United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, May 18, 2006

MILITARY PERSONNEL

DOD Has Taken Steps to Address Servicemembers' Financial Needs, but Additional Effort Is Warranted

Statement of Valerie C. Melvin, Acting Director
Defense Capabilities and Management

GAO-06-749T

May 18, 2006

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-06-749T, a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

MILITARY PERSONNEL

DOD Has Taken Steps to Address Servicemembers' Financial Needs, but Additional Effort Is Warranted

Why GAO Did This Study

The finances of servicemembers and their families have been an ongoing concern of Congress and the Department of Defense (DOD), especially in light of more frequent deployments to support conflicts in Iraq and Afghanistan. Adverse effects that may result when servicemembers experience financial problems include loss of security clearances, criminal or nonjudicial sanctions, adverse personnel actions, or adverse impacts on unit readiness. To decrease the likelihood that servicemembers will experience financial problems, DOD has requested and Congress has granted annual increases in military basic pay for all active duty servicemembers and increases in special pays and allowances for deployed servicemembers. The military has also developed personal financial management (PFM) programs to help avoid or mitigate adverse effects associated with personal financial problems. However, studies published in 2002 showed that servicemembers continue to report financial problems.

This testimony provides a summary of GAO's prior work examining (1) the extent to which deployments have affected the financial conditions of active duty servicemembers and their families, and (2) steps that DOD has taken to assist servicemembers with their financial needs.

www.gao.gov/cgi-bin/getrpt?GAO-06-749T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Valerie C. Melvin at (202) 512-6304 or MelvinV@gao.gov.

What GAO Found

DOD data suggests that deployment status does not affect the financial condition of active duty servicemembers, although some deployed servicemembers faced certain problems. Data from a 2003 DOD-wide survey suggests that servicemembers who were deployed for at least 30 days reported similar levels of financial health or problems as those who had not deployed. For example, of junior enlisted personnel, 3 percent of the deployed group and 2 percent of the nondeployed group indicated that they were in "over their heads" financially; and 13 percent of the deployed group and 15 percent of the nondeployed group responded that they found it "tough to make ends meet but keeping your head above water" financially. However, problems receiving family separation allowance and communicating with creditors may result in financial difficulties for some deployed servicemembers. Based on DOD pay data for January 2005, almost 6,000 of 71,000 deployed servicemembers who had dependents did not obtain their family separation allowance in a timely manner. Furthermore, problems communicating with creditors—caused by limited Internet access, few telephones and high fees, and delays in receiving ground mail—can affect deployed servicemembers' abilities to resolve financial issues. Additionally, some financial products marketed to servicemembers may negatively affect their financial condition.

DOD has taken a number of steps to assist servicemembers with their financial needs, although some of this assistance has been underutilized. These steps include PFM training for servicemembers, which is required by all four military services. DOD also provides free legal assistance on purchase contracts for large items and other financial documents. However, according to the attorneys and other personnel, servicemembers do not make full use of available legal services because they may not take the time to visit the attorney's office or they fear information about a financial problem would get back to the command and limit their career progression. In addition, each service has a relief or aid society designed to provide financial assistance through counseling and education as well as financial relief through grants or no-interest loans. Some servicemembers in our focus groups stated that they would not use relief from a service society because they take too long, are intrusive, require too much in-depth financial information, or may be career limiting if the command found out. Servicemembers may use non-DOD resources if they do not want the command to be aware of their financial conditions or they need products or support not offered through DOD, the services, or the installation. Although DOD has taken these steps to assist servicemembers with their financial needs, it does not have the results-oriented departmentwide data needed to assess the effectiveness of its PFM programs and provide necessary oversight. Without an oversight framework requiring evaluation and a reporting relationship between DOD and the services, DOD and Congress do not have the visibility or oversight needed to assess the effectiveness of DOD's financial management training and assistance to servicemembers.

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss the financial service needs of military personnel and their families. The finances of servicemembers and their families have been an ongoing concern of Congress and the Department of Defense (DOD), especially in light of more frequent deployments to support the war on terrorism and conflicts in Iraq and Afghanistan. DOD's Social Compact, which is part of its human capital strategic plan, notes that mission readiness and quality of life depend on whether servicemembers use their financial resources responsibly. Some adverse effects that may result when servicemembers experience serious financial problems include loss of security clearances, criminal or nonjudicial sanctions, or adverse personnel actions including possible discharge from the military. Servicemembers with serious financial issues may also have an adverse impact on the readiness of the unit. For example, servicemembers' financial problems may take the servicemembers and possibly their unit commanders away from their primary duties in order to address problems with creditors. In a 2002 report to Congress, the Navy identified an estimated $250 million in productivity and salary losses due to servicemembers' poor personal financial management.[1]

Congress and DOD have taken steps to decrease the likelihood that deployed and nondeployed servicemembers will experience financial problems. DOD has requested and Congress has granted annual increases in military basic pay for all active duty servicemembers and increases in special pays and allowances for deployed servicemembers, such as the family separation allowance and hostile fire/imminent danger pay. The military also has developed personal financial management (PFM) programs to provide servicemembers with financial literacy training, financial counseling, and other assistance to avoid or mitigate the adverse effects associated with personal financial problems."

Despite the added compensation and the assistance provided through the PFM programs, studies in recent years by DOD and others show that active duty servicemembers continue to report financial problems. For

[1] See Department of Defense, *Report on Personal and Family Financial Management Programs* (Mar. 31, 2002) in response to a House Committee on Armed Services requirement in the National Defense Authorization Act for Fiscal Year 2002.

example, a 2002 study[2] noted that 20 percent of junior enlisted servicemembers reported that they struggled to make ends meet financially and another 4 percent regarded themselves as "in over their heads" with respect to their finances.

In this context, my testimony today will summarize our prior work examining (1) the extent to which deployments have affected the financial conditions of active duty servicemembers and their families and (2) steps that DOD has taken to assist servicemembers with their financial needs.

My statement is based primarily on our work completed in April 2005[3] and our institutional knowledge from prior reviews examining financial issues of servicemembers and their families (see GAO Related Products at the end of this testimony statement). Other information, such as the current status of our recommendations to DOD that were pending at the time when the reports were issued, will also be discussed. We conducted our work in accordance with generally accepted government auditing standards during May 2006.

Summary

DOD-wide survey data suggest that deployment status does not affect active duty servicemembers' financial conditions, although some deployed servicemembers faced additional problems with receiving family separation allowances and communicating with creditors and family. DOD data based on servicemember responses to a 2003 DOD-wide survey suggest that servicemembers who were deployed for at least 30 days reported similar levels of financial health or problems as those who had not deployed. For example, of the junior enlisted personnel, 3 percent of the deployed group and 2 percent of the nondeployed group indicated that they were in "over their heads" financially; and 13 percent of the deployed group and 15 percent of the nondeployed group responded that they found it "tough to make ends meet but keeping your head above water"

[2] See RAND, *Assessing the Personal Financial Problems of Junior Enlisted Personnel*, MR-1444-OSD (2002). This report defines junior enlisted as those enlisted servicemembers with fewer than 10 years of service. Our report defines junior enlisted as servicemembers in pay grades E1 to E4.

[3] The findings cited in this testimony were primarily taken from GAO, *Military Personnel: More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues*, GAO-05-348 (Washington, D.C.: Apr. 26, 2005); and GAO, *Military Personnel: DOD's Tools for Curbing the Use and Effects of Predatory Lending Not Fully Utilized*, GAO-05-349 (Washington, D.C.: Apr. 26, 2005).

financially. These responses are consistent with the findings that we obtained in a survey of all PFM program managers and in focus groups conducted during our 13 site visits. However, problems receiving family separation allowance promptly and communicating with creditors and families may result in financial difficulties for some deployed servicemembers. Based on DOD pay data for January 2005, almost 6,000 of 71,000 deployed servicemembers who have dependents did not obtain their family separation allowance in a timely manner. The family separation allowance of $250 per month is designed to compensate servicemembers for extra expenses (e.g., childcare costs) that result when they are involuntarily separated from their families. Not receiving this compensation each month to help defray household costs can place a financial strain on the family when the servicemembers are deployed. Furthermore, problems communicating with creditors—caused by limited Internet access, few telephones and high fees, and delays in receiving ground mail—can affect deployed servicemembers' abilities to resolve financial issues. Failure to avoid or promptly correct serious financial problems can result in consequences for these servicemembers, such as bad credit ratings or adverse effects on unit readiness and morale. Additionally, some financial products marketed to servicemembers may negatively affect their financial conditions.

DOD has taken a number of steps to assist servicemembers with their financial needs; however, some of this assistance is underutilized. One step is PFM training for servicemembers, which is required by all four military services, although the extent to which the training is not received is unknown because servicewide totals are not always collected. DOD also provides legal assistance on purchase contracts for large items and other financial documents. According to the attorneys and other personnel, servicemembers do not make full use of available legal services because they may not take the time to visit the attorney's office or they fear information about their financial problems would get back to the command and limit their career progression. In addition, each service has a relief or aid society designed to provide financial assistance through counseling and education as well as financial relief through grants or no-interest loans. Some servicemembers in our focus groups stated that they would not use grants or no-interest loans from a society because they take too long, are intrusive because the financial institution or relief/aid society requires in-depth financial information in the loan or grant application, or could be career limiting if the command found out the servicemember was having financial problems. Servicemembers may choose to use non-DOD resources if they do not want the command to be aware of their financial conditions or they need products or support not offered through DOD, the

services, or the installation. Furthermore, DOD established Armed Forces Disciplinary Control Boards that can make recommendations to place businesses off-limits to servicemembers, which can be an effective tool for avoiding or correcting unfair practices, but data gathered during some of our site visits revealed few times when boards were used to address predatory lending practices. Although DOD has taken these many steps to assist servicemembers with their financial needs, it does not have the results-oriented, departmentwide data needed to assess the effectiveness of its PFM programs and provide necessary oversight. Without an oversight framework requiring evaluation and a reporting relationship between DOD and the services, DOD and Congress do not have the visibility or oversight needed to assess the effectiveness of DOD's financial management training and assistance to servicemembers.

Background

Because large numbers of Americans lack knowledge about basic personal economics and financial planning, U.S. policymakers and others have focused on financial literacy, i.e., the ability to make informed judgments and to take effective actions regarding the current and future use and management of money.[4] While informed consumers can choose appropriate financial investments, products, and services, those who exercise poor money management and financial decision making can lower their family's standard of living and interfere with their crucial long-term goals.

One vehicle for promoting the financial literacy of Americans is the congressionally created Financial Literacy and Education Commission.[5] Created in 2003, the Commission is charged with (1) developing a national strategy to promote financial literacy and education for all Americans; (2) coordinating financial education efforts among federal agencies and among the federal, state, and local governments; nonprofit organizations; and private enterprises; and (3) identifying areas of overlap and duplication among federal financial literacy activities.

[4] See GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, GAO-05-93SP (Washington, D.C.: Nov. 15, 2004) for an overview of financial literacy issues. This report resulted from a July 28, 2004, forum that GAO hosted to develop recommendations on the role of the federal government in improving financial literacy. The forum's participants included a select group of individuals with expertise in financial literacy and education. They included representatives of federal and state agencies, the financial industry, nonprofit organizations, and academic institutions.

[5] Pub. L. No. 108-159, Title V, (2003).

Since at least the 1980s, the military services have offered PFM programs to help servicemembers address their financial conditions. Among other things, the PFM programs provide financial literacy training to servicemembers, particularly to junior enlisted personnel during their first months in the military. The group-provided financial literacy training is supplemented with other types of financial management assistance, often on a one-on-one basis. For example, servicemembers might obtain one-on-one counseling from staff in their unit or legal assistance attorneys at the installation.

In May 2003, the Office of the Under Secretary of Defense for Personnel and Readiness, DOD's policy office for the PFM programs, established its Financial Readiness Campaign, with objectives that include increasing personal readiness by, among other things, (1) increasing financial awareness and abilities and (2) increasing savings and reducing dependence on credit. The campaign attempted to accomplish these objectives largely by providing on-installation PFM program providers with access to national-level programs, products, and support.

To minimize financial burdens on servicemembers, DOD has requested and Congress has increased cash compensation for active duty military personnel. For example, the average increases in military basic pay exceeded the average increases in private-sector wages for each of the 5 years prior to when we issued our April 2005 report. Also, in April 2003, Congress increased the family separation allowance from $100 per month to $250 per month and hostile fire/imminent danger pay from $150 per month to $225 per month for eligible deployed servicemembers. The family separation allowance is designed to provide compensation to servicemembers with dependents for the added expenses (e.g., extra childcare costs, automobile maintenance, or home repairs) incurred because of involuntary separations such as deployments in support of contingency operations like Operation Iraqi Freedom. Hostile fire/imminent danger pay provides special pay for "duty subject to hostile fire or imminent danger" and is designed to compensate servicemembers for physical danger. Iraq, Afghanistan, Kuwait, Saudi Arabia, and many other nearby countries have been declared imminent danger zones. In

addition to these special pays, some or all income that active duty servicemembers earn in a combat zone is tax free.[6]

Financial Conditions Similar for Deployed and Nondeployed Servicemembers, but Pay Administration and Communication Problems Existed for Deployed Members

Data from DOD suggest that the financial conditions for deployed and nondeployed servicemembers and their families were similar. However, deployed servicemembers faced problems with the administration of an allowance as well as an inability to communicate with creditors. Additionally, some financial products marketed to servicemembers may negatively affect their financial condition.

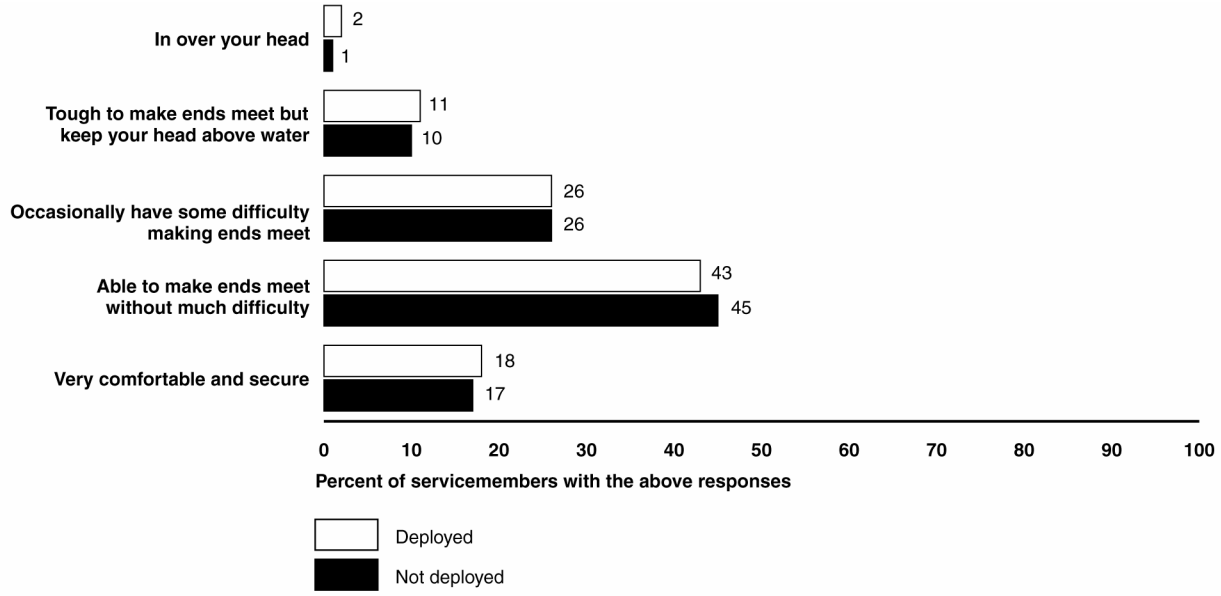
Data Suggest Financial Conditions of Deployed Servicemembers and Their Families Similar to Nondeployed Servicemembers and Their Families

In a 2003 DOD-wide survey, servicemembers who were deployed for at least 30 days reported similar levels of financial health or problems as those who had not deployed. For example, an analysis of the responses for only junior enlisted personnel showed that 3 percent of the deployed group and 2 percent of the nondeployed group indicated that they were in "over their heads" financially; and 13 percent of the deployed group and 15 percent of the nondeployed group responded that they found it "tough to make ends meet but keeping your head above water" financially. Figure 1 shows estimates of financial conditions for all servicemembers based on their responses to this survey.[7]

[6] Department of Treasury, Internal Revenue Service, *Armed Forces' Tax Guide: For Use in Preparing 2005 Returns*, Publication 3, Cat. No. 46072M. This publication noted that all military pay for the month is excluded from income when an enlisted servicemember, a warrant officer, or commissioned officer served in a combat zone during any part of a month or while hospitalized as a result of service in the combat zone. The amount of the exclusion for a commissioned officer (other than a warrant officer) is limited to the highest rate of enlisted pay, plus hostile fire/imminent danger pay for each month during any part of which an officer served in a combat zone or while hospitalized as a result of service there.

[7] DOD's March 2003 survey sample consisted of 34,929 individuals identified by stratified random sampling procedures. DOD reported that completed surveys were received from 10,828 respondents, which resulted in an overall weighted response rate for eligible servicemembers, corrected for nonproportional sampling of 35 percent.

Figure 1: Self-Reported Financial Condition of Servicemembers Who Were and Were Not Deployed for at Least 30 Days at the Time They Completed the 2003 DOD Survey[a]



Source: GAO analysis of DOD data.

[a]Sampling errors of estimates for servicemembers who were not deployed do not exceed +/-2 percentage points. Sampling errors of estimates for servicemembers who were deployed do not exceed +/-5 percentage points. These sampling errors do not include errors due to other sources, such as potential bias attributable to the overall 35 percent response rate. DOD conducted research to assess the impact of this response rate on overall estimates. We have no reason to believe that potential nonresponse bias not otherwise accounted for by DOD's research is substantial for the variables we studied in this report.

These responses are consistent with the findings that we obtained in a survey of all PFM program managers and during our 13 site visits. In the survey of PFM program managers, about 21 percent indicated that they believed servicemembers are better off financially after a deployment; about 54 percent indicated that the servicemembers are about the same financially after a deployment; and about 25 percent believed the servicemembers are worse off financially after a deployment. Also, 90 percent of the 232 recently deployed servicemembers surveyed in our focus groups said that their financial situations either improved or remained about the same after a deployment.

The 2003 DOD survey also asked servicemembers whether they had experienced three types of negative financial events: pressure by creditors, falling behind in paying bills, and bouncing two or more checks. Again, the

findings for deployed and nondeployed servicemembers were similar. For example, 19 percent of the deployed group and 17 percent of the nondeployed group said they were pressured by creditors; 21 percent of the deployed group and 17 percent of the nondeployed group said they fell behind in paying bills; and 16 percent of the deployed group and 13 percent of the nondeployed group said they had bounced two or more checks.[8]

The special pays and allowances that some servicemembers receive when deployed, particularly to dangerous locations, may be one reason for the similar findings for the deployed and nondeployed groups. Deployment-related special pays and allowances can increase servicemembers' total cash compensation by hundreds of dollars per month. Moreover, some or all income that servicemembers earn while serving in a combat zone is tax free.

Deployed Servicemembers Faced Problems Receiving Family Separation Allowance and Communicating with Creditors

Deployed servicemembers experienced problems receiving their family's separation allowance promptly and communicating with creditors and families. Regarding family separation allowance, DOD pay data for January 2005 showed that almost 6,000 of 71,000 deployed servicemembers who have dependents did not receive their family separation allowance in a timely manner. The family separation allowance of $250 per month is designed to compensate servicemembers for extra expenses (e.g., childcare costs) that result when they are involuntarily separated from their families. Delays in obtaining this allowance could cause undue hardship for some families faced with such extra expenses. We previously reported similar findings for the administration of family separation allowance to Army Reserve soldiers and recommended that the Secretary of the Army, in conjunction with the DOD Comptroller, clarify and simplify procedures and forms for implementing the family separation allowance entitlement policy.[9]

The services had different, sometimes confusing, procedures that servicemembers performed to obtain their family separation allowance. DOD officials suggested other factors to explain why some eligible servicemembers had not received their family separation allowance on a

[8] The sampling errors cited for fig. 1 also apply for these findings.

[9] See GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, GAO-04-911 (Washington, D.C.: Aug. 20, 2004).

monthly basis. These factors included servicemembers might not have been aware of the benefit, they may not have filed the required eligibility form, or errors or delays might have occurred when their unit entered data into the pay system. In response to our recommendation that DOD take steps to correct the delayed payment of this allowance, DOD notified finance offices that they should emphasize the prompt processing of such transactions so that payment for the entitlement would begin within 30 days of deployment.

Servicemembers may also experience financial difficulties as a result of communication constraints while deployed. For example, individuals in the focus groups for our April 2005 report suggested that deployed junior enlisted personnel sometimes had less access to the Internet than did senior deployed personnel, making it difficult for the former to keep up with their bills. In addition, some Army servicemembers told us that they (1) could not call stateside toll-free numbers because the numbers were inaccessible from overseas or (2) incurred substantial costs—sometimes $1 per minute—to call stateside creditors. Furthermore, in our March 2004 testimony,[10] we documented some of the problems associated with mail delivery to deployed troops.

Failure to avoid or promptly correct financial problems can result in negative consequences for servicemembers. These include increased debt for servicemembers, bad credit histories, and poor performance of their duties when distracted by financial problems. In our April 2005 report, we recommended and DOD partially concurred that DOD identify and implement steps to allow deployed servicemembers better communications with creditors. In their comments, DOD cited operational requirements as a reason that communications with creditors may not be appropriate. In addition, DOD noted that servicemembers should have extended absence plans for their personal finances to ensure that their obligations are covered.

[10] See GAO, *Military Personnel: Observations Related to Reserve Compensation, Selective Reenlistment Bonuses, and Mail Delivery to Deployed Troops*, GAO-04-582T (Washington, D.C.: Mar. 24, 2004).

Some Financial Products May Negatively Affect Servicemembers' Financial Conditions

Some financial products may also negatively affect servicemembers' financial conditions. For example, although servicemembers already receive substantial, low-cost government-sponsored life insurance, we found that a small group of companies sold products that combine life insurance with a savings fund.[11] These products promised high returns but included provisions that reduced the likelihood that military purchasers would benefit. These products usually provided a small amount of additional death benefits and had much higher premiums than those for the government insurance. These products also had provisions to use accumulated savings to pay the insurance premiums if the servicemembers stopped making payments. Moreover, servicemembers were being marketed a securities product, known as a mutual fund contractual plan, which features higher up-front sales charges than other mutual fund products and has largely disappeared from the civilian marketplace. For both types of products, the servicemembers who stopped making regular payments in the early years paid higher sales charges and likely received lower returns than if they had invested in other products.

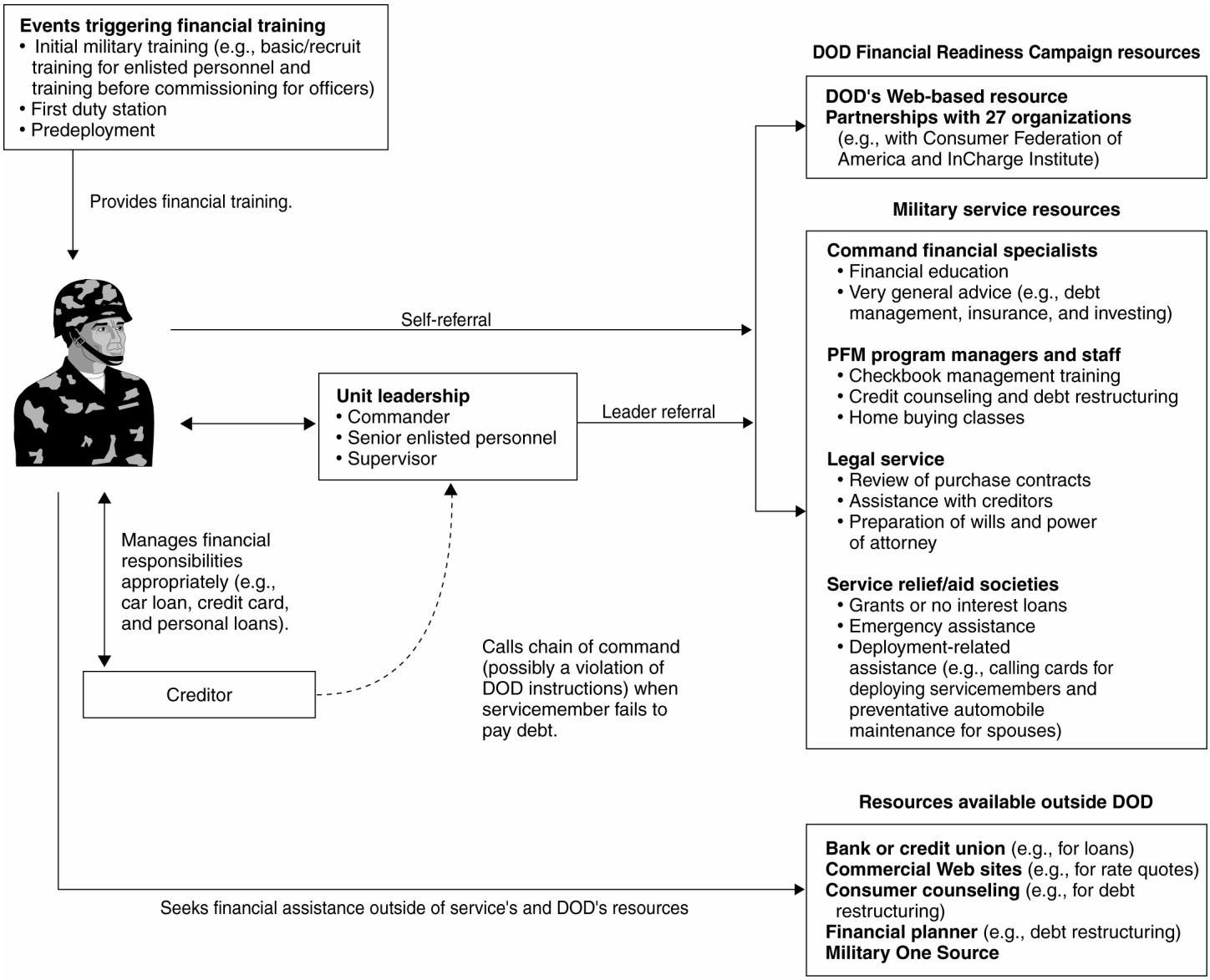
Our November 2005 report made recommendations that included asking Congress to consider banning contractual plans and direct regulators to work cooperatively with DOD to develop appropriateness or suitability standards for financial products sold to servicemembers. We also recommended that regulators ensure that products being sold to servicemembers meet existing insurance requirements and that DOD and financial regulators take steps to improve information sharing between them. In response to the concerns over the products being marketed to servicemembers, securities and insurance regulators have begun cooperating with DOD to expand financial literacy.

[11] See GAO, *Financial Product Sales: Actions Needed to Protect Military Members*, GAO-06-245T (Washington, D.C.: Nov. 17, 2005) and *Financial Product Sales: Actions Needed to Better Protect Military Members*, GAO-06-23 (Washington, D.C.: Nov. 2, 2005).

DOD Has Taken Steps to Assist Servicemembers with Financial Concerns, but Some Assistance Is Underutilized

DOD has taken a number of steps to assist servicemembers with their financial concerns, including providing military-sponsored PFM training, establishing a Financial Readiness Campaign, providing command financial specialists, and using Armed Forces Disciplinary Control Boards. Servicemembers can also access resources available outside of DOD (see fig. 2). However, servicemembers and DOD are not fully utilizing some of this assistance. In addition, DOD does not have an oversight framework to assess the effectiveness of the steps taken to assist servicemembers.

Figure 2: Financial Management Assistance and Training Available to Servicemembers



Sources: GAO analysis of DOD data; Image Art Explosion.

Services Require Financial Management Training

All four military services require PFM training for servicemembers, and the timing and location of the training varies by service. The Army begins this training at initial military, or basic, where soldiers receive 2 hours of

PFM training. The training continues at Advanced Individual Training schools, where soldiers receive an additional 2 hours of training and at the soldiers' first duty station, where they are to receive an additional 8 hours of PFM training. In contrast, Navy personnel receive 16 hours of PFM training during Advanced Individual Training; while, the Marine Corps and the Air Force begin training servicemembers on financial issues at their first duty stations.

Events, such as deployments or permanent changes of station, can trigger additional financial management training for servicemembers. The length of this additional training and the topics covered can vary by installation and command. Unit leadership also may refer a servicemember for financial management training or counseling if the command is aware of an individual's financial problems (e.g., abusing check-cashing privileges).

Despite these policies, some servicemembers have not received the required training, but the extent to which the training is not received is unknown because servicewide totals are not always collected. The Army, which is the only service that collected installation-level PFM data, estimated that about 82 percent of its junior enlisted soldiers completed PFM training in fiscal year 2003. Some senior Army officers at visited installations acknowledged the need to provide PFM training to junior enlisted servicemembers, but also noted that deployment schedules limited the time available to prepare soldiers for their warfighting mission (e.g., firing a weapon). While some services reported taking steps to improve their monitoring of PFM training completion—an important output—they still do not address the larger issue of training outcomes, such as whether PFM training helps servicemembers manage their finances better.[12]

[12] The DOD Instruction 1342.27, dated November 2004, states that "within 3 months after arriving at the first permanent duty station, a servicemember shall demonstrate a basic understanding of pay and entitlements, banking and allotments, checkbook management, budgeting and saving (to include the thrift savings plan), insurance, credit management, car buying, permanent change of station moves . . . and information on obtaining counseling or assistance on financial matters." The instruction, however, does not specify how this is to be measured. It simply says that such an understanding means to comprehend the underlying principles of a subject and apply them to everyday life situations.

DOD's Financial Readiness Campaign Provides Resources Developed with Assistance from External Organizations

DOD's Financial Readiness Campaign, which was launched in May 2003, supplements PFM programs offered by the individual services through Web-based sources developed with assistance from external organizations. The Under Secretary of Defense for Personnel and Readiness stated that the department initiated the campaign to improve the financial management resources available to servicemembers and their families and to stimulate a culture that values financial health and savings. The campaign allows installation-level providers of PFM programs to access national programs and services developed by federal agencies and nonprofit organizations.

The primary tool of the Financial Readiness Campaign has been a Web site designed to assist PFM program managers in developing installation-level campaigns to meet the financial management needs of their local military community. This Web site is linked to the campaign's 27 partner organizations (e.g., federal agencies, Consumer Federation of America, and service relief/aid societies) that have pledged to support DOD in implementing the Financial Readiness Campaign. DOD's May 2004 assessment of the campaign[13] noted, however, that installation-level PFM staffs had made minimal use of the campaign's Web site. DOD campaign officials stated that it was early in implementation of campaign efforts and that they had been brainstorming ideas to repackage information given to PFM program managers, as well as servicemembers and their families.

Command Financial Specialists and PFM Program Staff Are Available for Financial Education and Counseling

At the installation level, the military services provide command financial specialists, who are usually senior enlisted personnel trained by PFM program managers, to assist servicemembers with financial issues. These noncommissioned officers may perform the education and counseling role of the command financial specialist as a collateral or full-time duty. The Navy, Marine Corps, and Army use command financial specialists to provide unit assistance to servicemembers in financial difficulties. The Air Force does not use command financial specialists within the unit, but has the squadron First Sergeant provide first-level counseling.

Individual servicemembers who require counseling beyond the capability of the command financial specialists or First Sergeants in the Air Force

[13] Office of the Deputy Under Secretary of Defense (Military Community and Family Policy), *Initial Assessment and Follow-on Plan for the Department of Defense Financial Readiness Campaign* (May 27, 2004).

can see the installation's PFM program manager or PFM staff. The PFM program manager is a professional staff member designated and trained to organize and execute financial planning and counseling programs for the military community. PFM program managers and staff offer individual financial counseling as well as group classes on financial issues.

Free Legal Assistance Offered, but Servicemembers Do Not Make Full Use of This Assistance

DOD provides free legal assistance on contracts and other financial documents at installations, but servicemembers do not make full use this assistance. For example, legal assistance attorneys may review purchase contracts for large items such as homes and cars. In addition, the legal assistance attorneys offer classes on varying financial issues including powers of attorney, wills, and divorces. However, legal assistance attorneys at the 13 installations we visited for our April 2005 report stated that servicemembers rarely seek their assistance before entering into financial contracts for goods or services such as purchasing cars or lifetime film developing.

Instead, according to the attorneys, servicemembers are more likely to seek their assistance after encountering problems. For example, used car dealers offered low interest rates for financing a vehicle, but the contract stated that the interest rate could be converted to a higher rate later if the lender did not approve the loan. Servicemembers were later called to sign a new contract with a higher rate. By that time, some servicemembers found it difficult to terminate the transaction because their trade-in vehicles had been sold.

Legal assistance attorneys, as well as other personnel in our interviews and focus groups, noted reasons why servicemembers might not take greater advantage of the free legal assistance before entering into business agreements. They stated that junior enlisted servicemembers who want their purchases or loans immediately may not take the time to visit the attorney's office for such a review. Additionally, the legal assistance attorneys noted that some servicemembers feared information about their financial problems would get back to the command and limit their career progression.

Service Relief/Aid Societies Provide Financial Assistance

Each service has a relief or aid society designed to provide financial assistance to servicemembers. The Army Emergency Relief Society, Navy-Marine Corps Relief Society, and the Air Force Aid Society are all private, nonprofit organizations. These societies provide counseling and education as well as financial relief through grants or no-interest loans to eligible

servicemembers experiencing emergencies. Emergencies include funds needed to attend the funeral of a family member, repair a primary vehicle, or buy food. For example, in 2003, the Navy-Marine Corps Relief Society provided $26.6 million in interest-free loans and $4.8 million in grants to servicemembers for emergencies.

Some servicemembers in our focus groups stated that they would not use grants or no-interest loans from a service society because they take too long, are intrusive because the financial institution or relief/aid society requires in-depth financial information in the loan or grant application, or could be career limiting if the command found out the servicemembers were having financial problems. The Army Emergency Relief Society attempted to address the time and intrusiveness concerns with its test program, Commander's Referral, for active duty soldiers lacking funds to meet monthly obligations of $500 or less. After the commander approves the loans, the servicemembers can expect to receive funds quickly. However, noncommissioned officers in our individual interviews and focus groups said the program still did not address servicemembers' fears that revealing financial problems to the command could jeopardize their careers.

Non-DOD Resources May Be Used When Sevicemembers Need Additional Financial Support or Confidentiality

Servicemembers may choose to use non-DOD resources if they do not want the command to be aware of their financial conditions or they need financial products or support not offered through DOD, the services, or the installation. In such cases, servicemembers may use other financial resources outside of DOD, which are available to the general public. These can include banks or credit unions for competitive rates on home or automobile loans, commercial Web sites for interest rate quotes on other consumer loans, consumer counseling for debt restructuring, and financial planners for advice on issues such as retirement planning.

Armed Forces Disciplinary Control Boards Can Help Curb Predatory Lending Practices

DOD has used Armed Forces Disciplinary Control Boards to help curb predatory lending practices and minimize their effects. These boards and the recommendations that they make to an installation commander to place businesses off-limits to servicemembers can be effective tools for avoiding or correcting unfair practices. However, data gathered during some of our site visits to the various installations revealed few times when the boards were used to address predatory lending practices. For example, the board at Fort Drum, New York, had not met in about 4 years, and the board's director was unaware of two lawsuits filed by the New York Attorney General that involved Fort Drum servicemembers.

- The Attorney General settled a lawsuit in 2004 on behalf of 177 plaintiffs—most of whom were Fort Drum servicemembers—involving a furniture store that had improperly garnished wages pursuant to unlawful agreements it had required customers to sign at the time of purchase.
- The Attorney General filed a lawsuit in 2004 involving catalog sales stores. He characterized the stores as payday-lending firms that charged excessive interest rates on loans disguised as payments toward catalog purchases. Some servicemembers and family members at Fort Drum fell prey to this practice. The Attorney General stated that he found it particularly troubling that two of the catalog stores were located near the Fort Drum gate.

In contrast to the Fort Drum situations, businesses near two other installations we visited changed their lending practices after boards recommended that commanders place or threaten to place the businesses on off-limits lists. Despite such successes, boards might not be used as a tool for dealing with predatory lenders for a variety of reasons. For example, as a result of high deployments, commanders may minimize some administrative duties, such as convening the boards, to use their personnel for other purposes. In addition, the boards may have little basis to recommend placing or threatening to place businesses on the list if the lenders operate within state laws. Furthermore, significant effort may be required to put businesses on off-limits lists. While recognizing these limitations, in our April 2005 report we nonetheless recommended that all Armed Forces Disciplinary Control Boards be required to meet twice a year. In responding to our recommendation, DOD indicated that it intended to establish a requirement for the boards to meet even more frequently—four times a year—and direct that businesses on the off-limits list for one service be off-limits for all services.

DOD Lacks Oversight Framework for Assessing and Monitoring PFM Program Effectiveness

Although DOD has made resources available to assist servicemembers, it lacks the results-oriented, departmentwide data needed to assess the effectiveness of its PFM programs and provide necessary oversight. The November 2004 DOD instruction that provides guidance to the services on servicemembers' financial management does not address program evaluation or the reports that services should supply to DOD for its

oversight role.[14] In our 2003 report,[15] we noted that an earlier draft of the instruction emphasized evaluating the programs and cited metrics such as the number of servicemembers with wages garnished. DOD officials said that these metrics were eliminated because the services did not want the additional reporting requirements.

The only DOD-wide evaluative data available for assessing the PFM programs and servicemembers' financial conditions were obtained from a general-purpose annual survey that focuses on the financial conditions of servicemembers as well as a range of other unrelated issues. The data were limited because (1) DOD policy officials for the PFM programs can only include a few financial-related items to this general purpose survey, (2) a response rate of 35 percent on a March 2003 active duty survey leads to questions about the generalizability of the findings, and (3) DOD has no means for confirming the self-reported information for survey items that ask about objective events such as filing for bankruptcy. Without an oversight framework requiring common evaluation DOD-wide and reporting relationships among DOD and the services, DOD and Congress do not have the visibility or oversight they need to assess the effectiveness of DOD's financial management training and assistance to servicemembers. In response to a recommendation in our April 2005 report for DOD to develop a DOD-wide oversight framework and formalize its oversight role for the PFM programs, the department indicated that it is pursuing management information that includes personal finances to support its implementation of the President's Management Agenda and to comply with the Government Performance Results Act.

Concluding Observations

In summary, as mentioned earlier in my testimony, Congress and DOD have taken steps to decrease the likelihood that deployed and nondeployed servicemembers will experience financial problems. The prior increases in compensation, efforts to increase the financial literacy of servicemembers, and fuller utilization of the tools that DOD has provided for addressing the use of predatory lenders should positively affect the financial conditions of military personnel. While additional efforts are warranted to implement our recommendations on issues such

[14] DOD Instruction 1342.27, *Personal Financial Management for Service Members* (Nov. 12, 2004).

[15] See GAO, *Military Personnel: DOD Needs More Data to Address Financial and Health Care Issues Affecting Reservists*, GAO-03-1004 (Washington, D.C.: Sept. 10, 2003).

as improving DOD's oversight framework for assessing its PFM programs, some of these efforts to address the personal financial conditions of servicemembers and correct past programmatic shortcomings are well underway. Sustaining this momentum will be key to minimizing the adverse effects that personal financial management problems can have on the servicemember, unit, and service.

Madam Chairwoman and Members of the Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions you may have.

Staff Contact and Acknowledgments

For further information regarding this testimony, please contact me at 202-512-6304 or melvinv@gao.gov. Individuals making key contributions to this testimony include Jack E. Edwards, Assistant Director; Renee S. Brown; Marion A. Gatling; Cody Goebel; Barry Kirby; Marie A. Mak; Terry Richardson; and John Van Schaik.

Related GAO Products

Financial Product Sales: Actions Needed to Protect Military Members. GAO-06-245T. Washington, D.C.: November 17, 2005.

Financial Product Sales: Actions Needed to Better Protect Military Members. GAO-06-23. Washington, D.C.: November 2, 2005.

Military Personnel: DOD Needs Better Controls over Supplemental Life Insurance Solicitation Policies Involving Servicemembers. GAO-05-696. Washington, D.C.: June 29, 2005.

Military Personnel: DOD's Comments on GAO's Report on More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues. GAO-05-638R. Washington D.C.: May 11, 2005.

Military Personnel: More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues. GAO-05-348. Washington, D.C.: April 26, 2005.

Military Personnel: DOD Tools for Curbing the Use and Effects of Predatory Lending Not Fully Utilized. GAO-05-349. Washington, D.C.: April 26, 2005.

Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts. GAO-05-223. Washington, D.C.: March 16, 2005.

DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements. GAO-05-189. Washington, D.C.: February 11, 2005.

Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy. GAO-05-93SP. Washington, D.C.: November 15, 2004.

Military Personnel: DOD Needs More Data Before It Can Determine if Costly Changes to the Reserve Retirement System Are Warranted. GAO-04-1005. Washington, D.C.: September 15, 2004.

Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems. GAO-04-911. Washington, D. C.: August 20, 2004.

Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems. GAO-04-990T. Washington, D.C.: July 20, 2004.

Military Personnel: Survivor Benefits for Servicemembers and Federal, State, and City Government Employees. GAO-04-814. Washington, D.C.: July 15, 2004.

Military Personnel: DOD Has Not Implemented the High Deployment Allowance That Could Compensate Servicemembers Deployed Frequently for Short Periods. GAO-04-805. Washington, D.C.: June 25, 2004.

Military Personnel: Active Duty Compensation and Its Tax Treatment. GAO-04-721R. Washington, D.C.: May 7, 2004.

Military Personnel: Observations Related to Reserve Compensation, Selective Reenlistment Bonuses, and Mail Delivery to Deployed Troops. GAO-04-582T. Washington, D.C.: March 24, 2004.

Military Personnel: Bankruptcy Filings among Active Duty Service Members. GAO-04-465R. Washington, D.C.: February 27, 2004.

Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems. GAO-04-413T. Washington, D.C.: January 28, 2004.

Military Personnel: DOD Needs More Effective Controls to Better Assess the Progress of the Selective Reenlistment Bonus Program. GAO-04-86. Washington, D.C.: November 13, 2003.

Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems. GAO-04-89. Washington, D.C.: November 13, 2003.

Military Personnel: DFAS Has Not Met All Information Technology Requirements for Its New Pay System. GAO-04-149R. Washington, D.C.: October 20, 2003.

Military Personnel: DOD Needs More Data to Address Financial and Health Care Issues Affecting Reservists. GAO-03-1004. Washington, D.C.: September 10, 2003.

Military Personnel: DOD Needs to Assess Certain Factors in Determining Whether Hazardous Duty Pay Is Warranted for Duty in the Polar Regions. GAO-03-554. Washington, D.C.: April 29, 2003.

Military Personnel: Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement. GAO-03-149. Washington, D.C.: November 25, 2002.

Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve. GAO-02-935. Washington, D.C.: September 18, 2002.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER