



Building financial self-sufficiency with our young military and veteran families through financial counseling, emergency grants and other support programs

MILITARY FINANCIAL WELL-BEING

A White Paper

Abstract

The mounting financial crisis among our military service members directly impacts mission readiness and its effects extend to family and community members. Without intervention, this vulnerability continues with a veteran's transition into civilian life.

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Building Financial Well-Being Among Military and Veteran Families

Problem

There is a mounting financial crisis among our military service members. Financial vulnerability directly impacts mission readiness and its effects extend to family and community members. Without intervention, this vulnerability continues and, in many cases is amplified, with a veteran's transition into civilian life.

Mission Readiness measures the ability of a military unit to accomplish its assigned mission. Logistics, available spare parts, training, equipment, and morale all contribute to readiness.¹

Living paycheck to paycheck with no financial cushion, creates a state of financial vulnerability where even a small unexpected expense can be more than the service member can manage. As the bills pile up and the creditors continue to call, service members' stress levels increase, and job focus and mission readiness (morale) evaporate.

Decreasing financial vulnerability by increasing financial well-being, defined as a state wherein a person can fully meet current and ongoing financial obligations, can feel secure in his or her financial future, and has the ability to make choices that allow the enjoyment of life,² is vital to maintaining the morale of America's armed forces.

Causes

There are many factors that contribute to the problem of financial vulnerability for America's military and veterans, including: the financial inexperience of youth, increasing costs of growing families, disrupted support systems, re-location to areas with high costs of living, low wages, lack of financial knowledge and mentoring, and challenges of reintegrating into civilian society after service all of which will be discussed in the following paragraphs. Another factor, that will not be directly covered in this work, is our nation's consumer culture.

Department of Defense (DoD) demographics provide insight that helps us understand why service members and their families are at heightened risk of financial crisis. Enlisted service members are generally young adults with little financial experience or knowledge.³ These individuals form the bulk of active duty forces (82%) and outnumber officers by nearly 5 to 1.⁴ Despite low pay rates, junior enlisted service members earn a reliable monthly income and thus are a desirable target for predatory lenders.⁵

Upon enlistment, service members are predominantly single but, by age 25, are twice as likely to be married than their civilian counterparts.⁶ Then, due to service requirements, these young adults and families experience multiple relocations, disrupting their natural family and community support systems. In fact, military families move three times more often than non-military families.⁷ After each relocation, they must adjust to cost of living differentials in their new area as well as relearn community resources that are available to them.

While adjusting to an increased cost of living in Southern California, many families experience a temporary or permanent loss of spousal income. Military spouses suffer an unemployment rate of 16% (four times their civilian counterparts) due to demands unique to military life.⁸ Service member deployments, which average 7.7 months,⁸ require spouses to be more available to manage children's needs and household issues. Each permanent change of station (PCS) move requires finding a new job for most spouses (less than 10% are able to continue working for the same employer).⁸ Those spouses with greater educational attainment are more likely to be unemployed, face longer periods of unemployment and are more likely to be underemployed than spouses with a high school education or some college⁸, blocking a traditional path to increased financial well-being.

California has the highest concentration of American military personnel in the world⁹ and is ranked as the third highest state in the nation for cost of living.¹⁰ At the same time, approximately 60% of junior enlisted service members' salaries are considered low income by US Housing and Urban Development Department (HUD) measures.¹¹ Furthermore, active duty service members, veterans, and their spouses identify military pay and benefits as a top concern.¹² Additional evidence of the financial challenges facing our military is that the US Government Accountability Office (GAO) has identified that food insecurity among junior enlisted service members and their families warrants DoD attention.¹³ These financial pressures specific to military life combined with a lack of financial knowledge further increase service members' vulnerability to financial crisis.

The Military Compensation and Retirement Commission specifies a list of events with which financial education should be paired including during initial training, arrival at first duty station, upon promotion, in proximity to major life events such as marriage, divorce and birth of a child.⁵ Additionally, a recent survey of US adults concluded that 80% would agree with the statement that they could benefit from advice and information from a financial professional; younger adults are more likely to strongly agree.¹⁴ Combined, these data indicate that junior enlisted service members and their families can benefit from targeted financial knowledge and mentoring while practicing emerging financial skills.

It follows that, without support in learning and practicing basic financial skills during their period of service, veterans face even greater risk of financial crisis. The first step toward that crisis is when their reliable paycheck ends upon discharge and their final paycheck is often delayed up to 120 days after separation.¹⁵ At the same time, veterans face obstacles in securing financial benefits from the Veterans Administration (VA) through disability claims. For example, in 2016, the average waiting time for a VA benefits claim was 123 days.¹⁶ Today, nearly 21% of disability claims have been awaiting a rating decision for more than 125 days.¹⁷ While waiting for their final paycheck and VA benefits, recent veterans have extreme financial vulnerabilities. Even though veterans can file for state unemployment benefits, these claims can take 2-3 weeks to process "if there are no questions"¹⁸ but this is rarely the case, as clarification regarding veteran benefits, including disability and GI Bill, is usually requested. Taken together, it is no wonder why a recent Blue Star Families survey found that over 50% of those surveyed "described the transition as difficult" and "21% reported that transition from the military is an obstacle to financial security."¹⁹

Though the GI Bill is often a major source of income for many transitioning veterans, the benefits can be both confusing and inadequate. The GI Bill typically pays for tuition and textbooks as well as a monthly housing stipend (BAH) paid directly to veterans attending accredited education programs. However, veterans are paid for tuition and BAH on the first of the month for academic attendance during the *previous* month. Depending on the date of discharge and the type of school the veteran is enrolled in, full implementation of GI Bill benefits can take 2-5 months, and BAH is not paid during winter or summer breaks.²⁰ As a result, many transitioning veterans

face difficulty in navigating GI Bill benefits, uncertainty about when payments will start, whether payments will be full or partial, and when to anticipate months without payments.

These pressures can combine to begin a pattern of overspending that compromises basic financial well-being. Without support and training throughout their period of service, junior enlisted service members transition to civilian life with high debt²¹, gaps in income and often lower than median salaries.²² While the majority of service members and veterans avoid serious financial problems, some may need support in avoiding financial ruin.

Many of these issues are wide-spread, societal issues that will take years and significant change to address. Some pressures may never change but increasing Financial Intelligence can immediately provide long-term impact for a service member and their family, providing them with the potential to achieve a lifetime of financial well-being.

STEP's Role

Support The Enlisted Project (STEP)'s driving force is to build Financial Well-Being among E1 to E6 service members who are active duty or veterans within 18 months of discharge and living in Southern California where cost of living is the fourth highest in the nation. The Consumer Financial Protection Bureau (CFPB) defines Financial Well-Being as a state wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life.²³ For some, achieving that state is almost impossible without intentional behavioral change that is aligned with financial knowledge and skills. Therefore, STEP builds Financial Intelligence (FI) among our military and veterans and their families.

FI in STEP programming is defined as the intersection between knowledge, skills and behavior in personal finance. Knowledge is *the learning of concepts, principles and information* and includes learning how to set concrete financial goals or how much debt has accrued. Skills, *the ability to put that information to use in context*, allows an individual or family to design a budget that serves a specific goal such as debt reduction or increased savings. Behavior is *where the skills and knowledge are put in action*, living within the budget, reducing debt, and building savings even when it's challenging. At STEP, we believe that each of these three pillars is crucial in achieving a state of financial well-being. Without knowledge and skill, service members do not know which behavior changes will maximize the growth they seek. But without targeted behavior change, skill and knowledge will do little to prevent the continuation of their financial crisis.

By building FI among service members, STEP enables families to experience brighter financial futures,²⁴ service members to experience increased mission-readiness,²⁵ the military to experience decreased costs⁵ and transitioning veterans to be more prepared for the adjustment to civilian life and the financial challenges that occur along the way.²⁶

Approach

STEP's solution for the financial crisis that drives clients to apply for our services has two major components: personalized financial counseling and, when necessary, financial grants for the preservation of basic needs.

STEP case managers are trained in social work (specifically Crisis Theory and the Solution Focused Approach, which is steeped in client-driven goal setting) and basic financial skills. Combining these skills in a multi-disciplinary approach, STEP provides the financial counseling that works with active duty and recently discharged veteran service members to help them build FI. STEP's Emergency Financial Assistance (EFA) Case Managers partner with clients and their families in crisis to identify their financial goals and build their plan to achieve financial well-being.

Driving the decision to apply, STEP's clients are in a state of financial crisis defined as being at imminent risk of loss of a basic need. By definition, crisis places people squarely outside of their familiar zone.²⁶ With the advent of crisis and forceful removal from a comfort zone, the stage is set for change. Understanding this setting, STEP case managers encourage and support applicants within a Solution Focused framework as they take control of their crisis and begin moving in a direction to ultimately strengthen the family for the long-term.

Because timing matters, it is important for educators to identify teachable moments for their learners when they can deliver timely and relevant information.²⁷ Interventions provided as the service member is deciding how to resolve the financial crisis have an increased potential for resulting in lasting behavioral change.

STEP's application is the first step in the change process. Prior to applying, clients generally realize that they are at risk of losing a critical basic need such as housing. In completing the online application, individuals organize their income, monthly expenses and debt, often learning a great deal about the complexity of their financial situation. Case managers respond within three business days, continuing the intervention while the crisis is still fresh.

The Solution Focused Approach (SFA), an evidence-based social work intervention, identifies and employs the client's strengths in resolving the crisis that brought them to seek help. It is an effective method of respecting the service member or veteran's skills and knowledge of him- or herself, including past successes in setting and achieving goals, effective sources of personal motivation, personal support systems and more. Since its early development, SFA has become one of the leading schools of brief therapy, influencing diverse fields such as business, education, criminal justice, social policy, child welfare and domestic violence treatment and prevention.²⁸ Unlike traditional forms of therapy that take time to analyze the past and the genesis of problems, pathology and life events, the focus of SFA (Brief Therapy) is on finding solutions in the present time and exploring the client's hope for the future to find quicker resolution of one's problems. Described as a practical, goal-driven model, a hallmark of SFA is its emphasis on clear, concise, realistic goal negotiations.²⁶

The approach assumes that all clients have some knowledge of what would make their life better, though they may need some (at times, considerable) help outlining the details of that better life.²⁹ It cannot be overemphasized that this is a *strengths-based theory*, assuming that everyone who seeks help *already possesses* at least the minimal skills necessary to create solutions.²⁶ Applying SFA, case managers partner with clients to find individualized solutions to their financial challenges acting as solution-seekers rather than traditional problem-solvers. Case managers walk with the client, never ahead, as together they find the path to financial well-being for the client family.

All therapy (the process of meeting with an expert to resolve problematic behaviors, beliefs, feelings, or issues³⁰) is a form of specialized conversations. Finances are so personal that many families do not introduce the subject with their children even though most financial experts agree they should.³¹ Furthermore, due to perceived stigma and taboo, service members, veterans and their families seek much of their behavioral change support from community-based providers such as STEP rather than within the military systems where they

work.³² SFA is effective because America's military come from a wide-range of backgrounds and social classes; are generally in crisis before they reach out for help; tend to respond well to practical solutions; and bring significant strengths to the table, including the ability to set and achieve goals, strong communication skills, a source of income and a willingness to engage with case managers. STEP's studies show that, whether combined with grants or not, SFA is an equally effective approach to solving financial crises among active duty and veteran service members and their families.

Of those applicants who complete the financial counseling (EFA) program, approximately 50% need a grant in order to preserve a basic need while they work toward their own financial well-being. When this is the case, financial grants are paid directly to the creditor to ensure the continuance of the basic need such as housing, utilities, food or transportation.

In his or her lifetime, a service member may be eligible for a maximum of two financial grants from STEP. This, too, is part of the intervention. With the goal of financial self-sufficiency and well-being, it would be unwise for STEP to encourage dependency upon regular financial grants to support a lifestyle beyond the applicant's capability to sustain.

Actions

STEP's EFA intervention process incorporates the theoretical foundations of Crisis Theory, Solution Focused Approach as well as basic financial skills building and, when necessary, grants. Starting with the application process, each interaction with a client is structured to build relationships and identify strengths and goals (including identifying potential barriers and setting measurable benchmarks). Next, a case manager (usually a social worker trained in financial counseling) makes first direct contact with the client to continue building relationship while reviewing the client's current financial state. During the financial counseling process, case managers actively listen, look for past successes, and ask future-oriented questions. By the end of the intervention, clients have discovered 1-3 manageable goals, developed a realistic plan for achieving them, and designed a monthly positive-cashflow budget. Throughout this general process each component is tailored to each client's unique situation.

Case managers actively work to build the trust foundation required for a strong therapeutic relationship with active duty service members and veterans. As previously discussed, military culture, the cycle of poverty and victimization by predatory lenders can lead to wariness of new relationships. As service members and veterans learn that STEP is interested only in building their financial futures, clients begin to trust the organization and staff and begin to work toward their financial future.

Evidence

Approximately half of STEP applicants who complete the EFA program do so with financial counseling only, meaning they do not receive a financial grant. Together with their case manager, they identify their own financial goals, supports and resources and construct a framework for achieving these goals. The other half of applicants qualify to receive a grant in addition to financial counseling.

STEP's program is effective at changing financial behaviors, with 92% of clients not returning for a second grant under the EFA program, though they are aware they may qualify to receive one.

The EFA program continues with follow up calls to the participants at 30, 60, and 90 days post-intervention. During these calls, case managers check in with applicants regarding the progress towards goals set during the primary intervention and collaboratively assess goal changes or adjustments based on new information.

A substantial 59% of those who complete the EFA financial counseling program engage in follow up. Of those, 88% report being on track with one or more of the goals they set during the initial intervention. Some clients choose to maintain contact with their case managers for much longer, identifying accountability as a key to their motivation and success. The trust built during the intervention and follow up can also lead to clients asking for additional assistance identifying new goals once initial goals have been accomplished.

The Consumer Financial Protection Bureau's Financial Well-Being scale is completed during the application phase of the intervention and repeated at each of the follow up contacts. Following a rigorous research effort to develop a consumer-driven definition of financial well-being, the CFPB developed and tested this set of questions (this "scale") to measure financial well-being.³³ Case managers re-administer the survey at each follow up call. Follow up results show that approximately 82% have increased Financial Well-Being.

Conclusion

The financial crisis among active duty service members and recent veterans must be resolved to ensure a stronger, more prepared military force and veteran and civilian community. By providing a multi-disciplinary financial intervention, one which combines behavioral change tools with the dissemination of concrete, individualized financial knowledge, STEP effectively resolves the immediate causes of this crisis, bringing about the long-term resolution to the problem. STEP's EFA program is replicable and scalable to meet the growing need for financial knowledge, skills and behaviors among active duty, veterans, and their families.

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