



Periodic Financial Assessment

By Maj. Karl H. Ludeman

The U.S. Army needs to incorporate a systematic method for assessing the financial health and readiness of every soldier in order to proactively engage underlying financial stressors which negatively influence high-risk behaviors and reduce combat readiness. Existing programs are reactive in nature and are not achieving desired results. The Command Finance Specialist (CFS), the Army Community Service (ACS) Personal Financial Assistance Center (PFAC), and the Army Emergency Relief (AER) are mutual programs designed to proactively address Soldier financial issues. If these programs were successful then the logical outcome would be a reduction in the need for AER support. The trend however is the opposite. In 2004, AER provide approximately \$40 million in no-interest loans and grants. In 2013, AER provided \$64.8 million.¹ While this program does provide vital aid to many soldiers in distress, the fact is that most AER loans can't prevent debt; rather, it is a reactive measure to minimize the debt snowball effect. Furthermore, in military communities lenders are more apt to approve high-risk loans to secure the sale because they know that the AER program will step in to bailout Soldiers. From this perspective, it is plausible that AER loans contribute to Soldier financial hardship.

The role the Chain of Command plays in 'taking care of Soldiers' is well known. However, the responsibility for helping Soldiers with their finances has progressively decreased. AR 600-15, *Indebtedness of Military Personnel*, effective 28 September 1979 has since been rescinded. Effective 9 September, 2015, Soldiers with 12 months' time in service can now receive an AER loan without having to obtain approval from their Commander or First Sergeant.² This widening void between financial high-risk behavior and the ability of the commander to engage will necessitate new systems to effectively and proactively support Soldiers' debt prevention, and ultimately their financial wellbeing.

We need to take financial wellbeing as seriously as we take physical and mental wellbeing. In 1904, the use of medical records greatly advanced. To insure the continuity of the record of each case, and also to the treatment of a patient sent from one hospital to another, the War Department directed that when a patient was so transferred a copy of the report card be prepared and forwarded to the receiving one.³ The medical record represents a capability that developed out of the Army's requirement for taking better care of soldiers' physical health. A recent development is the Periodic Health Assessment (PHA) which is a preventative screening tool designed to improve reporting and visibility of Individual Medical Readiness (IMR) for all soldiers.⁴ Following this medical theme, advancements in financial management could serve to improve soldiers' financial health and Individual Financial Readiness (IFR). The inclusion of both a Periodic Financial Assessment (PFA) and financial record would be optimal towards forming a systematic method for assessing the financial health of every Soldier.

HIGH-RISK BEHAVIORS. The Army is actively involved with mitigating high-risk behaviors and yet high-risk behavior persists. As with medical issues the treatment often only addresses the symptoms rather than the cause of the ailment. Are we effectively treating chronic Army organizational ailments or merely the symptoms? Intuitively, one could argue that financial stress contributes to undesirable behaviors but the degree to which it does is not being appropriately addressed by the Army.

According to AR 600-85 Chapter 12-1, The Risk Reduction Program (RRP) is a commander's tool designed to identify and reduce Soldiers' high-risk behaviors in the areas of substance abuse, spouse and child abuse, sexually-transmitted infections, suicide, crimes against property, crimes against persons, AWOL, traffic violations, accidents, and financial problems. This list of high-risk behaviors may be inclusive but it is not comprehensive. A



traffic violation may lead to an accident but it does not ensue that a soldier will soon commit a crime against property. Substance abuse on the other hand could result in each of the other high-risk behaviors; it's a question of cause and effect. Financial problems, like substance abuse, can affect each of the other high-risk behaviors. The correlation between factors and effects, however, is more elusive.

It is necessary to grasp second and third order effects in order to identify the correlation between financial problems and high-risk behaviors. Multiple agencies at Ft. Hood were contacted in an attempt to gain evidence supporting the correlation between finance and behavior for this article: Risk Reduction Committee, Army Substance Abuse Program, Family Advocacy Program, Suicide Prevention, Directorate of Emergency Services, and Intelligence and Security Command. Representatives from each of these agencies were asked what percent of enrollees, subjects, or cases had any preexisting financial hardship prior to the high-risk behavior. Each representative intuitively recognized the correlation between the two but they could not provide hard statistics correlating private debt to high-risk behavior.

Each of the high-risk programs have an associated 'mandatory' training requirement; debt prevention is not considered mandatory. The lack of mandatory debt prevention training and awareness of debt, by agencies operating high-risk programs, indicates a lack of precedence within the Army towards addressing financial hardship as a comparable high-risk behavior. This is likely due to the perception that financial hardship is a symptom of high-risk behavior rather than the underlying ailment of those high-risk behaviors.

The Army would greatly benefit from assimilating the substantial literature which documents the association between socioeconomic deprivation and the resulting psychological distress. Studies show that individuals who experience financial hardship tend to suffer from elevated levels of distress because of greater exposure to chronic and acute stressors, including family and relationship problems, physical limitations, and poor neighborhood conditions.⁵

One topic of study which offers some evidence of second and third order effects is the subject of socioeconomic status (SES). SES is an economic and sociological combined total measure of a person's work experience and of an individual or family's economic and social position in relation to others, based on income, education, and occupation. Most famous for linking SES with health are the Whitehall studies — a series of studies conducted on civil servants in London. The studies found that although all civil servants in England have the same access to health care, there was a strong correlation between SES and health. The studies found that this relationship remained strong even when controlling for health-affecting habits such as exercise, smoking, and drinking.⁶ This implies that some high-risk behaviors, like drinking, do not significantly contribute to adverse health effects; whereas income, the prevailing aspect of socioeconomic status in the Army, does.

PROACTIVE ENGAGEMENT. Current Army financial improvement programs are reactive in nature. Counselors in the Personal Financial Assistance Center (PFAC) spend the majority of their efforts towards "damage control," through submitting requests for AER loans, debt management, and debt-liquidation services. According to III CORPS & FH REG 210-8, one of the duties and responsibilities of the CFS NCO is to provide financial counseling and advice to individual soldiers and family members upon soldier entry into the unit, departure from the unit, self-referral, or request by the chain of command. However, the financial counseling upon entry/departure is typically provided to groups rather than individuals and the counseling is more of an information brief on what the CFS provides rather than conducting a personalized counseling of a soldier's finances. Command directed financial counseling generally occurs once it is too late to prevent overwhelming debt. Self-referral is the only proactive scenario here but it depends on the Soldier being proactive which is insufficient to achieving Army wide financial health. Similarly, the PFAC depends upon self/command referral.

The Financial Readiness Review (FRR) is another Army program that fails to deliver significant results. According to AR 600-8-104 Chapter 4-7.a, the purpose of conducting the finance records review is to ensure that the soldiers have the required key supporting documents (KSDs) in their record for each pay entitlement they



receiving. This program, despite its name, has more to do with Army audit readiness than soldier financial well-being. This is apparent upon reading the Secretary of the Army John M. McHugh's memorandum, "Key Supporting Documents Required for Army Pay Audit Readiness," released 14 June 2013. Furthermore, it is apparent to anyone who has actually gone through the five minute long FRR process with their Personal Admin Clerk (PAC) - this program provides no substantive gain to financial wellbeing.

To truly be proactive an ailment is best treated through preventative medicine practices; debt must be prevented. Educational programs are a key component to proactive engagement. However, an education is what remains after you've forgotten what you've learned. In other words, institutional education can only get you so far. At some point you have to execute and, following the completion of the exercise, conduct an After Action Review (AAR) to reinforce what you have learned. There is currently no proactive system in place to ensure soldiers are conducting an AAR of their financial decisions in order to mitigate subsequent poor financial decisions.

ASSESSING FINANCES. Before you see the doctor, a nurse measures your vital signs, blood pressure, heart rate, and temperature. These measurements are taken to help assess the general physical health of a person, give clues to possible diseases, and show progress toward recovery. A Pay Inquiry and Credit Report are two measurements which would provide data necessary to evaluate the analogous financial health vital signs - income and debt.

A pay inquiry is a process designed to resolve any one of a multitude of pay related issues which may arise over the course of a soldier's career. These issues are as followed: promotions, reductions, reenlistments, bonuses, entitlements, Basic Allowance for Housing (BAH), debt collections, advance payments, Permanent Change of Station (PCS) entitlements, casual pay for overdue entitlements, and payments of sold accrued leave. Many of these issues are normally resolved by the PAC clerk; eliminating the lost productivity time from sending soldiers to finance. This process is suitable when the change is unit driven, i.e. the promotion of a soldier.

However, this process is less suitable when the change is soldier driven, i.e. the soldier gets divorced and fails to change to BAH without dependent. Such scenarios result in future debt collection and if not identified promptly can then result in significant financial hardship for the soldier. A periodic pay inquiry could mitigate similar soldier-to-Army debt and should be necessary for a unit's financial readiness program to be considered proactive.

A credit report is a record of an individual's past borrowing and repaying, including information about late payments and bankruptcy. However, credit score is a poor metric for assessing a soldier's financial health. A private that has never been in debt will have an unfavorable credit score; whereas an officer or senior non-commissioned officer with a great credit score could actually be up to their eyeballs in debt, i.e. drowning. More important than credit score are the actual factors of payment history and debt which are detailed in the credit report. Payment history is a crucial tool for identifying changes in behavior. A situation where a soldier who had been making steady payments but then begins missing payments, upon deployment or redeployment, may indicate a behavior health issue. Debt, too, is significant but more important is the Debt to Entitlements ratio (D/E), which normalizes the data thus enabling a rank-independent assessment.

SYSTEMATIC METHOD. The methods used by the medical branch are systematic. Physical health issues are incapacitative in nature and often easily identified and the medical record serves to document a soldier's remaining physical capabilities. Mental health issues are debilitating in nature and difficult to identify, where a soldier's mental capabilities ebb and flow, and one function of the PHA is to perform a symptom-focused exam.⁷ Financial health issues fall somewhere in between. Financial problems begin in a debilitating fashion and if left unidentified can incapacitate a soldier's monetary capabilities; i.e. bankruptcy. For this reason, the inclusion of both a Periodic Financial Assessment (PFA) and financial record would be optimal towards forming a systematic method for assessing the financial health of every soldier.

A PFA, like a PHA, would be a scheduled event which will allow a uniformed Financial Management



Practitioner (FMP) to identify mounting financial problems. The assessment would begin with an update to personal information, such as changes in marital status, new dependents, etc. This would then be followed by a pay inquiry to verify and fix any issues to the soldier's income. Next would be a "soft" credit report to ascertain current debt as well as any recent changes in payment behavior.⁸ These finance vitals can be uploaded into a database for future data mining as well as recorded into the soldier's financial records for future reference. Finally, the FMP would then provide the soldier feedback, an AAR of sorts, on their financial health through the use of the D/E ratio, compared against Army wide statistical data. In cases of moderate-risk and above D/E ratio, the FMP would be able to act proactively through providing information and or referring the soldier to agencies like the PFAC. Early identification would allow finance counselors to spend more time helping soldiers with budget planning, banking, investing, and deployment preparation rather than "damage control."

Historically, the availability of banks was geographically determined, where one's financial accounts were limited and easy to manage. Today the internet allows access to multiple banks, where accounts are numerous and difficult to manage. Additionally, bank robbers of the past have given way to identity thieves of the present. As such, the Army needs to reinvigorate the connection between the soldier and their finances, most importantly to integrate debt prevention. The financial record is the link to making this connection work. It serves a greater purpose than just capturing supporting documents for entitlement audits. More so, it serves to document historical data on past income and debt. The Financial record is a tool which can be used to fight business scams and other consumer laws and rights violations - the Consumer Financial Protection Bureau has received more than 35,000 complaints from service members, veterans, and their family members.⁹ Furthermore, it serves to document a soldier's remaining financial capabilities; for the soldier's and the Army's proactive financial awareness. In the case of financial success, it serves as a beacon of hope for that soldier and their family. Lastly, it serves as a symbol of financial responsibility during a time of Army downsizing and national economic unease.

CONCLUSION. The PFA, and the maintaining of a financial record, is an efficient method for assessing the financial health of every Soldier. Like medical records and the PHA, commanders will not have access to the PFA and financial record, thus protecting soldiers from negative stigmas related to poor personal financial management. The results of the PFA will provide meaningful data that will give the Army situational awareness needed to engage underlying financial stressors in a way that is far more proactive than what is currently being achieved. Through proactive financial awareness the Army can truly make strides towards reducing high-risk behaviors and improving combat readiness.

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NOTES

1. *2013 Annual Report* (Alexandria, VA: Army Emergency Relief, 2013).
2. "Army Emergency Relief Now Provides Direct Access for all Soldiers," Army Emergency Relief, accessed 15 March 2016, <http://www.aerhq.org/dnn563/Home.aspx>.
3. "Tabulating Equipment and Army Medical Statistics" (Washington DC: Office of the Surgeon General, 1958), 26.



4. "Policy and Implementing Guidance for Periodic Health Assessments (PHA)" (Fort Sam, Houston, TX: United States Army Medical Command, 14 Nov 2006), 1.
5. Matt Bradshaw and Christopher G. Ellison, "Financial Hardship and Psychological Distress: Exploring the Buffering Effects of Religion," *Soc Sci Med.* 71(1) (July 2010): 196-204.
6. "Socioeconomic Status," *Wikipedia*, accessed 3 October 2014, http://en.wikipedia.org/wiki/Socioeconomic_status.
7. "Policy and Implementing Guidance for Periodic Health Assessments (PHA)," 2.
8. There are several kinds of inquiries that may or may not affect one's credit score. Soft inquiries have no effect on the creditworthiness of a consumer. They remain on a consumer's credit reports for 6 months and are never visible to lenders or credit scoring models.
9. "Information for Servicemembers," Consumer Financial Protection Bureau, accessed 16 March, 2016, <http://www.consumerfinance.gov/servicemembers/>.