

# Retirement planning for military personnel

Military personnel and their families face different challenges when planning for the future, especially when service members are deployed or called to active duty. While you have probably reviewed your deployment checklist many times, have you taken a look at your financial checklist, wills, and beneficiary designations? Have you discussed how your finances will be managed while you are away? If not, now may be a good time to do so. The following information is designed to help you think about these issues and the best way for you and your family to handle them.

## Reminders for Reservist and National Guard members

As a Reservist or National Guard member, you may have additional concerns. These could include how to manage your expenses if you have a decrease in income, or worry about having a job upon your return.

### Employer responsibility

It is important to know that employers, by federal law, are required to give you time off to perform military service. Once you return from active duty, the law says you must be reinstated with the same seniority, status, retirement benefits, and salary as you had before being called up.

Under current law, only an unpaid leave of absence is required. Fortunately, some private and many government employers provide full or at least partial pay to employees who are serving.

### Military leave policies

It will be important to understand your employer's military leave policies. While many companies have upgraded their military leave policies, a smaller firm may not be able to afford to enhance their benefits. However, they may qualify for a

Military Reservist Economic Injury Disaster Loan from the Small Business Administration. This loan is for companies affected by the loss of key employees due to military duty. You should also talk with your employer now about how your absence affects all your benefits, including healthcare.

## Steps to consider regarding a potential income decrease

- Calculate what if any difference there will be in your monthly income.
- Determine whether any of your current bills could be deferred.
- Consider delaying major purchases.
- Contact your creditors to inform them that you have been tapped to serve. (Federal Law requires under certain conditions that creditors reduce the interest rate on installment loans.)
- Review your financial commitments. There may be some contracts that you could cancel—health club memberships, rental leases, lawn services, etc.
- Think about paying off as many of your debts as possible, starting with those charging the highest interest.

## Military personnel financial checklist

Deployments are stressful enough without worrying about your finances. However, now is not the time to ignore them. Review the following information and take any necessary steps.

### Tax filing and IRA contributions

Below are provisions given to military personnel regarding their IRA.

- Differential pay is when an employer continues to pay an employee called to service. This is considered wages for purposes of federal income tax withholding and for making IRA and retirement plan contributions.
- Non-taxable combat pay is considered compensation for purposes of making an IRA contribution.
- Qualified members of the National Guard and Reservists are permitted to take distributions from an IRA without being subject to the IRS 10% additional tax for early, pre-59½, distributions if they are called to active duty for at least 180 days. These distributions must be taken during the period of active duty. Even though the 10% additional tax is waived, ordinary income tax will be owed on the taxable portion of the distribution.
- You have a two-year period after the end of your active duty to repay the distribution to your IRA, if you wish. You may make one or more repayment contributions to the IRA during that two-year period, but it cannot exceed the original distribution amount. This repayment is treated as after-tax money, and IRS Form 8606 will need to be filed to keep track of the after-tax amounts in your IRA. Subsequent distributions from your IRA would be subject to the pro-rata rule for distributions.
- Military personnel in a presidentially-declared combat zone or in a contingency operation have an automatic extension to file taxes, which includes an extension in making your IRA contribution. This extension is generally 180 days after the last day you left the combat zone, or the last day of qualified hospitalization due to service injuries, plus any days during the period of January 1 through April 15 where that person was assigned to

#### **IRA contribution extension hypothetical example**

Reservist Tony Andrews shipped out February 1 and hadn't made his annual IRA contribution. Tony would have 180 days after he returned plus the days between February 1 and April 15 (74 additional days) to make his contribution. The due date for his tax return and the last date to make his IRA contribution would be 254 days (180 + 74) after he returned from his tour of duty.

**Please note:** The hypothetical example provided above is for informational purposes only. Please contact your tax advisor regarding your specific situation, as there are particular guidelines to qualify for the extension. Your tax advisor will be able to help you with the process and any questions you might have.

a combat zone. This deadline is also for the spouse of military personnel. Please see IRS Publication 3 Armed Forces Tax Guide for more information.

#### **Designate a Power of Attorney**

A Power of Attorney (POA) allows for the smooth transition of decision making to your named representative should you become ill or otherwise incapacitated. You may also need a separate health care POA. The POA document is drafted by an attorney and written with varying degrees of complexity. The Judge Advocate General's office should be able to draft a POA for you for free.

#### **Have an emergency fund**

Many financial experts recommend having 3–6 months of income saved in the event of an emergency. If you are facing deployment, additional savings may be required. Don't wait until you receive your orders; start saving now.

#### **Set up automatic payments**

Your financial institution may offer a bill pay service that can send your payment for your homeowner's insurance, auto insurance, mortgage, car loan, and many other bills that are the same amount each month. You may also be able to set up automatic payments directly with the issuer. This is particularly important if you will not have access to the internet.

#### **Do you have life insurance?**

You can obtain life insurance through the Servicemembers' Group Life Insurance (SGLI). The SGLI is a low-cost group life insurance program for active duty servicemembers. Talk with your financial advisor if you are considering purchasing additional insurance. Be sure to ask if the policy includes a clause that will not pay out if you are killed during an act of war. You may also want to find out about SGLI's traumatic injury protection, which can help you and your family if you suffer a traumatic injury.

#### **Create a will**

A will simply provides instructions for distributing your assets and can ensure your assets are left to your designated beneficiaries. However, your will does not supersede the beneficiaries listed on your retirement plan assets. The Judge Advocate General's office should be able to help you prepare a will free of charge.

#### **Review your beneficiaries designations**

Remember you should update beneficiaries when you experience a life event, such as the birth of a child or grandchild, divorce, marriage, or death of a beneficiary. Because your will does not supersede the beneficiaries

listed on your retirement plan assets, review and ensure your beneficiary designations on any IRAs, employer-sponsored retirement plans, annuities, and life insurance policies you have are up-to-date and are in line with your wishes on your will or trust. Meet with your financial advisor to update any beneficiary designations.

## Reminders for family members

When you leave, your family members may have questions or concerns about your financial matters. The following information may be helpful for them.

### Gather your information

You should provide a list to a trusted family member, friend, or POA of your financial data, including financial institutions and account numbers, creditors, and payment details along with any other necessary information.

### Survivor benefit

There are several forms of compensation offered for eligible survivors of a service member. They should contact the local Veterans Administration for more information.

### IRA & Coverdell ESA

One benefit for an eligible survivor of a service member who receives a military death gratuity or group life insurance payment is that they can make a qualified rollover contribution of some or all of that payment to a Roth IRA or a Coverdell Education Savings Account (ESA). The rollover must occur within 1 year beginning on the date on which the IRA beneficiary receives the payment.

### Pension plans

Tax-qualified pension plans are required to provide survivors of participants who die while performing qualified military service any additional benefits, such as accelerated vesting or incidental death benefits, that are available for active participants who die while employed. This is accomplished by treating the deceased as having returned to employment the day prior to the date of death of the participant.

### Don't forget!

The sacrifice you and your family make to serve your country can never be measured. That being said, there are many companies and organizations that offer military members, whether currently serving or retired, and their families discounts on goods and services. Don't forget to ask for them.

## Talk to a financial advisor from Wells Fargo Advisors

At Wells Fargo Advisors, we support our clients as they face life's financial changes and challenges. Please contact your financial advisor if you need help in making important financial decisions. We are proud of Americans who serve our country in the military and are pleased to offer this timely information to you and your family. Due to the complex nature of the rules around those serving in this capacity, seek advice from your tax advisor.

## With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your financial advisor will be with you every step of the way to meet to review your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that can help you live out your unique vision of retirement.

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