating but not retiring**, you may qualify for temporary coverage lasting between 18 and 36 months through the [Continued Health Care Benefit Program](#). This coverage can tide you over until you secure another health care plan.

Some veterans may be eligible for [VA Health Care](#). If none of the above options apply to you, you can visit [HealthCare.gov](#) and apply for coverage through the federal insurance marketplace.

#### Life Insurance

Life insurance is key to the strength of your family's financial future and stability. After 120 days from the end of your service, you will no longer have access to Servicemembers' Group Life Insurance (SGLI), which provides \$500,000 worth of life insurance coverage to participants. You do have the ability, within this time period and for another year thereafter, to apply for Veterans' Group Life Insurance (VGLI). Keep in mind, though, that if you wish to obtain coverage without a medical exam, you must apply for VGLI within 240 days of separation. Further, because no medical exam is required, premiums for VGLI may be higher than you would find through a commercial insurer if you are in better-than-average health.

**Note:** Navy Mutual offers a no-exam-necessary alternative to VGLI for servicemembers who were covered by SGLI while in the service and who apply within 120 days of separation. You can learn more about this coverage [here](#).

#### Survivor Benefit Plan



The [Survivor Benefit Plan](#) (SBP) is a government-subsidized, monthly income annuity provided to eligible beneficiaries when a servicemember or retiree passes away. Retiring servicemembers must elect to participate in SBP by midnight on their last day of active duty; participation is paid for from their pension income while they are alive. After their death, payments to a chosen beneficiary begin. Most SBP participants designate their spouses as their beneficiaries; spouses receive 55% of the retiree's chosen coverage amount (between \$300 and full retirement pay) for the remainder of their lives – unless they remarry before age 55. Children may also be SBP beneficiaries.

#### 4. Consider your retirement plan.

If you contribute to the [Thrift Savings Plan](#) (TSP), carefully consider whether you want to rollover the account into an IRA or 401(k). It's not required that you close your TSP account upon separation unless the account total is below \$200.

Investment management fees for TSP accounts are much lower than those of any other retirement account alternative. Thus, you would spend less to keep the money in your TSP account than in a different account, resulting in greater potential growth over many years. Remember that once you leave the military you will not be able to open another TSP account if you close your existing account, unless you are employed by the federal government. While you can no longer make contributions to your TSP after you separate, you can rollover other qualified retirement accounts into your TSP account to reduce administration fees for your other retirement savings.

#### 5. Understand your veterans' benefits.

The VA has numerous resources and benefits for veterans for which you may be eligible. These range from education benefits to career counseling to housing assistance. Find out more information by using the links below:

- Education:
  - [Post 9/11 GI Bill and the Yellow Ribbon Program](#)
  - [Educational Counseling](#)
- Career:
  - [Veteran Readiness and Employment Program](#)
  - [Career Counseling](#)
- [Disability](#)
- [Housing Assistance](#)
- [Veterans Crisis Line](#)

As the nation's oldest federally recognized Veterans Service Organization (VSO), Navy Mutual is authorized to represent and assist veterans and their beneficiaries in applying for and contesting benefit claims before the VA. To learn more about our services for veterans, or if you have questions about financial education, contact our Education and Veterans Services team at [888-298-4442](tel:888-298-4442).

Separating from the military marks a major life change. Give yourself time to make informed financial decisions so that you can start your civilian life in the best position possible. Navy Mutual is here to help. If you would like to learn more about life insurance, [schedule an appointment](#) with a representative.