

Armed forces personnel need the help of financial advisers

Service members could use more financial advice, but their need is often unmet because lower assets make them unattractive clients to some advisers



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By **Jeff Benjamin** 



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Commanding couple: Financial planner Christy Raines and her husband, Lt. Col. Chris Raines, at Buckley Air Force Base in Aurora, Colo.

Last year, when financial planner Christy Raines **helped a military widow** invest part of a life insurance death

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benefit, it underscored both the challenges and the need for financial planning among the nation's vast military community.

"A lot of people in the military just don't have the assets that would appeal to most financial advisers, but I probably get a call a month from somebody that finds out about me and needs help," said Ms. Raines, owner of Azimuth Wealth Management Inc., a \$40 million advisory firm.

Ms. Raines operates her advisory practice in the shadow of the Buckley Air Force Base in Aurora, Colo., where her husband, Lt. Col. Chris Raines, is serving his 19th year in the military.

Like a lot of financial advisers with connections to the military, Ms. Raines recognizes that the need for sound financial advice among the more than 1.4 million members of the military and their families far outstrips the supply.

One of the reasons the military is generally underserved by the financial advice industry has to do with the lower income and net-worth levels across the ranks of service members. Yet the cruel irony is that military pay scales and benefits often introduce financial complexities that civilians never face.

SPECIAL ALLOWANCES

A case in point was a provision of the 2008 Heart Act that Ms. Raines applied to help the military widow invest \$200,000 from a \$400,000 death benefit directly into a Roth individual retirement account.

Annual contributions to Roth IRAs are normally capped at \$5,500. But under the **Heroes Earnings Assistance and Relief Tax Act**, enacted under President George W. Bush, the entirety of a service member's \$400,000 life insurance policy, plus an additional \$100,000 for a combat-related fatality, can be rolled directly into a Roth.



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(More: The 'cruel irony' of providing financial advice to military members)

Those in the armed forces will also need help as the military implements **major changes** to its retirement system that will make them more responsible for their own security. The **2016 National Defense Authorization Act** alters the military's 80-year-old defined benefit pension plan for those retiring after at least 20 years of service.

The new system, which applies to anyone joining the military after January, and becomes an option for anyone who has been in the military for less than 12 years, combines a reduced pension with a defined contribution plan that includes a 1% government contribution and a match of up to 4%.



The new **onus of individual retirement saving**, combined with multiple opportunities to take lump sum payments at retirement, amounts to a "house of mirrors," according to Scott Spiker, chairman and chief executive of First Command Financial Services

Inc., a \$25 billion advisory business that specializes in working with active and former military, and their families.

Under the new blended retirement system, a military pension after 20 years of service drops to 40% of the average of the three highest-earning years of service, down from 50%.

Even though the Defense Department's **Thrift Savings Plan** is introducing a matching contribution, Mr. Spiker criticized the changes as a way of cutting the cost of military benefits. "You will have to be a wizard to make up that (10-percentage-point) difference between the old pension and the new pension," he added.

(Related read: [USAA sets sights on financial advisers](#))

Another pitfall facing retiring service members is the option to take a lump sum payout in exchange for a smaller pension.

Mr. Spiker explained that this is another way the military is trimming its budget at the expense of unwitting military personnel.

For example, a retiring lieutenant colonel could take a lump sum payment of approximately \$157,000 by agreeing to reduce his pension to 30% of his three highest-earning years.

But in doing so, Mr. Spiker said that retiree would be giving up more than \$215,000 in future pension income. And if that same lieutenant colonel opted for a 20% pension benefit in exchange for a lump sum of more than \$300,000, he would be giving up nearly \$450,000 worth of future pension income.

"The DOD is expecting a lot of people to take these lump sums, that's how they're cutting the budget," Mr. Spiker said. "As they shift away from an age-old pension plan to a defined contribution plan for a group of people who are paid less and are less prepared to make these kinds of financial decisions, there's not just an opportunity, there's an obligation to help."

Most financial advisers who work with members of the military do so deliberately, and not by accident.

PRO BONO PLANNING

There are advisers like Kashif Ahmed, president of American Private Wealth in Boston, who does some pro bono planning for current and former service members through Operation Money Wise, an organization created in the wake of 9/11 to help military reservists arrange their finances before they were called to active duty.

"Most of the advisers I know serving in this pro bono capacity are former military," Mr. Ahmed said. "But I look at it as giving back, because I took the easy route of putting on a suit and sitting in an office."

Ms. Raines learned shortly after setting up her own planning firm eight years ago, which has been relocated four times due to her husband's changing duty assignments, that sometimes pro bono advice is the only thing that makes sense.

"When I started my practice, my goal was to work primarily with the military," she said. "I started writing a blog, and held seminars and tried to do stuff with military spouses, but it was not successful, because there's just not enough money out there."

Most advisers focused on the military embrace the idea out of the same kind of esprit de corps that is bred in the armed forces.

Curtis Sheldon, owner of C.L. Sheldon & Co., an \$18 million advisory firm in Alexandria, Va., is a retired Air Force fighter pilot who works "almost exclusively" with the military.

"I think it makes sense to work with people you have an affinity with, because it makes it easier to connect and relate to your clients," he said. "And from a practical perspective, if you're not familiar with the demographic you could miss some things."



Flying high: Financial planner Curtis Sheldon in an F-16 during his Air Force service.

With an office near the Pentagon, where half the 20,000 employees wear military uniforms to work, Mr. Sheldon said he is laser-focused on the military angle of financial planning.

There are several nuances of military finances that can add up to help put someone in better financial shape, he said.

ROTH IRA

For example, since service members' income is 100% tax-free when they are deployed to a combat zone, he encourages clients to contribute as much of that as possible to a Roth IRA.

"That means never paying taxes on that income," he said. "It doesn't get any better than that."

There's also a special savings account for those deployed to a combat zone that allows contributions of up to \$10,000 with a guaranteed interest rate of 10%.

Mr. Sheldon said about 40% of his clients are on active duty, and the rest are retired. And by charging clients on a flat-fee basis, he doesn't have any income or net-worth hurdles to navigate.

Less than 20% of those joining the military stay in long enough to earn a pension, but there are also reenlistment bonuses and special deployment pay increases that advisers say can be used to establish a financial foundation.

"If you get a reenlistment bonus, that is extra money that you don't have to just blow," said Mr. Spiker of First Command. "Pay your taxes on it and put it away in higher-risk securities that will earn you higher returns over time."

Like a lot of advisers connected to the military, **David Hollands** can see the challenges and the obstacles.

"There are not a lot of financial planners who are looking to go work with someone making \$40,000 and spending most of it," he said. "But it would be great if you could just convince them to spend \$150 for a good hourly planner to teach them some basic financial planning."

Mr. Hollands, who retired as an Army colonel in 2012 after 30 years of service, is president of Eagle Wealth Solutions, a Plano, Texas-based advisory firm with \$75 million under management.

He described some appealing aspects of working with military personnel from a planning perspective.

"There's a lot of value in being in your 40s and already collecting a pension," he said. "It makes the planning process so much easier when you can lay down a foundation like that."

There's also the deep appreciation for the military community that drives the work.

"The people in the military are deserving human beings who are serving on a magnitude that is so much greater than the rest of us," Mr. Spiker said. "They have steady incomes, discipline, they're decisive and are prone to action. And they need this help now more than ever in history."



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