

Reservists Who Are Called Up Need to Have a Financial Plan

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WASHINGTON—When Steven Wightman received notice during the Persian Gulf War that his Army Reserve unit was being called up, he had three days to ponder the financial implications.

He updated his will and checked his insurance coverage. He made sure he had all the right beneficiaries listed on his accounts. Then he braced himself for what was likely to be a significant loss of income.

Three days later, Mr. Wightman got the call: The 1991 war was winding down and his unit wasn't needed after all, news he greeted with a mixture of relief and disappointment over not being able to serve. "The financial loss I would have incurred would have been in the six digits," he said. "I would have lost my health insurance and everything. My whole network, my financial structure would have fallen apart."

Mr. Wightman left the reserves in 1997 and today runs another business, Wightman Financial Network, a fee-only financial-planning firm in Lexington, Mass.

His experience is being repeated all over the U.S. today as more reservists and Army National Guard members are being called up to active duty, this time for service in Iraq. A survey by the Department of Defense for Reserve Affairs found that nearly a third of families experienced a decrease in income when a husband or wife was called up.

Often, the emotional impact of leaving civilian life for a war zone overshadows the financial implications, but the financial effect of poor planning ahead of deployment can reverberate in a family for years, especially if a primary breadwinner is killed or injured in the line of duty, experts say.

When reservists and National Guardsmen are called to active duty and know that their family's income is going to suffer as a result, financial planners and brokers say there are a number of measures they should take.

Mortgage payments typically are the highest fixed cost for a family, and federal law allows people called to active duty to demand their banks give them a capped interest rate of 6% on their mortgages. But years of low interest rates means that many families already may have a 6% rate or less on their home loans. If that is the case, Merrill Lynch & Co. broker Heather Evans says an interest-only mortgage can bring down monthly payments during the early years of a loan.

Although the military offers its members group life insurance, the benefit is capped at \$250,000. Those who need a higher level should add their own policy on top of that. Michael Finer, a major in the Army National Guard and a co-founder of Major League Investments Inc. in Salem, Mass., said military personnel must take care to read the fine print in their policies: Many exclude coverage for soldiers who die in a war zone.

Disability insurance also is something National Guardsmen and reservists should consider, since many tend to be older and in worse physical condition than full-time enlisted soldiers when they are sent to a hostile environment, Mr. Wightman said.

"By a hostile environment, I don't necessarily mean bullets whizzing by, but the environment itself is hostile—there's hot deserts, chemical exposure, new diseases," Mr. Wightman said. "These are the people who should plan on the possibility of having more health issues when they return. When they go back to their jobs, they may not be as able to work."

Advisers say in the ideal world, most clients will have saved a cushion of at least six months' salary to tide their families through their absence. Without it, they will need to turn to their investment portfolios to generate income. Robert Gerstemeier, a lieutenant in the Naval Reserves who is president of Gerstemeier Financial Group LLC in Naperville, Ill., said he believes everyone should rebalance their portfolios, and if necessary, increase an account's cash position for emergency purposes. Under current market conditions, he advises clients against moving into high-yielding securities or bonds.

Mr. Finer, of Major League Investments, said he advocates reservists considering making their portfolios more conservative and geared toward income preservation rather than growth. Four months ago, he moved a lot of his personal portfolio into bonds and has sold some real estate he owns in case he is sent abroad.

"We put the portfolio on ice a little bit. If you miss a big gain while you're gone, that's not a big deal. Think instead of having a big loss while you're gone and your spouse losing access to that principle," he said. "I've designed my own portfolio so I won't have as many fluctuations. I've sort of gone into a retired person's portfolio."

Mr. Finer said there is the risk of missing out on market gains, something that anyone who reduced their stock portfolio in early 2003 can attest to. Still, he said he now feels the market is stronger than it has been in previous years, and he is more confident that playing it conservatively is the right call if he is activated.

Ms. Evans also prepares her clients for the possibility that any drop in income, changes to their portfolios and missed 401(k) opportunities during their deployment could affect their retirement plans. Some reservists may find they have to work longer before retiring because of the time spent in active duty; others may have to consider a more aggressive asset allocation in their portfolios when they return.

Military service "changes a lot of plans, but if you're flexible and prepare for it, it doesn't have to derail your plans," she said.

"I think now is a bad time to do anything like that to increase income," he said.

Even if the portfolio doesn't need to be tapped for cash when a soldier is called to duty, advisers say it is important to make it as low-maintenance as possible. Besides giving a stateside relative or friend power of attorney to help make decisions during someone's absence, the number of potential decisions should be reduced by eliminating complex or volatile investments.

Merrill Lynch's Ms. Evans said she has counseled investors at her Tysons Corner, Va., practice who are "a little more aggressive" than many of her clients that they need to change their portfolios before heading into combat. Brokers can't take stock orders via e-mail, and clients can't track their investments from a war zone, so she advises them to move into mutual funds, managed accounts, or more conservative stocks. If higher-risk equities still are appropriate for a portfolio, she said there are lower-maintenance ways to get that exposure.

"It's still possible to have investments that are more aggressive even within mutual funds and managed accounts," but that require less monitoring, said Ms. Evans, who married a Marine and whose son is deployed in South Korea.

Daniel Brownsberger, a financial-management consultant who constructs portfolios at FirsTrust in Daytona Beach, Fla., said clients who are involved in transactions such as shorting stocks or options strategies can decide to offer discretionary power to a financial adviser, but only if they are certain they trust the person's acumen. "You have to hire someone to do it for you or get out of it. You have to simplify your portfolio so that it can go on automatic cruise control for while," said Mr. Brownsberger, adding that exchange-traded funds and index funds are good choices.