Make financial responsibility a habit

By Kimball Johnson

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(Graphic by NCO Journal)

Two men decide to go into business for themselves. They buy a pick-up truck and rent a store, then drive to a local farm and make a deal to buy watermelons for one dollar a piece. After filling their truck with the melons, they drive back to the store and sell them for one dollar a piece. They do this for a couple of months until they begin to wonder why they don't make a profit. "Do you think we need to buy a bigger truck," one partner asks the other. Sometimes we need help understanding money.¹

Noncommissioned officers who supervise Soldiers will face the challenge of helping them with finances sometime during their career. The Army made several resources available to Soldiers with financial issues. However, if faced with financial difficulties they could face a letter of Skip to main content (Press Enter) Skip to main content (Press Enter) and the Uniform Code of Military Justice, or mandated

training, as outlined in Army Regulation 608-1 (https://armypubs.army.mil/epubs/DR_pubs/DR_a/pdf/web/ARN6228_AR608-1_Web_Final.pdf).4-38, Army Community Service, Section V Financial Readiness.

Preventing these circumstances from occurring through training and education is an NCO responsibility. They should provide their Soldiers with personal finance instruction before they have a financial emergency.

Avoid Debt

Many Soldiers may not understand how debt can affect their ability to obtain credit. According to the non-profit organization Veterans Plus, which focuses on teaching financial literacy to Soldiers and veterans, "research found that military members, on average, have a ten percent higher debt-to-income ratio than civilians." This means Soldiers spend 46.5 percent of their income on monthly expenses, while their civilian counterparts use 36.5 percent of their monthly income for the same kinds of debt.

To evaluate a potential borrower's ability to repay debt, lenders calculate their debt-to-income ratio with three types of debt. They are, monthly mortgage or rental payments (including any taxes and insurance), child and alimony payments, and any outstanding judgments and monthly debts on their credit report. They do not include food expenses, utility bills, or other types of unreported debt. These three debts are then divided by the borrower's gross (before taxes) monthly income to determine their DTI.

	Total Monthly Debt
Debt-to-Income Ratio =	
	Total Gross Monthly Income

Budgeting the Budget

In the late 1960s, Walter Mischel, a professor of psychology at Stanford University, experimented with a group of children. Each child sat at a desk with a tray of treats to pick from and were told they could pick one treat to eat. However, if they waited and did not eat their choice until after the adult attendant returned, they could choose a second treat.

This study was developed to learn how individuals develop "delayed gratification" skills. Years later, when Mischel followed up with his now-adult test subjects, he found those who were able to hold off eating the treat as a child, on average, "coped with problems" better than those who were unable to wait.³

Showing the benefits of "delaying gratification" by establishing a budget is one way NCOs can help their Soldiers make unhurried financial decisions and better cope with financial issues before they become problems.

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Soldiers may already know how to build a basic budget, but they should watch their spending

habits and learn how to prioritize needs over wants. They can do this by performing a quick self-evaluation with the following questionnaire:

HOW DO I FEEL ABOUT MY SPENDING?	I spend too little	I feel good about my spending	I spend too much
Eating out at restaurants			
Groceries			
Snacks and beverages			
Entertainment			
Rent or mortgage			
Utilities			
Clothing			
Household items			
Transportation			
Insurance			
Cell phone			
Cell phone ure 1 ⁴			

After completing the self-assessment, Soldiers can review their monthly expenses by looking at their saved receipts to help them determine where they can reduce expenses and start saving.

Pros & Cons

Another principle of financial readiness is making informed decisions before making long-term financial commitments.

Buying anything reported on a credit report or committing more than one percent of monthly income towards a purchase, before considering the pros and cons, is never wise. For example, before buying a house, Soldiers should calculate their DTI ratio, after adding the amount of the new mortgage payment, property taxes, and homeowner's insurance. They should also consider neighborhood services, how long they plan to live in the house, and property condition.

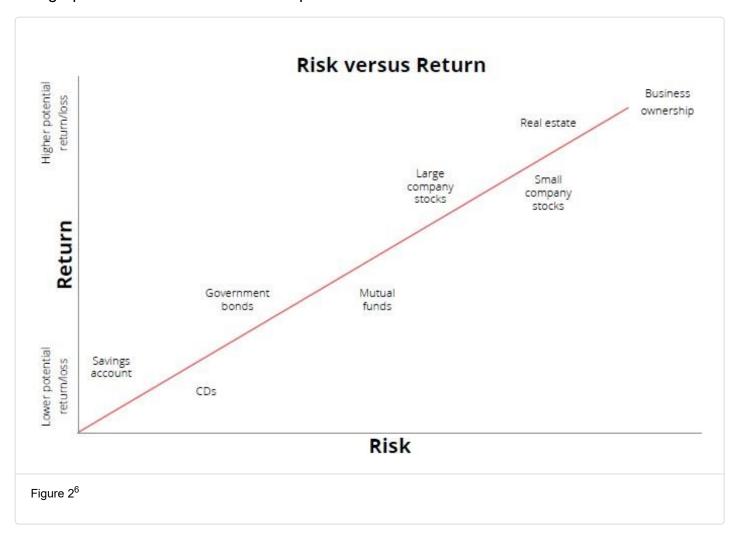
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This is where making a list of pros and cons can help. By making a written list, certain items

stand out, making an informed decision easier to make.⁵ Encouraging Soldiers to make a list is also a way for them to show self-control and demonstrates a process they can use to make informed decisions in other areas of their lives.

Investing

Before investing in individual retirement accounts, mutual funds, or stocks, Soldiers should pay off interest-accruing debt such as high-interest rate credit cards or a home mortgage. This saves them money in the long run. For example, one extra payment a year on a 30-year conventional mortgage can reduce the overall repayment time to less than 20 years.

When considering investing, it is important to realize the risks involved in different investments. The graph below rates risks based on possible returns:



"Ultimately, there's one investment that supersedes all others: Invest in yourself. Nobody can take away what you've got in yourself, and everybody has potential they haven't used yet," said Warren Buffett, a well-known investor with a net worth of 84.2 billion and corporate executive officer for more than 60 different companies ⁷

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marketable skills as part of their investment for the future.

Learning Resources for Soldiers

The Army's Financial Readiness (https://www.armymwr.com/programs-and-services/personal-assistance/financial-readiness) office provides Soldiers with free financial coaching and NCOs can use these resources to teach their Soldiers financial responsibility.

"I would say that 95 percent of us were never trained how to handle money. How are we supposed to be good at something we were never taught?" said Marty L. Tydings, Fort Leavenworth, Kansas, financial readiness program manager. "Every professional who wants to be at the top of their game hires a coach, and learning to handle money well can result in not only never living paycheck to paycheck again but can easily result in being wealthy. Why not use a free resource to get better at handling money? It can make all the difference."

Conclusion

Teaching their Soldiers to calculate debt-to-income ratios, making a list of pros and cons before entering long-term financial commitments, and taking advantage of free financial management courses are ways NCOs can help their Soldiers succeed financially and avoid possible disciplinary action and bad credit.

Notes

- 1. Dallin H. Oaks, former Utah Supreme Court justice, as quoted in *Personal Finances for Self-Reliance*, (Salt Lake City: The Church of Jesus Christ of Latter-day Saints, 2016), 79. https://www.lds.org/topics/pef-self-reliance/manuals-and-videos?lang=eng&old=true#7 (https://www.lds.org/topics/pef-self-reliance/manuals-and-videos?lang=eng&old=true#7).
- 2. Samantha Reeves, "5 Reasons Military Members Go into Debt," *Veterans United*, March 2, 2016., accessed March 29, 2018, https://www.veteransunited.com/money/5-reasons-members-of-the-military-go-into-debt/ (https://www.veteransunited.com/money/5-reasons-members-of-the-military-go-into-debt/).
- Jonah Lehrer, "Don't! The Secret of Self-Control," *The New Yorker*, May 18, 2009, https://www.newyorker.com/magazine/2009/05/18/dont-2 (https://www.newyorker.com/magazine/2009/05/18/dont-2).
- 4. Personal Finances for Self-Reliance, 62.
- 5. Personal Finances for Self-Reliance, 170.
- 6. Personal Finances for Self-Reliance, 187.
- Zameena Mejia and Marguerite Ward, "Warren Buffett says this one investment 'supersedes all others'," CNBC, October 4, 2017, https://www.cnbc.com/2017/10/04/warren-buffett-says-this-one-investment-supersedes-all-others.html (https://www.cnbc.com/2017/10/04/warren-buffett-says-this-one-investment-supersedes-all-others.html).
- 8. Ms. Marty L. Tydings, Financial Readiness Program Manager, Army Emergency Relief Officer, Fort Leavenworth, KS., in response to interview questions from the author, March 2018.