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Military Families and Financial Readiness

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SUMMARY

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Military Families and Financial Readiness

DOD identifies *financial readiness* as one of the major components of military family readiness and, ultimately, operational readiness. It has been defined as, "the state in which successful management of personal financial responsibilities supports a servicemember's ability to perform their wartime responsibilities." Congress, under its constitutional authority to regulate the military, has oversight for readiness issues and related DOD efforts. Over the past several decades, Congress and DOD have taken action through law and regulation to improve military readiness, including enhancing military consumer protections, increasing financial literacy of servicemembers and dependents, and providing direct financial support to the lowest-income or otherwise vulnerable families during times of need or national emergency.

While servicemember compensation compares favorably to civilian compensation for employees with the same levels of education and experience, total compensation is just one determinant of financial readiness. Financial readiness for military families also depends on other factors like budgeting, debt management, and sound financial planning. Certain aspects of military service can make personal financial management more challenging (e.g., frequent or unpredictable deployment cycles and permanent change-of-station moves). Approximately 40% of the total DOD military force is 25 years old or younger. DOD survey data have found generally that junior enlisted servicemembers experience lower levels of financial well-being than officers. Data also suggest that Reserve Component (RC) members may experience financial instability at higher rates than active duty members; moreover, depending on their duty status, RC members may not be consistently eligible for the same military-specific consumer protections as their active duty counterparts.

The Armed Services Committees may consider initiatives to improve military family financial readiness or to modify compensation and benefits during the annual defense authorization and appropriations processes. While Armed Services are the primary committees of jurisdiction for military regulations, the Senate Banking, Housing, and Urban Affairs and House Financial Services committees have purview over financial market regulations. These latter committees might consider legislation regarding military-specific financial regulations, their implementation, and enforcement.

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Introduction

As the Department of Defense (DOD) develops policies and programs for recruitment, retention, morale, and operational readiness it takes into account servicemember and military family readiness.[1] DOD identifies *financial readiness* as one of the major components of family readiness, and ultimately operational readiness. It has been defined as, "the state in which successful management of personal financial responsibilities supports a servicemember's ability to perform their wartime responsibilities."[2] DOD evaluates financial readiness through measures of financial stability and security.

For servicemembers, financial instability can damage well-being, morale, productivity, and job performance. DOD surveys have found that those who report financial management challenges are more likely to express dissatisfaction with military compensation, coworkers, and the overall military way of life. Serious financial issues, like over-indebtedness or bankruptcy, can lead to loss of security clearance[3], administrative sanctions, or even involuntary discharge from the military.[4] In 2014, DOD estimated that 80% of security clearance revocations and up to 4,703 separations each year are related to financial difficulties. Unplanned personnel losses are costly to the military in terms of the loss of investment in the servicemember's recruitment, training, and education. Individual financial woes may also contribute to unit readiness issues if the affected personnel are ineligible to participate in training and operations due to losing a security clearance, or if administrative burdens draw leaders' attention away from mission-essential tasks.

Congress, under its constitutional authority to regulate the military, has oversight of readiness issues and can mandate policies and programs for DOD implementation. The Armed Services committees may consider initiatives to improve military family financial readiness or to modify compensation and benefits during defense authorization and appropriations processes. While Armed Services are the primary committees of jurisdiction for military regulations, the Senate Banking, Housing, and Urban Affairs and House Financial Services committees have purview over financial market regulations. These latter committees might consider legislation regarding military-specific financial regulations, their implementation, and enforcement.

This report focuses primarily on legislative history and policy options for improving financial readiness of military servicemembers and their families, including servicemember-specific consumer protections and financial literacy initiatives. This report does not address the financial health and financial support programs that support military veterans or DOD civilians. It also does not address financial sector law and regulations that provide consumer protections more broadly for all U.S. citizens.[5]

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[1] DOD, *Military Family Readiness*, DODI 1342.22, August 5, 2021.

[2] Office of the Undersecretary of Defense for Personnel and Readiness, *Directive-type Memorandum (DTM) 19-009—Financial Readiness Common*, August 13, 2019.

[3] A credit history is component of all national security background investigations. See, DOD, *Procedures for the DOD Personnel Security Program (PSP)*, DODM 5200.02, October 29, 2020.

[4] Department of Defense, "Limitations on Terms of Consumer Credit Extended to Service Members and Dependents," Federal Register, DOD-2013-OS-0133, November 28, 2014.

[5] For more on consumer finance and consumer protection policies, see CRS Report R45813, *An Overview of Consumer Finance and Policy Issues*, by Cheryl R. Cooper.

Military Compensation

The perceived adequacy of military compensation is often a subject of concern from broad swaths of the electorate. There is general consensus that military servicemembers should be adequately compensated for particular hazards and hardships associated with service, including deployments to hostile environments, frequent moves, long and inflexible hours, and other strenuous work conditions. As such, reports of military servicemembers facing financial instability, visiting food banks or qualifying for welfare programs often lead to calls for congressional action to increase military pay.[6] Yet, several recent studies have found that military compensation compares favorably with civilian compensation for those with the same level of education and experience.

Past Congresses have taken action to modify military pay scales or otherwise increase cash and noncash benefits to make servicemember pay competitive with civilian pay for equivalent education and experience. Meaningful comparisons with civilian compensation are predicated on an understanding of the elements of military pay. Every servicemember is entitled to military *basic pay* and the level of pay depends on the member's paygrade (rank) and years of service.[7] Basic pay is typically the largest component of cash compensation for servicemembers.[8] However, when making comparisons with civilian compensation, analysts typically use a measure called *Regular Military Compensation* (RMC), which takes into account the total cash value servicemembers receive from the government. RMC is statutorily defined and includes (1) basic pay, (2) basic allowance for housing, (3) basic allowance for subsistence, and (3) the federal tax advantage accruing to allowances that are not subject to federal income tax.[9] See **Table 1** for a sample comparison of basic pay and RMC.

Table 1. Sample Comparison of Annual Basic Pay and RMC for Single Servicemembers

2021

Pay Grade and Years of Service	Annual Basic Pay	Estimated Annual RMC
E-3 (enlisted) with under 2 years of service	$25,247	$48,844
E-7 (enlisted) with 16 years of service	$58,741	$91,534
O-2 (officer) with 2 years of service	$53,312	$83,454
O-4 (officer) with 12 years of service	$96,800	$136,000

Source: DOD, Selected Military Compensation Tables, January 1, 2021, Cash Allowance Tables by Pay Grade and Family Size.

DOD's benchmark goal for RMC is the 70th percentile for comparable civilian wages and salaries.[10] This is the level at which prior research determined that DOD could be competitive in

[6] See for example, Dorian Merina, "When Active-Duty Service Members Struggle to Feed Their Families," *National Public Radio*, April 19, 2017; and Cynthia McFadden, Christine Romo, and Kenzi Abou-Sabe, "Why are many of America's military families going hungry?," *NBC News*, July 12, 2019.

[7] See military pay tables at https://www.dfas.mil/militarymembers/payentitlements/Pay-Tables/.

[8] Congressional Budget Office, *Approaches to Changing Military Compensation*, January 2002, https://www.cbo.gov/system/files/2020-01/55648-CBO-military-compensation.pdf.

[9] 37 U.S.C. §101(25). For more on RMC and military pay, see CRS Report RL33446, *Military Pay: Key Questions and Answers*, by Lawrence Kapp and Barbara Salazar Torreon, and CRS In Focus IF10532, *Defense Primer: Regular Military Compensation*, by Lawrence Kapp.

[10] *Report of the Ninth Quadrennial Review of Military Compensation*, Volume 1, March 2002.

recruiting and retaining the required quality and quantity of personnel.[11] Recent studies have found that military compensation meets or exceeds this benchmark; with enlisted RMC at about 84th to 90th percentile of civilian wages and officer RMC between the 70th to 80th percentile.[12]

Along with RMC, servicemembers and their eligible family members also receive several other benefits such as discounted groceries and household items at military commissaries, free or reduced price access to gym and recreation facilities, subsidized childcare, and no-cost or low-cost medical and dental care. Finally, some members also receive deferred compensation in the form of a life-long pension and health benefits for military retirees, and certain benefits from the Department of Veterans' Affairs for eligible retirees and veterans.[13]

Servicemember Financial Management Challenges

Compensation and benefits are one component of financial readiness; however, financial security for military families also depends on other factors. According to one study's findings, "financial problems [among servicemembers] are shaped by spending patterns and management skills rather than by income itself."[14] Certain aspects of military service can make personal financial management more challenging than it is for many civilians. For example, frequent or unpredictable deployment cycles, and limited access to digital or postal communications while deployed, could lead to delays in meeting financial commitments (e.g., loan or utility payments).[15] Frequent change-of-station moves can make it more difficult for a member's spouse to maintain consistent employment and earnings.[16] A family accustomed to budgeting with two income streams might struggle with debt payments following a move to a duty station where the military spouse is unable to find employment or where remuneration levels are significantly lower for similar work. As noted by one Marine Corps spouse

> The bills we built on two incomes quickly led us to debt," she said. "Debt led us to be unable to do certain things, like pay bills on time, and spiraled to almost having a car repossessed. We got to a place where we couldn't afford groceries for daily needs.[17]

[11] Beth J. Asch, *Setting Military Compensation to Support Recruitment, Retention, and Performance*, RAND Corporation, Santa Monica, CA, 2019.

[12] Comparisons are based on weighted averages taking into account education level and age. *Report of the Thirteenth Quadrennial Review of Military Compensation*, Volume 1. Main Report, December 2020, p. 6. Congressional Budget Office, *Approaches to Changing Military Compensation*, January 2020, p. 16.

[13] See CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Kristy N. Kamarck, CRS Report R42747, *Health Care for Veterans: Answers to Frequently Asked Questions*, by Sidath Viranga Panangala and Jared S. Sussman, CRS Infographic IG10009, *The Road to Veterans Benefits*, by Kristy N. Kamarck and Sidath Viranga Panangala, and CRS Report RS22804, *Veterans' Benefits: Pension Benefit Programs*, by Scott D. Szymendera and Carol D. Davis.

[14] Richard Buddin and D. Phong Do, *Assessing the Personal Financial Problems of Junior Enlisted Personnel*, RAND Corporation, January 2002.

[15] Richard Buddin and D. Phong Do, *Assessing the Personal Financial Problems of Junior Enlisted Personnel*, RAND Corporation, January 2002, p. xiv. Although there have been advances in online banking and bill-paying, servicemembers may not have unfettered access to digital communication while in a deployed or operational status.

[16] For more on spouse employment, see CRS Report R46498, *Military Spouse Employment*, by Kristy N. Kamarck, Barbara L. Schwemle, and Sofia Plagakis.

[17] Karen Jowers, "First lady says more money needed to fight hunger in military families," *MilitaryTimes*, October 15, 2021.

Permanent change-of-station (PCS) moves, while paid for by the military, may impose additional financial burdens for example, with the costs of establishing a new household (e.g., security/utility deposits), or fees associated with buying/selling a home.

The military has a relatively young workforce; approximately 40% of the total DOD military force is 25 years old or younger.[18] There is some evidence that junior enlisted servicemembers with less income and lower financial literacy[19] may struggle with managing their finances or be more susceptible to prohibited consumer lending practices.[20] Given that junior enlisted servicemembers (grades E-1 to E-4) tend to be younger and not college educated, these findings comport with research suggesting lower financial literacy levels among non-college-educated young adults than among other adults.[21] There are also documented incidences of predatory commercial activity targeting servicemembers with high-cost, or high-interest rate plans that contribute to military family indebtedness (see discussion in "Servicemember-specific Consumer Protections").[22]

Assessing Servicemember Financial Readiness

Since 2015, DOD has had a statutory obligation to conduct an annual survey of servicemembers to assess the "status of the financial literacy and preparedness of members of the armed forces" and to report to the House and Senate Armed Services Committees.[23] This is the main instrument for assessing financial readiness across the force. DOD collects the data from a representative cross-section of the active and reserve components (AC and RC) using the Status of Forces Survey (SOFS).[24] The surveys include knowledge-based questions to assess servicemembers' general financial literacy and understanding of military-specific benefits. These questions mirror questions that are included in other federal civilian surveys for ease of comparison between military and civilian populations.[25] The SOFS also includes the Consumer Financial Protection Bureau's (CFPB's) financial well-being scale.

In terms of the overall financial condition of military forces, survey data from 2019 indicate that 72% of AC and 69% of RC personnel were "very comfortable and secure" or "able to make ends meet without much difficulty."[26] This reflects improved conditions over prior-year survey results;

[18] Department of Defense, *2020 Demographics; Profile of the Military Community*, Table 1.09, 2020, p. 8.

[19] Financial literacy describes the "skills, knowledge, and tools that equip people to make individual financial decisions and actions to attain their goals." See U.S. Financial Literacy and Education Commission (FLEC), *U.S. National Strategy for Financial Literacy*, 2020, p. 2, at https://home.treasury.gov/system/files/136/US-National-Strategy-Financial-Literacy-2020.pdf.

[20] DOD, *Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces*, December 2020.

[21] Annamaria Lusardi, et al., "Financial Literacy among the Young: Evidence and Implications for Consumer Policy," *National Bureau of Economic Research*, September 2009.

[22] Department of Defense, *Insurance Solicitation Practices on Department of Defense Installations*, Final Report, May 15, 2000.

[23] P.L. 114-92 §661, 10 U.S.C. §992.

[24] The SOFS is administered by DOD's Office of People Analytics (OPA). Separate surveys are administered to the Active and Reserve components.

[25] DOD, *Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces*, Results from the 2019 Status of Forces Survey, December 2020. Other surveys that include these questions include Federal Reserve Board of Governors' Survey of Household Economics and Decisionmaking (SHED), and the FINRA Investor Education Foundation's National Financial Capability Study (NFCS).

[26] DOD, *Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed*

however, these data do not capture the potential impacts from the Coronavirus Disease 2019 (COVID-19) pandemic, which began in 2020. One area of potential concern includes saving and spending habits. A little over one-third of servicemembers report having zero or less than one month of emergency savings and nearly one-fifth of members spend all or more of their income on a monthly basis.[27]

Officers are More Financially Stable

The 2019 SOFS data indicate that officers, who generally have higher pay than enlisted personnel, report higher levels of financial security.[28] In 2019, more than 80% of officers across both components indicated that they were comfortable in their financial position. In comparison, among junior enlisted personnel (grades E-1 to E-4), 65% of AC and 60% of RC personnel indicated that they were financially comfortable.[29] Junior enlisted were more likely than officers to report low or zero emergency savings, and missed credit card payments and/or bank overdraft fees in the past twelve months.[30]

Financial Security is Higher among Active Component Servicemembers than Reserve Component

Overall financial security was also higher for the AC relative to the RC across most measures. In addition to performing more poorly on spending and savings measures, RC members were more likely to have debts referred to collection, have utilities shut off, or to have two or more overdrawn checks per year. Members of the RC, who typically perform military duty part-time and therefore receive only part-time military pay and fewer benefits, may be more vulnerable to downturns in the civilian economy. RC members were also less likely to access DOD financial education and other resources, likely due to both the part-time nature of their military employment and the broader geographical distribution of reserve units, which may limit access to military-installation based services.[31]

Congressional Action to Support Military Financial Readiness

Congress has pursued legislation to address two aspects of military financial readiness: (1) servicemember-specific consumer protections and (2) financial literacy and education programs. Over the past few decades, Congress has enacted financial market regulations to protect servicemembers from certain marketing practices on military installations, to restrict sales of high-interest credit/loan products to servicemembers, and to limit debt liability for members during periods of active duty. Financial literacy and education initiatives for servicemembers and their family members seek to improve decisionmaking about various consumer financial products

Forces, December 2020, p. 3.

[27] Ibid., p. 9.

[28] Ibid p. 4. The Defense Finance and Accounting Service (DFAS) published military pay tables at https://www.dfas.mil/militarymembers/payentitlements/Pay-Tables/.

[29] DOD, *Department of Defense Annual Report on the Financial Literacy and Preparedness of Members of the Armed Forces*, December 2020.

[30] Ibid., pp. 9-11.

[31] Ibid., p. 7.

and to facilitate healthy financial habits among military households. A list of selected legislation can be found in **Table A-1**.

Servicemember-specific Consumer Protections

DOD has had policies in place to protect servicemembers from "deceptive or coercive" sales tactics of financial products since former Defense Secretary Melvin Laird recognized the issue in 1971.[32] Laird sought to protect servicemembers from these tactics by directing the first policies prohibiting certain solicitation activities on military installations.[33] While the military had long been aware of this issue, enhanced public scrutiny in the past few decades has led to several statutory and policy changes to enhance consumer protections for servicemembers and their families.

In 2000, DOD released a study on financial services solicitation on military bases that found frequent violations of policies, inadequate processes for reporting, investigating, and addressing violations, and a lack of expertise and resources among those in the military services to regulate the conduct of solicitors.[34] The report also highlighted some of the unique characteristics of military service that can lead servicemembers to be more susceptible to certain marketing practices:

> Within the military community, military authority affects the private commercial behavior of military personnel as well as their public behavior. Subordinates heed their superiors in their private financial dealings in ways that are not common to the civilian community. Historically, military superiors have played a quasi-parental role in regard to personal financial affairs. Even today, mentors play a real role in these activities. In almost all cases of on base insurance sales, the agent has a letter signed by a senior military official that authorizes the sales activity. In addition, the consumer's guard is down when the sale occurs on the installation because mere presence on a military installation connotes approval by official authority.[35]

In the early 2000s, while contingency operations in Afghanistan and Iraq were escalating, DOD and Congress raised concerns about the financial well-being of servicemembers and their families, including those being called up from the reserve component.[36] During this time, media reports also highlighted ethically questionable sales tactics by certain insurance agents to military personnel, and criticized Congress and the Pentagon for lax oversight of the issue.[37]

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[32] Department of Defense, *Insurance Solicitation Practices on Department of Defense Installations*, Final Report, May 15, 2000, p. iv.

[33] Ibid.

[34] Ibid.

[35] Ibid., p. 2.

[36] See for example, U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *A Review of the Department of Defense's Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents*, Hearing on Unfair or Abusive Loans, Credit Sales Transactions, and Collections Practices that are Particularly Harmful to Servicemembers As it Undermines Military Readiness and Harms Troop Morale, 109th Cong., 2nd sess., September 14, 2006, 109-1081 (Washington: GPO, 2009).

[37] Diana B. Henriques, "Basic Training Doesn't Guard Against Insurance Pitch to G.I.'s," *New York Times*, July 20, 2004.

Regulating Commercial Solicitations on Military Installations; the Military Personnel Financial Services Protection Act

In 2005, a congressionally requested study by the Government Accountability Office (GAO), documented evidence of improper or misleading sales practices by insurance companies on and around military installations.[38] In particular, it found that some companies and agents were targeting junior servicemembers for high-cost life insurance and other financial products.[39] Sometimes these activities violated DOD solicitation policies or were offered under the guise of independent "benefits counseling" from military fraternal organizations that were receiving incentive payments for sales.[40] Finally, GAO noted a lack of data-sharing between DOD and financial regulators that handicapped their regulatory oversight and enforcement.

Shortly after GAO published its report, Congress passed the FY2006 National Defense Authorization Act (NDAA), which included a section on "Consumer Protection Matters" for military servicemembers.[41] This was followed in September 2006 by the Military Personnel Financial Services Protection Act (MPFSPA, P.L. 109-290) "to protect members of the U.S. Armed Forces from unscrupulous practices regarding sales of insurance, financial, and investment products."[42] Both these laws sought to increase regulation of the sale of life insurance and other securities on military installations.

The MPFSPA mandated certain disclosures with the sale of these products, including that "the securities offered are not being offered or provided by the broker or dealer on behalf of the Federal Government, and that its offer is not sanctioned, recommended, or encouraged by the Federal Government."[43] It also prohibited individuals who were not associated with a registered broker or dealer from receiving incentive payments for referrals and required the Secretary of Defense to "maintain a list of the name, address, and other appropriate information relating to persons engaged in the business of securities or insurance that have been barred or otherwise limited in any manner that is not generally applicable to all such type of persons, from any or all military installations of the United States, or that have engaged in any transaction that is prohibited by this Act."[44]

The FY2006 NDAA provisions required DOD to create or modify policies for personal commercial solicitations on military installations and to improve financial literacy for servicemembers and their families (see "Financial Literacy and Counseling")[45] Section 579 of the

[38] U.S. Government Accountability Office, *Financial Product Sales*, GAO-06-23, November 2005.

[39] As part of military servicemembers' benefits package, each member is eligible for inexpensive life insurance coverage under Servicemembers' Group Life Insurance (SGLI). See CRS Report R41435, *Veterans' Benefits: Current Life Insurance Programs*, by Heather M. Salazar.

[40] Ibid. In December 2002, DOJ announced a settlement against an insurance company that targeted military members whose agents had misrepresented themselves solely as employees of a benefits association. This company had allegedly defrauded military servicemembers who purchased life insurance policies from the company by having its agents pose as independent and objective counselors representing a nonprofit fraternal organization. However, the company's agents allegedly failed to disclose to the servicemembers that they were compensated through commissions from the insurance company, and that the company was making undisclosed payments to the benefits association for every policy sold. Settlement Agreement, *United States, v. Academy Life Insurance Co.*, U.S. Dist. Ct., E.D. Pa., Civil Action No. 02-9215 (Dec. 10, 2002).

[41] P.L. 109-163, Title V, Subtitle I.

[42] This act also amended the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

[43] P.L. 109-290 §5.

[44] Ibid., §13.

[45] DOD, *Report on Predatory Lending Practices Directed at Members of the Armed Services and Their Dependents*,

act also required DOD to prepare a report for Congress on "predatory lending practices directed at members of the Armed Forces and their families."[46] Congress, in this law, described a *predatory lending practice* as an unfair or abusive loan or credit sale transaction or collection practice.

Regulating Consumer Credit for Servicemembers; the Military Lending Act

In August 2006, DOD released its congressionally mandated *Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents*.[47] In this report, DOD described *predatory* practices as the use of affinity or deceptive marketing techniques to target primarily young and inexperienced military for the sale of high-fee/interest rate, short-term, or installment loans.[48] Examples referenced included payday, auto-title, and tax refund anticipation loans—some with a combination of interest rates and fees in excess of a 100% annual percentage rate (APR).[49] DOD case studies found that members who took out these types of loans struggled with cycles of "debt, family problems, difficulty maintaining personal readiness and a tarnished career."[50] Given the findings in this report, DOD called for congressional action to regulate the conditions for sale of certain consumer credit products to military servicemembers, including capping the loan APRs at a 36% maximum, requiring transparent disclosures of loan rates, and prohibiting loan provisions that require members and their dependents to waive legal rights as a condition of the loan.[51]

At the time of DOD's report publication, several related proposals had already been introduced in the 109th Congress and were being considered as part of the NDAA process.[52] In October 2006, Congress enacted the Military Lending Act (MLA, 10 U.S.C. §987) under Title VI, Subtitle F of the John Warner National Defense Authorization Act for Fiscal Year 2007 (FY2007 NDAA).[53] The MLA regulates lending practices and products offered to military servicemembers and their dependents. It prescribes limitations on terms for consumer credit extended to covered servicemembers and dependents and bans certain lending practices. Under this law, creditors may not exceed an annual percentage rate of 36% interest on consumer credit, and must provide specific disclosures about loan rates (e.g., statement of the APR and clear description of payment obligations). DOD implements the provisions of this act and the Consumer Financial Protection Bureau and other bank regulators enforce the MLA, as well as other consumer protection laws and regulations.[54]

August 9, 2006.

[46] P.L. 109-163.

[47] DOD, *Report on Predatory Lending Practices Directed at Members of the Armed Services and Their Dependents*, August 9, 2006.

[48] For more background on short-term, small-dollar lending markets, see CRS Report R44868, *Short-Term, Small-Dollar Lending: Policy Issues and Implications*, by Darryl E. Getter.

[49] DOD, *Report on Predatory Lending Practices Directed at Members of the Armed Services and Their Dependents*, August 9, 2006, p. 20. An annual Percentage Rate (APR) is a measure of the total cost of credit, that generally includes both the interest rate and fees associated with a loan.

[50] Ibid. p. 39.

[51] Ibid. pp. 50-51.

[52] CRS In Focus IF10515, *Defense Primer: The NDAA Process*, by Valerie Heitshusen and Brendan W. McGarry.

[53] P.L. 109-364.

[54] For more on the CFPB, see CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*, by Cheryl R. Cooper and David H. Carpenter.

The MLA gave DOD rulemaking authority to determine the scope of the law as it applied to various credit products. The MLA regulations went into effect on October 17, 2007, and covered a limited range of closed-end credit products (e.g., payday, auto-title, and tax refund anticipation loans). As these regulations were implemented, consumer advocacy groups argued that the narrow definition of consumer credit products did not provide adequate protections for military servicemembers. During Senate hearings in 2013, witnesses stated that better MLA rules and enforcement were needed because lenders were finding ways to structure loans to circumvent consumer protections.[55]

Congress subsequently amended the MLA in sections 661-663 of the FY2013 NDAA.[56] Among other things, this legislation required DOD to conduct regular reviews of the regulations. The conference report accompanying the bill directed DOD to conduct a study to determine if changes to the 2007 rules were necessary.[57] The resulting DOD study in 2014 found that the limited definition of consumer credit in the 2007 rules allowed for marketplace adaptations that weakened the intended protections for servicemembers and their families. In September 2014, DOD published a proposal to amend its MLA regulation, and on July 22, 2015, published its final rules implementing the MLA.[58]

Whereas the rules previously defined a narrow set of products, the new rules applied to a broader range of closed-end credit products (e.g., fixed term loans) and also extended regulations to open-end products (e.g., credit cards), thereby affecting a larger number of businesses offering these products. The new rules also included a safe-harbor provision for creditors to verify that an individual is a covered borrower through one or both of the following mechanisms (1) electronically through the Defense Manpower Data Center (DMDC) MLA database, and/or (2) a report from a nationwide consumer reporting agency. The rules required lender compliance for consumer credit established on or after October 3, 2016, and for credit card accounts under an open-ended consumer credit plan on or after October 3, 2017.

Covered individuals under the MLA include

- Servicemembers on active duty,
- Reserve Component members serving on active duty under a call or order that does not specify a period of 30 days or less, or such a member serving on Active Guard and Reserve duty as that term is defined in 10 U.S.C. §101(d)(6),
- The spouse of a covered member,
- The child of a covered member, as child is defined in 38 USC §101(4), and
- An individual for whom the member provided more than one-half of the individual's support for 180 days immediately preceding an extension of consumer credit covered by 32 C.F.R. Part 232.

[55] Consumer Financial Protection Bureau, Office of Servicemember Affairs, *Testimony of Hollister K. Petraeus before the U.S. Senate Committee on Commerce, Science & Transportation*, November 20, 2013.

[56] P.L. 112-239

[57] This amendment also included a civil liability provision that would permit a covered borrower to recover damages from any creditor violating a requirement of the MLA and authorized the agencies specified in the Truth in Lending Act (TILA), as amended, to enforce those requirements.

[58] Department of Defense, "Limitations on Terms of Consumer Credit Extended to Service Members and Dependents," 80 *Federal Register* 43560-43612, July 22, 2015.

DMDC portal for MLA Verification of Covered Members

The Defense Manpower Data Center (DMDC) provides a data portal for creditors to verify applicant eligibility under Military Lending Act provisions (https://mla.dmdc.osd.mil/mla/#/home). Creditors may submit a single record request or batch record request to DMDC and if verified will receive a certificate as evidence of an individual's active duty status in the U.S. Military, Reserve, or Guard. This certificate is also called the "Status Report Pursuant to Military Lending Act."

Information that must be submitted to verify an applicant's eligibility includes the individual's Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN), birth date, and last name.

Limitations on Debt Liability: the Servicemembers Civil Relief Act

Congress has taken action to limit or suspend creditors' legal liability under certain conditions, due to the unique nature of military service. One such effort is the Servicemembers Civil Relief Act (SCRA) of 2003, as amended.[59] The purpose of this act is

> (1) to provide for, strengthen, and expedite the national defense through protection extended by this chapter to servicemembers of the United States to enable such persons to devote their entire energy to the defense needs of the Nation; and
>
> (2) to provide for the temporary suspension of judicial and administrative proceedings and transactions that may adversely affect the civil rights of servicemembers during their military service.[60]

Among other things, the SCRA provides servicemember protections against rental property evictions, mortgage foreclosures, insurance cancellations, and government property seizures to pay property tax assessments.[61] The SCRA applies to

- Active duty members of the Army, Navy, Marine Corps, Air Force, Space Force, and Coast Guard,
- Active duty commissioned officers of the Public Health Service or the National Oceanic and Atmospheric Administration,
- Members of the Reserve Component on active duty, and
- Members of the National Guard when mobilized for more than 30 consecutive days under section 502(f) of title 32 for purposes of responding to a national emergency declared by the President and supported by Federal funds.[62]

With respect to indebtedness, the SCRA caps the maximum interest on *prior* debt incurred by the servicemember or jointly with the member's spouse at 6% a year. It does not apply to loans that are assumed while on active duty. This reduced rate applies to credit card debts, car loans, business obligations, student loans, and some other debts, fees, and service charges. The 6% cap applies during the period of active service. In the case of mortgages, the cap applies for the duration of active duty and for one year following discharge or deactivation.

[59] 50 U.S.C. §3901 et. seq. The SCRA amended and renamed the Soldiers' and Sailors' Civil Relief Act (SSCRA) of 1940.

[60] 50 U.S.C. §3902.

[61] For the full scope of protections, see CRS Report R45283, *The Servicemembers Civil Relief Act (SCRA): Section-by-Section Summary*, by Jennifer K. Elsea.

[62] For more on mobilization authorities, see CRS Report RL30802, *Reserve Component Personnel Issues: Questions and Answers*, by Lawrence Kapp and Barbara Salazar Torreon.

Servicemember Redress for SCRA Violations

If a servicemember believes that his or her SCRA rights have been violated, there are several options to seek redress:

- Seek advice from a local military legal assistance office,[63]
- Contact state attorney general,[64]
- File a complaint with the Department of Justice's Office of Civil Rights,[65] and/or
- Submit a complaint about a financial product or service with the Consumer Finance Protection Bureau (see "The Role of the Consumer Financial Protection Bureau (CFPB)").[66]

Financial Literacy and Counseling

Military servicemembers may make a number of significant decisions about their finances and military benefits throughout their career that can affect their household financial well-being. Some of these decisions may include how much to contribute to military retirement savings, or whether to use veteran benefits to secure a mortgage or invest in education.[67] In addition, servicemembers navigate the market for credit, loans, and other financial products just as civilian consumers do.[68] Over the past few decades, technological changes and other market innovations have led to a more complex range of financial products on offer to consumers.[69] This has, in turn, created a need for better *financial literacy*, often defined as "skills, knowledge, and tools that equip people to make individual financial decisions and actions to attain their goals."[70] DOD provides financial education programs and counseling to assist servicemembers in making informed decisions about pay and benefits, improving their financial management skills, and enhancing their financial well-being.

Financial Literacy Training

Financial literacy training requirements, as originally enacted by the FY2006 NDAA, are outlined in Section 992 of Title 10, United States Code. Mandatory training topics include common private sector financial services[71] and marketing practices, and practices that are "particularly prevalent at

[63] Under 10 U.S.C. §1044, military servicemembers are eligible for legal counsel from military lawyers for personal civil legal affairs. For locations and contact information, see for example https://legalassistance.law.af.mil/.

[64] See, https://www.naag.org/find-my-ag/.

[65] See, https://civilrights.justice.gov/report/.

[66] See, https://www.consumerfinance.gov/complaint/.

[67] For more information on veteran housing and education benefits, see CRS Report R42504, *VA Housing: Guaranteed Loans, Direct Loans, and Specially Adapted Housing Grants*, by Libby Perl, and CRS Report R42785, *Veterans' Educational Assistance Programs and Benefits: A Primer*, by Cassandria Dortch.

[68] For background on financial literacy and financial education for all consumers, see CRS Report R46941, *Financial Literacy and Financial Education Policy Issues*, by Cheryl R. Cooper.

[69] Annamaria Lusardi, "Financial literacy and the need for financial education: evidence and implications," *Swiss Journal of Economics and Statistics*, January 24, 2019.

[70] U.S. Financial Literacy and Education Commission, *U.S. National Strategy for Financial Literacy 2020*, 2020, https://home.treasury.gov/system/files/136/US-National-Strategy-Financial-Literacy-2020.pdf.

[71] The law defines *financial services* as, "(1) Life insurance, casualty insurance, and other insurance, (2) Investments in securities or financial instruments, (3) Banking, credit, loans, deferred payment plans, and mortgages, and (4) Health insurance, budget management, Thrift Savings Plan (TSP), retirement lump sum payments (including rollover options and tax consequences), and Survivor Benefit Plan (SBP).

that military installation and in the vicinity."[72] Training on financial services and consumer protections available to servicemembers under other sections of law is also required.

Between 2013 and 2015, military financial literacy requirements and implementation were revisited in studies conducted by the Military Compensation and Retirement Modernization Commission (MCRMC).[73] The MCRMC found that "existing financial literacy programs do not adequately educate servicemembers and their families on financial matters."[74] It recommended amendments to 10 U.S.C. §992 to increase frequency and enhance content of financial literacy training. Congress enacted these recommended changes in the FY2016 NDAA (P.L. 114-92 §661) alongside significant changes to the military retirement system.[75] These amendments required financial literacy training at several points during a servicemember's career (see shaded text box below).

DOD policy identifies certain learning objectives and the points in a member's career at which each objective should be met. For example, an initial entry learning objective is to "analyze the implications and identify strategies for financing a major purchase" and a pre-deployment learning objective is to "examine the impact of special pay and entitlements".[76]

When Financial Literacy Training is Required under 10 U.S.C. §992

DOD is required to provide financial literacy training during "periodically recurring required training" and at various touchpoints/significant life events in a servicemember's career. These events include

- During initial entry training,
- Upon arrival at first duty station and every subsequent duty station (for members in enlisted pay grades of E-4 or below and officers in the pay grade of O-3 or below),
- On the date of promotion of the member (for members in enlisted pay grades of E-5 or below and officers in the pay grade of O-4 or below),
- At each major life event during the member's service, such as marriage, divorce, birth of a first child, or disabling sickness or condition,
- During leadership training, and
- At transition points from a regular component to a reserve component and when separating or retiring from service.

[72] 10 U.S.C. §992.

[73] The FY2013 NDAA (P.L. 112-239) established the Military Compensation and Retirement Modernization Commission with a mandate to review the military compensation and retirement systems and make recommendations to modernize these systems. Section 1008(b) of Title 37 United States Code, requires the President to conduct a review of military compensation every four years. Per a January 9, 2015 White House memorandum the MCRMC study fulfills the requirement for the 12th Quadrennial Review of Military Compensation (QRMC). President Barack Obama, *Memorandum for the Secretary of Defense on the Twelfth Quadrennial Review of Military Compensation*, January 9, 2015.

[74] United States. *Military Compensation and Retirement Modernization Commission MCRMC*. United States, 2015. Web Archive. Retrieved from the Library of Congress, p. 47.

[75] The FY2016 NDAA (P.L. 114-92 §661) retitled this 10 U.S.C. §992 "Financial literacy training: financial services" from the prior title "Consumer education: financial services". For more background on the military retirement system, see CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Kristy N. Kamarck.

[76] Office of the Under Secretary of Defense for Personnel and Readiness, *Directive-type Memorandum (DTM) 19-009—Financial Readiness Common Military Training Requirements*, August 13, 2019, Table 1, pp. 11-12.

In addition, those servicemembers who are subject to the Blended Retirement System[77] have required financial training

- When the member vests in the Thrift Savings Plan (TSP)[78], and
- When the member becomes entitled to receive continuation pay.[79]

The frequency of qualifying events (e.g., change of station, promotion) provides some assurance that servicemembers will be exposed to financial literacy training several times in their first decade of service. Nevertheless, the effectiveness of training can depend on its implementation, which is the responsibility of the Secretaries of the military departments as part of military family readiness programs.[80] DOD policy gives the Secretaries discretion on the method of delivery used for these trainings, and allows flexibility to include web- or computer-based training, instructor-led training, or structured self-development.[81] Curricula may also be tailored by service; however, DOD specifies that some courses must follow a standard curriculum. These include courses related to benefit elections under Blended Retirement System, and a course called "Financial Planning for Transition" as part of the Transition Assistance Program (TAP).[82]

Section 594 of the FY2020 NDAA included a provision that required the Secretary of Defense and the Secretary of Homeland Security (for matters related to Coast Guard personnel) to conduct a study on the best practices to provide financial literacy education for separating members of the Armed Forces. The provision requires the Secretaries concerned to consult with the Financial Literacy and Education Commission of the Department of the Treasury and to submit a report to Congress within 120 days of enactment of the law.

Financial Counseling Services

Section 992 of Title 10 U.S. Code requires DOD to provide certain financial counseling services to servicemembers and their spouses. The law requires installations with 2,000 or more servicemembers assigned to provide a full-time financial services counselor. Those employed as counselors may be uniformed military, federal government civilians, contracted personnel, or qualified representatives of nonprofit organizations through agreements with DOD. Military counselors are required to be in the rank of E-7 or above. In all cases, counselors are required to be "free from conflicts of interest" in the provision of financial services counseling. This

[77] This includes all servicemembers who entered service on or after January 1, 2018, and certain eligible members who were already in service and opted into the Blended Retirement System. See CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Kristy N. Kamarck.

[78] For more information on the TSP, see CRS Report RL30387, *Federal Employees' Retirement System: The Role of the Thrift Savings Plan*, by Katelin P. Isaacs.

[79] Continuation pay is a direct cash payment available to servicemembers covered under the Blended Retirement System, payable between completion of 8 and 12 years of service with a commitment of a minimum of 3 additional years of service.

[80] DOD, *Military Family Readiness*, DoDI 1342.22, August 4, 2021, p. 16. Office of the Under Secretary of Defense for Personnel and Readiness, *Directive-type Memorandum (DTM) 19-009—Financial Readiness Common Military Training Requirements*, August 13, 2019, p. 6.

[81] Ibid., p. 9.

[82] TAP counseling requirements are specified in 10 U.S.C. §1142(b) and include "(9) Financial planning assistance, including information on budgeting, saving, credit, loans, and taxes." See also, DOD, Transition Assistance Program for Military Personnel, DODI 1332.35, September 26, 2019.

requirement is largely in response to past instances of "counselors" serving a dual-hatted role as agents or employees of financial services companies.[83]

DOD regulations require the military services to offer one-on-one personal financial management counseling services.[84] These services are offered in-person at Military and Family Support Centers (MFSCs) located on the installations and, virtually, through the Military OneSource website.[85] According to DOD policies the MFSCs are required to offer

> proactive personal life cycle financial management services that provide servicemembers and their families with the tools and information they need to develop individual strategies to achieve financial goals and address financial challenges. Information shall address the effects of financial decisions on personal and professional lives, resources needed to make prudent consumer decisions, and related services and support.[86]

Military OneSource is DOD's one-stop web portal for information, resources, and counseling services related to military life. The website's content is mostly available to the general public while counseling services by phone, video, or text chat are available for military personnel, their family members and veterans for up to one year post-service.[87] Counseling services include income tax filing support, help accessing emergency financial assistance, and guidance for estate planning.

The Role of the Consumer Financial Protection Bureau (CFPB)

The Consumer Financial Protection Bureau plays a role in military financial literacy programs and in oversight of servicemember consumer financial protections. Created in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created an Office of Servicemember Affairs (OSA) within the CFPB with the statutory authority to

- educate and empower servicemembers and their families to make better informed decisions regarding consumer financial products and services,
- monitor complaints by servicemembers and their families and responses to those complaints, and
- coordinate efforts among Federal and State agencies, as appropriate, regarding consumer protection measures relating to consumer financial products and services offered to, or used by, servicemembers and their families.[88]

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[83] See for example discussion in Department of Defense, *Insurance Solicitation Practices on Department of Defense Installations*, Final Report, May 15, 2000, p. 3.

[84] DOD, *Military Family Readiness*, DODI 1342.22, April 11, 2017.

[85] Military Onesource, at https://www.militaryonesource.mil/financial-legal/personal-finance/personal-finance-resources.

[86] DOD, *Military Family Readiness*, DODI 1342.22, April 11, 2017.

[87] The FY2019 NDAA (P.L. 115-232) extended veteran eligibility for Military OneSource services from 180 to 365 days.

[88] P.L. 111-203 §1013(e), 12 U.S.C. §5493. For more on the CFPB, see https://www.consumerfinance.gov/consumer-tools/educator-tools/servicemembers/, and CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*, by Cheryl R. Cooper and David H. Carpenter.

OSA coordinates with DOD and other federal agencies, such as the Federal Trade Commission, Federal Reserve Board, and Internal Revenue Service, on outreach and education programs for military families.[89]

OSA financial education programs seek to inform servicemembers and families about their legal rights and avenues for redress under the SCRA, MLA, and other financial authorities. OSA has developed an online interactive money management program available to servicemembers, their families and those in pre-enlistment and commissioning programs (e.g., Reserve Officer Training Corps, and Delayed Entry Program). OSA also provides other education programs for stakeholders such as military financial counselors, veteran service organizations, and state agencies.

For 2020, the CFPB received over 40,800 complaints from servicemembers about consumer financial products, an increase of 14% from the previous year.[90] A majority of these complaints were related to credit or consumer reporting, debt collection, and mortgages. The CFPB has reported that servicemembers submit complaints about debt collection practices at a higher rate than non-servicemembers.[91] Some of debt collection practices that members experience include, contacting or threatening to contact the member's commanding officer, attempts to collect debts not owed, and threats of disciplinary action under the Uniform Code of Military Justice (UCMJ). Legislation in the 117th Congress, the *Fair Debt Collection Practices for Servicemembers Act*, would seek to address some of these issues.[92]

Other Financial Support for Military Families

In addition to the consumer protections discussed in this report, military servicemembers and their families are also eligible for some need-based direct financial support from DOD and military/veteran-serving nonprofit organization.

Family Subsistence Supplemental Allowance (FSSA)

In 2000, some Members expressed concerns about the number of military servicemembers "believed to be relying on food stamps to meet the nutritional needs of family members."[93] In the National Defense Authorization Act for FY2001, Congress added a requirement for DOD to provide a supplemental subsistence allowance for low-income members.[94] The FSSA was initially established as a five-year program to provide a maximum of $500 monthly direct financial support to raise a family's income above that which would make them eligible for food stamps (now known as the Supplemental Nutrition Assistance Program, or SNAP).[95] Eligibility for the FSSA benefit depends on household income and household size. It requires servicemembers to

[89] Consumer Financial Protection Bureau, *Office of Servicemember Affairs Annual Report; January 1-December 31 2020*, May 2021, https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report-2020.pdf.

[90] Ibid. p. 12.

[91] Ibid., p. 18. For more information on debt collection, see CRS Report R46477, *The Debt Collection Market and Selected Policy Issues*, by Cheryl R. Cooper.

[92] H.R. 1491. This legislation was passed in the House on April 20, 2021.

[93] U.S. Congress, House Committee on Armed Services, 106th Cong., 2nd sess., H.Rept. 106-616, p. 376. The report cited 6,300 as the number of servicemembers believed to be relying on food stamps.

[94] P.L. 106-398 §604, codified under 37 U.S.C. 402a.

[95] For more information on SNAP eligibility, see CRS Report R42505, *Supplemental Nutrition Assistance Program (SNAP): A Primer on Eligibility and Benefits*, by Randy Alison Aussenberg.

apply for certification of eligibility and for recertification on an annual basis, or if a qualifying event occurs (e.g., promotion, permanent change of station, increase in household income).[96]

The FSSA law was subsequently amended to make the authority permanent in 2006 (P.L. 109-364) and to raise the maximum amount of assistance to $1,100 in 2009 (P.L. 111-84). In 2015, the Military Compensation and Retirement Modernization Commission (MCRMC) examined servicemember eligibility for food and nutrition assistance programs and found that very few servicemembers were participating in the FSSA program (a total of 285 participants in FY2013).[97] In addition, they deemed the FSSA "duplicative" and "less generous" in many cases than SNAP benefits. The Commission also highlighted feedback from military families that there was a stigma associated with requesting FSSA through military channels, whereas applying for SNAP does not typically involve the chain of command. The Commission recommended restricting FSSA only to servicemembers in overseas locations where no SNAP assistance was available.[98] Congress enacted this restriction in the FY2016 NDAA.[99]

Basic Needs Allowance

In the Fiscal Year 2022 NDAA, Congress authorized a new pay allowance called the "Basic Needs Allowance."[100] This payment is authorized for certain servicemember households with dependents (spouse and/or child(ren)) 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 of the Department of Health and Human Services for the location of the member and the number of individuals in the household of the member for such year."[101] This law requires the Secretary of Defense to conduct a screening at initial entry for servicemembers and "regularly thereafter." This authority goes into effect on December 27, 2022 and expires on December 31, 2027. Prior to the implementation of this allowance, the law requires DOD to conduct a study and brief the Armed Services Committees on issues related to servicemember food insecurity by April 1, 2022. Follow-on reports on the implementation of the law are required in 2025 and 2027.

Those most likely to meet this income threshold are junior enlisted servicemembers with non-income earning spouses and dependent children (see **Table 1** and earlier discussion of servicemember pay).[102] DOD initial entry policy requires enlistment waivers for single parenthood or for married individuals with several children.[103] The impact of this new allowance could be fewer waivers granted by the services for applicants with dependents.

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[96] DOD, *Family Subsistence Supplemental Allowance (FSSA) Program*, DODI 1341.11, March 4, 2008.

[97] *Report of the Military Compensation and Retirement Modernization Commission*, Final Report, January 2015, p. 7.

[98] Ibid.

[99] P.L. 114-92 §602.

[100] P.L. 117-81 §601.

[101] "Gross household income" is defined as all household income, derived from any source; minus any portion of the basic allowance for housing under section 403 of title 37, U.S. Code that the relevant Secretary elects to exclude for members in high cost-of-living locations. For more information on federal poverty guidelines, see CRS Report R44780, *An Introduction to Poverty Measurement*, by Joseph Dalaker.

[102] Cadets and midshipmen at the military service academies are ineligible for this allowance.

[103] Law and policy establish certain entry standards for servicemembers based on, for example, medical conditions, past misconduct, and dependency status. According to 32 C.F.R. § 66.7(2). "A dependent waiver is required when an applicant is married with more than two dependents under the age of 18 or when an applicant is unmarried and has custody of any dependents under the age of 18."

Financial Support during National Crises

At certain times of national crises or economic downturn, Congress has authorized financial support to military servicemembers who are adversely affected. DOD has also used existing flexibilities in military pay authorities to support servicemembers affected by these events. Two examples of are the expansion of the Homeowner's Assistance Program during the 2008 financial crisis, and DOD's response to the COVID-19 pandemic in 2020.

Expansion of Homeowner's Assistance Program

This program, initially authorized in 1966 (P.L. 89-754), was expanded as part of the American Recovery and Reinvestment Act of 2009 to respond to the nationwide mortgage foreclosure and credit crisis.[104] This act amended an existing statute associated with the loss of real estate property value due to base realignment and closure (BRAC) activity.[105] The 2009 law authorized DOD to "acquire title to, hold, manage, and dispose of, or, in lieu thereof, to reimburse for certain losses upon private sale of, or foreclosure against, any property improved with a one- or two-family dwelling situated at or near a military base or installation" under the conditions that the property was owned by and the private residence of a servicemember who was permanently reassigned and compelled to sell the home between July 1, 2006, and September 30, 2012. Another provision of this law authorized the same housing assistance for military servicemembers who incurred a disability of 30% of or more from a deployment-related injury or illness, and were reassigned for "furtherance of medical treatment, rehabilitation, or due to medical retirement resulting from the sustained disability."

COVID-19 Pandemic

DOD also used existing flexibilities in statute to help military families facing financial hardships during the COVID-19 pandemic. Starting in 2020, the Department authorized a series of special pays and allowances for servicemembers who were adversely impacted by quarantine requirements or travel restrictions. One of these was the extension of hardship duty pay under 37 U.S.C. §305. This statute provides discretionary authority to the Secretary of Defense to designate certain types of duty as "hardship duty" and allows the Secretary to pay an eligible member up to $1,500 per month. Starting in March 2020, servicemembers who were ordered to self-monitor in isolation due to COVID-19 exposure or infection were eligible for *hardship duty pay-restriction of movement* (HDP-ROM).[106] Servicemembers were eligible for a taxable payment of $100 per day if they were ordered to isolate somewhere other than at their home or a government-funded lodging facility.

Nongovernmental Direct Financial Assistance

Servicemembers who face financial difficulties have some military-specific options available to them for direct relief. DOD reports that servicemembers generally have access to low-cost loans through banks and credit unions operating on military bases. Other military and veteran-serving nonprofit organizations also provide direct financial assistance to families facing emergency

[104] P.L. 111-5, codified in 42 U.S.C. §3374.

[105] CRS Report R45705, *Base Closure and Realignment (BRAC): Background and Issues for Congress*, by Christopher T. Mann.

[106] DOD, *Fact Sheet: COVID-19 Military Personnel, Pay, and Benefits Policy*, March 26, 2020.

expenses (e.g., foreclosure or eviction, utility shut-offs).[107] Each of the military departments and the Coast Guard also have relief societies. The Armed Forces Relief Societies are nonprofit organizations that provide financial counseling, education, and emergency financial assistance through grants or interest-free loans to uniformed servicemembers, retirees, survivors and military dependents. They include

- Army Emergency Relief (AER),[108]
- Navy-Marine Corps Relief Society (NMCRS)[109],
- Air Force Aid Society,[110] and
- Coast Guard Mutual Assistance.[111]

Interest-free loans issued by these societies are typically short-term (12 months) and range from about $500-$2,000. This type of financial assistance can help members to manage unexpected financial shocks, or to restructure debt.

Policy Issues for Congress

Congress and DOD have taken several actions through law and regulation to improve military readiness, including enhancing military consumer protections, actions toward increasing the financial literacy of servicemembers and dependents, and direct financial support to the lower income or otherwise vulnerable families during times of need or national emergency. Congress may consider the adequacy and equity of current programs and coverage, as well as the appropriate consumer financial protections for servicemembers.

Financial Literacy Training: Saliency and Effectiveness

Just as the range of financial product offerings has expanded, so have the financial literacy training offerings and the federal spending on such programs.[112] In general, research suggests that financial literacy training is correlated with positive credit behaviors (e.g., on-time bill payment), better retirement planning and wealth accumulation, and overall financial well-being. Evidence is limited as to whether financial literacy training is effective in increasing knowledge and shifting behaviors for military servicemembers and households. In some cases, servicemember-specific training has been associated with improvements in self-reported financial knowledge and behavior relative to a comparison group.[113] For example, a study of the U.S. Army's personal financial management course for new enlistees found that it reduced credit delinquencies and debt balances in the year following the course, and increased retirement savings rates for at least two

[107] See for example, American Legion temporary financial assistance grants, at https://www.legion.org/financialassistance, and The Enlisted Association of the National Guard of the United States at https://eangus-wcfa.org/covid-19-loan-information/.

[108] https://www.armyemergencyrelief.org/.

[109] https://www.nmcrs.org/pages/our-history.

[110] https://afas.org/.

[111] https://www.cgmahq.org/.

[112] U.S. Government Accountability Office, *Financial Literacy: Overlap of Programs Suggests There May Opportunities for Consolidation*, GAO-12-588, July 2012, Table 1, p. 6.

[113] Catherine Bell, Daniel Gorin, and Jeanne M. Hogarth, "Does Financial Education Affect Soldiers' Financial Behavior?," *Networks Financial Institute, Indiana State University*, August 2009.

years afterwards.[114] In this study, the effect of the course on adverse credit events did not persist beyond the first year, suggesting that the current approach of requiring training at multiple career milestones (as per 10 U.S.C. §992) may be effective for sustained impact.

Civilian research indicates that outcomes associated with financial education are sensitive to the timing, method of delivery, and content, among other factors.[115] There also is some research to suggest that there are racial and gender differences in baseline financial knowledge and post-training outcomes.[116] These findings suggest that offering targeted or tailored training to various military sub-populations might increase its effectiveness.[117]

Past government reports have also pointed to opportunities to consolidate federal efforts for financial literacy training both across and within agencies to improve efficiency and oversight. For example, a 2019 report from the Treasury Department recommended that DOD take the lead on financial education activities for servicemembers and their families, while considering, "how to reduce, consolidate or eliminate seemingly duplicative financial education activities among the military services, including duplicative curricula."[118] This recommendation was adopted by the Financial Literacy and Education Commission (FLEC) as part of U*.S. National Strategy for Financial Literacy 2020*.[119]

Some have argued that the government should focus its financial literacy education efforts *before* individuals enter the military, as part of K-12 education.[120] There may other opportunities to prepare those with an affinity or propensity for military service, through courses in Junior Reserve Officer Training Corps (JROTC), Senior Reserve Officer Training Corps (SROTC), or other recruiter outreach and intake programs (e.g., Delayed Entry Program (DEP)).[121]

Variations in Consumer Protection Coverage by Duty Status and Dependency

One consideration for Congress whether the eligible population under military consumer protection laws should be clarified or broadened. While active component (AC) members and

[114] William Skimmyhorn, "Assessing Financial Education: Evidence from Boot Camp," *American Economic Journal: Economic Policy*, vol. 8, no. 2 (May 2016).

[115] Jamie Francis Wagner, "An analysis of the effects of financial education on financial literacy and financial behaviors," *The University of Nebraska-Lincoln*, 2015. Evan Davies and Perry Bolding, *A Literature Review of the Teaching Methods Used in Financial Literacy Education*, Center for Faculty Excellence, United States Military Academy, 2016. CRS Report R46941, *Financial Literacy and Financial Education Policy Issues*, by Cheryl R. Cooper.

[116] Abdullah Al-Bahrani, Jamie Weathers, and Darshak Patel, "Racial Differences in the Returns to Financial Literacy Education," *The Journal of Consumer Affairs*, vol. 52, no. 2 (June 7, 2018), pp. 572-599. Roger B. Butters, Carlos J. Asarta, and Shannon G. McCoy, "Financial Literacy and Gender in U.S. High Schools" *Journal of Economics and Financial Education*, vol. 11, no. 2 (Winter 2012), pp. 142-149.

[117] For more on financial education best practices, see CRS Report R46941, *Financial Literacy and Financial Education Policy Issues*, by Cheryl R. Cooper.

[118] U.S. Department of the Treasury, *Federal Financial Literacy Reforms; Coordinating and Improving Financial Literacy Efforts*, July 2019, p. 9. U.S. Government Accountability Office, *Financial Literacy: Overlap of Programs Suggests There May Opportunities for Consolidation*, GAO-12-588, July 2012.

[119] FLEC, *U.S. National Strategy for Financial Literacy 2020*, 2020, p. 13.

[120] Jamie Gayton, "Military financial literacy improving, but it needs to start sooner," *Fox Business News*, April 30, 2019.

[121] JROTC is offered in 8th grade through 12th grade in some schools. See CRS In Focus IF11313, *Defense Primer: Junior Reserve Officers' Training Corps (JROTC)*, by Kristy N. Kamarck, and CRS In Focus IF11235, *Defense Primer: Senior Reserve Officer Training Corps*, by Kristy N. Kamarck.

their dependents are always covered by the SCRA and MLA, coverage for reserve component (RC) members is often contingent on their duty status (see **Table 2**). For members of the RC, MLA eligibility may be conditioned on the amount of time served on active duty. Dependent eligibility for certain protections is also variable, as these acts rely on dependency definitions from different sections of code. For example, the MLA has more expansive coverage for dependents, including un-remarried former spouses and widows/widowers as well as older dependent children.

Variations in coverage and eligibility between the two laws can sometimes create a confusing landscape for military families, and for providers of consumer credit. These issues can be particularly challenging for RC members whose duty status changes more frequently and who may not have the same level of access to financial counseling, education, or other forms of installation-based support as their AC counterparts. In addition, coverage may lapse for certain military servicemembers and families during times when they are at the highest risk for financial shocks, for example, following the death of a servicemember, when transitioning out of the military to veteran status, or when demobilizing from a reserve activation. From the financial firm perspective, verifying eligibility by duty status can lead to additional administrative compliance costs and delays in issuing credit.[122] Congress may consider whether existing law covers the intended population and if there are gaps in intended coverage based on duty status or dependency.

Table 2. Variations in Benefit Coverage by Status

Law	Active Component	Reserve Component	Dependents
SCRA	All	Reserves ordered to active duty as defined under 10 U.S.C. 101(d)(1). National Guard when under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days under section 502(f) of title 32 for purposes of responding to a national emergency declared by the President and supported by Federal funds	Spouse Dependent child(ren) as defined under 38 U.S.C. §101(4), including • Child under the age of 18 (under age 23 for full-time student), • Incapacitated child if incapacitation is prior to age 18. • An individual for whom the servicemember provided more than one-half of the individual's support for 180 days immediately preceding an application for relief.
MLA	All	Members on Active Guard and Reserve duty or on active duty for 30 days or longer.	Dependents as defined under 10 U.S.C. 1072(2), including • Spouse • Un-remarried former spouse (if married for 20 years w/20 years of service), • Un-remarried widow/widower • Children under age 21 (under age 23 if full-time student), • Incapacitated child at any age, • Dependent parent or parent-in-law

[122] Nick Rummell, "Pawnbrokers Say New Lending Law Is Ruinous," *Courthouse News Service*, July 13, 2016.

Source: CRS analysis of statute.

Notes: Under SCRA, a servicemember's child is as defined under 38 U.S.C. §101(4). Dependent eligibility is contingent on the duty status of the member.

Military-specific Consumer Financial Regulations

Over the past few decades, Congress has treated military servicemembers and their families as a special category for consumer protections. This is largely due to the unique nature of military work and the need to maintain individual and family readiness. Some lenders and advocates for the consumer credit industry argue that MLA and other military-specific rules impose undue regulatory burdens and compliance costs on their businesses.[123] In addition, they note that the rules limit access to credit, including the potential range of consumer credit products available to servicemembers and family members, which could result in unmet needs and financial hardships for those individuals.[124]

On the other hand, consumer and military advocacy groups see military-connected consumers as a particularly vulnerable group in need of stronger financial market regulations, oversight, and enforcement. These groups argue that regulatory initiatives like transparency in lending rates and limits on interest rates can help servicemembers and their families make more informed and better financial decisions. Some have also argued that these protections should not be limited to military servicemembers and should be expanded to other civilian consumers.

One consideration might be whether certain protections should be expanded to veterans for a certain period of time post-service. While post-service earnings vary based on military occupation and years of experience, data suggests that, on average, servicemembers have lower earnings after leaving the service compared with their final year of active duty.[125] There is some evidence to indicate that recently separated enlisted servicemembers struggle with financial stability, including higher rates of debt delinquency and derogatory marks on their credit scores.[126] This may be due to post-service dips in income that make it more challenging for veterans to meet debt obligations they incurred while in service. Compared to their civilian counterparts ages 18 to 24, young servicemembers are more likely to have an auto loan or a credit card, and slightly more likely to have a mortgage.[127] As noted in **Table 1**, the annual earnings (RMC) for a single enlisted Private First Class (E-3) with less than two years of service is about $50,000, while the Census Bureau reports that average earnings for a veteran E-3 is $26,140 in the first year post-discharge.[128]

Congress may consider these and other questions when developing military-specific policies and programs.

[123] Ibid.

[124] See for example, Roxette Pietri-Freeman, "Law change creates GAP insurance confusion for military members," KTBS.com, October 27, 2019.

[125] Charles Goldman et al., *Navigating a Big Transition: Military Service Members Earnings and Employment After Active Duty Service*, RAND Corporation, Santa Monica, CA, 2021, at https://www.rand.org/pubs/research_reports/RRA361-1.html.

[126] CFPB, *Debt and delinquency after military service: A study of the credit records of young veterans in the first year after separation*, Consumer education and empowerment, November 9, 2020.

[127] CFPB, *Financially Fit? Comparing the credit records of young servicemembers and civilians*, Consumer education and empowerment, July 14, 2020. This report notes that servicemembers are less likely than civilian counterparts to have student loans while in the service.

[128] United States Census Bureau, *Veteran Employment Outcomes Explorer*, Earnings for Employed Veterans by Paygrade; 2014-2015 Exit Cohort, at https://lehd.ces.census.gov/applications/veo/service/paygrade/line.

Appendix. Selected Legislation

Table A-1. Selected Legislation

2003-2021

Year	Citation	Legislation Title and Description
2003	P.L. 108-136	**National Defense Authorization Act for Fiscal Year 2004** Required congressional notification of amendment or cancellation of DOD directive relating to reasonable access to military installations for certain personal commercial solicitation. (repealed in 2005)
	P.L. 108-189	**Servicemembers Civil Relief Act (SCRA)** Amended the Soldiers' and Sailors' Civil Relief Act of 1940 (SSCRA)
2006	P.L. 109-163	**National Defense Authorization Act for Fiscal Year 2006, Title V, Subtitle I, Consumer Protection Matters** Required regulations on policies and procedures on personal commercial solicitations on DOD installations. Required consumer education for members of the Armed Forces and their spouses on insurance and other financial services. Required DOD report on predatory lending practices directed at members of the Armed Forces and their dependents.
	P.L. 109-290	**Military Personnel Financial Services Protection Act** Modified regulatory requirements with respect to sales of certain securities on military installations and to military servicemembers. Required certain disclosure on the sale of life insurance products to members of the Armed Forces. Banned insurance agents and financial advisors who violate regulations from doing business on military installations and required enhanced monitoring by DOD.
2007	P.L. 109-364	**John Warner National Defense Authorization Act for Fiscal Year 2007** Enacted the Military Lending Act (MLA) with a cap on the interest rate, and other restrictions on certain credit products marketed to military servicemembers.
2009	P.L. 111-5	**American Recovery and Reinvestment Act of 2009** Expanded the Homeowners Assistance Program for certain military servicemembers.
2010	P.L. 111-203 §1029(e)	**Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)** Created CFBP OSA and mandated a role for the agency in military financial education and oversight of military consumer protections.
2012	P.L. 112-239	**National Defense Authorization Act for Fiscal Year 2013** Amended the MLA.
2015	P.L. 114-92	**National Defense Authorization Act for Fiscal Year 2016** Amended 10 U.S.C. §992 to require DOD to conduct an annual survey of the "status of the financial literacy and preparedness of members of the armed forces," and report to the Armed Services Committees.
2021	P.L. 117-81	**National Defense Authorization Act for Fiscal Year 2022** Authorized a "Basic Needs Allowance" from the Department of Defense for certain servicemember households with dependents whose gross income is below 130% of the federal poverty line.

Source: CRS analysis of legislation

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