

# VIP

I N T H I S I S S U E

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## Alternatives to payday loans made available to military

By Joe Freeman, Chief Lending Officer

Whether it's for car repairs, travel, or other unexpected bills, when consumers need immediate money their options are often limited. For service members, it can be even more so due to time constraints, lower-than-average pay scales, and a mobile lifestyle caused by deployments, training, and frequent moves.

These conditions have traditionally meant that Soldiers, Sailors, Airmen and Marines have to borrow money. Since many times it is hard for them to obtain traditional financing, many military families use a credit card, borrow from family members, or obtain a payday loan.

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Credit cards, while convenient, can often take years to pay off if the consumer only makes the minimum payment. Borrowing from family members can cause undue stress at home. Payday loans offer short-term money, but the result can often lead to rollovers or the beginning of a long-term debt cycle.

Payday loans, which charge from \$15 to \$30 per \$100 loaned, have a few major flaws, as noted in several studies by the Center for Responsible Lending (CRL).

- When factored as an annual percentage rate (APR), the fees are 390 percent or

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## Are you missing an opportunity to invest for your retirement?

By Jeff Major, Accredited Financial Counselor

According to a recent study by MetLife, almost a third of American workers have yet to begin a retirement savings plan, and nearly 70 percent do not have any financial plan, even if they have started saving. The numbers for those between the ages of 21 and 30 are even lower.

One of the easiest ways to have a secure financial future is to start saving for retirement early. For service members, that means investing in the Thrift Savings Plan (TSP).

### What it is

The TSP is a federally sponsored retirement savings and investment plan. Established by Congress in 1986 as part of the Federal Employees' Retirement System Act, and updated in 2000 as part of the Floyd D. Spence National Defense Authorization Act, the purpose of the TSP is to provide retirement income for government employees.

As a "defined contribution" plan, the retirement income received from a TSP account will depend on how much a service



member contributed and the earnings on those contributions. It allows military families to set aside money pre-tax, which is similar to a 401(k) plan in the civilian sector.

### TSP basics

There are differences between the civilian and military TSP plans, most notably that the military does not offer matching funds. Whereas the government puts a percentage of a civilian employee's base pay into that employee's TSP account, the military has yet to authorize matching contributions. Other considerations for military families include spousal rights to the account, the earlier average retirement age for service members, and death benefit issues.

There are, however, several features that every TSP plan shares:

- Contributions are made pre-tax—The money set aside is done so tax-free, thus reducing the amount of overall tax paid.
- Automatic payroll deductions—Contributions can be made automatically.
- A choice of investment options—There are a number of plans to choose from

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## Invest for your retirement (cont'd)

so investors can choose one (or several) that match their financial needs.

- There is a limit to contribution amounts—While service members can deposit one to 100 percent of their base pay into a TSP account, the Internal Revenue Service has put a limit on the total amount a person can contribute within a year (\$15,000 for 2006).

### Taking money out

There are many ways to get money out of a TSP account, and the tax laws regarding such withdrawals can be quite complex. But there are three common ways to take money out before retirement, and each one has its own financial consequences.

**Transfer** – When someone leaves military service, he or she can simply transfer the money to a civilian employer's qualified retirement plan, into an Individual Retirement Account (IRA), or leave it in the TSP (as long as the investor starts withdrawing by age 70 1/2).

**Loan** – Investors can get a loan from their TSP accounts by essentially borrowing the money out of their accounts. The borrower will have to pay interest on the loan, as well as a \$50 fee. It's also

important to remember that the money borrowed will no longer be in the account, meaning that it is not earning interest or contributing to retirement.

Taking out a loan against a TSP account is relatively easy to do, but there are some guidelines. In general, as long as there is at least \$1,000 in individual contributions and interest, the investor is still in the military, is "in pay" status, and has not finished paying another TSP loan within 60 days, then a loan can be taken out.

**Withdrawals** – Withdrawing money from a TSP account before retirement can be done, but there are a number of factors to consider.

First, the money withdrawn is taxed immediately, thus eliminating tax-free savings. Secondly, a 10 percent penalty will be charged for taking the money early. Both of these can have a dramatic impact on the amount of money someone will receive when making an early withdrawal.

One must also consider the fact that the money cannot be replaced. The TSP Web site states, "When you make an in-service withdrawal, you are removing money from your account

forever. It cannot be put back or repaid to your account." The site also points out that if "you make a financial hardship in-service withdrawal, the overall impact can be even greater because you cannot contribute to the TSP for six months following your withdrawal."

### Military-specific issues

While service members are limited by IRS rules on how much can be contributed each year, they can contribute from one to 100 percent of any incentive pay, special pay, or bonus pay (this excludes housing or subsistence pay). Service members can elect to make these deductions even if they are not receiving any extra pay—these contributions will simply be deducted when they receive the pay.

Also, if a service member is receiving tax-exempt pay (i.e., pay that is subject to the combat zone tax exclusion), contributions from that pay will also be tax-exempt even when withdrawn.

### How to enroll

The Defense Finance and Accounting Web site has a section where service members can sign up and select TSP contribution amounts. For more information visit [www.dod.mil/dfas](http://www.dod.mil/dfas) and [www.tsp.gov](http://www.tsp.gov).

## Student loan assistance through Nelnet

By *Graham Moyer, Strategy + Innovation*

Pioneer Services often forms partnerships with other companies in order to offer new and unique solutions to military families. In the coming months, several new products and services will be made available that will help improve service members' quality of life and help them reach financial independence.

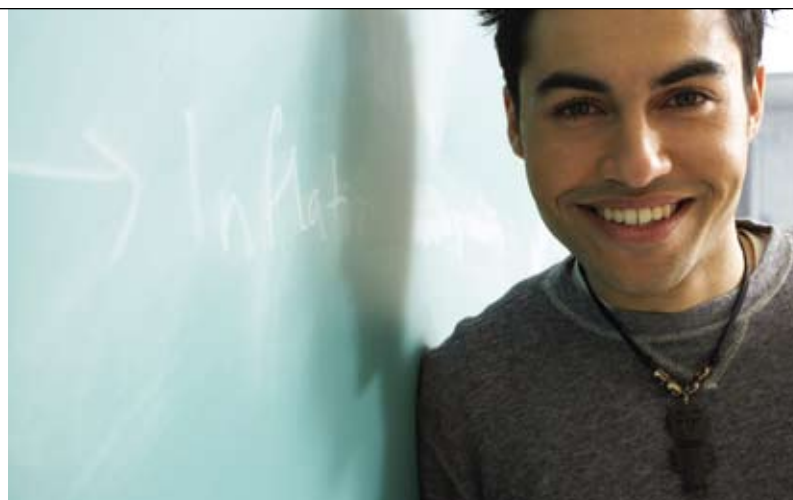
### Student Loans through Nelnet

In an effort to help military families pay for continuing education, Pioneer Services has teamed up with Nelnet, a leader in educational finance, to offer easier access to student loans and student loan consolidation. With a simple referral to Nelnet, our representatives will be able to offer military families a chance to obtain another

lending product specifically for student loan consolidation.

Nelnet offers two options once a borrower makes a certain number of minimum payments: either a 3.33 percent reduction in their loan's principal, or an interest rate reduction of one percent. Both options mean that students can pay off their loans more quickly, helping them gain financial independence.

"We are always looking for ways to reduce debt for service members," said Joe Freeman, chief



lending officer. "Whether it's through our 'Break the Debt Cycle' programs and products, or a student loan consolidation loan from Nelnet, reducing service members' monthly payments or interest charges is vital to helping them become financially secure."

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Mission

VIP is a quarterly publication dedicated to providing financial information and education relevant to the military community.

VIP's mission is to provide information to audiences who share the vision of improving operational readiness through education and services that enhance the quality of life and financial independence for military families.

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With more than 70 years in the financial industry, 21 office locations and online services, Pioneer Services offers financial education programs, loans and insurance products, and supports military families and communities through a variety of partnerships, programs and sponsorships.

Pioneer Services also publishes *WestWord*, a quarterly informational and educational tool for its associates.



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## Alternatives to payday loans (cont'd)

more. Based on briefs by CRL, the average payday borrower pays \$800 to borrow \$325.

- A payday loan can be “rolled over” or “flipped” if it cannot be repaid, increasing the effective APR and starting a financially dangerous cycle of debt.
- Most payday loans do not take into account the customers’ ability to repay the loan.
- The short duration of the loan, usually two weeks, does not allow the consumer enough time to save the money needed to pay off the loan.
- Many payday lenders concentrate outside military bases in numbers much higher than in civilian areas.

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**According to one CRL study, active-duty military personnel are three times more likely than civilians to use a payday lender, and one in five used the service last year. This costs military families more than \$80 million each year in fees.**

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While several states are looking to control the rates and amounts loaned by payday lenders, there is a push for federal legislation to control loans made specifically to service members. Known as the Service members Anti-Predatory Lending Protection Act, the bill (currently still in committee for review) would cap the annual percentage rate on loans for service members at 36 percent and prohibit automatic rollovers.

In response to the proliferation of payday loan products, several agencies, finance companies and banks have developed responsible alternatives for immediate cash needs:

- There are **emergency relief funds** offered by on-installation agencies that provide interest free loans with approval from a commanding officer.
- The **Pentagon Federal Credit Union** offers short-term cash advances for a small fee and an agreement that the service member will get credit counseling.
- **Pioneer Services** offers a \$500 Help Loan that features repayment in four equal installments and a total cost of \$25.
- The **Navy Federal Credit Union** offers a line of credit that requires a monthly minimum payment.

In addition to offering more responsible solutions, companies are beginning to focus on financial education. Many financial institutions realize that education is the proactive solution to keeping military families out of harmful debt. The Department of Defense is also looking at increasing financial education efforts for those who serve.

Having an understanding of basic financial concepts, when coupled with responsible financial alternatives, can not only provide military families with financial security, but also provide all of us with a military that’s able to focus on the job at hand, rather than problems at home.



## Home Ownership (cont'd)

- Do I qualify for financing on the home I’d like to buy?
- Can I afford the initial costs and fees, or a minimal down payment?
- Does my family income cover the monthly mortgage costs and utilities?
- Will the house hold its resale value in this particular market?
- Will I live in this house long enough to build enough value to cover my up front costs (a general rule of thumb is about 24 months)?
- Would I rather just rent until installation housing becomes available, thus avoiding the costs and hassle of long-term renting or buying?
- Am I ready, or do I want, to avoid the hassles of property management if I can’t sell the home when I get reassigned? Could I afford

to pay the mortgage for a period of time if I didn’t have a tenant or needed to make repairs?

It is fair to say that in recent years the Department of Defense has made great strides in single and married service member housing programs, but there still isn’t enough military housing available for every family. The good news is that DoD’s recent initiatives to reduce the “turbulence” caused by frequent assignments and moves may well put home ownership within reach of every qualified service member who would rather buy than rent or live in military housing. And the advantage the VA loan program offers to help make home ownership a reality for military families is certainly a well-deserved benefit worth exploring.

## Relocation Assistance

Pioneer Services has teamed with Prudential Home Connections<sup>SM</sup> to assist military families with many of their real estate and relocation needs.

The primary benefit for customers is the opportunity to save \$500 or more on an average real estate transaction through a cash rebate program, which is available in most states except where prohibited by law. This is in addition to discounts on other relocation services tailored to the family’s needs.

Contact your local Pioneer Services Representative or visit [pioneerservices.com](http://pioneerservices.com) for more information.

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# Home Ownership:

By Amy J. Rosendabl, Managing Editor

# A Good Move for Military Personnel



Owning a home can mean a great deal—it is often the center of a family's life, the very special place where children grow up, where one welcomes neighbors and friends, and where dreams come to life.

It can also translate into a higher quality of life and financial independence, especially for military families. The Federal government recognizes this and gives back to veterans and active duty personnel by making low-cost mortgages available to help them purchase a home. Yet frequent transfers are a fact of life in today's military, which leave many service members wondering if buying a home makes sense.

The fact is, buying a home is one of the smartest financial investments a person can make, not to mention one of the most satisfying.

There are a number of benefits of owning over renting:

- **Home equity** - This is the value you have in your home over and above what you owe.
- **Tax benefits** - This benefit can partially offset the cost of real estate taxes, insurance and home maintenance.
- **Home appreciation** - If you purchase a home that costs \$200,000 and the property increases in value only two percent each year, the potential appreciation in just two years is more than \$8,000.

While the prospect of being transferred or deployed within a few years may be a deterrent to military families, home ownership still makes sense because the house can be converted into a rental property. Rental houses located near military bases are always in high demand, and the extra income can help a service member recoup expenses such as upkeep, insurance and mortgage payments. Plus, by renting the property, service members can retain the equity and tax benefits of home ownership.

Alternatively, if a homeowner decides to sell, up to \$250,000 (or \$500,000 if married and filing jointly) of any profit on the sale of the home is tax-free, so long as the period of ownership was at least 24 months. But, there are exceptions to this period—see IRS Publication 523 for details.

Even if a service member has few funds available for a down payment or other costs, government-backed Veteran's Affairs (VA) loans make it easy to buy that first home. Qualified veterans can apply for home loans with no down payment and the ability to finance funding fees.

Some of the advantages of a VA home loan include:

- No down payment in most cases
- Flexibility of negotiating interest rates with lenders
- Limitations on closings costs
- Restrictions on certain fees and charges (Example: veteran buyers may not pay commissions, brokerage fees or buyer broker fees)

Active military personnel (including guardsmen and reservists, with some restrictions), veterans, or spouses of veterans who died of service-related injuries, are eligible for a VA loan. These categories of personnel can apply with any mortgage lender that participates in the VA home loan program, but first they must obtain a Certificate of Eligibility from the VA to prove their eligibility to the lender. Detailed information, including lists of registered and approved lenders and Certificate of Eligibility forms, are available online at [www.homeloans.va.gov](http://www.homeloans.va.gov).

The decision for service members to buy or rent or reside in military quarters depends upon their individual financial situation and the availability of affordable or military housing. Service members must ask themselves several basic questions to determine what's best for their situation:

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