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## Military Overview

This section briefly reviews the composition, demographic characteristics, and organization of the military to provide background for the literature review that follows.

## Composition

The US military is an all-volunteer force consisting of five service branches: Air Force, Army, Navy, Marine Corps, and Coast Guard. The Coast Guard is a component of the Department of Homeland Security, while all other branches fall

under the Department of Defense (DoD). For simplicity and to align with the preponderance of existing research, this chapter is focused on the uniformed members of the four DoD service branches and their households. In 2013, there were 40,240 active duty members in the US Coast Guard (U.S. Department of Defense, 2014a); there has been little research on this population. As to the civilian personnel in the DoD and other military services, their work experiences and financial conditions seem more similar to other public sector employees. See Table 21.1 for the size and composition of the DoD service branches.

The size of the military varies from year to year, but statistics from fiscal year 2013 published in the DoD's annual publication "Profile of the Military Community" provide the primary reference for this chapter (U.S. Department of Defense, 2014a). The 2013 report places the total uniformed service population at 2,463,260 personnel, of which 1,192,462 (56 %) serve on active duty, 627,052 (25 %) serve in the Reserves, 465,879 (19 %) serve in the National Guard. There are substantial differences in circumstances among the active duty, Reserve, and National Guard components as far as travel and deployment demands, compensation, and whether a civilian career exists concurrently with a military career. Each of these factors can affect personal financial decisions and their economic outcomes. While some of the research reviewed discusses

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For William Skimmyhorn, the opinions expressed herein reflect the personal views of the author and not those of the US Army or the Department of Defense.

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**Table 21.1** DoD service composition

Service	Category	N	% of component	% of total force
<i>Air Force</i>	<i>Total</i>	537,158		21.8 %
	Active duty	326,573	23.8 %	13.3 %
	National guard	105,708	22.7 %	4.3 %
	Reserve	104,877	16.7 %	4.3 %
<i>Army</i>	<i>Total</i>	1,192,462		48.4 %
	Active duty	528,070	38.5 %	21.4 %
	National guard	360,171	77.3 %	14.6 %
	Reserve	304,221	48.5 %	12.4 %
<i>Marine Corps</i>	<i>Total</i>	304,064		12.3 %
	Active duty	195,848	14.3 %	8.0 %
	Reserve	108,216	17.3 %	4.4 %
<i>Navy</i>	<i>Total</i>	429,576		17.4 %
	Active duty	319,838	23.3 %	13.0 %
	Reserve	109,738	17.5 %	4.5 %
<i>All</i>	<i>Total</i>	2,463,260		100.0 %

Note: Source is 2013 DoD Demographics Report

reservists, the primary focus of this chapter is on active duty service members.

As Table 21.1 shows, the Army is the largest branch with 48 % of the total force (Army active duty members comprise 39 % of the total military active duty numbers, while the Army makes up 77 % of the National Guard and 49 % of the Reserve populations), followed by the Air Force with 22 % of the total force (Air Force active duty members comprise 13 % of the total active duty force, and Air Force members subsequently make up 4 % each of the National Guard and Reserve populations). The Navy is the next-largest service branch with 17 % of the total force (Navy active duty service members comprise 13 % of the active duty force and Navy members comprise 5 % of Reserve strength; the Navy does not have a Guard component) followed by the Marine Corps as the smallest DoD service branch with 12 % overall force strength (Marines make up 8 % of the active duty force and Marines comprise 4 % of Reserve strength; there is no Marine National Guard component). Using data from the 2009 and 2012 National Financial Capability Studies (FINRA IEF, 2010, 2013b), Skimmyhorn (2014) found few differences in the financial decisions and outcomes among members of the different military services and different components.

## Individual Servicemember Characteristics

Table 21.2 provides a summary of personal characteristics for the active duty military force-by service branch. The statistics reveal that the active duty military is young (mean age of 28.6), predominantly male (85.1 %), mostly married (55.2 %), and primarily of Caucasian origin (69.3 %), though these statistics vary by branch. The force is also relatively well-educated with the median and modal servicemember having a high school diploma or some college and more than 19 % holding bachelor's degrees or higher. In this sense, the military is not necessarily representative of the larger American population, though it is large and diverse.

## Rank Structure

In order to better understand the financial challenges servicemembers and their families face, a brief review of the military's rank structure is provided for context. The military employs a hierarchical rank structure with divisions between commissioned officers, warrant officers, and enlisted servicemembers. The middle and higher ranks within the enlisted force are collectively referred to as non-commissioned officers (NCO).

**Table 21.2** DoD servicemember characteristics

Characteristic	Service				
	<i>DoD</i>	<i>Air Force</i>	<i>Army</i>	<i>Navy</i>	<i>Marines</i>
<i>Gender</i>					
Male	85.10 %	81.08 %	86.38 %	82.50 %	92.75 %
Female	14.90 %	18.92 %	13.62 %	17.50 %	7.25 %
<i>Race</i>					
American Indian/Alaskan Native	1.45 %	0.63 %	0.75 %	3.66 %	1.06 %
Asian	3.82 %	3.04 %	3.88 %	5.34 %	2.47 %
Black or African American	16.95 %	14.18 %	20.99 %	17.07 %	10.48 %
Mutli-racial	3.07 %	3.16 %	N/A	9.27 %	1.10 %
Native Hawaiian or other Pacific Islander	1.04 %	1.08 %	0.99 %	1.10 %	1.01 %
Other/Unknown	4.34 %	4.92 %	4.86 %	2.69 %	4.69 %
White	69.33 %	72.98 %	68.53 %	60.87 %	79.18 %
<i>Age</i>					
Married	55.20 %	58.20 %	59.00 %	51.50 %	46.20 %
<i>Education</i>					
Unknown	2.11 %	0.94 %	0.41 %	6.52 %	1.44 %
Less than HS degree	0.38 %	0.01 %	0.34 %	0.52 %	0.85 %
HS degree/some college	77.70 %	73.10 %	77.75 %	76.63 %	86.96 %
Bachelor’s degree	12.15 %	12.87 %	14.20 %	9.80 %	9.31 %
Advanced degree	7.66 %	13.08 %	7.30 %	6.52 %	1.44 %
<i>Total</i>	1,370,329	326,573	528,070	319,838	195,848

*Note:* Source is 2013 DoD Demographics report. The Army does not report data on multi-racial members

Commissioned officers are typically required to have at least a 4-year college degree, and they possess a higher degree of legal authority than their enlisted counterparts. Not surprisingly, Green (1970) identifies rank as a proxy for socioeconomic status, likely because of its mechanical relationship with compensation and the education requirements associated with holding an officer’s commission.

### Comparing Military and Civilian Financial Decisions and Outcomes

This section reviews the differences between military and civilian households with respect to important economic outcomes: compensation and financial decision-making.

#### Household Earning Comparisons

Military compensation combines monetary pay and allowances, in-kind benefits (e.g., subsidized health care and child care), and deferred benefits

(e.g., defined benefit pension plan and access to a defined contribution plan known as the Thrift Savings Plan). On average, the composition of active duty servicemembers’ compensation is 51 % pay and allowances, 21 % in-kind benefits, and 28 % deferred compensation for retirees, veterans, and survivors (U.S. Department of Defense, 2012, June). Table 21.3 provides data on the most typical monetary payments for active duty military members by rank. It is important to note that basic pay increases with rank and years of service (Defense Finance and Accounting Service, 2014). Housing allowances (also known as BAH) vary by locality and increase with rank and the presence of dependents, while the basic subsistence allowances (BAS) are fixed amounts for officers and enlisted personnel. Data are provided on housing allowances for all ranks, though some individuals receive on-installation housing in-kind in lieu of the cash payment. BAH and BAS are tax-free allowances.

Using 2013 pay figures from Table 21.3, three examples of how military basic pay works are as follows. A new servicemember in the grade of E2

**Table 21.3** Military compensation

Rank	DoD		Base Pay	Compensation		BAS
	N	%		BAH No dependents	BAH With dependents	
E1	54,618	4.0 %	\$1516	\$1026	\$1260	\$352
E2	70,043	5.1 %	\$1700	\$1026	\$1260	\$352
E3	196,218	14.3 %	\$2015	\$1026	\$1260	\$352
E4	277,403	20.2 %	\$2403	\$1026	\$1260	\$352
E5	234,753	17.1 %	\$3064	\$1158	\$1302	\$352
E6	163,931	12.0 %	\$3651	\$1227	\$1536	\$352
E7	96,468	7.0 %	\$4305	\$1263	\$1599	\$352
E8	27,515	2.0 %	\$5185	\$1350	\$1668	\$352
E9	10,516	0.8 %	\$6350	\$1422	\$1752	\$352
W1	2223	0.2 %	\$4774	\$1245	\$1539	\$243
W2	8149	0.6 %	\$5073	\$1347	\$1626	\$243
W3	5132	0.4 %	\$5761	\$1428	\$1710	\$243
W4	3051	0.2 %	\$6292	\$1551	\$1767	\$243
W5	832	0.1 %	\$9003	\$1614	\$1836	\$243
O1	24,454	1.8 %	\$3619	\$1221	\$1326	\$243
O2	31,147	2.3 %	\$4586	\$1287	\$1530	\$243
O3	75,712	5.5 %	\$6240	\$1452	\$1707	\$243
O4	46,210	3.4 %	\$7284	\$1605	\$1860	\$243
O5	28,976	2.1 %	\$8229	\$1647	\$1971	\$243
O6	12,028	0.9 %	\$9310	\$1710	\$1989	\$243
O7	440	0.0 %	\$11,925	\$1746	\$2010	\$243
O8	315	0.0 %	\$12,944	\$1746	\$2010	\$243
O9	158	0.0 %	\$15,659	\$1746	\$2010	\$243
O10	37	0.0 %	\$17,748	\$1746	\$2010	\$243

*Note:* Authors' compilations using DoD and Census data. Base Pay reflects the median pay amount from the 2013 DoD pay table across all years of service for each grade. BAH reflects the housing allowance for a zip code 34746 (Kissimmee, Lake County, Florida). BAS reflects the 2013 Basic allowance for subsistence, which is a constant payment for enlisted members or officers. Note that these estimates omit many cash (e.g., special pays, hostile fire pay) and in-kind benefits (e.g., tax benefits and health care) available to military members

annually earns approximately \$34,728 without dependents and \$37,536 with dependents. A junior Non-Commissioned Officer (NCO) in the grade of E5 (the median service member in 2013) earns approximately \$54,888 without dependents and \$56,616 with dependents. Finally, an officer in the grade of O3 (the median officer in 2013) earns \$95,220 without dependents and \$98,280 with dependents. Readers should treat these simplistic estimates with caution in that they likely reflect lower bounds of actual compensation since special and incentive pays and the value of in-kind and deferred benefits are omitted.

In-kind and deferred benefits associated with military service can be substantially richer than

those typical in the private sector. The government uses Regular Military Compensation (RMC) to estimate the value of these benefits in order to make total compensation comparisons between military and civilian members. For example, the RMC for enlisted personnel with a high school diploma, some college, and/or an associate's degree places them in the 90th percentile of wages among their civilian counterparts (U.S. Department of Defense, 2012, June). The RMC for officers with a bachelor's or graduate degree placed them in the 83rd percentile of wages among their civilian counterparts (U.S. Department of Defense, 2012, June). Military compensation compares very favorably with civilians having comparable levels of

education at the present time, though there is no doubt variation in the actual compensation based on the actual benefits utilized by servicemembers. The limited lateral entry inherent in the military's internal labor market, coupled with high training costs and job risks, may support such favorable compensation. For theoretical and empirical discussions of the military pay system, see Asch and Warner (1994) and Rosen (1992).

While servicemember compensation compares favorably with civilian averages, this may not be the case for the civilian spouses of military members. For recent reviews of civilian spouse employment, see Lim, Golinelli, and Cho (2007) and Maury and Stone (2014). Civilian spouses of military members often face career challenges associated with frequent relocation that can limit their professional advancement. This reduces total household income potential relative to civilian couples with greater choice in relocation decisions. A number of factors may contribute to the lower labor force participation rates and earning levels of military spouses including frequent moves (Castaneda and Harrell, 2008), deployments (Savych, 2008), interstate moves affecting licensing and certification (U. S. Department of Treasury & U. S. Department of Defense, 2012), and reluctance on the part of employers to hire spouses for jobs that require a substantial investment in training (Hosek & Wadsworth, 2013). While the evidence cited above suggests adverse effects of military service on civilian spouse career outcomes, none of the studies cited provide clear causal evidence. It is equally important to note there has been little research accounting for the combined income of the servicemember and spouse. This makes household earnings comparisons between civilian and military households an important obstacle to overcome in understanding the overall financial challenges and opportunities of military service.

The existence of enduring federal (e.g., Military Spouse Preference in the 1986 DoD Authorization Act) and state (e.g., Arizona Statute 38-492) laws providing hiring preferences for military and select veteran spouses suggest there is recognition of these concerns. Recently, the Military Spouse Residency Relief

Act (Public Law 111-97) provided relief for state tax payments for military spouses. As of this writing, the authors were unaware of any research analyzing the effects of these laws and policies on the financial welfare of military households.

## Financial Decision-Making Comparisons

Military and civilian financial choices appear to differ by domain. Recent national level surveys, namely the National Financial Capability Study published by the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation (IEF), suggest that while both military and civilian credit card holders participate in a variety of negative financial behaviors (e.g., paying only the minimum payment, paying late fees, or using a credit card for cash advances), military service members appear more likely to engage in at least one of these costly behaviors more often than civilians (FINRA IEF, 2013a, 2013b). According to an initial study, 41 % of servicemembers had credit card balances of at least \$5000, and over 10 % had balances of at least \$20,000 (FINRA IEF, 2010) where junior enlisted servicemembers and NCO were the most likely to do so.

In contrast, these surveys also suggest that military members fare better than their civilian peers in terms of saving (FINRA IEF, 2009, 2010). In the more recent surveys (FINRA IEF 2013a, 2013b), over half (54 %) of servicemembers had enough funds set aside to cover 3 months of living expenses compared with only 40 % of the general population. The earlier studies (FINRA IEF, 2009, 2010) also suggest that 36 % of military respondents had trouble keeping up with their monthly expenses and bills as compared to almost half (49 %) of the American population. In both cases, individuals with higher incomes were more likely to save (FINRA IEF, 2013a, 2013b).

While the evidence above is suggestive, it does not account for the differences in demographic characteristics between servicemembers and civilians. Skimmyhorn (2014) completed a

more detailed multivariate analysis accounting for these differences and found that enlisted servicemembers have better solvency and savings outcomes, but worse credit card outcomes relative to their civilian peers. Given the relative stability of military employment and the potential to vest in a defined benefit pension plan, these results suggest that many military members might be better off avoiding or paying down their costly credit debts while saving less. While there appear to be important differences in the earnings and financial decision-making of military and civilian households, it is important to note that the evidence cited here should not be interpreted to mean that particular financial outcomes are direct results of military service given the endogenous decisions to enter and remain in the military.

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## Military Life

This section reviews research related to the relationships between military life and financial well-being. The focus of this section is on the literature related to the effects of financial problems on military service but we also review the literature related on the effects of military service on financial problems. For an early, but relatively comprehensive analysis of the relationships among individual characteristics, the military work environment, and financial problems, see Tiemeyer, Wardynski, and Buddin (1999). Researchers should exercise caution against making incorrect inferences as to the existence and direction of causality when evaluating these relationships.

## The Effects of Financial Issues on Military Services and Life

A number of studies suggest that financial issues are closely tied to individuals' assessments of their own quality of life. In this regard the military may not differ substantially from civilian populations. What may differ is the scope and severity of the negative impacts for military members. Kerce (1996) found that both income

and standard of living had a significant impact on Marines' assessments of their quality of life and that these assessments affected the ability of the Marine Corps to perform its mission. Similarly, Tiemeyer et al. (1999) completed a qualitative study at seven installations across all four branches of service and found that financial management problems were the "most commonly cited personnel problem" (p. 8) among enlisted personnel. The study suggests that some individuals (i.e., first-term enlisted members, divorced, those with children, those with unemployed spouses, and those with lower levels of education) in certain military branches (i.e., the Army and the Marine Corps) were more likely to have financial problems. It also noted that all levels of military leaders were concerned about servicemembers' financial problems because of concerns for the individuals' welfare and because these problems affected their ability to perform their jobs. The study appears to have influenced the DoD to focus its attention and programs over the past 15 years on the enlisted force with the goal of improving military readiness. Varcoe, Lees, Wright, and Emper (2003) completed a qualitative study of Marines that confirmed many earlier findings and identified potential explanations for financial problems (i.e., financial inexperience, deployment, and being stationed away from home). Castaneda et al. (2008) surveyed National Guard and Reserve households about their financial readiness and found challenges similar to those faced by active duty households.

In the late 1990s, the Navy commissioned a personal finance study to examine the impact of personal financial mismanagement among sailors. Luther, Garman, Leech, Griffitt, and Gilroy (1997) estimated the direct costs of these problems (e.g., bad checks to the military exchange system, processing garnishments) in the tens of millions of dollars and the indirect costs (e.g., lost productivity) in the hundreds of millions of dollars. They estimated that financial issues had a greater effect on organizational readiness than any other quality-of-life issues (e.g., housing, child care, health care). The study highlighted the high cost to taxpayers of widespread personal financial difficulties. In related research,

Luther, Leech, and Garman (1998) documented the relationship between financial problems and the Navy's readiness (e.g., failure to re-enlist and associated retraining costs, security clearance revocations). A US Government Accountability Office (GAO) report in 2005 also linked personal financial difficulties among military members to lower mission readiness (U. S. GAO, 2005).

More recently, military members rated finances as one of their most significant stressors, even above deployments and personal relationships (Office of the Assistant Secretary of Defense, 2012). Given the severity and pervasiveness of the recent economic recession against the backdrop of more than a decade of frequent combat deployments, the prevalence of these financial challenges is not surprising.

More recently, Bell et al. (2014) documented a strong relationship between financial stress and service members' well-being. Soldiers with higher credit card debt and lower perceived net worth reported lower levels of subjective well-being, while soldiers with greater perceived financial knowledge and larger emergency savings accounts reported higher levels of subjective well-being. Other studies have found financial stress to be a contributing factor to the incidence of suicide and domestic violence among servicemembers (Kline, Ciccone, Falca-DoDson, Black, & Losonczy, 2011; Mahon, Tobin, Cusack, Kelleher, & Malone, 2005; Slep, Foran, Heyman, & Snarr, 2010). Outside the active duty military, related research using a national survey of combat veterans who served in Iraq and Afghanistan found financial problems were related to major depression, post-traumatic stress disorder (PTSD), and traumatic brain injury (TBI). Furthermore, the study found veterans with better personal financial management skills had fewer instances of serious problems (e.g., homelessness, criminal arrest, substance abuse, suicidal or aggressive behavior) upon transitioning back to civilian life (Elbogen, Johnson, Wagner, Newton, & Beckham, 2012). Consequently, it appears that financial readiness has implications for individuals even after their military service is complete.

Financial problems have the potential to directly and adversely affect servicemembers'

ability to perform their jobs. Those with serious financial problems can lose their security clearances which often limits their ability to perform their assigned duties (Office of the Assistant Secretary of Defense, 2012). The possibility that financial problems may undermine job performance by distracting military members from the work at hand is another important but largely unexplored topic. Luther et al. (1998) presented an early discussion of productivity loss related to personal financial circumstances. Military members may also face criminal sanctions for certain financial problems or misconduct. Importantly, any one or a combination of these things may lead to being discharged from the military and a loss of the taxpayers' investment in servicemembers' recruitment and training (FINRA IEF, 2010). As a result of these concerns, the DoD associates personal financial readiness with mission readiness (Dempsey & Battaglia, 2013) and seeks to assist servicemembers through the programs described in the fourth section of this chapter.

### **The Effects of Military Service on Financial Outcomes**

Military life involves many stressors. The prospect of serious injury and death are an inherent part of military service (Harris, 2011) and could affect financial decision-making. Frequent moves may also affect the military family's income as described in earlier section two of this chapter. In addition, military deployments may have significant effects on servicemembers' financial outcomes. The last decade has been a time of an unprecedented number of deployments in the history of the all-volunteer force, with almost 2.5 million servicemembers being deployed to Operations Enduring Freedom, Iraqi Freedom, and New Dawn (Defense Manpower Data, 2012). The duration and frequency of deployments has increased, and the intervals between successive combat deployments have shortened (Tanielian & Jaycox, 2008).

Recognizing the financial challenges that deployments create, the military provides additional

income to individuals when they deploy. These benefits (e.g., hostile fire pay, family separation allowances, and tax relief on basic pay) may total hundreds of dollars each month for a servicemember, a significant income boost for many. As a result, deployments might improve or degrade financial outcomes based on the competing effects of the increased income and the household stressors. Lakhani and Abod (1997) documented financial gains and changes in reenlistment intentions for reserve soldiers who volunteered for peacekeeping deployments in the Sinai in the 1990s. However, because volunteers likely differ from non-volunteers on a number of dimensions, studies like this highlight the importance of considering selection. Similarly, Dunn (2003) suggested that hostile fire pay was an effective retention tool for officers during Operation Desert Storm, but the study did little to overcome concerns of selection bias or to establish its validity for the much larger enlisted population.

Hosek, Kavanagh, and Miller (2006) discussed the costs and benefits of military deployments. They identified financial stressors among servicemembers that included making proper financial arrangements for a deployment. They noted that deployment pays were viewed by servicemembers as a benefit that helped offset some of the negative aspects of deployment, and that some servicemembers were motivated to deploy by these financial incentives. Their results further highlight the challenge of selection bias to research in this area. Overall, the effects of additional compensation during deployments are unclear.

While deployments generate additional income for service members, they also appear to generate additional stress on servicemembers and their families. Bray, Camlin, Fairbank, Dunteman, and Wheelless (2001) and Hosek and Martorell (2009) documented the correlation between deployments and work-related stress as servicemembers strived to complete their jobs in dangerous and challenging environments. Earlier work from Aldridge, Sturdivant, Smith, Lago, and Maxfield (1997) used a service-wide survey and found that during deployments, servicemembers did not have frequent input on family and

routine household issues, which can include financial decisions. They also found that individuals with working spouses experienced fewer financial problems during deployments. Rotter and Boveja (1999) observed families faced with upcoming deployments and discovered that while families discussed financial priorities and roles in anticipation of deployments, these discussions caused some stress. More recently, the FINRA IEF (2010) report documented that frequent deployments and military relocations are correlated with increased instances of financial problems. Given the findings of a link between financial anxiety and financial well-being (Bell et al., 2014), researchers could do more to understand the effects of deployments and other unique aspects of military life on financial outcomes.

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## **Military Programs and Services**

### **Personal Financial Management Programs**

In view of the financial challenges associated with military service as described in section two of this chapter, the military has a long history of providing personal financial education and assistance to service members. The GAO estimated that as of the 2010 fiscal year, the DoD spends \$38 million dollars annually on its Personal Financial Management Programs (PFMP) (U.S. GAO, 2012) in order to contribute to individual and operational readiness of the military and its personnel through training, education, and counseling (U.S. Department of Defense, 2012). PFMP offerings vary slightly by service, but all include some version of lifecycle education with topics varying by the needs and experiences of the servicemembers (e.g., basic financial training for servicemembers within 3 months of arriving at their first permanent duty station). PFMPs also provide counseling to help servicemembers achieve their financial goals, such as developing financial plans before deployment. At each installation a Personal Financial Manager or Specialist leads the PFMP and serves as a primary expert on personal finances. These individuals typically

hold a bachelor's degree and a recognized financial counselor certification (U.S. Department of Defense, 2012, July).

To supplement the PFMPs, the DoD offers support, information, and instruction to members of each of the military services. For example, in 2003, the DoD launched the Financial Readiness Campaign with goals that included maintaining good credit, establishing routine savings, increasing participation in the Thrift Savings Plan and Savings Deposit Program, and encouraging use of low-cost loan products in place of payday loans and other high-cost forms of borrowing (U.S. Department of Defense, 2012).

The results of the studies discussed above are suggestive of a strong link between financial readiness and military readiness and provide motivation to implement robust and effective PFMPs. Despite the long history and significant costs of PFMPs, we are unaware of any research that quantifies the effectiveness of the PFMPs or their components (e.g., education, counseling). While reasons for the lack of research are unclear, possible explanations include a lack of provision in the programs for evaluation, hesitance to evaluate programs for fear that results will not justify the continued allocation of resources, which could in-turn be perceived as a lack of support for military members, or a lack of program evaluation expertise. Regardless of the reasons, the absence of formal studies on the PFMPs leaves open questions of whether current programs are effective and how best to address the needs of servicemembers for personal financial management.

## Military Financial Education

Financial education has been an important aspect of military training, both within the PFMPs and in other areas, for over 20 years. Yet here, too, there have been few studies that formally evaluated the relationship between financial education and financial behavior. The Army's Personal Financial Management Course, an 8-hour course developed by the Army and its non-profit aid society, Army Emergency Relief, provides a useful case study. Bell, Gorin, and Hogarth (2009)

and Brand, Hogarth, Peranzi, and Vlietstra (2011) evaluated the pilot Personal Financial Management Course and found correlations between taking the financial course and financial decision-making (e.g., having a spending plan, comparison shopping for major purchases, saving for retirement, paying overdraft fees). However, the use of nonexperimental comparison groups, self-reported outcomes, and low response rates in follow-up surveys make causal inference from these results inappropriate.

Skimmyhorn (2016) provided a more formal evaluation of financial education using the staggered implementation of the Personal Financial Management Course in 2008–2009 and administrative outcome data. The author found the course had important (10–20 %) effects on a number of credit outcomes, such as account balances and delinquencies, that persisted only in the first year after the course. The course and its bundled enrollment assistance doubled soldiers' participation in, and average contributions to, the military's defined contribution plan (the Thrift Savings Plan) over a period of at least 2 years. The course had no effect on employee turnover, productivity, and retention decisions. This study demonstrated the benefits and limitations of one financial education course, but also the possibilities for learning and improved program design enabled by careful evaluation efforts.

## Military Resources

There are a number of other military resources that may affect the financial health of servicemembers, but little is known about their effects. This section briefly identifies several programs of interest. The service relief societies (i.e., Army Emergency Relief, Navy-Marine Corps Relief Society, and the Air Force Aid Society) provide millions of dollars annually in grants and interest-free loans to servicemembers experiencing financial emergencies, but no studies document their effects. The Personal Financial Counselor contract program enables financial professionals to assist military households in managing their personal finances on a short-term basis.

The DoD-funded employee assistance program (MilitaryOneSource.mil) offers online, telephonic, and in-person assistance for a variety of personal financial issues, including debt management, taxes, and retirement. Some of the military service branches also offer online financial resources and support (e.g., ArmyOneSource.com, MyArmyBenefits.us.army.mil).

Although all of these programs are well-intentioned, the authors know of no studies that demonstrate their effectiveness. For example, Carlson, Britt, and Goff (2015) found that speaking with others about financial matters, including the military offerings described above, had no statistically significant association with better financial behavior outcomes. Given the underlying needs, the considerable costs involved, and the potential for duplicative efforts, there seems to be a universal need for more routine and deliberate program evaluations of DoD and Service-sponsored personal financial programs.

## Special Legal Protections

As a result of substantial public and political interest in the welfare of the US military population, the federal government and some state governments have established special legal protections for servicemembers. While these are not programs and services provided by the military per se, the protections described below might be viewed more broadly as national- or state-level services to servicemembers.

## The Military Lending Act

Given the intense interest in and legislative protections surrounding alternative financial services used by military members, a brief review of literature related to military members' use of these services and recent federal policy actions in this area follows. Graves and Peterson (2005) and Harris (2011) assert that military members have been targeted by predatory lenders, including payday lenders, auto title loan stores, pawn shops, and tax refund anticipation lenders. FINRA IEF (2010) and Harris (2011) posited

that servicemembers make attractive customers because they have steady and reliable paychecks. Research by Carrell and Zinman (2014) suggested a relationship between access to payday loans and increased unfavorable entries into personnel records of enlisted Air Force members, but it did not address any financial effects.

Owing to these studies and the media coverage of alternative financial services, the DoD has taken the position that the use of payday loans is detrimental to military readiness. As a result, in 2007, the Military Lending Act (MLA) was enacted to cap the interest rates on certain non-traditional loans (i.e., payday loans, auto title loans, and refund anticipation loans) to military families at 36% (Center for Responsible Lending, America, & National Consumer Law Center, 2007). Fox (2012) provided some evidence that the law may have been ineffective. Carter and Skimmyhorn (2016), however, found minimal effects of the MLA on military members overall. They also provided evidence that access to payday lending does not appear to adversely affect Army members' job performance or financial outcomes. Given the conflicting findings on the effects of payday loan access on military members, which reflect a similarly divided economic literature (see, e.g., Melzer, 2011; Skiba, 2012), the effects of payday lending and the MLA warrant more attention.

Meanwhile, the Consumer Financial Protection Bureau (CFPB) and the DoD have worked to strengthen the MLA protections and authorize CFPB enforcement, citing concerns that non-traditional lenders had diversified their offerings to include loan products that fell outside the original law's coverage (U. S. Department of Defense, 2014b). Since the new protections went into effect in 2013, they represent an additional opportunity to study the effects of access to these financial products on military members.

## Servicemembers Civil Relief Act (SCRA)

The SCRA, which expanded provisions of The Soldiers and Sailors Relief Act of 1940, provides special legal protections to servicemembers to

enable them to devote their attention more completely to their military duties. These protections include the temporary suspension of some legal proceedings that may affect servicemembers' civil rights during military service (50 U.S.C. App. §§501-597). Though a detailed review of the SCRA is beyond the scope of this chapter, it should be noted that several elements of the law (e.g., eviction prohibitions, interest rate caps of 6 % for debt incurred before being ordered to active service, and restrictions on insurance policy cancellations) might affect servicemembers' household finances (Mason 2014). Interestingly, despite the scope and tenure of the SCRA, the authors are unaware of any research related to the financial effects of the law.

### **The Military Spouses Residency Relief Act (MSRRA)**

The MSRRA provided some relief for select civilian spouses of servicemembers by reducing their state income tax burdens when living with their military spouses in states other than their domicile (Federation of Tax Administrators, 2015). The law became effective for the 2009 tax year and likely affects hundreds of thousands of civilian spouses of servicemembers annually. While state laws differ, the MSRRA should afford many working military spouses additional income through reduced tax liabilities. Despite the significant financial and potential labor market effects of the law, the authors know of no studies analyzing the MSRRA or related state policies.

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## **Summary and Future Research**

This chapter reviewed the existing research related to military household finances. The chapter began with a brief description of the organizational structure of the US military and then made some comparisons between the household finances of servicemembers and their civilian counterparts. This led to a discussion of the interactions between personal finance and performance of military service. Finally, personal finance-related legal protections available to

servicemembers were discussed. This review suggests there is relatively little literature on personal finance focused on the military population, and what exists is primarily descriptive and largely incomplete. Potential directions for future research are offered below.

First, because nearly all of the studies cited herein are descriptive, research in this area might seek to establish whether and where causality exists between financial stress and military job performance, between elements unique to the military lifestyle (e.g., deployments, structure of total compensation) and financial stress, and between programs among the different service branches and their outcomes. For retrospective studies, such efforts will require extensive institutional knowledge of military policy and changes in order to identify plausibly exogenous variation in variables of interest. Perhaps more important and attainable, scholars and practitioners in this area might pursue more experimental approaches (e.g., piloting, staggered roll-outs, or randomized controlled trials) moving forward. Such studies enable better program analyses, improved service delivery, and potentially greater efficiency in the allocation of resources. In addition, the DoD might make results from past and future studies, where individual service members are not able to be identified, more available for interested researchers.

As to specific topics that warrant attention, some suggestions follow. First, very little research has examined National Guard and Reserve households' financial decisions. Since these groups represent "citizen soldiers," learning more about them not only expands the understanding of military household financial issues broadly, but it may enable a better understanding of the generalizability of findings between civilian and military members. In addition and as noted above, the effects of the most sweeping legal protections afforded servicemembers (i.e., the SCRA, the MLA, and the MSRRA) are largely unknown and might inform national policy reforms or complementary state efforts. Next, given that deployments and frequent moves remain a challenging and enduring part of military service, better understanding of the effects of these experiences seems a worthwhile, if difficult,

task. Finally, there remains a need for systematic financial quality-of-life surveys to provide a more complete picture of the financial experiences of members and their families.

Second, the literature suggests that military households are unique in many ways. As such, lessons learned from other household finance areas (e.g., the other chapters in this volume) may or may not be well-suited for designing policy for servicemembers and their families. However, lessons learned in other areas may help researchers and practitioners form reasonable hypotheses from which adjustments can be made and tested. Such efforts could enable researchers to better understand the generalizability of other household finance research findings to this population. This is an important task as it may help scholars avoid duplicative efforts.

Finally, there may be significant opportunities for household finance scholars and practitioners to learn from this population. The military is unique in its size, diversity, and constant change. Given the frequent moves of military families, their varying experiences, and varying levels of financial services and state-level economic policies, military households provide an opportunity to gather better evidence about the effects of any number of consumer and household finance policies where endogenous selection in living locations are a concern. While the military may not represent the nation as a whole, it may provide reasonable insight into the financial decision-making of low to moderate income and education households and the effects of public policy and other service provision on these populations.

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