

Time to Become a Civilian Again

The shift from military to civilian life demands a lot of decisions. The Transition Office at your installation will help explain the bureaucratic procedures you must go through, the specific benefits you'll receive and resources available to help.

But you'll also need to make some important personal-finance decisions to replace some of your benefits, adjust your post-military budget and protect your investments for the future. You want to make a smooth and financially sound transition.

Replace your health insurance. If you stay in the military for at least 20 years, then you qualify for health care in retirement, although you may still want to buy supplemental medical insurance. But if you leave before then, your health-insurance bills can be surprisingly steep. Even if you get a new job that provides health insurance, you'll probably have to pay for part of the premiums yourself, in addition to out-of-pocket expenses you didn't have before, such as deductibles, co-payments and medications.

If you need to buy health insurance on your own, you can lower your premiums by buying a high-deductible policy and pairing it with a health savings account. To qualify for an HSA in 2009, your policy must have a deductible of at least \$1,150 for single coverage (\$2,300 for family coverage); people with single coverage can make tax-deductible contributions of up to \$3,000 in 2009 (\$5,950 for family coverage). The money grows tax-deferred inside the account and you can use the funds tax-free to cover out-of-pocket medical expenses—including that big deductible on your health plan. Money you don't use remains invested in the account. You can always use the money tax- and penalty-free for medical expenses, or you can use it penalty-free for anything (you'll owe taxes) after age 65.

If you have a preexisting condition that makes it tough to find health coverage on your own, you can sign up for the Continued Health Care Benefit Program for up to 18 months. This is similar to the COBRA benefits available to civilians who leave their jobs. You have 60 days after you leave the military to enroll in CHCBP, which has similar coverage to TRICARE, the health-care system for members of the military and their families. The coverage costs \$933 per quarter for individuals or \$1,996 per quarter for families. If you're healthy, however, you may well find a better deal on your own. Plus, go to the Department of Veterans Affairs Web site (www.va.gov/healtheligibility) to find out if you are eligible for VA health care.

Find new life insurance. Your Service-members' Group Life Insurance (SGLI) expires 120 days after you leave the military. You have one year and 120 days after discharge to convert your policy to Veterans' Group Life Insurance (VGLI). Again, if you're healthy, you may find a much better deal on your own. But VGLI may be your best bet if you have medical conditions. You can qualify for VGLI without a medical exam if you apply for coverage within 120 days of discharge. Shop around for other coverage at least six months before you leave the military, so you have time to get VGLI coverage if you don't find a better option. For quotes on individual policies, check out Accuquote.com and Insure.com. For more information on VGLI, go to www.insurance.va.gov/sgliSite/vgli/vgli.htm.

Make smart decisions about your Thrift Savings Plan. You can keep the money growing tax-deferred in the account even after you leave the military, which can be a good deal because the expenses are so low. Or you can roll it into a new employer's 401(k) or an IRA

after you leave the military, which you may prefer if you'd like different investing options.

If you do roll your TSP into another plan, keep track of any TSP contributions that had been made with tax-free combat pay, so you don't end up paying tax on that amount when you withdraw the money in retirement. A portion of each withdrawal will be tax-free to account for the tax-free contributions.

Get ready for state income-tax changes. If your state of residency while you are in the military is a tax-free state, be prepared for a state tax bite if you move to a state that imposes income taxes after your leave the service. Be sure to crank the extra cost into your post-military budget.

Prepare to lose your tax-free housing allowance. You'll no longer have a tax-free housing allowance after you leave the military, which means you'll need to earn a higher income to end up with similar take-home pay. Keep those lost benefits in mind when negotiating your salary at a new job and calculating how much of a mortgage you can afford.

Build your emergency fund. A stash of safe and accessible cash is even more important once you leave the military and take a civilian job, which may be much more susceptible to layoffs. Keep at least six months' worth of expenses in a money-market or savings account.

Reassess your retirement savings. When you're close to leaving the military, you'll have a much better handle on how much of a pension and other benefits you'll receive. Gather those numbers, then calculate how much more money you'll need to save to reach your retirement goals (the savings calculators in the tools section at Kiplinger.com can help).



Robert Parsons's military pension from 26 years as a Navy air-traffic controller is providing critically needed buoyancy as he works to protect his other savings.

Doing this calculation right before the transition can be a quick reality check about how much money you need to earn from a post-military job.

Get advice on the transition. Talk with someone who has already left the military and ask about unexpected expenses, lost benefits, and other financial surprises.

The military community-service office on your base and the Army Career and Alumni Program (www.acap.army.mil), or similar programs for the other branches, offer valuable resources to help with the transition and new-job search. Make the most of free counseling and information several months—or more—before you leave the military.

How to Invest After Retirement

Even if you have a military pension, you'll need to decide how to invest the rest of your money after you retire—a point that

was driven home with a vengeance by recent stock-market volatility.

Robert Parsons, 67, retired in 1985 after 26 years as a Navy air-traffic controller, then spent several years in law enforcement before he retired for good. He and his wife, Judy, now live in Edenton, N.C. After watching the value of his IRA shrink from \$130,000 to \$98,000 in just a few weeks during the 2008 market meltdown, he was confronted with the need to protect his nest egg.

As scary as it is to see a retirement nest egg take a beating in your sixties, it is still a mistake to pull all of your money out of the market. You could live 20 or 30 more years, so it's no time to panic and abandon the fundamentals. You need cash for your immediate needs, but you also need growth via the stock market over the long term, says Stuart Ritter, a certified financial planner in Baltimore. "You are not going to use all of

your money in the next two years." Even if you're 65 or older, Ritter recommends keeping about 55% of your retirement savings in a diversified portfolio of stocks and stock mutual funds.

The first step, though, is for retirees to keep as much as two years' worth of expenses in cash, such as in a money-market account or short-term CD.

You might not need quite that much if you have sources of guaranteed income (such as Robert Parsons's military pension and the couple's Social Security checks). In fact, they don't plan to tap their IRA until they're required to at age 70½. And because Robert is a retired member of the military, TRICARE for Life helps fill the gaps in Medicare and lowers the couple's out-of-pocket costs.

Retirees who aren't as fortunate can bolster their depleted savings by withdrawing less money than they had originally planned. One common guideline recommends withdrawing 4% of your savings in the first year of retirement, then bumping up withdrawals by about 3% of the first-year amount each year to keep pace with inflation. But in a down market you may need to base your 4% withdrawals on the reduced value of your nest egg, rather than the original balance, and temporarily discontinue those 3% increases.

You won't need to dip as deeply into your retirement savings if you can boost your income. And combining part-time work with a hobby—such as working at a golf course or veterinary clinic—might also get you an employee discount.

In addition, working at an extra job for a few years after retirement could help you delay taking Social Security. And for each year after your normal retirement age that you hold off, your benefits will be increased by 8% for the rest of your life.

If you qualify for \$1,600 a month at age 66, for example, delaying the start of benefits until 70 could bump up your benefits by about \$500 a month (see the Retirement Estimator at www.socialsecurity.gov). Future cost-of-living increases would add to that higher base. ←