

VIP

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Fall 2007 Volume V Number 4

Can you make a million dollars in the military?

By Tom Holcom, President of the Military Banking Division, MidCountry Bank

Is it possible for an enlisted person in the military to earn \$1 million for retirement by age 65? Yes, if he/she does the right kind of financial planning early in his/her career. Unfortunately, too few are doing so. According to a recent study by MetLife, nearly one-third of American workers have not yet started a retirement savings plan, and almost 70 percent do not have any kind of financial plan, even if they have started saving.

Leaders within the military are beginning to realize the seriousness of this issue. Financial problems are often the first listed by military leaders when asked about personnel issues.¹ Often, “immaturity, a lack of spending restraint, and naiveté regarding financial matters [are] the most significant drivers of financial problems.”² If service members began approaching their finances in the same disciplined, responsible way they do a mission, they could find ways to save and become financially fit.

There are four steps service members can take in order to have a stable and successful retirement; the keys to all of them are discipline and starting early.

Step One:

Write down goals or dreams for retirement

Even though goals will likely change over time, writing them down makes them more real by providing a tangible target.

Step Two:

Become a disciplined money manager:

Define when and how to save

While it’s almost never too late to start a retirement or savings plan, the earlier a service member starts, the better. The reason for this is the power of “compound interest.” Compounding interest means investing interest earned on an investment back into the account. By doing so the interest earns interest. The power of compounding is directly related to how much money is invested and for how long.



Since military pay is usually below that of the civilian sector, the key to saving enough involves discipline. But this may be the biggest challenge of all, because many people don’t realize how quickly \$5 and \$10 purchases add up. For example, if the average annual rate of return is 10 percent, \$6 spent on a weekly six-pack of beer would turn into \$17,870 in 20 years and \$138,089 over 40 years in a Thrift Savings Plan.

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Identity theft—Protect yourself

By Pam Swan, Military Affairs Liaison for Pioneer Services, a Division of MidCountry Bank

Identity theft is America’s fastest growing crime. According to studies by Gartner Research and Harris Interactive, approximately seven million Americans had their identity stolen from July 2002 to July 2003.

I was one of them. I became a victim of identity theft in 2002 and again in 2003, while traveling overseas. Someone had stolen my Social Security number to get a cell phone in my name, and then created a fraudulent

account, charging thousands of dollars to my credit card. It took hundreds of hours on the phone to retire massive debts.

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Are you a good investment?

By Fred Davenport, Regional Manager for Pioneer Services, a Division of MidCountry Bank

In my years as a Command Sergeant Major, I saw service members face financial difficulties because they didn't realize how their financial behavior affected the interest rate they received.

Simply stated: How well you pay your bills determines the interest rate you pay on credit accounts. Companies investigate your past credit history to determine whether or not you're a "good investment."

Even insurance companies now utilize credit history, in addition to underwriting criteria and your driving record, to determine their premiums.

In simple terms, your pricing (interest rate) is determined by your risk (your credit history).

So how does a company know whether your credit is good or bad? Three major reporting agencies maintain your credit report: **TransUnion, Experian, and Equifax**. Each credit agency keeps track of your payment history for the past twenty-four months.

Your report also includes a list of times companies checked your credit in the past twelve months, called "inquiries." Excessive inquiries convey to a potential lender that you are very "credit active," and is a red flag. If you apply and are approved for multiple credit accounts, you could potentially slide into debt quickly and declare bankruptcy.

Check your report

At least once a year, you should check your credit report to see whether it includes any inaccuracies. Make sure you order reports from all three agencies. Each agency has its own guidelines as to what information it collects and how long it will stay on the report. Unfortunately, even these reporting agencies can make mistakes.

Your report may reflect a late mortgage payment, for example, even if you've always paid your loan on time. A lender or insurer may then decline your application based on a false report. If you find inaccurate information on your

report, contact the appropriate credit-reporting agency. Delinquencies, uncollected accounts, and bankruptcies can linger on your credit report for up to 10 years or more.

By law, you are entitled to receive one free credit report annually from each of the three bureaus. There is one important thing to note: **the only Web site legally authorized to give you a free credit report is www.annualcreditreport.com**. That site is the only one, by law, that can put you in contact with the agencies to receive your free report each year.

*Simply stated:
How well you pay your bills
determines the interest rate
you pay on credit accounts.*

Other sites may offer such a service, but often have fine print that states they can charge you up to \$20 per month in a credit monitoring service unless you opt out. These sites may be able to obtain your report, but they are not legally authorized to do so for free.

So stick with www.annualcreditreport.com to be safe. You can also pay a small fee to get your credit score (it is not included with the free copy of your report)—it's usually around \$10 to \$15 depending on the credit bureau.

You Can Protect Yourself

By reviewing your report, you can also protect your identity from theft and fraud. "Identity theft" is when a person hijacks your financial and personal information and assumes your "identity" to open accounts, apply for loans, rent cars, and more. According to USA Today, in 2002, approximately 43 percent of roughly 380,000 complaints to the Federal Trade Commission were for identity theft.

In addition to reviewing your report annually, keep your personal information and Social Security number confidential. Don't give out your personal information on an unsecured Web site, and limit giving it out over the telephone.



How to Avoid Bad Credit

If you're experiencing financial difficulties, there are steps you can take to protect your credit rating.

1. Contact your creditors, and let them know you are having problems fulfilling your credit commitments. Most companies welcome the call and are willing to alter your credit obligation until your circumstances improve.
2. Contact a reputable, non-profit company that offers financial counseling and assistance with creditors.
3. Resume regular monthly payments as soon as possible to begin the process of repairing any damage done to your credit history.

Credit Reporting Agency Contact Information

- » Experian 1-888-397-3742
www.experian.com
- » TransUnion LLC 1-800-888-4213
www.transunion.com
- » Equifax 1-800-685-1111
www.equifax.com

Shred all credit card receipts before you throw them away. Identity hijackers prey on credit card numbers easily obtained from receipts. And contact the appropriate credit-reporting agency immediately if you suspect fraudulent activity on your report.

Knowing what is on your credit report is one of the first steps down the road toward financial freedom. So take that step today and find out whether or not you are a good investment.

About the author

Fred Davenport retired as a Command Sergeant Major (CSM) after 30 years of distinguished service in the Army. He was the Division CSM for the Big Red One at Fort Riley, Kan., holding that position of leadership longer than anyone, with a tenure that included tours in Desert Storm and Vietnam. He is a winner of the Audie Murphy Club Award, an honor presented only to the Army's most outstanding Noncommissioned Officers. In addition, Davenport is a member and past president of his Association of the United States Army chapter, and currently serves as a vice president and regional manager for Pioneer Services.



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.

For more than 20 years, Pioneer Services has been a leader in military lending. They offer the protection and security of a personal loan with the speed and flexibility service members need. Through a network of offices and on the Internet, Pioneer Services offers loans, financial education programs, and supports military families and communities through a variety of partnerships, programs, and sponsorships.

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Can you make a million dollars in the military?

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Other simple tactics can also help instill financial discipline:

- » **Create a budget.** Know what income you have and what expenses you must pay each month.
- » **Track all expenditures.** Keep a written record of everything you buy.
- » **Use allotments to automatically deduct savings from your paycheck.** This develops discipline and prevents you from spending it.
- » **Use tax-free investments such as the federal Thrift Savings Plan (TSP).**³ This will maximize compounding interest.
- » **Set up an emergency fund of at least two months pay.** This will help protect from unforeseen expenses that would otherwise require the use of a credit card or a loan.

Step Three:

List sources of retirement income

There are many ways to have income after retirement: Social Security, interest from investments, and a TSP or 401(k) plan are just a few. While many experts quote ratios of 60 percent to 80 percent of pre-retirement income, retirement spending could equal or exceed pre-retirement

income depending on debt, mortgages, medical or insurance costs, and quality of life objectives.

Military families who do not remain in the service long enough to qualify for retirement compensation leave the military with no retirement pay or benefits. Many re-enter the civilian world less financially independent than they had hoped. Those who do retire with pay must remember that retirement income will only be a percentage of active-duty pay.⁴

Step Four:

Put the plan into action

Many people neglect to save and wind up with tremendous debt, poor spending habits, and have to work well past retirement age.

It is important to remember that all military branches have formal programs to help families successfully plan their transition from military service. These programs are available at every installation, are staffed with experienced career counselors, and have resources to help plan the transition from active-duty to retired status.

If service members apply the same, military-style discipline to money management, they can develop sound financial plans, adjust them when necessary and, most importantly, stick to them.

Doing so can help avoid the debt traps into which so many fall. The key is to start as soon as possible, because taking action today can help ensure a financially secure tomorrow.

¹ Financial Management Problems Among Enlisted Personnel, 1999, Peter Tiemeyer, Casey Wardynski, and Richard Buddin, RAND National Defense Research Institute, pg. 4

² Ibid, pg. 16

³ For more information about the TSP available to service members visit: <http://www.tsp.gov>

⁴ Understanding military retirement pay, <http://usmilitary.about.com/cs/generalpay/a/retirementpay.htm>

About the author

Tom Holcom is the president of the Military Banking Division of MidCountry Bank. He serves on numerous boards, including Business Executives for National Security and as president of the Command General Staff College Foundation. He has been named "Entrepreneur of the Year for Social Responsibility" in the Central Midwest region by Ernst & Young and has also accepted the Secretary of Defense "Employer Support Freedom Award" for his company's support of employees serving in the National Guard and Reserve.

Identity theft—Protect yourself

Continued from cover

How does identity theft happen?

First, as more information about you circulates on the Internet, the more likely you are to fall prey to those who will use your information to ruin your credit.

- » The incidence of victimization increased as much as 80 percent between 2002 - 2003 (Harris Interactive).
- » An Identity Theft Resource Center (ITRC) study shows that:
 - :: Victims now spend an average of 600 hours recovering from this crime, equaling nearly \$16,000 in lost income.
 - :: The business community loses between \$40,000 - \$92,000 per name in fraudulent charges.
 - :: Victims spend an average of \$1,400 in out-of-pocket expenses trying to solve the problem.
 - :: Ninety-eight million American adults have no idea what to do if identity theft strikes them – and no way of knowing when it's over.

There are some practical things you can do to protect yourself.

Avoid giving out your Social Security number

There will be some legitimate needs for you to share this information, but only do it if you are sure the company is reputable, and only if you

initiated the contact. For items such as driver's licenses or health care, ask if they can use another number instead.

Beware of those who prey on the military

One particularly disturbing tactic is for criminals to call a military spouse, posing as the Red Cross, saying, "I'm sorry to inform you that your spouse has been seriously injured in battle. We are gathering more information and just need you to confirm his/her Social Security number." It's a terribly cruel fraud, but one that many of us could be fooled by. That's why it's so important to get written verification from anyone who asks for a Social Security number.

Know what is on your credit report

Knowing what is on your credit report can help you catch a problem early and stop the crime from spiraling out of control. The article "Are you a good investment" in this issue of *VIP* gives you more details.

You should also consider having your report looked at by a Certified Credit Report Reviewer (CCRR). A CCRR can guide you in clearing up inaccurate information on your report and give you helpful tips on how to protect yourself in the future.

Cancel unused accounts

If you want to cancel an account, just cutting up a credit card or not using a bank account is not enough. You need to call the card issuer, completely close the account, and ask for verification of the closure in writing. If identity



thieves find these accounts while they're still open, half their work is already done.

If you are careful about sharing your personal information, take the time to review your credit report, and document your credit transactions thoroughly, you should be able to limit your risk.

Statistics for this article come from www.identitytheft911.com and www.idtheftcenter.org.

About the author

Pam Swan has spent 20 years educating military families about financial issues. As Military Affairs Liaison for Pioneer Services, Swan now conducts financial education classes for service members around the world. She is a Certified Identity Theft Risk Management Specialist and was interviewed on the subject of military identity theft by NBC Nightly News in 2006. Swan has been a military spouse since 1987, and was honored in 2006 with the Dr. Mary Walker Award for her volunteer work in supporting and educating other military spouses about managing family finances.

Alternatives to payday loans for the military

By Cris Nuñez, Military Relations Manager for Pioneer Services, a Division of MidCountry Bank

As a Command Sergeant Major, I knew of Soldiers who fell for an “easy” solution with payday loans. I knew about the devastating consequences these loans can have on military families – how service members get trapped in an endless spiral of debt. And it’s easy to see how it happens.

Whether it’s for car repairs, travel, or other unexpected bills, when consumers need immediate cash, their options are often limited. For service members, the choices can seem even fewer, due to time constraints, lower-than-average pay, 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 it’s often hard for them to obtain traditional financing, many military families use a credit card, borrow from family members, or get a payday loan.

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 quick, short-term money, but the result often leads to “rollovers” – and the beginning of a long-term debt cycle.

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

- » When factored as an annual percentage rate (APR), the fees are 390 percent or 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 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 to pay off the loan.

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. The study also notes that this costs military families more than \$80 million a year in fees.

While several states are looking for ways to control the rates and amounts loaned by payday lenders, there is now federal legislation to regulate loans made to service members. Known as the Servicemembers Anti-Predatory Lending Protection Act, the bill caps the annual percentage rate on loans for service members at 36 percent and prohibits 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:

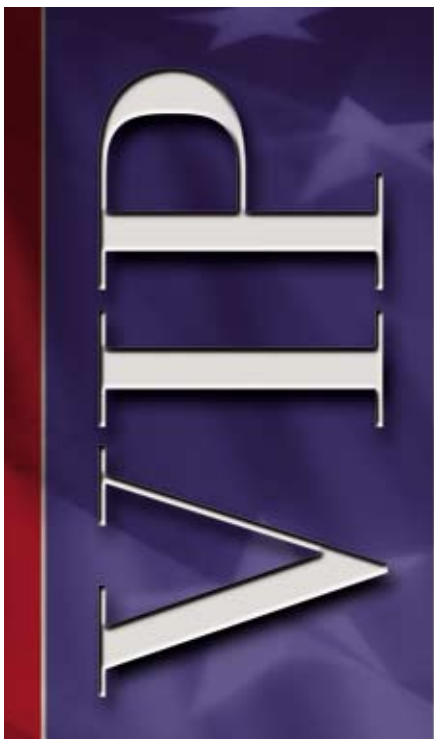
- » There are emergency relief funds offered by on-installation agencies that provide interest-free loans with approval from a commanding officer.
- » Pentagon Federal Credit Union offers short-term cash advances for a small fee and an agreement that the service member will get credit counseling.
- » Navy Federal Credit Union offers a line of credit that requires a monthly minimum payment.
- » Pioneer Services, a financial solutions provider that works exclusively with the military community, offers a \$500 HELP Loan that features repayment in four equal installments and a total cost of \$25.
- » Pioneer Services also offers the NewPath Loansm, a one-time \$1,000 loan that includes a \$50 reward in a savings account for paying off the loan on time.



In addition to offering a more responsible solution to paydays, companies are beginning to focus on financial education. Many financial institutions realize that education is the pro-active 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.

About the author

Cris Nuñez is a recently retired Command Sergeant Major whose dedicated service in the U.S. Army spanned a period of 28 years. He served at every Noncommissioned Officer level of leadership, culminating as the acting Command Sergeant Major for the XVIII Airborne Corp and Fort Bragg. He now works as a military relations manager for Pioneer Services and gives frequent seminars on the “Break the Debt Cycle” program, educating military families on the importance of avoiding debt and building a strong financial foundation.



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