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How to Improve the Financial Well-Being of Military Members and their Families: A Data-Driven Approach

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Abstract

America's military strength is its all-volunteer force. This volunteer force guarantees the will and commitment of military members to defend the US Constitution. However, the stability and readiness of the US volunteer force are jeopardized by individual and familial financial stressors, such as mounting debt, high interest rates, fees, and penalties. These stressors can lead to divorce, alcohol abuse, and family maltreatment: factors which undermine force readiness and stability. Consequently, Congress should mandate, and the Department of Defense (DoD) must implement, a data-driven longitudinal study using new credit bureau and Thrift Savings Plan (TSP) data to measure and monitor the financial well-being of military members and their families. This study should also evaluate the effectiveness of the DoD Financial Readiness Program to identify improved strategies for enhancing the financial well-being of military personnel and their families, thereby increasing military readiness. A five-factor model, encompassing credit access, income, spending, debts, and assets, may be beneficial for measuring and monitoring financial wellness. Employer-sponsored financial wellness programs are commonplace today and offer employers a positive return on investment. In fact, if comparable financial wellness programs were adopted, the US Government could save over \$52 billion annually while simultaneously increasing military readiness and personnel retention.

Dedication

This paper is dedicated to the long line of US military members who fought to advance freedom and democracy around the world.

You fulfilled your oath. You will never be forgotten.

We will continue to spread the spirit of service. We will turn pain into purpose.

Table of Contents

<i>Introduction</i>	9
<i>Problem Statement</i>	9
<i>Background</i>	9
<i>Problem Research: A Web of Instability</i>	10
<i>Hypotheses</i>	12
<i>Methodology</i>	13
<i>Definitions</i>	13
<i>Analysis</i>	16
<i>Analysis: Five Factors which Measure and Monitor Financial Well-Being</i>	18
<i>Findings: Risk Factors and Vulnerable Groups</i>	38
<i>Findings: Data Aggregation, Scoring, and “Push” Programming</i>	41
<i>Funding: Potential Savings for the US Government</i>	45
<i>Proposed Well-Being Scores</i>	47
<i>Executive Dashboards and Reporting</i>	50
<i>Catalyst for Change: e-Coaching</i>	51
<i>Conclusion</i>	53
<i>Bibliography</i>	54

Appendices

<i>An Illustrative Example of Desired Outcomes</i>	59
<i>Financial Force Protection: Why Commanders Should Pay More Attention</i>	60
<i>Data Aggregation for Scoring and Scorecards</i>	61
<i>DoD Financial Literacy Training and Learning Map</i>	62
<i>Anticipated Savings Form Offering a Salary-Based Loan Program</i>	63

Preface

In today's complex financial landscape, managing money can be overwhelming for anyone. However, for military members, the stakes are even higher. They deploy globally and routinely risk their lives to protect our way of life, and as a society, we owe them more than just the expression “Thank You for Your Service”. We must invest in them early in their careers by providing them with the knowledge, capability, and motivation to achieve financial well-being and long-term stability. Mismanaging military paychecks can have dire consequences, including financial stress, instability, insecurity, and devastating outcomes, including divorce, disease, and death. As responsible citizens, our society has a moral obligation to equip our military members with "Do It Yourself" financial management skills and the confidence they need to eventually transition back into civilian life with ease, while avoiding pitfalls such as unemployment, debt, depression, and suicide.



U.S. Navy study from 1997 recommending a longitudinal study

MILITARY FAMILY INSTITUTE
MARYWOOD UNIVERSITY, SCRANTON, PA

Scope and Impact of Personal Financial Management Difficulties of Service Members on the Department of the Navy

Recommendations

The following recommendations are presented for consideration by the Department of the Navy following a review of existing research and data:

- Implement both an effective, proactive Personal Financial Management Program (PFMP) and life cycle model of Personal Financial Management Program curriculum.
- Promote command level involvement to present a standard and integrated Personal Financial Management Program, and fund it at a level consistent with service members' needs.
- Institute standard operating procedures in all commands and shift Command Financial Specialists (CFS) responsibilities from collateral to regular duty.
- Design and implement mandatory financial education training at both enlisted and officer accession points for all service members and their families. Training should occur throughout the career cycle into retirement planning.
- Improve methods of education dissemination and regularly update Command Financial Specialist training manuals. Where possible, manuals should be made available in modular electronic form.
- Command Financial Specialists and Financial Educators (FEs) should be certified in the content of personal financial management through the Association for Financial Counseling and Planning Education. Division Officers should also receive training in personal financial management leadership.
- Develop a Command Financial Specialist tracking system and implement a secondary Navy Enlisted Classification (NEC) designation for CFSs.
- Screen new recruits and deployment candidates for financial health.
- Investigate a salary reduction savings/pension plan.
- Fund mobile training teams to provide Command Financial Specialist training at CONUS and OCONUS sites.
- Develop a Management Information System (MIS) for indicators of service members' difficulties in personal financial management.
- Define proxy variables and implement a mechanism to measure the scope of personal financial management difficulties within regularly scheduled intervals.
- Assess the impact of personal financial management training and suggest recommendations after data comparison from several commands.
- Assess personal financial management difficulties and their possible relationship with other Quality of Life (QoL) issues.
- Conduct a Longitudinal Study to entail
 - • collection of primary data to assess the impact of the Personal Financial Management Program,
 - • tracking and comparison of personal financial management situations of service members before and after training, and
 - • assessment of personal financial management situations at different career points to examine the degree of change of personal financial management problems over time.

August 1997



Photo credit: Department of Defense. "The Challenge and the Promise: Strengthening the Force, Preventing Suicide and Savings Lives. Final Report of the DoD Task Force on the Prevention of Suicide by Members of the Armed Forces." August 2010.



How to Improve the Financial Well-Being of Military Members and their Families: A Data-Driven Approach

This policy prescription recommends data-driven solutions to improve outcomes – specifically, to increase military readiness and personnel retention, improve the financial well-being of military members and their families, and generate over \$52 billion in annual taxpayer savings.

Introduction

This paper recommends data-driven solutions to better measure and monitor the financial well-being of military members and their families. The analysis begins by characterizing the problem, clarifying key terms, and introducing a widely accepted financial well-being model. Subsequently, the paper presents research, analysis, and findings, including a data-driven approach for measuring and monitoring financial well-being. It analyzes a personnel retention case study from Target, Inc., illustrating potential cost savings for the Department of Defense (DoD) if it were to implement the proposed changes. Overall, the recommended solution could increase military readiness and personnel retention, improve the financial well-being of military members and their families, and generate \$52 billion in annual savings.

Problem Statement

The DoD lacks methods to effectively measure and monitor the financial well-being of military members and their families. Such metrics are needed to increase transparency with the public, to deliver program resources at the place and time of need, and to preserve the financial readiness and resilience of our all-volunteer force.

Background

The US military is one of the world's largest and most complex organizations. In total, the DoD has nearly 5,592,269 military members, spouses, and employees under its purview – 1,335,848 Active Duty members; 1,551,972 Active Duty family members; 800,000 Select Reserve members; 1,015,386 Select Reserve family members; and 889,063 civilian employees.¹ The US Active Duty and Select Reserve military force alone comprises 2,129,656 people – 1,756,989 enlisted personnel and

¹ US Government – Defense Manpower Data Center. Accessed April 1, 2023. <https://dwp.dmdc.osd.mil/dwp/app/dod-data-reports/workforce-reports>

372,667 officers.² Among Active Duty and Select Reserve members with children, having two children is the average.³ The US military force is relatively young – 40.2% are 25 years of age or younger. In educational terms, 63.4% have a high school diploma or equivalent or some college as their highest level of education.⁴ A typical first-contract military member is approximately age 22, and most military members serve only one contract, typically lasting about 3.5 years. Therefore, nearly 200,000 military members transition back into civilian life each year. In 2021, 49.4% of DoD separations were voluntary, 26.8% were involuntary, and 23.5% were retirements.⁵ Management of such a large, complex, global organization like the DoD is a challenge by any measure.

Problem Research: A Web of Instability

Financial stress is a pervasive issue in the US military that creates a web of instability surrounding it. Financial stress can be conceptualized in multiple ways and affect service members' health and behavior. Financial stress is the largest military-family issue.⁶ In fact, 9 out of 10 active service members are worried about finances.⁷ Financial stress in the household is also a significant issue that affects military members and their families. Mandatory relocations, spousal unemployment, family conflicts, alcohol abuse, family maltreatment, food insecurity, divorce, home foreclosure or eviction, bankruptcy, and suicide are indirect and direct factors associated with financial stress.⁸ In a typical year, at least 1% of Active Duty personnel, or approximately 13,358 military members, will file for bankruptcy, despite having a guaranteed income, being provided free living essentials, and having relatively good health.⁹ While the DoD has limited data on bankruptcies among those on active duty, credit bureaus provide such data. New data-driven research by DoD is needed since the interplay

² US Government – Department of Defense. “2021 Demographics – Profile of the Military Community.” <https://download.militaryonesource.mil/12038/MOS/Reports/2021-demographics-report.pdf>

³ US Government – Department of Defense. “2021 Demographics – Profile of the Military Community.” <https://download.militaryonesource.mil/12038/MOS/Reports/2021-demographics-report.pdf>

⁴ US Government – Department of Defense. “2021 Demographics – Profile of the Military Community.” <https://download.militaryonesource.mil/12038/MOS/Reports/2021-demographics-report.pdf>

⁵ US Government – Department of Defense. “2021 Demographics – Profile of the Military Community.” <https://download.militaryonesource.mil/12038/MOS/Reports/2021-demographics-report.pdf>

⁶ Frank, David. “Military families feel a lack of financial stability.” February 2019. <https://www.aarp.org/home-family/voices/veterans/info-2019/survey-family-stress.html>.

⁷ Epperson, Sharon. “Military families say this is their top concern.” CNBC. May 2019. <https://www.cnbc.com/2019/05/24/for-military-families-financial-concerns-outweigh-deployment-issues.html>.

⁸ US Government – Uniform Services University. Ursano, Robert J.; Fullerton, Carol S.; and Dichtel, Mary Lee. 2016. “Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms and Targets for Intervention.” <https://apps.dtic.mil/sti/pdfs/AD1004960.pdf>

⁹ US Government – Department of Defense. Defense Manpower Data Center Report No. 2000-008. “Overview of the 1999 Survey of Active Duty Personnel.” February 2001. <https://apps.dtic.mil/sti/pdfs/ADA386287.pdf>

of financial stressors can create many hazards, increasing vulnerability to suicide.¹⁰ Figure 1 below is a conceptual, visual depiction of the complex “web of instability” and related causes.



Figure 1: Visual depiction of the complex “web of instability”

Financial stress among Active Duty military members

Financial stress remains a significant concern among Active Duty military members. The official DoD 2020 Status of Forces Survey (SOFS) reveals that 8% of military members had borrowed money from friends or family to pay bills, while 6% missed credit card payments, paid multiple overdraft fees, or withdrew funds from retirement accounts to cover living expenses. Additionally, 4% had debts referred to collection, 3% missed car payments, and 2% missed mortgage or rent payments, bounced two or more checks, or had their telephone or internet service cut off. Fewer than 1% of military members had utilities shut off, experienced car repossession, suffered personnel or security clearance issues due to financial conditions, or filed for bankruptcy.¹¹ It should be noted however that the SOFS is unreliable – the optional survey relies on self-reported information, and employer-based surveys suffer from innate biases, including response, overconfidence, and artificiality.¹² After all,

¹⁰ US Government – Department of Defense. Defense Suicide Prevention Office. "CY 2020 Annual Suicide Report." 2021. Page 22. <https://www.dsppo.mil/asr/>

¹¹ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

¹² Author comment: SOFS is published two years in arrears. The response rate is low (~12%). Respondents who are struggling financially are unlikely to report their problems to DoD officials in a personally identifiable survey. Respondents are unlikely to complete the survey truthfully as evidenced by contradictory answers to survey questions.

only 12% of the target population completed the survey despite countless letters and emails and a long data collection period.¹³ “Financial strugglers” are less likely to respond or to respond honestly.

Financial stress in the household

Financial stress remains a significant challenge for military families, with 90% of active service members expressing concerns about their financial situation.¹⁴ Financial stress impacts individual mental and behavioral health as well as professional and familial functionality.¹⁵ The 2020 SOFS reveals that at least 25% of Active Duty military members have faced financial challenges within the past 12 months, such as providing unplanned financial support to a family member who does not live with them or having relationship problems with a partner due to finances. Junior enlisted members were more likely to rely on borrowing from family or friends.¹⁶ Based on the Military Family Advisory Network’s (MFAN, a 501 (c)(3) organization) 2021 programming survey, 75.8% of respondents carry debt, with mortgage debt, credit card debt, auto loans, and student loans causing the highest stress levels. In general, 80.7% of respondents experienced financial stress, which led to mental health problems, trouble paying bills, relationship issues, arguments over finances, and the inability to support children financially. Overall, 26.2% reported experiencing high degrees of stress.¹⁷

Hypotheses

This research aims to answer three inquiries:

1. What methods can the DoD use to measure and monitor military members' financial well-being?

Hypothesis: Compiling data from various sources and using a new five-factor model can yield an accurate measure of financial well-being.

2. What methods can the DoD use to measurably improve financial well-being?

¹³ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. Page 5. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

¹⁴ Frank, David. “Military families feel a lack of financial stability.” February 2019. <https://www.aarp.org/home-family/voices/veterans/info-2019/survey-family-stress.html>; and Epperson, Sharon. “Military families say this is their top concern.” May 2019. <https://www.cnbc.com/2019/05/24/for-military-families-financial-concerns-outweigh-deployment-issues.html>.

¹⁵ US Government – Uniformed Services University of the Health Sciences. Forum on Health and National Security – “Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms, and Targets for Intervention Stress, Resilience, and Well-Being.” Preface. 2016. <https://apps.dtic.mil/sti/pdfs/AD1004962.pdf>

¹⁶ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

¹⁷ Military Family Advisory Network. “Military Family Support Programming Survey.” 2021. <https://www.mfan.org/wp-content/uploads/2022/07/MFAN-Programming-Survey-Results.pdf>

Hypothesis: A monthly analysis of data and the utilization of an automated system can push programming resources to individuals and improve their net worth over a 12-month period.

3. Which solutions could yield a significant return on investment?

Hypothesis: Improving financial well-being can boost military readiness and personnel retention and save taxpayers billions of dollars.

Methodology

This research used mixed methods, including a literature review, comparative analysis, and expert interviews, with a focus on relevant literature and studies from the past 20 years. The analysis included quantitative and qualitative information from the DoD Office of People Analytics, the DoD Office of Financial Readiness, the FINRA Foundation, and the Military Family Advisory Network. Though requests for secondary data were unsuccessful, statistics were gathered from credit bureau research, the Thrift Savings Plan, and the Consumer Financial Protection Bureau (CFPB). Additional consultations were made with the Defense Finance Accounting Service (DFAS), the Army's Office of Economic and Manpower Analysis (OEMA), the Congressional Research Service (CRS), the Uniformed Services University of the Health Sciences, the USAA Foundation, and RAND.

Definitions

Financial Stress. The DoD's Uniformed Services University explains that financial stress can manifest in different ways. It can be based on the actual amount of financial stress, the perception of financial stress, or a comparison to others, and each can affect the health and behavior of military members. Financial stress can also be described as financial hardship due to a lack of resources or cash flow problems. Younger military members often experience debt and others eligible for financial support programs (such as school lunches or the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)) may not access this support and face other types of financial stress. This type of stress can lead to poor nutrition and reduced health-related activities. Mortgage debt, foreclosure, unexpected costs, and being "in over our heads" are aspects of financial stress that usually occur later in a military member's career and are often associated with family conflict.¹⁸

¹⁸ US Government – Uniformed Services University of the Health Sciences. Forum on Health and National Security – "Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms, and Targets for Intervention Stress, Resilience, and Well-Being." 2016. <https://apps.dtic.mil/sti/pdfs/AD1004962.pdf>

Financial Readiness. The DoD defines financial readiness as “the state in which successful management of personal financial responsibilities supports service members' ability to perform their wartime duties”.¹⁹

Financial Well-Being. The CFPB defines financial well-being as “a state of being 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”.²⁰

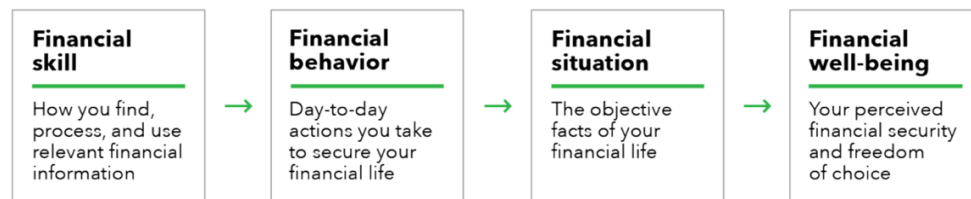


Figure 2: The CFPB's Model of Capability Factors and Financial Well-Being

The DoD Financial Readiness Office utilizes the CFPB's financial well-being concept and score. The CFPB's financial well-being concept focuses on capability-based factors such as financial skill, financial behavior, financial situation, and financial well-being, as defined in Figure 2.²¹ The well-being score includes having control over finances, a financial cushion, goals, and freedom of choice enabling the enjoyment of life. According to the CFPB, "another way to think about this is that financial well-being implies having financial security and financial freedom of choice, in the present and in the future".²² Convincing military members to invest for retirement can be a challenge. Most newly enlisted military members are aged 22; however, the human brain is not fully developed until age 25, and the prefrontal cortex is responsible for long-term goals and complex cost-benefit calculations.²³

¹⁹ US Government – Department of Defense. Department of Defense Instruction 1322.34. "Financial Readiness of Service Members." November 5, 2021. Page 41. <https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/132234p.PDF>

²⁰ US Government – Consumer Financial Protection Bureau. "Financial well-being in America." September 2017. https://files.consumerfinance.gov/f/documents/201709_cfpb_financial-well-being-in-America.pdf

²¹ US Government – Consumer Financial Protection Bureau. Research Brief – "Pathways to financial well-being: The role of financial capability." September 2018. Page 4. https://files.consumerfinance.gov/f/documents/bcfp_financial-well-being_pathways-role-financial-capability_research-brief.pdf

²² US Government – Consumer Financial Protection Bureau. "Measuring financial well-being – A guide to using the CFPB Financial Well-Being Scale." December 2015. https://files.consumerfinance.gov/f/201512_cfpb_financial-well-being-user-guide-scale.pdf

²³ Quevlog, Omen D. "Financial Coaching in the Corps: Reducing the Financial Stress of Junior Marines." Thesis paper submitted to USMC Command and Staff College, Marine Corps University. April 2021. Page 6. <https://apps.dtic.mil/sti/trecms/pdf/AD1178155.pdf>

Measuring financial well-being

Although there are personal financial wellness theories, there is no standardized definition or measurement, according to the CFPB.²⁴ Financial wellness involves a multidimensional assessment of financial satisfaction, objective status, attitudes, and behavior. Some research on financial well-being frameworks emphasizes the importance of individual characteristics like gender, income, and financial status.²⁵ Other research emphasizes financial stress as a disruptor of financial well-being. For example, Jing Jian Xiao, Ph.D., presents objective and subjective indicators for the measurement of financial well-being, as shown in Figure 3 below. Other researchers have applied structural equation modeling methods to provide empirical evidence for their proposed framework by identifying significant direct and indirect determinants of financial well-being.²⁶ Among this research, three factors often surface: knowledge, capability (means), and motivation. Furthermore, financial stress can prevent or disrupt well-being.

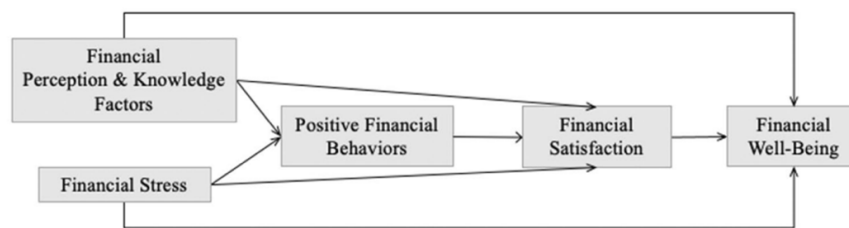


Figure 3: Jing Jian Xiao's conceptual framework of financial well-being

The DoD Financial Readiness Office uses feedback forums, credit score analysis, and bank-provided information to evaluate military members' financial well-being, with the SOFS being a public measure that includes the CFPB's Financial Well-Being Scale. This scale ranges from 0 to 100 and assesses financial satisfaction based on 5 or 10 questions, with scores of 50 or below indicating an increased likelihood of experiencing material hardship. Notably, the DoD only asked two of these questions in the SOFS, although the CFPB recommends the 10-question version. In 2020, the average

²⁴ US Government – Consumer Financial Protection Bureau. "Measuring financial well-being – A guide to using the CFPB Financial Well-Being Scale." December 2015. https://files.consumerfinance.gov/f/201512_cfpb_financial-well-being-user-guide-scale.pdf

²⁵ Abdullah, Nuraini; Sabri, Mohamad Fazli; and Mastura Muhammad Arif. Social Sciences & Humanities: *The Relationship between Attitude towards Money, Financial Literacy and Debt Management with Young Worker's Financial Well-being*. Pertanika Journal of Social Science and Humanities (2019).

https://www.researchgate.net/publication/332223678_SOCIAL_SCIENCES_HUMANITIES_The_Relationship_between_Attitude_towards_Money_Financial_Literacy_and_Debt_Management_with_Young_Worker's_Financial_Well-being

²⁶ Fan, Lu.; and Henager, Robin. *A Structural Determinants Framework for Financial Well-Being*. Journal of Family and Economic Issues. Issue 43, 415-428 (2022). <https://doi.org/10.1007/s10834-021-09798-w>

score for Active and Reserve military members was 61, with lower scores among junior and senior enlisted members. However, the CFPB cautions that their scale is not a substitute for objective financial indicators or direct measures of specific program goals. Overall, 24% of Active and 21% of Reserve military members had scores of 50 or below in 2020, with junior enlisted members having the highest proportion of low scores (29%).²⁷ While the CFPB's scale is useful for evaluating financial satisfaction, it should be used in conjunction with other direct measures to achieve program goals.

CFPB's "five pillars" of financial well-being

The CFPB's "Five Pillars" are utilized to monitor and measure the financial well-being of consumers. They include control over day-to-day finances, capacity to handle financial shocks, financial freedom to make choices, being on-track to meet financial goals, and feeling financially secure. By assessing these factors, individuals and organizations can better address financial needs and promote financial well-being.²⁸ The CFPB also provides examples of what works, including financial coaching, peer support, and the use of reminders, nudges, and other ongoing support.

Analysis

Throughout the military journey, the DoD offers "Just in time education" at various professional and personal points to help military members make informed financial decisions. Early decisions, especially within the first 6-12 months of service, are especially critical. These may include choosing a bank account or credit card, financing a vehicle purchase, deciding whether to invest in the Thrift Savings Plan and to what amount, and selecting life insurance options. For a visual overview of the military journey and corresponding DoD financial literacy training, refer to Appendix 4.

Effective employer financial wellness programs

An effective employer financial wellness program helps employees achieve financial stability and reduce financial stress. Key hallmarks include a holistic approach addressing both immediate concerns and long-term goals; customization to meet individual needs; financial education and training; incentives and rewards; partnership with financial professionals; confidentiality; and ongoing

²⁷ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. Page 13. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

²⁸ US Government – Consumer Financial Protection Bureau. "Effective financial education: Five principles and how to use them." June 2017. https://files.consumerfinance.gov/f/documents/201706_cfpb_five-principles-financial-well-being.pdf

evaluation.²⁹ The holistic approach addresses immediate financial concerns, such as debt management and budgeting, as well as long-term goals, such as saving for retirement and building emergency savings. Customization considers financial goals, current financial situation, and personal circumstances. Incentives and rewards motivate and engage employees to achieve specific financial goals, promoting a long-term change in their financial behavior. Financial wellness programs can partner with financial professionals (such as advisors) to provide additional resources and support. Confidentiality ensures employees feel comfortable seeking support without fear of judgment. Periodic evaluations ensure that the program meets changing needs and remains effective.³⁰

Root cause framework

Lieutenant Colonel Sam Cook, author of “Financial Instability: Suicide’s Weapon of Choice”, suggests using the Army Inspector General’s Root Cause Analysis Model to address financial instability in the military. As depicted in Figure 4, the model categorizes root causes into three groups: lack of knowledge; lack of capability; and lack of motivation.³¹ This approach is consistent with conceptional financial well-being models and USAA’s approach to financial readiness, which emphasizes education, capability, and motivation.³² With these three root causes in mind, the DoD could design and run 100 parallel experiments across its Active Duty population of 1,335,848 military members with the aim of increasing net worth over 12 months.

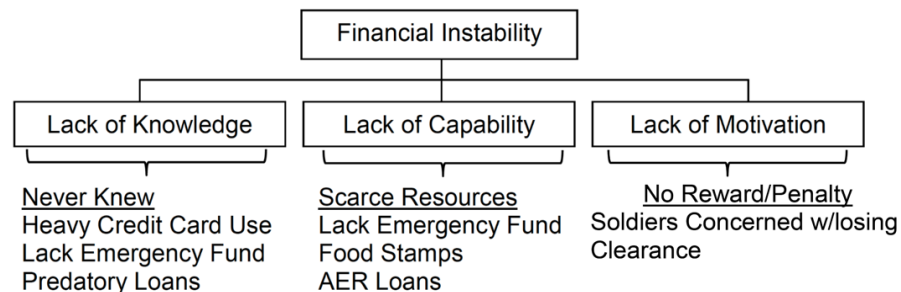


Figure 4: Lieutenant Colonel Cook’s proposed root cause analysis of financial instability

²⁹ Output from ChatGPT from Open AI when asked: “What are the characteristics of an effective employer financial wellness program?” Author note: sources were not discoverable using Google searches.

³⁰ Output from ChatGPT from Open AI when asked: “What are the characteristics of an effective employer financial wellness program?” Author note: sources were not discoverable using Google searches.

³¹ Cook, Samuel R. *Financial Instability – Suicide’s Weapon of Choice*. Army War College – Strategy Research Project. 2013. <https://apps.dtic.mil/sti/citations/ADA589131>

³² Grindall, Sean. “Financial Readiness – CNA Financial Literacy Workshop.” USAA. March 2016. https://www.cna.org/archive/CNA_Files/pdf/presentation-grindall.pdf

Financial goals of military members

The goals of the DoD should align with the existing goals and motivations of the all-volunteer force. The goals include saving for retirement (87%), building an emergency fund (83%), and being free of debt except for a mortgage (78%). According to the DoD's 2020 survey, a significant number of service members with children also identified saving for their children's education as a financial goal (76%). Junior enlisted members were more likely to prioritize saving for a major purchase (82%) or buying a home (77%). However, following a budget or spending plan remains the least common financial management activity among military members.³³

Overall, the goals of military members are complementary with DoD goals and support the readiness and resilience of the force.³⁴ The most recent SOFS indicated military members who experienced a financial management challenge in the previous 12 months were more likely to indicate they were unlikely to remain on Active Duty. This reflects a potential relationship between personal finances and personnel retention.³⁵ Military members desire the financial freedom to adventure without having to worry about their futures. The DoD desires a force that is financially savvy, secure, and resilient. Overall, these aims are complementary. To further these ideas, an illustrative roadmap of desired outcomes and evidence-informed strategies is provided in Appendix 1.

Analysis: Five Factors which Measure and Monitor Financial Well-Being

To measure and monitor the financial well-being of military members and their families, it is necessary to analyze five factors: their credit; income; spending; debt; and assets. These areas are significant components of the CFPB report "Making Ends Meet in 2022". The Certified Financial Planner (CFP) curriculum suggests using an inductive approach to create a basic formula for the creation and maintenance of stable personal finances, including total monthly income (paycheck(s) plus additional income); total expenses (debt payments plus spending activity); total debt; total assets;

³³ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

³⁴ US Government – Consumer Financial Protection Bureau. "Measuring financial well-being – A guide to using the CFPB Financial Well-Being Scale." December 2015. https://files.consumerfinance.gov/f/201512_cfpb_financial-well-being-user-guide-scale.pdf

³⁵ US Government – Department of Defense. "Report on the Military Lending Act and the Effects of High Interest Rates on Readiness." May 2021. Page 15. https://finred.usalearning.gov/assets/downloads/FINRED-MLA_ReportEffectsHighInterestRatesOnReadiness-May2021.pdf

and net worth (assets minus liabilities).³⁶ This approach breaks down personal finance into five areas for individual and composite analysis, which can provide valuable insights when shown on a monthly, yearly, and multi-year timeline.

Costs to the Department of Defense

In 1997, a US Navy study conservatively estimated that if 10% of the force experienced financial difficulties, it would cost \$172 million in lost work time.³⁷ The study also recommended a longitudinal study of personal financial management. Since 1997, military pay has outpaced inflation historically, so the military financial readiness may not be an issue of capacity, rather a problem of knowledge and motivation. Few states require high school students to take a course in personal finance. To fill this gap and fulfill financial literacy training required by Section 992(d) of Title 10, U.S.C., the DoD awarded a five-year \$422.6 million contract in 2019.³⁸ The Military Services employ approximately 400 on-base Personal Financial Managers, and the DoD Office of Financial Readiness provides additional support through a flexible support network of 3,000 Personal Financial Counselors.³⁹ However, the DoD-provided contractors are typically paid by headcount, not results. Not surprisingly, the contract administration focuses on attendance sign-in sheets and outreach efforts, and not a before/after assessment to demonstrate competency-based learning and related outcomes.⁴⁰

Factor 1: Credit

Credit is defined as borrowing money, having the right to borrow money, or buying something as defined by the CFPB. Often it means a consumer is using a credit card, but it can also refer to a loan.⁴¹

³⁶ Wohlner, Roger. "What Does Your Advisor's Designation Mean?" Investopedia. November 2022.

<https://www.investopedia.com/managing-wealth/what-does-your-advisors-designation-mean/>

³⁷ Luther, Raminder K.; Garman, E. T.; Leech, Irene E.; Griffith, Larry; and Gilroy, Timothy. *Scope and Impact of Personal Financial Management Difficulties of Service Members on the Department of the Navy*. August 1997.

<https://apps.dtic.mil/sti/citations/ADA329375>

³⁸ Duebner, Brendan. *A Military Solution to a Military Problem Personal Finance Issues in the United States Armed Forces*. Army University Press. January 2020. <https://www.armyupress.army.mil/Portals/7/military-review/Archives/English/Online-Exclusive/2022/Duebner/Duebner-v1.pdf>

³⁹ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. Page 18. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁴⁰ Duebner, Brendan. *A Military Solution to a Military Problem Personal Finance Issues in the United States Armed Forces*. Army University Press. January 2020. <https://www.armyupress.army.mil/Portals/7/military-review/Archives/English/Online-Exclusive/2022/Duebner/Duebner-v1.pdf>

⁴¹ US Government - Consumer Financial Protection Bureau. "Financial terms glossary."

<https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/glossary/>

Baseline metrics:

- The CFPB's July 2020 study found that nearly 50% of military members have "bad credit", including no credit score, subprime credit, or deep subprime credit.⁴²
- Having the worst financial well-being and highest risk of suicide, young and junior enlisted personnel were significantly more likely *not* to use credit cards (26% Active Duty, 31% Reserve Component).⁴³ They may have low credit scores, no credit report, or insufficient information to generate a score and are therefore lacking credit access.
- According to the DoD, 20% of military members indicated they would have difficulty managing their finances if they did not have access to a credit card.⁴⁴
- During a recent DoD survey, 60% of service members said they had to look outside of traditional institutions to find alternative, non-traditional lenders to meet their needs, and looking forward, 41% say they would anticipate having trouble finding an adequate loan option in the event of an emergency or unexpected expense.⁴⁵
- Within the past 12 months, a considerable number of military members relied on alternative solutions outside of traditional banks, including online loans (3% of Active Duty and Reserve); vehicle title loans (4% Active; 2% Reserve); direct deposit advance loans (2% Active; 1% Reserve); and payday and pawn loans (1%).⁴⁶ Notably, the DoD survey did not include rent-to-own shops or tax refund offerings as selection options.⁴⁷

⁴² US Government – Consumer Financial Protection Bureau. "Financially Fit? Comparing the credit records of young servicemembers and civilians." July 2020. <https://www.consumerfinance.gov/data-research/research-reports/financially-fit-comparing-credit-records-young-servicemembers-civilians/>

⁴³ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf; and US Government – Department of Defense, Defense Suicide Prevention Office. "CY 2020 Annual Suicide Report." 2020. Page 7. <https://www.dspo.mil/asr/>

⁴⁴ US Government – Department of Defense. Survey – "DoD 2013 Quick Compass of Financial Issues." Defense Manpower Data Center. December 2013. <https://www.opa.mil/research-analysis/quality-of-work-life/career-factors/2013-quickcompass-of-financial-issues/>

⁴⁵ The National Foundation for Credit Counseling (NFCC). Prepared by Harris Poll. "A Survey about Financial Literacy Among the US Military." April 2014. https://www.nfcc.org/wp-content/uploads/2019/05/NFCC_Pioneer_Military_Survey_DATASHEET_and_KEY_FINDINGS_0517141.pdf

⁴⁶ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁴⁷ Skimmyhorn, William. Insights – Financial Capability. "The Financial Welfare of Military Households." FINRA Foundation. November 2014. Page 18. https://www.finrafoundation.org/sites/finrafoundation/files/p601704_1_0_0_0_0.pdf

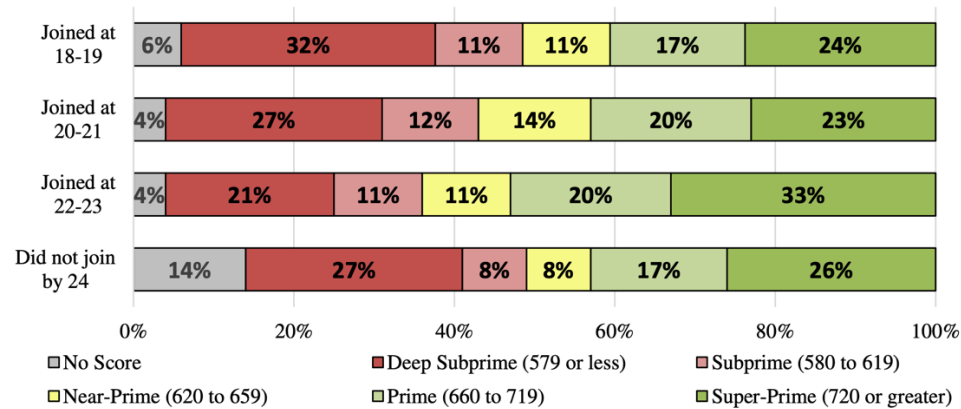


Figure 5: Credit scores of military members at age 24 – most are below prime.⁴⁸

Credit data acquisition and analysis

Valuable credit-related data is available to the DoD for programmatic analysis and to create an “early warning system” for financial stress. The Defense Manpower Data Center (DMDC) allows all Active Duty military members and their families to be identified for free through all three major credit bureaus. Credit bureaus can provide the DoD with military members’ credit scores, lender names, and amounts owed, as well as derogatory information like unpaid bills, late payments, bankruptcy, and a low estimated household income. Research conducted at the Army’s Office of Economic and Manpower Analysis (OEMA) is cutting-edge. In most cases, the DoD already monitors the credit scores of military members for security clearances, and some military services, such as the Army, store credit bureau data for a myriad of analytical purposes. However, despite the public's interest in the financial well-being of military members and their families, financial indicators are not publicly available.

Earned wage access programs: an equivalent to a 0% APR loan

To provide credit access on fair terms, particularly for those without emergency savings or a credit report or score, solutions like “Earned Wage Access” programs may be helpful. The concept of “financial fragility” can account for liquidity.⁴⁹ The DoD’s SOFS indicated that 17% of Active Duty and 22% of Reserve Component junior enlisted personnel have no emergency savings, which could be

⁴⁸ US Government – Consumer Financial Protection Bureau. “Financially Fit? Comparing the credit records of young servicemembers and civilians.” July 2020. <https://www.consumerfinance.gov/data-research/research-reports/financially-fit-comparing-credit-records-young-servicemembers-civilians/>

⁴⁹ US Government – Uniformed Services University of the Health Sciences. Forum on Health and National Security – “Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms, and Targets for Intervention Stress, Resilience, and Well-Being.” 2016. Page 39. <https://apps.dtic.mil/sti/pdfs/AD1004962.pdf>

a real problem if an unexpected car repair or last-minute plane ticket is needed. Additionally, at least 4% of military members lack a credit score, forcing them to resort to unfavorable borrowing terms, such as a 20% APR “auto title loan” or a 36% APR “ATM cash advance”. Earned Wage Access solutions can enable employees to access future paychecks without an office visit or budget review at a military financial relief society. The solution is convenient and accessible, much like online loans, payday lenders, and cash advances from credit cards. "Earned Wage Access" solutions are typically provided through employer programs and mobile applications while offering confidentiality and 24/7 access.

The importance of a positive credit profile

Maintaining a credit score above 720 is crucial for achieving financial goals and navigating transitions, but military service members face unique challenges with lower credit scores and higher delinquency and default rates on loans than civilians.⁵⁰ Not having a FICO™ credit score or having a subprime score can be detrimental in the short- and long-term, particularly for financing significant purchases such as homes. Homeownership has historically been the biggest builder of wealth and a sign of financial stability in America.⁵¹ A key reason for this is that it acts as a long-term, forced savings account. However, homeownership requires credit access. To build up credit, military members can open a few credit accounts early, keep their credit utilization under 30%, and regularly pay off their balances.

Credit builder products as an employee benefit

To ensure that every military member has a prime credit score within 12 months of service, the Department of Defense should offer a credit builder product. At the time of entry into the military, most members have little or no credit history, and research shows that credit scores decline throughout the first three years of service.⁵² This may be due to low income and accumulated debt with compound interest. While only 8% of military members have a delinquent, default, or third-party collections account, CFPB research reveals that young, enlisted members often go delinquent on debt or have severe derogatory marks appear on their credit record around the time they leave Active Duty. Delinquency spikes in the two quarters following separation, and then declines (but not to the levels

⁵⁰ US Government – Consumer Financial Protection Bureau. "Debt and delinquency after military service." November 2020. https://files.consumerfinance.gov/f/documents/cfpb_debt-and-delinquency-after-military-service_report_2020-11.pdf

⁵¹ Desmond, Matthew. "How Homeownership Became the Engine of American Inequality." New York Time. May 2017. <https://www.nytimes.com/2017/05/09/magazine/how-homeownership-became-the-engine-of-american-inequality.html>

⁵² US Government – Consumer Financial Protection Bureau. "Debt and delinquency after military service." November 2020. https://files.consumerfinance.gov/f/documents/cfpb_debt-and-delinquency-after-military-service_report_2020-11.pdf

prior to a military member's service). Therefore, a credit builder product is necessary to ensure military members have a prime credit score within a year of joining the military, which will mitigate the risk of delinquency as military members exit their term of service and likely move back home.

To help military members establish a favorable credit profile, the DoD could offer a zero-risk credit builder product like those provided by credit unions. For example, Georgetown University's student-run credit union offers a Credit Builder Loan, which allows consumers to build their credit score safely and securely with little effort. Using a third-party software solution, the DoD could disburse a \$1000 loan in the employee's name and freeze the funds in the employee's account. While the employee cannot touch or modify the funds, the DoD makes monthly payments on the loan on the employee's behalf until it is paid off and reports those payments to the credit agencies each month. Once the loan is paid off, the consumer's typically goes from having no credit score to having a credit score in the 700s, with no risk to either party.⁵³ This approach could benefit both the DoD and the military member, particularly those who lack a credit file or credit score and those who had subprime credit prior to military service. In the face of emergencies or during transition from the military, credit access can be a matter of life or death.

Factor 2: Income

Baseline metrics:

- Spouse income is a major determinant of household income and overall financial well-being. Between 2015 and 2021, spousal unemployment (i.e., seeking work) has remained at about 21% in the military.⁵⁴ This is nearly 200-400% higher than the unemployment rate among the general US population.⁵⁵
- In 2021, Active Duty Spouse Employment was: 44% employed, 12% unemployed (i.e., seeking work), 31% not in the labor force (e.g., raising kids), 14% serving in the Armed Services.⁵⁶

⁵³ Georgetown University Alumni & Student Federal Credit Union. "Credit Builder Program." <https://www.guasfcu.com/credit-builder-partnership>

⁵⁴ US Government – Department of Defense. Office of People Analytics - "Results From the 2021 Survey of Active Duty Spouses." 2022. <https://www.opa.mil/research-analysis/spouse-family/military-spouse-survey-survey-reports-briefings/military-life-during-the-covid-19-pandemic-results-from-the-2021-survey-of-active-duty-spouses/>

⁵⁵ US Government – US Bureau of Labor Statistics. Live chart of the Unemployment Rate (UNRATE), retrieved from FRED, the Federal Reserve Bank of St. Louis. April 2023. <https://fred.stlouisfed.org/series/UNRATE>

⁵⁶ US Government – Department of Defense. Office of People Analytics – "Results From the 2021 Survey of Active Duty Spouses." 2022. <https://www.opa.mil/research-analysis/spouse-family/military-spouse-survey-survey-reports-briefings/military-life-during-the-covid-19-pandemic-results-from-the-2021-survey-of-active-duty-spouses/>

- Spousal participation rates vary, and further research is needed. In 2018, the White House found military spouse labor participation rates were 57% compared to 76% of the general population.⁵⁷
- Median income for enlisted personnel in 2021 was approximately \$36,000 per year, while officers had a median income of approximately \$80,000 per year, according to DoD data.⁵⁸
- Median household income for Active Duty military members was approximately \$60,000 per year in 2020, with the Air Force having the highest median income (at approximately \$75,000 per year) and the Marine Corps having the lowest median income (at approximately \$48,000 per year).⁵⁹
- In 2019, Supplemental Nutrition Assistance Program (SNAP) households included 22,000 Active Duty military members, 213,000 members of the National Guard or reservists, and 1.1 million veterans.⁶⁰
- The percentage of military members who fall under the federal poverty line is currently unknown, although credit bureaus do offer military household income as an available credit attribute.

Income refers to money earned or received through sources such as wages or salaries; tips; commissions; government transfer payments; dividends on investments; tax refunds; gifts; and inheritances, as defined by the CFPB.⁶¹ The Defense Finance and Accounting Service of the DoD has accurate visibility of military members' pay through its payroll service, as well as the military member's Thrift Savings Plan contributions through payroll deductions. According to MFAN, 19% of Active Duty military members have experienced some financial difficulty, with 7% reporting that they were "not comfortable" with their financial condition, indicating that they found it "tough to make ends meet but keeping your head above water" or that they were "in over their head".⁶² According to the SOFS, Navy members (9%), married members with children (9%), junior enlisted (10%), and

⁵⁷ US Government – Executive Office of the President. "Military Spouses in the Labor Market." May 2018.

<https://trumpwhitehouse.archives.gov/wp-content/uploads/2018/05/Military-Spouses-in-the-Labor-Market.pdf>

⁵⁸ US Government – Department of Defense. Defense Manpower Data Center. "2020 Demographics Report." 2020.

<https://download.militaryonesource.mil/12038/MOS/Reports/2020-demographics-report.pdf>

⁵⁹ US Government – Department of Defense. Defense Manpower Data Center. "2020 Demographics Report." 2020.

<https://download.militaryonesource.mil/12038/MOS/Reports/2020-demographics-report.pdf>

⁶⁰ US Government – Department of Agriculture. Food and Nutrition Service webpage (statistic at top of webpage).

Accessed in April 2023. <https://www.fns.usda.gov/military-and-veteran-families>; and US Government – Government Accountability Office. "Military Personnel: DOD Needs More Complete Data on Active-Duty Servicemembers' Use of Food Assistance Programs." July 2016. <https://www.gao.gov/products/gao-16-561>

⁶¹ US Government – Consumer Financial Protection Bureau. "Financial terms glossary"

<https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/glossary/>

⁶² US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022.

https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

single members with children (14%) were among the groups that reported higher rates of "not comfortable" responses.⁶³

Dual income households

Military spousal income is crucial for household financial well-being. According to the DoD's 2021 SOFS report, spousal unemployment was at 21%. In part, this is due to caring for children who are not in daycare or school and/or is related to recent Permanent Change of Station (PCS) moves. This 21% rate is nearly 200-400% higher than the US overall population.⁶⁴ Periodic relocations, unpredictable work hours, rural assignments, and deployments could result in financial losses of nearly \$190,000 over a 20-year career.⁶⁵ In 2022, among married-couple families with children in the general US population, 97.4% had at least one employed parent, and in 65% of these families, both parents were employed.⁶⁶ However, only 58% of military households are dual-income.⁶⁷

Financial capability and the question of fair compensation for military members

Military members are well-paid, according to reports from the Congressional Research Service. However, that may not be the case after considering the many hidden costs of military service, including spousal unemployment; relocation costs; childcare expenses due to deployments; relocations as a barrier to homeownership; and the increased cumulative, aggregate risks of divorce, disability, and combat death. For example, female 100% service-connected veterans have a 22% lower life expectancy than the US general population, while male 100% service-connected veterans have an 11% lower life expectancy.⁶⁸ Many costs of a military career accumulate over decades.

The current DoD process for determining military compensation lacks transparency. Previously, compensation reviews were included in the DoD Quadrennial Defense Review (QDR), a strategic planning document produced every four years based on research, models, and assumptions. However,

⁶³ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁶⁴ US Government – US Bureau of Labor Statistics. Live chart of the Unemployment Rate (UNRATE), retrieved from FRED, the Federal Reserve Bank of St. Louis. April 2023. <https://fred.stlouisfed.org/series/UNRATE>

⁶⁵ US Government – Executive Office of the President. "Military Spouses in the Labor Market." May 2018. <https://trumpwhitehouse.archives.gov/wp-content/uploads/2018/05/Military-Spouses-in-the-Labor-Market.pdf>

⁶⁶ US Government – Bureau of Labor Statistics. "Employment Characteristics of Families Summary." April 2023. <https://www.bls.gov/news.release/famee.nr0.htm>

⁶⁷ US Government – Department of Defense. Office of People Analytics – "Results From the 2021 Survey of Active Duty Spouses" 2022. <https://www.opa.mil/research-analysis/spouse-family/military-spouse-survey-survey-reports-briefings/military-life-during-the-covid-19-pandemic-results-from-the-2021-survey-of-active-duty-spouses/>

⁶⁸ Jobson, Jason D.; and Gentry, Chris. *The Mortality Rate of 100% Service-Connected US Veterans*. Society of Clinical Research Associates, Inc. May 2021. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8961813/>

the QDR has been replaced by the National Defense Strategy (NDS), which is classified and updated every four years to provide guidance for military planning, programs, and budgets. The lack of public access to the benchmark data of military compensation invites criticism and fuels negative news headlines regarding the financial well-being of the US military. Furthermore, US laws from the 1970s prevent military members from joining a union or attempting to unionize. However, these rules were created at a time when the military offered a full pension after 20 years of military service.⁶⁹

Guaranteed employment and predictable promotions

Military careers and related income are unique, as employment is guaranteed, and military members can expect predictable promotions and income increases throughout their career (particularly during their initial years of service), in addition to potential retention bonuses. Enlisted service members can generally expect to receive several promotions and corresponding pay increases within 1-2 years, depending on their job specialty and performance. After starting at the E-1 rank, most service members will be promoted to the E-2 rank after a few months of service, and then to E-3 after 12-18 months of service. Promotions beyond the E-3 rank are more competitive and may require additional training, education, or time in service. However, having a guaranteed job and increasing income can also lead to increased spending.

Factor 3: Spending

Baseline metrics:

- Following a budget or spending plan is the *least common* financial goal among military members.
- Junior enlisted members are more likely to prioritize saving for a major purchase (82%).⁷⁰
- The spending category may need to be inferred or gathered on an opt-in basis since limited spending data is readily available to the DoD.
- Among Active Duty military members who use credit cards, 47% routinely pay the full balance each month, 45% percent pay more than the minimum, but not the full balance, and the remaining 8% reported paying only the minimum amount due.⁷¹

⁶⁹ US Government – US Code: Title 10 – "Code § 976 - Membership in military unions, organizing of military unions, and recognition of military unions prohibited." <https://www.law.cornell.edu/uscode/text/10/976>

⁷⁰ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. Page 5. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁷¹ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

Financial problems may be shaped by spending patterns and management skills rather than income alone.⁷² Spending refers to the use of money to purchase goods or services, as defined by the CFPB.⁷³ For individuals, control of spending is a direct way to manage income and achieve financial goals. According to the SOFS, only a small proportion of military members (2%) say they spend more than their income, which can lead to credit card debt and high-interest loans. While this 2% statistic is lower than the 16% of US adults who spend more than their income, in the same SOFS survey, 53% of Active Duty military members reported they did not pay off their credit card balances each month.⁷⁴ This discrepancy may demonstrate the unreliability of self-reported information and the innate biases of the SOFS, including biases of response, overconfidence, and artificiality.

Spending as a function of the cost of living

Spending controls are critical for military members because many military bases are situated in relatively high-cost areas like Honolulu, San Diego, and Washington, DC. Although the military provides a housing stipend called Basic Allowance for Housing (BAH); based on location, pay grade, and dependency status), there is no Cost-of-Living Allowance (COLA) like the one provided for overseas assignments. While the DoD provides a Basic Allowance for Subsistence (BAS) to offset the cost of food, it is a modest subsidy, and military members must take personal responsibility for managing their spending and avoiding financial difficulties. For example, in 2023 an E-3 with two dependents would receive a monthly BAS of \$422.98/month if stationed in Honolulu, \$402.96/month in Washington, D.C., or \$369.39/month in San Diego. In 2022, Congress authorized a new pay allowance called the Basic Needs Allowance (BNA). This payment is authorized for certain military households with dependents (a spouse, children, etc.) in which “the gross household income of the member during the most recent calendar year did not exceed an amount equal to 130 percent of the Federal poverty guidelines”.⁷⁵ However, the new BNA is set to expire in 2027.

⁷² Buddin, Richard and Phuong Do, D. *Assessing the Personal Financial Problems of Junior Enlisted Personnel*. RAND Corporation, 2002. https://www.rand.org/pubs/monograph_reports/MR1444.html.

⁷³ US Government – Consumer Financial Protection Bureau. “Financial terms glossary” <https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/glossary/>

⁷⁴ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁷⁵ US Government – Congressional Research Service. “Military Families and Financial Readiness.” January 2022. <https://crsreports.congress.gov/product/pdf/R/R46983/4>

An opportunity for “push” programming, behavioral prompts, and interventions

New data-driven insights will lead to new and improved intervention mechanisms to track or reduce spending. Financial well-being and financial stress are dynamic and multidimensional, and therefore we need an interdisciplinary approach to understand them.⁷⁶ Even if financial well-being is achieved, a stressor may disrupt it. Therefore, personalized, timely financial education and behavioral financial techniques can help empower military members to take control of their finances. Credit bureau and public record data can play a role in this process by providing proactive resources and interventions during dire circumstances such as divorce; eviction; food assistance; and bankruptcy. Although credit bureau data is primarily used to monitor credit risk, it can also help identify spending patterns and potential financial stressors. To influence spending behavior, behavioral techniques such as psychological priming; choice architecture; social proof; and rules of thumb can be applied. For instance, sending personalized statistics on the percentage of E-2 personnel who maximize employer matching can motivate individuals to contribute more to the TSP. Similar communications could be used to initiate debt management outreach and related payoff strategies.

Factor 4: Debt

Baseline metrics:

- The majority (78%) of military members aim to be debt-free, except for mortgages.⁷⁷
- Approximately 44% of Active Duty military members had credit card balances exceeding \$5,000, compared with 33% of the general population.⁷⁸ Interest rates typically exceed 20%.⁷⁹

⁷⁶ US Government – Uniformed Services University of the Health Sciences. Forum on Health and National Security – “Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms, and Targets for Intervention Stress, Resilience, and Well-Being.” 2016. <https://apps.dtic.mil/sti/pdfs/AD1004962.pdf>

⁷⁷ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁷⁸ US Government – Consumer Financial Protection Bureau. “Financial Well-Being of Veterans.” Office of Servicemember Affairs. April 2019. https://files.consumerfinance.gov/f/documents/cfpb_osa_financial-well-being-americans_report.pdf

⁷⁹ US Government – Federal Reserve. “Non-Housing Debt Balance – Credit Card” Q4 2022. <https://www.newyorkfed.org/microeconomics/hhdc> and US Government - Consumer Financial Protection Bureau. “The Consumer Credit Card Market.” September 2021. https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2021.pdf

- Nearly 60% of Active Duty military members with a credit card did not pay off their balance each month, and 11% only make the minimum payment due.⁸⁰
- Many misuse credit cards by applying for new ones (28%); transferring credit card balances over to other cards (11%); missing credit card payments (11%); or canceling credit cards (9%).⁸¹
- Military members often need to seek loans outside of traditional financial institutions, with nearly 49% taking out loans in the past year.⁸²
- Compared with civilians, military members were three times more likely to have taken out a payday loan and four times more likely to have taken out an auto title loan.⁸³
- Approximately 1 in 10 military members was desperate for help; 8% of Active Duty members had borrowed money from family or friends; 6% had missed a credit card payment, had to pay multiple overdraft fees, or had taken money out of an investment or retirement fund to pay living expenses; and 4% had a debt referred to collection.⁸⁴
- At one point, among E1-E4 pay grades, 37% had taken a loan from their retirement account, and 16% had taken a hardship withdrawal from their retirement account.⁸⁵
- Increasingly, military members report healthcare debt – a troubling trend since military members are provided free healthcare. Medical billing and collections are inflicting undue stress.⁸⁶

⁸⁰ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁸¹ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. Page 13. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁸² US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. Page 13. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁸³ US Government – Consumer Financial Protection Bureau. “Financial Well-Being of Veterans.” Office of Servicemember Affairs. April 2019. https://files.consumerfinance.gov/f/documents/cfpb_osa_financial-well-being-americans_report.pdf

⁸⁴ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces - Results from the 2020 Status of Forces Survey.” April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

⁸⁵ Skimmyhorn, William. Insights – Financial Capability. “The Financial Welfare of Military Households.” FINRA Foundation. November 2014. Page 16. https://www.finrafoundation.org/sites/finrafoundation/files/p601704_1_0_0_0_0.pdf

⁸⁶ US Government – Consumer Financial Protection Bureau. CFPB Report Highlights Experiences of Military Families with Medical Billing, Credit Reporting, and Debt Collection. June 2022. <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-experiences-of-military-families-with-medical-billing-credit-reporting-and-debt-collection/>

Unpaid debts become a major source of cumulative financial stress or “load”, especially as debts compound. As defined by the CFPB, debt refers to money owed by a consumer to another person or business.⁸⁷ Nevertheless, not all debts are created equal. Good debt is typically incurred for investments with a reasonable expectation of a positive return, such as student loans or homes. Bad debt, on the other hand, is associated with the purchase of assets that lose value over time, such as consumer goods or high-interest loans for vehicles. Credit card debt incurred from the purchase of disposable items is also classified as bad debt. Excessive debts among military members can lead to security clearance problems and even acts of treason against the US Government.

Debt management options

Military members have various options for managing their debt. The Servicemembers Civil Relief Act (SCRA) allows military members to reduce pre-existing debts to a maximum interest rate of 6% APR, which can result in substantial savings. However, for some unknown reason, most military members have not taken advantage of this protection.⁸⁸ Prioritizing repayment, starting with the debt with the highest interest rate, is another option. Additionally, debt consolidation can lower the overall interest rate and simplify payments. Another option to consider is debt settlement, where a lump-sum payment is made in exchange for forgiveness of the remaining balance and certain fees. While this approach can negatively impact credit scores, it may be necessary in certain circumstances. Regardless of the option chosen, military members must understand all their choices and make informed decisions about their debt management.

The Department of Defense as debt collector

According to current policy, the DoD requires military members to fulfill their financial obligations, with failure to do so leading to disciplinary action or claims against them. DoDI 1344.09 (dated February 1, 2022) directs military authorities to assist creditors with legitimate complaints against military members. The rationale behind this policy is clear: nonpayment of debt damages the credit reputation of military members, reduces their readiness, and affects the public image of the DoD.⁸⁹ To enforce the policy, involuntary allotments from military members' paychecks may be established. However, military members are often victims of fraudulent debt claims, as evidenced by

⁸⁷ US Government – Consumer Financial Protection Bureau. “Financial terms glossary.”

<https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/glossary/>

⁸⁸ Military Family Advisory Network. "Military Family Support Programming Survey." 2021. Page 51.

<https://www.mfan.org/wp-content/uploads/2022/07/MFAN-Programming-Survey-Results.pdf>

⁸⁹ US Government – Department of Defense. DoD Instruction 1344.09. February 2022.

<https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/134409p.pdf>

the CFPB complaint database. Furthermore, it is unclear if military commanders are qualified to determine what constitutes a "just financial obligation" or "legitimate debt complaint". Military culture can be overwhelming at times, and historically, financial stress has been a major contributor to suicide among military members. Military superiors and mentors often play a quasi-parental role surrounding personal financial affairs.⁹⁰ In its capacity as an employer, the DoD should therefore *not* assist debt collectors or take disciplinary action against military members for unpaid bills.

Identifying and avoiding debt traps

Many young and financially inexperienced military members who relocate for military training are at risk of falling into debt traps, especially credit card and auto loan debt. Typically, military members take on auto debt around a year after they join, and the fraction of military members with an auto loan continues to rise throughout service.⁹¹ Only 15 of the 50 states provide personal finance classes in high school, leaving many military members poorly equipped to identify and avoid local debt traps, including payday lenders located near base entrances, high-interest "instant" online lenders, or high-interest auto loans (35%, not 5% APR). Only one-third of Americans can correctly answer more than three out of five questions about compound interest, inflation, and risk diversification.⁹² However, studies demonstrate that personal financial education reduces payday borrowing and improves better selection of financial institutions.⁹³ To help avoid common pitfalls, the DoD should provide guides to steer military members towards reputable local businesses and auto dealers and away from potential debt traps.⁹⁴

A government-sponsored credit card: the Military Star Credit Card

The Military Star Credit Card promoted by the DoD can have both positive and negative impacts on military members. The Air Force Exchange Service (AFES), better known as the Exchange,

⁹⁰ US Government – Congressional Research Service. "Military Families and Financial Readiness." January 2022. <https://crsreports.congress.gov/product/pdf/R/R46983/4>

⁹¹ US Government – Consumer Financial Protection Bureau. "Financially Fit? Comparing the credit records of young servicemembers and civilians." July 2020. <https://www.consumerfinance.gov/data-research/research-reports/financially-fit-comparing-credit-records-young-servicemembers-civilians/>

⁹² Lin, Judy T.; Bumcrot, Christopher; Mottola, Gary; Valdes, Olivia; Ganem, Robert; Kieffer, Christine; Lusardi, Annamaria; and Walsh, Gerri. *Financial Capability in the United States: Highlights from the FINRA Foundation National Financial Capability Study*. FINRA Investor Education Foundation. 2022. <https://www.FINRAFoundation.org/NFCSReport2021>

⁹³ Harvey, Melody. *Financial Education among Financially Vulnerable Populations in the United States*. RAND Corporation. 2018. https://www.rand.org/pubs/rgs_dissertations/RGSD410.html.

⁹⁴ Ursano, Robert J.; Fullerton, Carol S.; and Dichtel, Mary Lee. "Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms and Targets for Intervention." US Government – Uniform Services University. 2016. <https://apps.dtic.mil/sti/pdfs/AD1004960.pdf>

operates a Military Clothing Plan, providing 0% APR on uniform purchases, which attracts new customers to the Military Star Credit Card. However, the advertised 14.99% APR is not favorable when considering the card's low marketing expenses, penalty APR of 22.99%, and aggressive collections methods, including wage and tax refund garnishment.⁹⁵ The frequent relocation of military members, coupled with their juggling of multiple credit cards, can complicate personal finances and result in late fees. Overall, the terms of the Star Credit Card are high and potentially harmful to military members on a risk-adjusted basis. While the card benefits the Exchange in terms of reduced cash register fees, the delinquency rate of the Military Star Credit Card portfolio is around 5%.⁹⁶ The DoD's earlier decision to outsource the 0% APR Uniform Clothing Deferred Payment Plan to the Exchange and the Military Star Credit Card was probably a mistake in retrospect. Other credit cards offer better benefits, and to some degree, the Military Star Credit Card funds the Exchange's defined benefit plan (pension plan), which has postretirement benefit obligations of roughly \$727 million as of 2021.⁹⁷

Conflicts of interest within the DoD

Despite claiming impartiality, the DoD has conflicts of interest related to its compensation schemes. Research indicates how compensation schemes can create conflicts of interest.⁹⁸ For instance, the DoD relies on the Exchange to fund Morale, Welfare and Recreation (MWR) Programs, and reduce cash register fees, yet the Exchange and military services promote the Military Star Credit Card, which accounts for 3% or \$207,958,000 of the Exchange's total revenues.⁹⁹ The Exchange's "bad debt expense" (debts not collected) equaled \$14,184,000.¹⁰⁰ The Exchange's overall "net earnings" (profits) were merely \$246,322,000 on "net sales" (total sales) of \$6,412,948,000, despite being one of largest retailers in the world; having over \$6 billion in assets; borrowing nearly \$500 million from the Army at near-zero percent rates; and not needing to pay income taxes as a federally

⁹⁵ Army and Air Force Exchange Service (AFES) – Exchange Report. "2021 Mission Report." (Annual Report). May 2022. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

⁹⁶ Ernst & Young – Financial Audit. Exchange Report. "2021 Mission Report." 2021. Page 20. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

⁹⁷ Ernst & Young – Financial Audit. Exchange Report. "2021 Mission Report." 2021. Page 20. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

⁹⁸ Burke, Jeremy; Hung, Angela A.; Clift, Jack; Garber, Steven; and Yoong, Joanne K. RAND – Working Paper: "Impacts of Conflicts of Interest in the Financial Services Industry." February 2015.

https://www.rand.org/content/dam/rand/pubs/working_papers/WR1000/WR1076/RAND_WR1076.pdf

⁹⁹ Army and Air Force Exchange Service (AFES) – Exchange Report. "2021 Mission Report." (Annual Report). May 2022. Page 7. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

¹⁰⁰ Army and Air Force Exchange Service (AFES) – Exchange Report. "2021 Mission Report." (Annual Report). Page 7. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

funded entity.¹⁰¹ In light of these realities, the Exchange could be financially unstable without marketing the Military Star Credit Card to an “evergreen” and “captive” on-base population of 200,000 new junior enlisted military members each year. The Military Star Credit Card is not just used for new uniforms. It is used for 17% of all Exchange purchases.¹⁰² While the Exchange’s annual report advertises paying \$153 million and \$205 million in “dividends” to “Central Welfare Funds, Departments of the Army, Air Force, Navy, and Marine Corps, and saving itself \$28.7 million in cash register fees by using the Military Star Credit Card, the numbers are cumulative, not annual, which is misleading.¹⁰³

While the DoD prohibits corporate-branded materials from being used in financial training, its partner, MWR, screens the companies which advertise in military fitness facilities. Such advertisers include the USAA and GEICO, despite the fact that the US Government imposed a \$85 million civil money penalty upon the USAA for violating laws such as the Military Lending Act and Servicemembers Civil Relief Act in 2020.¹⁰⁴ Furthermore, the DoD prohibits financial solution providers from marketing on bases if an existing bank is present, even though popular on-base banks like the Armed Forces Bank offer undifferentiated banking services and are often owned by wealthy families.

Overwhelming stressors: debt collections and bankruptcy

Dealing with debt collections or bankruptcy can be overwhelming, especially when faced with harassing calls from collections agencies. This is a serious issue for military members, with credit and consumer reporting and debt collection being the most common complaints, accounting for over 60% of all complaints to the Consumer Financial Protection Bureau.¹⁰⁵ In light of 42,700 complaints to the CFPB, it is evident that military members need coaching to manage debt, including debt consolidation

¹⁰¹ Ernst & Young – Financial Audit. Exchange Report. "2021 Mission Report." Page 20. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

¹⁰² Army and Air Force Exchange Service (AFES) – Exchange Report. "2021 Mission Report." May 2022. <https://www.aafes.com/Images/AboutExchange/PublicAffairs/2021-Mission-Report.pdf>

¹⁰³ Army and Air Force Exchange Service (AFES) Story by Conner, Marisa. "MILITARY STAR Card Saves Military Community Nearly \$30M in 2020." July 2021. <https://www.dvidshub.net/news/401801/military-star-card-saves-military-community-nearly-30m-2020>

¹⁰⁴ US Government – Department of Treasury. Office of Comptroller of the Currency. "OCC Assesses \$85 Million Civil Money Penalty Against USAA." October 2020. <https://www.occ.gov/news-issuances/news-releases/2020/nr-occ-2020-135.html>

¹⁰⁵ US Government – Consumer Financial Protection Bureau. "Office of Servicemember Affairs Annual Report." June 2022. https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report-2021.pdf

or settlement strategies. Failure to do so can result in severe consequences, including bankruptcy and suicide.

Military financial relief societies

Military members often turn to military financial relief societies for emergency loans or grants, but the process must be improved to provide a shame-free experience void of human involvement, instantaneous access to funds, and 24/7 accessibility. Shame and stigma have been shown to act as a barrier to help-seeking.¹⁰⁶ Military-specific relief societies include the Army, Navy-Marine Corps, Air Force, Coast Guard, as well as the Red Cross, which offer no-cost loans or grants to service members in need. While admirable, the Congressionally sanctioned organizations could be modernized and better integrated to achieve organizational efficiencies. Furthermore, emergency loans and grants may incentivize irresponsible financial behavior without addressing the root causes of financial instability, including lack of knowledge, capacity, or motivation. Furthermore, the financial sustainability of these military relief societies is unclear, given imbalances between military demand (e.g., demobilizations, financial shocks) and supply (e.g., investment rates of return, corporate giving).

Factor 5: Assets

Baseline metrics:

- During October-December 2022, 92.75% of Active Duty BRS participants contributed to the TSP.¹⁰⁷ This may mean 7.25% missed out on 100% of the “free money” available from employer matching.
- The average TSP account balance for Active Duty BRS participants was \$11,063.¹⁰⁸
- In 2022, 84% of legacy uniformed services participants and 77% of BRS participants reported being satisfied overall with the TSP.¹⁰⁹
- Homeownership is the largest historical wealth builder in America; the homeownership rate is 65.9% for the US population, 77.8% for veterans, and 64.8% for Active Duty members.¹¹⁰

¹⁰⁶ US Government – Department of Defense. Defense Suicide Prevention Office. "CY 2020 Annual Suicide Report." 2021. Page 22. <https://www.dspo.mil/asr/>

¹⁰⁷ Email correspondence with Social Scientist at the Thrift Savings Plan. January 2023.

¹⁰⁸ Email correspondence with Social Scientist at the Thrift Savings Plan. January 2023.

¹⁰⁹ Email correspondence with Social Scientist at the Thrift Savings Plan. January 2023.

¹¹⁰ US Government – US Bureau of Labor Statistics. Live chart of Homeownership Rate in the United States, retrieved from FRED, Federal Reserve Bank of St. Louis. May 2023. <https://fred.stlouisfed.org/series/RHORUSQ156N>

Assets are items with economic value, as defined by the CFPB.¹¹¹ Common examples of assets include corporate stocks and real estate, which typically increase in value over time. Research shows that the most common financial goals among military members are saving for retirement (86% of Active; 87% of Reserve) and their children's education (77% of married Active; 74% of married Reserve), while a significant number of junior enlisted personnel aim to save for major purchases (81% of Active; 82% of Reserve) and homeownership (78% of Active; 76% of Reserve).¹¹² Saving for retirement and children's education will require accumulating assets such as stocks or real estate. However, budgeting or following a spending plan is not a common financial practice among military members. This raises the question of how military members can effectively accumulate assets to achieve their long-term financial goals, which is crucial for financial satisfaction, especially within the context of a marriage.

An opportunity to build a new generation of national leaders

The Department of Defense could cultivate "military millionaires" who would benefit American society long-term, much like how the GI Bill and VA loans transformed the lives of veterans after World War II. Starting to invest early, having a long-time horizon, making ongoing investments, and benefiting from compounding returns are key factors in asset accumulation. By understanding these principles and starting to invest early, young military members could add millions to their retirement fund by age 60. For instance, starting monthly investments at age 20 rather than age 40 could increase a military member's returns at retirement by up to 500%.¹¹³ The DoD does not hesitate to relocate military families, enforce body weight limits, and test for drugs, so it should also adopt a more proactive approach to financial coaching to promote asset accumulation.

A liability shift from the DoD to individual military members

Now that military compensation has shifted from a defined benefit (pension plan) to a defined contribution scheme (401k plan), military members are increasingly responsible for funding their own retirement. Providing financial education to new recruits has become more important as a result. Auto-enrolled Active Duty BRS (401k) participants have a median age of 22, while the median age for all

¹¹¹ US Government – Consumer Financial Protection Bureau. Financial terms glossary at <https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/glossary/>

¹¹² US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

¹¹³ If retiring at 65 and having invested \$250 monthly at age 20, versus age 40. Online compound interest calculator: <https://www.investor.gov/financial-tools-calculators/calculators/compound-interest-calculator>

Active Duty BRS participants is 28. In contrast, the average age for all Active Duty "legacy" defined benefit pension plan participants is 36. This highlights the importance of providing financial education to young military recruits going forward to equip them with the knowledge, capacity, and motivation to achieve their financial goals, transition well, and maintain financial stability into old age.

Unfortunately, approximately 33,136 veterans face homeless in America.¹¹⁴

Participation and total assets in Thrift Savings Plan

According to the Thrift Savings Plan, in Q1 FY 2023 (Oct/Nov/Dec 2022), 92.75% of Active Duty BRS participants contributed to the TSP, leaving 7.25% who opted out of the employer matching contributions.¹¹⁵ The average TSP account balance for Active Duty BRS participants was \$11,063, while the balance for Active Duty legacy uniformed services members was \$38,467, reflecting their higher rank and years of service.¹¹⁶ In 2023, military members can contribute up to \$22,500 of their paycheck annually to TSP, which makes the current average account balances of \$11,063 and \$38,467 seem unimpressive. Many military members are missing out on employer matching contributions, perhaps due to a lack of knowledge or an acute financial problem. While TSP is not the only financial asset available to military members and their families, it is likely the only one that offers employer matching, making it a valuable financial opportunity for military members and their families.

Satisfaction with the Thrift Savings Plan

While most TSP participants are satisfied with the plan, the BRS cohort has the lowest satisfaction rating (77%) among the five cohorts surveyed in the Thrift Savings Plan's 2022 Participant Satisfaction Survey.¹¹⁷ One possible reason for this low rating is the TSP website, which is currently being improved. Additionally, the TSP mobile application has a rating of 1.3 out of 5 stars in the Apple App Store, with many customers complaining of poor design and functionality.¹¹⁸ In any event, the BRS cohort should not have the lowest satisfaction rating among the five cohorts surveyed.

Benefits and Challenges of the Thrift Savings Plan

¹¹⁴ US Government – Department of Housing and Urban Development. "New Data Shows 11% Decline in Veteran Homelessness Since 2020—the Biggest Drop in More Than 5 Years." November 2022. https://www.hud.gov/press/press_releases_media_advisories/HUD_No_22_225

¹¹⁵ Email correspondence with Social Scientist at the Thrift Savings Plan. January 2023.

¹¹⁶ Email correspondence with Social Scientist at the Thrift Savings Plan. January 2023.

¹¹⁷ US Government – Federal Retirement Thrift Investment Board. "2022 Participant Satisfaction Survey." Conducted by Gallup, Inc. 2022. <https://www.frtib.gov/pdf/reading-room/SurveysPart/satisfaction/TSP-Survey-Results-2022.pdf>

¹¹⁸ Apple Inc. App Store and related reviews. Accessed in April 2023. <https://apps.apple.com/us/app/thrift-savings-plan/id1622048851>

The TSP is a valuable offering. With professional management by Blackrock, a leading national asset manager, the TSP offers age-based funds which address several ongoing decisions related to investment diversification and throttling back risk as retirement approaches. Moreover, the US Government pays Blackrock an annual fund management fee, making the fund attractive from an expense ratio perspective – a factor often overlooked in the selection investment funds, yet surprisingly impactful on long-term returns, especially with time horizons as long as 60 years. A small difference in fees may result in millions of dollars in additional gains (or expenses). However, BRS is administered as part of the TSP, which is the largest defined contribution plan in the world and therefore the largest investment bureaucracy in the world. The TSP is part of the Federal Employees' Retirement System (FERS), which comprises the FERS annuity (a defined benefit plan), mandatory participation in Social Security, and the Thrift Saving Plan (a defined contribution plan). The TSP has approximately 6.2 million participants, of which approximately 3.8 million are actively participating through payroll deductions. It also has more than \$735.2 billion in assets under management.¹¹⁹

The governance challenges of the Thrift Saving Plan

Military BRS participants lack adequate representation to supervise how their money is managed and administered as part of FERS. The Federal Retirement Thrift Investment Board, often referred to as the TSP board, has its seats filled by US Presidential nominees, who are then confirmed by the US Senate. Military members lack representation at FERS, which is reflected in the Federal Retirement Thrift Investment Board's Strategic Plan 2022-2026. The FRTIB's Strategic Plan is important because it formalizes the FRTIB's strategic goals and objectives, including efforts to increase military members' participation and contributions to achieve the full matching funds, and for FRTIB to work with Military Departments and DoD payroll to make it easier for participants to access and manage TSP accounts. Military personnel are a major component of the FRTIB; however, they are underserved in many ways (e.g., by relatively low satisfaction rates, suboptimal participation rates, and a poorly rated mobile app).¹²⁰

The potential for conflicts of interest

Military members are represented on the FRTIB by a DoD official, not by a military member or veterans' organization. This is very different than other public service pension funds like those of

¹¹⁹ US Government – Federal Retirement Thrift Investment Board. "FRTIB Strategic Plan: FY 2022-2026." https://www.frtib.gov/pdf/reading-room/StratPlan/FRTIB_FY22-26_Strategic_Plan.pdf

¹²⁰ US Government – Federal Retirement Thrift Investment Board. "2022 Participant Satisfaction Survey." Conducted by Gallup, Inc. 2022. <https://www.frtib.gov/pdf/reading-room/SurveysPart/satisfaction/TSP-Survey-Results-2022.pdf>

teachers, firefighters, or state employees. Unable to unionize, military members must rely on the DoD's representation. Crucially, however, the Department of Defense benefits when military members do *not* capitalize on employer matching, and the DoD funding is returned unused. Lack of supportive representation may therefore explain the low satisfaction rating by BRS military members and the suboptimal participation rate. The TSP's efforts to improve communications targeting the average 22-year-old have been ineffective, and the FTIB's "reading room" reports do not adequately segment military audiences by the necessary subgroups (e.g., rank, geography, military service). Additionally, IT integrations and data-sharing between the TSP, the Defense payroll (DFAS), and the Defense Manpower Data Center are disjointed.

Maximizing employer matching or "free money"

Many military members are unaware of a critical financial benefit: employer matching of investments. Only a small percentage of military members (46% of Active; 37% of Reserve) correctly answered a question on the rate at which the DoD makes matching contributions to a military member's TSP account under the BRS. Junior officers were most likely to answer correctly (71% of Active; 51% of Reserve), as they opt in to the BRS at higher rates. Nevertheless, military members at all levels should understand this benefit since peer communication is the biggest influence on military financial decisions, and military members should be steered towards wise decisions.¹²¹

Findings: Risk Factors and Vulnerable Groups

This analysis identifies several military subgroups that are at higher risk of financial stress and less likely to achieve financial well-being and therefore warrant increased attention: Junior enlisted, and minorities. The subgroups most affected by financial stress include junior enlisted military members (52.1%); Black or African American (16.9%) and Hispanic or Latino (16.6%) military members; military single-parents (3.9% of Active Duty, 8.5% of Select Reserves); and families with a high number of dependents.¹²² These subgroups are also more likely to be asked to support parents and

¹²¹ US Government – Department of Defense. "Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey." April 11, 2022. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

¹²² US Government – Consumer Finance Protection Bureau. Office of Research. "Data Point: Credit Invisibles." May 2015. https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf

extended family. Many lack a credit report or score – a reality that disproportionately impacts low-income and African American and Hispanic households.¹²³

Single-income households

Spouse employment and related income is an important factor impacting financial stress within military families. This is especially the case if the spouse has lost employment due to a mandatory relocation and/or the family has relocated to a new high cost-of-living area, and/or the spouse needed to decline employment due to a military deployment.

Large families

Having dependents is an additional financial strain.¹²⁴ Having five or more dependents may be a direct and indirect factor impacting financial stress within military families, especially if relocating or living in a high-cost area.

Families undergoing relocations

DoD-mandated relocations present a host of direct and indirect stressors on military families and increase the overall “load” felt by military families. According to MFAN, moving has a destabilizing effect that negatively impacts family life, employment, finances, and mental health. During the move, family relationships suffer for a variety of reasons, including the loss of support systems (e.g., childcare, medical providers, family routines). Relocations can also impact employment in the form of stalled careers, licensing delays, and lack of work in rural or overseas locations.¹²⁵ Moves also generate unexpected and unreimbursed expenses (e.g., childcare, furniture, registrations). Moving is stressful, anxiety-inducing, and mentally exhausting, especially for those with existing mental health issues such as depression and anxiety.”¹²⁶

Anyone assigned to a high-cost area

¹²³ US Government – Consumer Financial Protection Bureau. "CFPB Report Finds 26 Million Consumers Are Credit Invisible." May 2015. <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-26-million-consumers-are-credit-invisible/>

¹²⁴ US Government – Uniformed Services University of the Health Sciences. Forum on Health and National Security – "Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms, and Targets for Intervention Stress, Resilience, and Well-Being." 2016. Page 39. <https://apps.dtic.mil/sti/pdfs/AD1004962.pdf>

¹²⁵ Military Family Advisory Network. "Understanding the Effect of Military Moves." 2018-Present. <https://militaryfamilyadvisorynetwork.org/wp-content/uploads/MFAN-2018-Moving-Survey-1.pdf>

¹²⁶ Military Family Advisory Network. "Understanding the Effect of Military Moves." 2018-Present. <https://militaryfamilyadvisorynetwork.org/wp-content/uploads/MFAN-2018-Moving-Survey-1.pdf>

Military members may be assigned to high-cost areas (e.g., San Diego, Honolulu, or Washington, DC), which can be a financial burden. Relocations are usually involuntary, and costs of living can vary greatly between locations. For example, an entry-level sailor will face considerably higher expenses if assigned to work in Honolulu, Hawaii, compared with Norfolk, Virginia. After factoring in transportation, food, and lifestyle costs, the cost of living in Hawaii may be 50-100% higher, while the DoD housing stipend is only 17% higher.¹²⁷

Transitioning military members

Transitioning from military to civilian life is a stressful period that can result in negative impacts such as loss of income, loss of identity, and even loss of life. Approximately 200,000 military members transition to civilian life each year, but many struggle to secure employment, leading to the collection of unemployment insurance and an annual cost to the DoD of between \$500 million and \$1 billion.¹²⁸ Studies are needed to identify critical transition points across a military career, including basic training, deployment, PCS, and demotion/promotion, which are associated with an increased risk of financial stress.¹²⁹ According to the military's Uniform Services University, "Financial 'shock' is often a part of leaving the military, and this transition time is a particularly important and high-risk time for several mental illnesses as well as suicidality".¹³⁰

Military members in debt collection

Military members undergoing debt collections may feel shame for not conforming to military culture, especially if the command's leadership is not trusted to help handle personal problems. The DoD Instruction 1344.09 states that military members are responsible for paying their debts, and failure to do so may result in disciplinary action or claims against them. This policy is irresponsible. After all, the original financial literacy program was created as military members fell into debt and took their own lives to claim SGLI life insurance benefits.¹³¹ Today, military members should be supported

¹²⁷ According to the DoD regular military compensation calculator: <https://militarypay.defense.gov/calculators/rmc-calculator/> and <https://www.salary.com/tools/cost-of-living-calculator/norfolk-va-compare-cities>

¹²⁸ US Government – Congressional Budget Office. "Transitioning From the Military to the Civilian Workforce: The Role of Unemployment Compensation for Ex-Servicemembers." May 2017. <https://www.cbo.gov/publication/52503>

¹²⁹ Ursano, Robert J.; Fullerton, Carol S.; and Dichtel, Mary Lee. "Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms and Targets for Intervention." US Government – Uniform Services University. 2016. <https://apps.dtic.mil/sti/pdfs/AD1004960.pdf>

¹³⁰ Ursano, Robert J.; Fullerton, Carol S.; and Dichtel, Mary Lee. "Financial Stress and Behavioral Health in Military Servicemembers: Risk, Resilience, Mechanisms and Targets for Intervention." US Government – Uniform Services University. 2016. <https://apps.dtic.mil/sti/pdfs/AD1004960.pdf>

¹³¹ Interview with a DoD-provided financial counselor. February 2023.

rather than subjected to shame, disciplinary action, and made to feel contractually “trapped” in the military with nowhere to turn to for help.

Suicidal Personnel

According to the Task Force on the Prevention of Suicide by Members of the Armed Forces, financial wellness training, if done right, can help prevent suicides.¹³² Financial problems and alcohol dependence are significant risk factors for suicide.¹³³ In the Active Duty Navy, 16% of those who committed suicide had financial problems, and alcohol was used in 35% of suicide events. In the Active Duty Air Force, 25% of those who committed suicide had financial problems, and in the Active Duty Marine Corps, 13%. Unfortunately, the total number of suicides among Active Duty and veterans of military conflicts since September 2001 has reached 30,177, more than four times the number of military members who died operating in those conflicts since September 2001.¹³⁴

Findings: Data Aggregation, Scoring, and “Push” Programming

1. To effectively measure and monitor financial well-being, the DoD can employ several methods, including compiling data from various sources and utilizing a new five-factor model that can yield a more precise representation of financial well-being. By collecting data from multiple sources and applying temporal analysis, the DoD can obtain a comprehensive picture of financial stressors faced by military members. Additionally, implementing a five-factor model can provide a nuanced understanding of financial well-being, causal factors, and their interplay.

Data Aggregation

"Big data" aggregation provides an opportunity to measure and monitor financial well-being in the military. Third-party data feeds and Application Programming Interfaces (APIs) exist to access data in checking, spending, and investment accounts. The DoD already has insights into military income, some spending patterns, TSP contributions, and cost-of-living indexes. By leveraging these data sources, the DoD can create a clearer picture of financial well-being among military members and

¹³² US Government – Suicide Prevention and Response Independent Review Committee (SPRIRC). *Preventing Suicide in the US Military: Recommendations from the Suicide Prevention and Response Independent Review Committee*. 2022. <https://media.defense.gov/2023/Feb/24/2003167430/-1/-1/0/SPRIRC-FINAL-REPORT.PDF>

¹³³ US Government – DoD Annual Suicide Report – CY 2020.

www.dspo.mil/Portals/113/Documents/CY20%20Suicide%20Report/CY%202020%20Annual%20Suicide%20Report.pdf

¹³⁴ Suitt, Thomas Howard. “High Suicide Rates among United States Service Members and Veterans of the Post-9/11 Wars.” Watson Institute, Brown University. June 2021. https://watson.brown.edu/costsofwar/files/cow/imce/papers/2021/Suitt_Suicides_Costs%20of%20War_June%2021%202021.pdf

their families, identify root causes of financial instability, and continuously improve Financial Readiness programming. Vulnerable groups could be analyzed: for example, military members with an E-1 rank; those living in high-cost areas; families with 4 or more dependents; and groups such as African American and Hispanic military members.

Assistance to Vulnerable Groups

Longitudinal data related to financial well-being and financial stressors is needed to provide relevant assistance to vulnerable groups over time. This data set can be de-identified and be population-representative to enable ongoing analysis using mathematical and statistical sciences. For example, research methods can illustrate how independent and dependent variables may change between geographies, groups, or time periods. The impacts of the DoD policy changes and macroeconomic trends such as inflation, unemployment, and credit availability can be better understood through temporal analysis, including their impact on vulnerable groups.

Cause-Effect Relationships

To better understand financial stressors and instability within the military, a variety of analytical techniques can be applied, including analysis of credit, income, debts, and assets. One approach is structural equation modeling, which can help identify cause-effect relationships between variables within a financial well-being structure. Another approach is grounded theory, which requires collecting and coding data on complex and unexplained events like deep subprime credit scores, military suicides, or bankruptcy filings. For example, when a military family is relocated, various financial stressors can arise, such as loss of spousal income, increased childcare expenses, and higher costs of living expenses, which can result in unpaid bills, lower credit scores, and reduced contributions to the TSP or borrowing from a TSP account. By utilizing such techniques, the DoD can better understand the many challenges facing military members and push programming at the time and place of need, all while overcoming the “face to face” shame factors.

2. To measurably improve the financial well-being of military members and reduce financial stressors, the DoD can implement monthly data analysis and an automated system to push personalized Financial Readiness programming (e.g., knowledge, capacity, motivation) throughout the entire force. This “mass personalization” approach has the potential to lead to improvements in goal attainment, credit scores, debt ratios, spending ratios, and/or net worth over a 12-month period.

Digital Financial Coaching

To improve financial well-being, the DoD can utilize monthly data analysis and an automated system to push resources to individuals with the aim of improving a military member's net worth over a 12-month period. A study commissioned by the Consumer Financial Protection Bureau (CFPB) found that financial coaching improved many aspects of their participants' finances.¹³⁵ CFPB study participants had increased savings, better debt outcomes, and healthier financial behaviors, as well as a reduction in financial stress and a greater sense of well-being.

DIY Financial Management Skills

While only 1% of Americans receive professional financial advice, 100% of military members could be empowered by training on DIY financial management skills. Coaching could focus on military members' individual goals and provide timely education on how to manage finances using real-world scenarios. This could, in turn, help the DoD maximize the value of its payroll expense and enhance the performance of military members.¹³⁶

The Power of Behavioral Prompts

Software never rests – it can aggregate data and calculate inputs and outputs of individual income, essential and periodic expenses, discretionary spending, and the allocation of extra funds to pay off debt, save cash, or invest. Software, such as AI chatbots, can generate educational prompts for various decision points, guiding individuals through scenarios such as reducing spending, paying off debt, saving, or increasing auto-investment levels. Prompts can also leverage various behavioral techniques like "rules of thumb" or "social proof" as starting points for decision-making. Finally, software could monitor progress and push monthly and annual prompts to help individuals achieve their financial goals, as shown in the conceptual illustration provided in Figure 6 below.

¹³⁵ US Government – Consumer Financial Protection Bureau. "Implementing Financial Coaching: Implications for practitioners." 2016. https://files.consumerfinance.gov/f/documents/102016_cfpb_Implementing_Financial_Coaching_Implications_for_Practitioners.pdf.

¹³⁶ Acorns Grow Incorporated. "Acorns in a Nutshell." May 2012. <https://sqy7rm.media.zestyio.com/Acorns-Investors-Webcast.pdf>

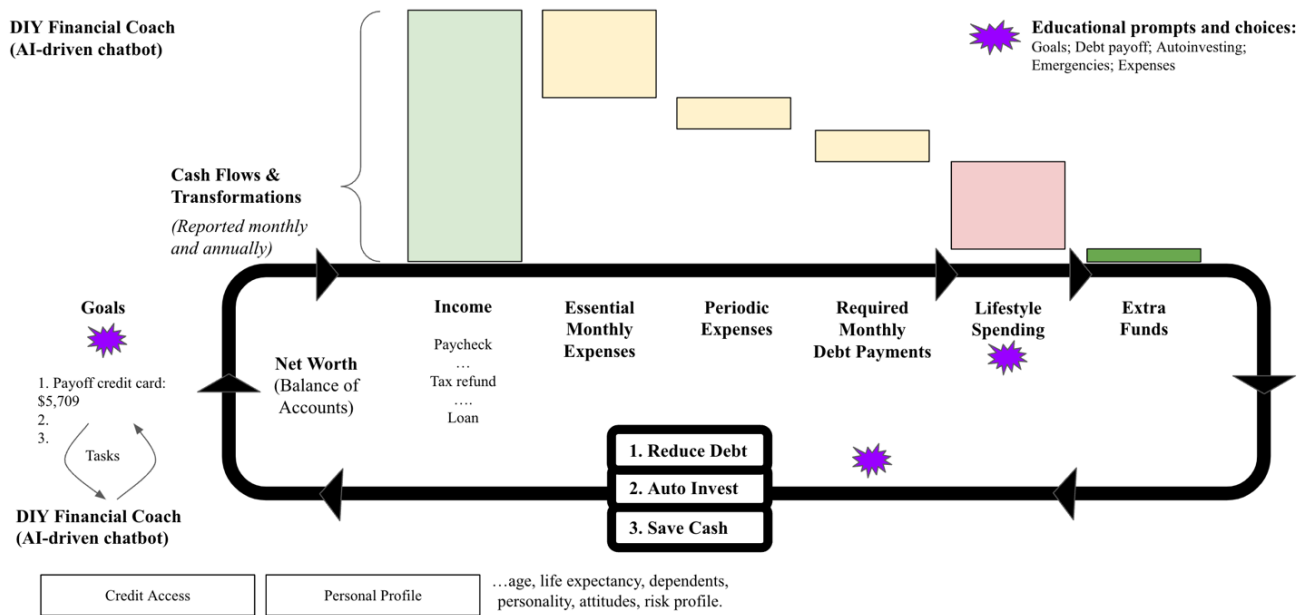


Figure 6: Conceptual model of a DIY financial coach powered by an AI chatbot

3. Improving financial well-being can lead to over \$52 billion in annual savings for the US Government, while simultaneously increasing military readiness and personnel retention, resulting in a win-win situation for everyone – individuals, families, the DoD, and taxpayers.

Employer Financial Wellness Programs

The DoD can learn from large, complex, high-turnover, high-output organizations (such as Target and Walmart) how to reduce employee turnover and financial stress through low-interest loan programs offered via employee salaries. A Harvard Kennedy School study found that Target's loan program reduced employee turnover rates by 28%, saving the company \$158,878,720 annually.¹³⁷ By implementing a similar earned wage access or salary loan program at 0% APR, the military, with a current average employee turnover rate of 15%, could potentially save around \$52,308,546,000 annually, cutting costs on recruiting, unemployment insurance, and most significantly, lowering VA (Veteran Affairs) Department expenditures on disability compensation, medical care, and education benefits by generating veterans at a lower rate. Financial stress can result in up to 15.3 hours of lost productivity and engagement in the workplace. Military attrition, which is when a military member

¹³⁷ Baker, Todd; and Kumar, Snigdha. *The Power of the Salary Link: Assessing the Benefits of Employer-Sponsored FinTech Liquidity and Credit Solutions for Low-Wage Working Americans and their Employers*. May 2018. https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/88_final.pdf

leaves service prematurely, rises in the presence of financial issues.¹³⁸ However, employer-sponsored financial wellness programs have been shown to improve productivity, reduce absenteeism, and lower healthcare costs; in fact, studies suggest that financial wellness programs may have a return on investment of \$1.50 for every dollar spent.¹³⁹ These potential savings highlight the cumulative benefits of offering programs which improve military readiness, and benefit military members and their families, the VA Department, and US taxpayers.

Funding: Potential Savings for the US Government

Improving military personnel retention rates could result in significant savings for the US government, especially the VA Department, with potential savings exceeding \$52 billion annually. Personnel-related costs make up a substantial portion of the total DoD budget, accounting for nearly 25% of the budget, projected to be \$784 billion in 2024.¹⁴⁰ Costs associated with military recruitment, sign-on bonuses, training, and relocations are expensive, with attrition alone costing at least \$20,000 per person and sign-on bonuses reaching up to \$60,000 per person.¹⁴¹ The cost of each new veteran is even greater, averaging \$46,088 per person annually, due to expenses such as disability compensation, educational benefits, and the maintenance of the VA hospital system and workforce.

Costs of recruitment, training, and attrition

Military recruitment and training are expensive, and attrition is costly. Most military members are enlisted, and most leave after one term of service.¹⁴² Up to one-third of new recruits leave military service before they fulfill their first term of enlistment.¹⁴³ Unlike most employers, the military invests an enormous amount into training their personnel. The military's general approach is to recruit capable young adults and then provide them with full-time training to develop entirely new skills to fill a role

¹³⁸ BrightPlan LLC. CITE Research. April-May 2021. <https://www.brightplan.com/2021-wellness-barometer-survey/>

¹³⁹ Matke, Soeren; Liu, Harry H.; Caloyeras, John P.; Huang, Christina Y.; Van Busum, Kristin R.; Khodyakov, Dmitry; Shier, Victoria; Exum, Ellen; and Broderick, Megan. "Do Workplace Wellness Programs Save Employers Money?" RAND Corporation, 2014. https://www.rand.org/pubs/research_briefs/RB9744.html.

¹⁴⁰ US Government – Congressional Budget Office. Military personnel webpage. Accessed April 2023. <https://www.cbo.gov/topics/defense-and-national-security/military-personnel>; and US Government – Congressional Budget Office. "Long-Term Implications of the 2023 Future Years Defense Program." January 2023. <https://www.cbo.gov/publication/58579>

¹⁴¹ Marrone, James. *Predicting 36-Month Attrition in the US Military: A Comparison Across Service Branches*. RAND Corporation. 2020. https://www.rand.org/pubs/research_reports/RR4258.html.

¹⁴² Congressional Budget Office. *Use of the Post 9/11 GI Bill by the National Guard and Reserves*. US Government Printing Office. 2019. <https://www.cbo.gov/system/files/2019-12/55916-CBO-Reservists-GI-Bill.pdf>.

¹⁴³ US Government – US General Accounting Office. *Military Attrition: DoD Needs to Better Analyze Reasons for Separation and Improve Recruiting Systems*. March 1998. <https://www.govinfo.gov/content/pkg/GAOREPORTS-T-NSIAD-98-117/pdf/GAOREPORTS-T-NSIAD-98-117.pdf>

in a new occupational area. In one extreme example, the cost to train some cyber professionals is estimated at \$220,000 to \$500,000 over a period of 1 to 3 years.¹⁴⁴ By contrast, civilian employers generally hire for existing skills and do not invest in full-time training centers to develop new ones. Challenges related to recruitment, training, and attrition are inextricably linked. The military must maintain infrastructure and marketing budgets and sign-on bonuses to recruit and train approximately 200,000 new military recruits each year while facing an average attrition rate of approximately 15% annually.¹⁴⁵ Each recruiting waiver, broken ankle, DWI arrest, or divorce influences attrition and the cumulative long-term impact on the US federal budget.

The rising costs of veterans' benefits and healthcare

The cost of each new veteran is significant, as evidenced by the VA Department's budget, which is now the second-largest discretionary budget in the federal government, primarily consisting of Disability Compensation, Medical Care, and Education and Vocational Programs.¹⁴⁶ These costs accumulate over time, including long-term disability compensation; decades of medical care; GI Bill tuition and living expenses; and a myriad of additional expenses, including maintenance of the VA workforce (equivalent to 402,876 full-time employees).¹⁴⁷ In 2020, the VA Department's top four spending categories approached \$200 billion, as shown in Figure 7 below.¹⁴⁸ This analysis focuses on the VA Department's largest areas of expense and excludes many other areas, including Pension and Fiduciary; Insurance; Home Loan Guarantee; Veteran Readiness and Employment; and Transition and Economic Development.

¹⁴⁴ US Government – Government Accountability Office. "DoD Active Duty Recruitment and Retention Challenges." March 2023. <https://www.gao.gov/assets/gao-23-106551.pdf>

¹⁴⁵ US Government – US Senate. *First-Term Recruiting and Attrition Continue to Require Focused Attention: US Senate Subcommittee on Personnel, Committee on Armed Services*. 2000. <https://www.gao.gov/assets/t-nsiad-00-102.pdf>.

¹⁴⁶ US Government – Congressional Budget Office. *Possible Higher Spending Paths for Veterans' Benefits*. 2018. US Government Printing Office. https://www.cbo.gov/system/files/2018-12/54881-VA_Spending_Paths_0.pdf.

¹⁴⁷ US Government – VA Department. *Annual Report on the Steps Taken to Achieve Full Staffing Capacity*. June 2022. <https://www.va.gov/EMPLOYEE/docs/Section-505-Annual-Report-2022.pdf>

¹⁴⁸ US Government – Congressional Budget Office. *Transitioning from the Military to the Civilian Workforce: The Role of Unemployment Compensation for Ex-Servicemembers*. 2017. <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52503-transitionreport.pdf>.

US Government – Congressional Research Service. *Health Care for Veterans. Answer to Frequently Asked Questions*. 2020. <https://crsreports.congress.gov/product/pdf/R/R42747>

US Government – VA Department. Benefits Delivery System Reports, PA&I OFM Monthly Reports. Veterans Benefits Administration. 2020. https://www.benefits.va.gov/REPORTS/abr/docs/2020_education.pdf.

US Government – VA Department. The 2020 Annual Benefits Report. Veteran Benefits Administration. 2020. https://www.benefits.va.gov/REPORTS/abr/docs/2020_compensation.pdf.

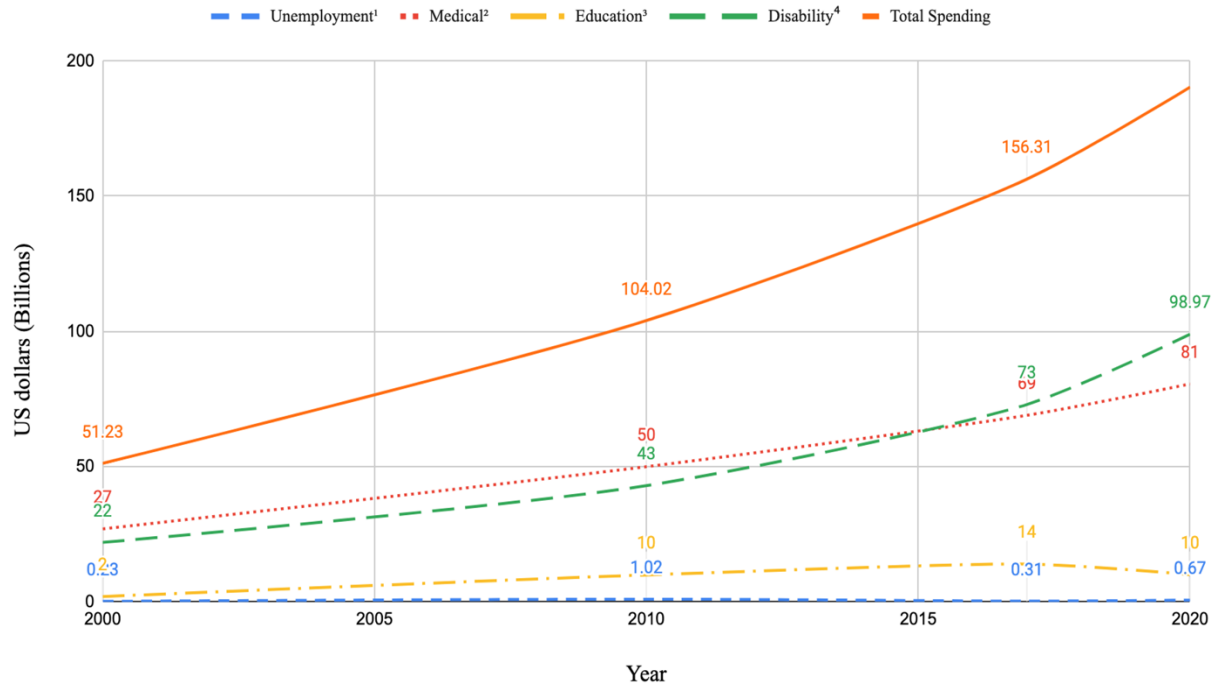


Figure 7: Chart of the VA Department's top four spending categories and total (2020)

Financial well-being benefits all stakeholders

Improvements to the DoD's Financial Readiness program to improve the financial well-being of military members and their families can lead to a reduction in the military turnover rate (with a projected reduction from 15.38% to 11.07%). Increased retention would mean the DoD would require approximately 56,000 fewer recruits annually and would result in a combined annual saving of approximately \$52,308,546,000 for the Defense and Veterans Affairs Departments. Just one employer-sponsored loan program (like Target's, for example) could achieve these improvements. These improvements could be self-funded by DoD. The benefits of reducing financial stress include a combat-ready force, decreasing expenditures on VA disability compensation and healthcare, and lowering the demand for VA education benefits. All stakeholders would benefit.

Proposed Well-Being Scores

To measure and monitor financial well-being for military members and their families, each military member will earn a numeric value related to their credit; income; spending; debts; and assets. While household income or spending may not be accurate, having some number is better than no number. In "Financial Instability – Suicide's Weapon of Choice", Lieutenant Colonel Cook

recommends using Debt to Income Ratio, Credit Scores, and a Personal Savings Rate to identify soldiers at risk of financial indebtedness.¹⁴⁹ When combined with standard pay scales at the DFAS, benchmarks can be established for measuring degrees of risk. Using these metrics and indexes, the Department of Defense can better understand the financial well-being of military members and their families and develop targeted programs and interventions to improve their financial health.

Elements Technology, Inc., a financial technology company, uses a financial vital sign scorecard to standardize and simplify the way advisors monitor, assess, and communicate with clients about their holistic financial health.¹⁵⁰ Measuring cash flow is essential to evaluating financial well-being, financial stress, and security in old age. For effective cash flow measurement, the three baseline elements of spending rate, savings rate, and debt rate are critical.

The spending rate (calculated by dividing Annual Living Expenses by Total Personal Income) represents the percentage of a person's annual gross income being spent on personal living expenses, excluding debt payments, savings, and taxes. Spending habits impact an individual's ability to save, invest, and pay off debt. Activities such as expense tracking help raise awareness of spending and prompt reflection on spending behaviors. While budgeting is helpful, few people do it, making periodic reviews of expenses essential for financial wellness. Individuals can easily track spending over a few months using free services such as Mint or Personal Capital. Spending rates should decrease or remain the same as income rises. Spending Rates vary by income bracket: \$0-\$100,000 (50-70%), \$100,000-\$250,000 (45%-65%), \$250,000-\$500,000 (40%-60%), \$500,000 and up (30%-50%).¹⁵¹ Similar brackets and distributions could be developed for the military population. A variety of factors, such as lifestyle upgrades, relocations, and larger families, may cause increases in spending. Additionally, individual beliefs, attitudes, goals, peer groups, and experiences may cause higher spending. Keeping spending rates low often leads to higher savings rates.

The savings rate (calculated by dividing Total Annual Savings by Total Personal Income) represents the percentage of an individual's annual gross income saved for future use. It indicates current financial wellness and preparation for long-term financial security, providing a measure of financial flexibility and resilience in the face of a financial setback. Humans favor immediate or short-

¹⁴⁹ Cook, Samuel. "Financial Instability: Suicide's Weapon of Choice." Army War College – Strategy Research Project. 2013. Page 36. <https://apps.dtic.mil/sti/citations/ADA589131>

¹⁵⁰ Corporate profile of Elements Technology, Inc. page on LinkedIn. Accessed May 2, 2023. <https://www.linkedin.com/company/getelements/>

¹⁵¹ Corporate website of Elements Technology, Inc. Accessed May 2, 2024. <https://getelements.com/wp-content/uploads/Burn-Rate-Br-Assessment-Guide.pdf>

term payoffs, making lifestyle and consumption choices a major variable in savings rates. Evaluating the current savings rate can prompt an individual to reach for a higher savings rate and take actions such as increasing savings after an upcoming promotion and cutting unnecessary expenses like subscriptions. Typically, savings rates fall between 10% and 30%.¹⁵²

The debt rate (calculated by dividing Total Annual Debt Payments by Total Personal Income) represents the percentage of a person's annual gross income that goes towards required debt payments. Debt rates generally range between 10-15% (low), 20-30% (average), and 40% or more (high).¹⁵³ As individuals age and approach retirement, their debt rates should decrease. However, it is important to recognize that not all debt is bad; home mortgages and student loans are usually considered good debt, as they have a reasonable expectation of providing a return on investment, while unpaid credit card balances, unpaid taxes, and high-interest personal loans are typically considered bad debt. Any extra payments made towards debt should be counted as savings to reward individuals for paying off debt with funds that would otherwise go to consumption. Monitoring the debt rate allows for the identification of patterns, the development of debt payoff strategies, and smart financing decisions. To manage debt, individuals should consider factors like interest rates, available income, and possible solutions such as debt consolidation or debt settlement.

To assess an individual's financial well-being and financial goal attainment, a series of questions and conversations should be explored. These include whether the person is saving enough to meet their financial goals, whether they are paying an appropriate amount of debt, and whether they are spending within their means. Additional discussions may cover topics such as whether the person has enough liquidity to meet their needs, whether they are maximizing benefits from available retirement accounts, and whether they have too much or too little net worth concentrated in real estate.

Cautionary signs triggering the use of “push programming”

Risk flags can be used to identify individuals who may be facing financial difficulties and who could benefit from "push programming". Examples of early warning signs include having no credit score or a subprime credit score; paying only minimum balances on credit cards; maxing out credit limits; having no emergency funds or available credit; holding large outstanding student loan balances; having a high Debt to Income ratio; participating in food assistance programs; experiencing auto

¹⁵² Corporate website of Elements Technology, Inc. Accessed May 2, 2024. <https://getelements.com/wp-content/uploads/Savings-Rate-Sr-Assessment-Guide.pdf>

¹⁵³ Corporate website of Elements Technology, Inc. Accessed May 2, 2024. <https://getelements.com/wp-content/uploads/Debt-Rate-Dr-Assessment-Guide.pdf>

repossession or home foreclosure; using home equity loans to pay routine bills; or declaring bankruptcy.¹⁵⁴ By identifying these cautionary flags, timely resourcing and coaching can be provided to individuals in need through “push programming”, helping them to address their financial challenges at the place and time of need.

Executive Dashboards and Reporting

To measure and monitor the financial well-being of military members and their families, the DoD can use digital dashboards and analytical techniques to monitor well-being over time. These dashboards can include annotated timelines that consider external macroeconomic factors such as unemployment and inflation, as well as military events such as military mobilizations and reductions in force. Analysis can be used to understand how military paychecks are transformed into spending, debts, and assets over time. Dynamic dashboards can also be used to direct resources to where and when they are needed most, such as high-cost coastal areas or high-spending relocation periods. The DoD can also ensure the well-being of specific groups, including junior enlisted members; Black and Hispanic military members; single parents; single-income households; large families; families undergoing relocations; families living in high-cost areas; military members in transition; families in need of food assistance; and military members facing divorce, debt collection, or bankruptcy. Overall, dashboards can provide a comprehensive view of the financial well-being of the military and guide DoD resources to improve the financial well-being of its members. According to DoD policy, the Secretaries of the Military Departments are required to provide annual program evaluation plans for assessing the effectiveness of their respective financial training and education programs.¹⁵⁵ However, little information is available to the public, and greater transparency is needed. Results of the 2020 SOFS indicate that the top sources of military members’ financial knowledge and skills were family, friends, and peers, not the DoD financial literacy program.¹⁵⁶

¹⁵⁴ Bryant University, Online CFP® Training Program. April 2023. Paid access only.

¹⁵⁵ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. Page 21. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

¹⁵⁶ US Government – Department of Defense. “Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces – Results from the 2020 Status of Forces Survey.” April 11, 2022. Page 23. https://finred.usalearning.gov/assets/downloads/FINRED-2020_FinancialLiteracy-R.pdf

Reporting

Improving transparency, reporting, and metrics is crucial given the critical nature of financial readiness and its associated issues, including suicide. However, the current Defense Readiness Reporting System (DRRS) does not account for financial readiness, and the Office of Financial Readiness within the DoD does not comment on the completeness of financial readiness training across the services. Moreover, there is an information void. The most recent Quadrennial Defense Review (QDR) dates to 2014. The last Health Related Behavioral Survey (HRBS) dates to 2015. The annual Status of Forces Report (SOFS) is published with a two-year delay. The FINRA Foundation reported on the Financial Capability in the US with 2009 and 2012 Reports of Military Findings; however, that was more than ten years ago.¹⁵⁷ The Annual Reports of the Department of Defense Military Family Readiness Council (MFRC) are dated 2009 through 2019 – nothing is listed for 2020, 2021, or 2022.¹⁵⁸ Although the DoD’s approach to suicide prevention lists promotion of financial readiness as its primary strategy, the Annual Suicide Report does not provide statistics or data points surrounding levels of indebtedness or credit scores. However, from 2008 to 2011, the Department of Defense Suicide Event Reports (DoDSER) database identified indebtedness and bankruptcy as a variable in 10-13% of suicides reported, based on evaluation forms.¹⁵⁹ In light of these facts, and the slow pace of overall reporting, the US public requires greater transparency from the DoD and robust reporting mechanisms in order to improve the financial well-being of military members and their families.

Catalyst for Change: e-Coaching

The use of personal financial apps has been associated with better financial outcomes in the US based on data from the 2018 National Financial Capability Study. Consumers who use financial management apps are more satisfied with their financial institutions and more likely to engage in activities which promote financial health.¹⁶⁰ Similarly, the National Endowment for Financial Education’s 2018 study showed that app users are more likely to have a budget, save money, and

¹⁵⁷ Skimmyhorn, William. Insights - Financial Capability. "The Financial Welfare of Military Households." FINRA Foundation. November 2014. Page 18.

¹⁵⁸ US Government – Department of Defense. Military OneSource. "Military Family Readiness Council." <https://www.militaryonesource.mil/leaders-service-providers/military-family-readiness-council/>

¹⁵⁹ Cook, Samuel. Army War College – Strategy Research Project. 2013. "Financial Instability – Suicide’s Weapon of Choice." Page 12. <https://apps.dtic.mil/sti/citations/ADA589131>

¹⁶⁰ J.D. Power. "2020 US Retail Banking Satisfaction Study." April 2020. <https://www.jdpower.com/business/press-releases/2020-us-retail-banking-satisfaction-study>

report lower levels of financial stress.¹⁶¹ Accountability mechanisms in the form of coaches, peer groups, and mobile apps can reinforce positive behaviors and help with goal attainment.¹⁶² However, it is important to note that using financial apps alone does not guarantee better financial outcomes. Individuals should utilize all available resources to make sound financial decisions, whether it be financial apps, spreadsheets, or financial advisors. Nonetheless, personal financial apps can serve as a catalyst for change, providing individuals with DIY financial management skills that will serve them during Active Duty, through transition, and into old age, leading to overall financial well-being.

A “Do It Yourself” financial coach in your pocket

AI-related technologies, including e-coaching chatbots, are being increasingly adopted in the workplace.¹⁶³ These chatbots promise personalized, timely, and cost-effective coaching, which could replace or augment human coaches in certain instances. E-coaching can leverage data to send personalized messages and timely education prompts. E-coaching could also be useful in overcoming barriers to human face-to-face coaching, such as the need to build trust between a coach and a client; overcoming feelings of shame; scheduling appointments; and traveling to meetings. Researchers have evaluated the acceptance of chatbots based on the Unified Theory of Acceptance and Use of Technology and found that performance expectancy has the strongest impact on user acceptance.¹⁶⁴ Chatbots could be leveraged to establish measures of financial well-being, to formalize financial goals, and to measure and monitor progress.

To evaluate the effectiveness of AI-driven chatbots, the DoD could undertake a longitudinal, randomized control study comparing the goal attainment of users of chatbots relative to a no-chatbot control group. The study could measure general financial well-being indicators (such as credit score; debt levels; asset levels; and net worth) to compare the effectiveness of the two approaches. With the potential to enhance performance and lower costs, e-coaching could be a valuable, accessible tool to improve the financial well-being of military members and their families using evidence-based

¹⁶¹ National Endowment for Financial Education. 2018. <https://www.nefe.org/research/research-projects/ongoing-research/default.aspx>

¹⁶² Newland, Stephen. “The Power of Accountability.” Association for Financial Counseling & Planning Education (AFCPE). March 2018. <https://www.afcpe.org/news-and-publications/the-standard/2018-3/the-power-of-accountability/>

¹⁶³ Gartner Research on HRIS and Chatbots. “Gartner Magic Quadrant for Enterprise Conversational AI Platforms.” January 2022. <https://www.gartner.com/en/documents/4010683>

¹⁶⁴ Terblanche, Nicky; and Cilliers, Daniel. Factors that influence users' adoption of being coached by an Artificial Intelligence Coach. 2020. <https://philosophyofcoaching.org/v5i1/06.pdf>

coaching frameworks and related prompts without barriers such as shame.¹⁶⁵

Conclusion

In conclusion, the financial well-being of today's military members is critical to the Department of Defense, as they are today's crisis response force and tomorrow's veterans. A whole-government strategy, actionable roadmap, and resourcing plan could address the challenges faced by military members and reduce the risk of high-interest debt and its adverse effects. The introduction of a salary-based loan program alone could increase readiness and improve retention while generating annual savings of over \$52 billion for the DoD and Veterans Affairs Department.

It is essential to note that the Department of Defense bears the responsibility of providing a successful transition for military members in order to give them the best chance of becoming thriving citizens. This responsibility should include the provision of data-driven solutions to improve members' financial well-being. Through the adoption of digital coaching services (focusing on DIY financial management skills) and the implementation of an earned wage access or salary loan program, the Department of Defense could improve outcomes for commanders, military members, and military families, as well as for itself, the Veterans Affairs Department, and US taxpayers. America's military strength is its all-volunteer force. Improving the financial well-being of military members and their families will significantly contribute to this force's preservation. Consequently, Congress should mandate, and the DoD must implement, a data-driven longitudinal study using new credit bureau and Thrift Savings Plan data to measure and monitor the financial well-being of military members and their families.

¹⁶⁵ Terblanche, Nicky. *A design framework to create Artificial Intelligence Coaches*. International Journal of Evidence Based Coaching and Mentoring. 2020. <https://radar.brookes.ac.uk/radar/items/312d40ec-ccdf-431c-a062-2aa862166ac4/1/>

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Appendix 1:

An Illustrative Example of Desired Outcomes

The following is an attempt to identify short-term and long-term outcomes within the context of individual financial well-being goals and organizational objectives for the DoD.

Evidence-Informed Strategies	Short-Term Outcomes	Distal Outcomes
<i>Measure and monitor financial well-being across critical areas:</i> • Credit: Credit builder products and resources • Income: Spousal employment resources and/or remote work • Spending: Digital expense trackers and budgeting tools • Assets: Employer matching through Thrift Saving Plan • Debts: Interest rate reductions, and debt consolidation or settlement	<i>Individual</i> 1. Develop DIY financial management skills. Including knowledge, capacity, and motivation to achieve goals. 2. Erase bad debt. Management of high-interest debts. 3. Achieve prime credit. Essential for accessing credit and successful transition. 4. Start investing early. Capitalize on DoD-matching funds and invest at peer-level benchmarks.	<i>The financial freedom to adventure today without worrying about the future.</i>
<i>Financial Readiness Program Assessment and Annual Plan</i> • New programming (e.g., chatbot, personalization) • Competency-based model (e.g., USALearning) • Annual financial wellness survey to fill gaps in datasets • Peer-learning model • Financial coaching (1:1) <i>Increase Partnerships for Double-Loop Learning</i> • Non-profit, academic, and commercial partnerships • Engage the Defense Innovation Board	<i>Organizational</i> 1. Measure and Monitor. Develop a meaningful measure of financial well-being of military members and their families comprised of individual scores and indices for credit; income; spending; debt; and assets. 2. Reports and Metrics. Publish an annual report on key outcomes and related metrics, complete with an annotated timeline and programmatic metrics (the completion of training, the use of food stamps, bankruptcy flags). 3. Build Trust and Transparency. Publish dashboards to monitor vulnerable groups (including junior enlisted members; Black and Hispanic members; those living in high-cost areas; single parents; large families). Additionally, publish financial readiness plans provided by the Secretaries of the Military Departments. 4. Force Rejuvenation. Return military members and families back to society in a better condition to that in which they arrived.	<i>A force that is financially savvy, secure, and resilient to accomplish missions.</i>

Appendix 2:

Financial Force Protection: Why Commanders Should Pay More Attention

US Military Department Secretaries and commanders are entrusted as leaders of our all-volunteer force. After all, people are the center of warfighting organizations – if nothing else, they operate our weapons systems. However, military members with high indebtedness are vulnerable to recruitment by foreign adversaries. Acts of treason are often induced by financial incentives. Individual financial indebtedness creates a hidden vulnerability for the DoD, each military service, and even tactical commanders. The DoD’s proverbial “keys to the kingdom” are at risk since high-risk personnel include weapon system administrators; cryptographic key managers; security clearance managers; facility operations personnel; and key decision-makers, just to name a few. Edward Snowden (US Army, NSA) and Chelsea Manning (US Army) are illustrative examples of grave damage caused by insider threats.

According to the DoD Instruction 1322.34, "Financial Readiness of Service Members", military leaders at all levels are responsible for the financial readiness of military members assigned to their units and commands, and will:

- “Take an active role in promoting the financial readiness of Service members by encouraging financial responsibility and sound financial planning and promoting a culture that recognizes the impact of financial decisions on personal and professional lives.
- “Promote financial readiness as an integral part of personal, family, and mission readiness and assign personnel to support these efforts within a military unit, as appropriate, in accordance with Paragraph 4.3. of this issuance, and guidance from the Secretary of the Military Department concerned.
- “Encourage Service members to seek assistance from available professional support resources before making a significant financial commitment.
- “Direct Service members to financial counseling when they become aware of members’ financial difficulties or indebtedness.
- “Oversee completion of financial readiness CMT requirements for Service members under their command, in accordance with this issuance.”¹⁶⁶

Ensuring the financial well-being of military members and families is a core tenant of leadership and taking care of people. However, the financial well-being of military members is not included as a reportable item in the Defense Readiness Reporting System (DRRS). Typically, it is not included as a command-level inspectable area or item, and training completion statistics are often unreliable.

¹⁶⁶ US Government – Department of Defense. DoD Instruction 1322.34. "Financial Readiness of Service Members." <https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/132234p.pdf>

Appendix 3:

Data Aggregation for Scoring and Scorecards

The following data elements could be collected from human resource systems, credit bureaus, and public records to generate financial well-being scores.

Financial Income (monthly) Debt level total Debt by trade line (creditor: amount, type, rate) Debt: credit card (amount, rate) Debt: new monthly Debt: auto expense (lease or payment) Debt: mortgage Debt: student loan Asset: TSP asset level total Asset: TSP new monthly Asset: cash balance Credit score Credit report (Y/N) Spending: total monthly (for analysis) Net worth	FINREAD Program Flag for counseling Flag for completion of training CFPB Financial Well-Being Score
Risk Flags SNAP WIC Bankruptcy Foreclosure Late payment (60, 90, 120 days) Only paying minimum on credit card bill Credit card lines nearly maxed No credit available (subprime) Flag for no credit available (no credit report) Flag for legal issue Flag for not participating in TSP in past 12 months Flag for military relief society	Profile Military service type Military service component Military service status (AD, RC, etc.) Rank Age Marital status Number of dependents Zip code Gender Ethnicity Highest level of educational attainment Parents' highest level of educational attainment

Appendix 4:

DoD Financial Literacy Training and Learning Map

For reference, the following DoD reference is provided to demonstrate touchpoints where supplemental financial education training is provided.



Source: The DoD Financial Readiness Office. April 10, 2023.

Appendix 5:

Anticipated Savings from Offering a Salary-Based Loan Program

The table below depicts the inputs that could save the US Government \$52 billion annually. The model is based on a business case from Target, Inc.

Annual Turnover Costs	Cost in USD
Total DoD unemployment benefits paid annually	\$677,900,000
Recruitment and training costs for an individual recruit	\$20,000 per individual ¹⁶⁷
Total DoD recruitment and training expenses for new recruits	\$4,000,000,000 ¹⁶⁸
Total DoD costs for unemployment and the recruitment and training of recruits	\$4,677,900,000
VA disability benefits paid annually to 5,081,692 recipients (Over an individual's total retirement, this could be \$17,991 x 50 years = \$899,550.)	\$17,991 per recipient ¹⁶⁹
Total VA disability benefits paid annually to 5,081,692 recipients	\$91,430,000,000 ¹⁷⁰
VA medical care costs spent annually on 6,330,000 veterans. (Over an individual's total retirement, this could be \$12,733 x 50 years = \$636,650.)	\$12,733 per veteran ¹⁷¹
Total VA medical care costs spent annually	\$80,600,000,000
VA education benefits paid per beneficiary annually	\$15,364 per beneficiary
Total education benefits to 657,927 beneficiaries	\$10,108,335,000
Total VA costs for disability, medical care, and education benefits	\$182,138,335,000
Total Active Duty Military Members (2021)	1,300,000 ¹⁷²
New military recruits required each year (estimated)	200,000

¹⁶⁷ US Department of Veteran Affairs – Veterans Benefits Administration. “Benefits Delivery System Report: Education.” PA&I OFM Monthly Reports. 2020. Page 11. https://www.benefits.va.gov/REPORTS/abr/docs/2020_education.pdf

¹⁶⁸ US Department of Veteran Affairs – Veterans Benefits Administration. “Benefits Delivery System Report: Education.” PA&I OFM Monthly Reports. 2020. Page 11. https://www.benefits.va.gov/REPORTS/abr/docs/2020_education.pdf

¹⁶⁹ US Department of Veteran Affairs – Veterans Benefits Administration. “Benefits Delivery System Report: Compensation.” PA&I OFM Monthly Reports. 2020. https://www.benefits.va.gov/REPORTS/abr/docs/2020_compensation.pdf

¹⁷⁰ US Department of Veteran Affairs – Veterans Benefits Administration. “Benefits Delivery System Report: Compensation.” PA&I OFM Monthly Reports. 2020. https://www.benefits.va.gov/REPORTS/abr/docs/2020_compensation.pdf

¹⁷¹ US Government – Congressional Research Service. “Health Care for Veterans: Answers to Frequently Asked Questions.” March 2020.

https://www.everycrsreport.com/files/20200304_R42747_c5614cdbebc14c6ad29a82f5bd392f812ac3997.pdf

¹⁷² Council on Foreign Relations. “Demographics of the US Military.” July 13, 2020. Accessed on August 20, 2021.

<https://www.cfr.org/backgrounder/demographics-us-military>; and the Defense Manpower Data Center (DMDC).

<https://dwp.dmdc.osd.mil/dwp/app/dod-data-reports/workforce-reports> Accessed January 10, 2023.

Initial 36-month attrition rate (average)	23.73% ¹⁷³
Total turnover rate in the military today	15.38%
Reduction in personnel turnover from studies involving salary loans	28%
Total projected annual personnel turnover post-Salary Loan Program	144,000 versus 200,000
Reduction in personnel turnover post-Salary Loan Program	56,000
Total turnover costs today (including DoD unemployment benefits; DoD recruitment and training; and VA disability, medical care, and education)	\$186,816,235,000
Anticipated military total turnover rate post-Salary Loan Program	11.07%
Anticipated total turnover costs post-Salary Loan Program	\$134,507,689,000
Total tangible savings from Salary Loan Program	\$52,308,546,000

¹⁷³ Marrone, James. *Predicting 36-Month Attrition in the US Military: A Comparison Across Service Branches*. RAND Corporation. 2020.