

MILITARY FINANCIAL BEHAVIORS INDEX®



Fourth Quarter 2016

FIRST COMMAND FINANCIAL SERVICES, INC.

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with

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MILITARY FAMILIES REMAIN DEDICATED TO THEIR FINANCIAL GOALS AND END THE YEAR MORE CONFIDENT.

The Financial Behaviors Index® among military families increases by 8 points in Q416 to 145 (vs. 137 in Q316) – the highest level seen in 2016. The index is bolstered in December, reaching 151. Rising Attitudes and Behaviors sub-indices are driving the increase (Attitudes: 129 in Q316 to 147 in Q416), (Behaviors: 139 in Q316 to 148 in Q416). Meanwhile, the Intentions sub-index declines slightly (Intentions: 143 in Q316 to 140 in Q416).

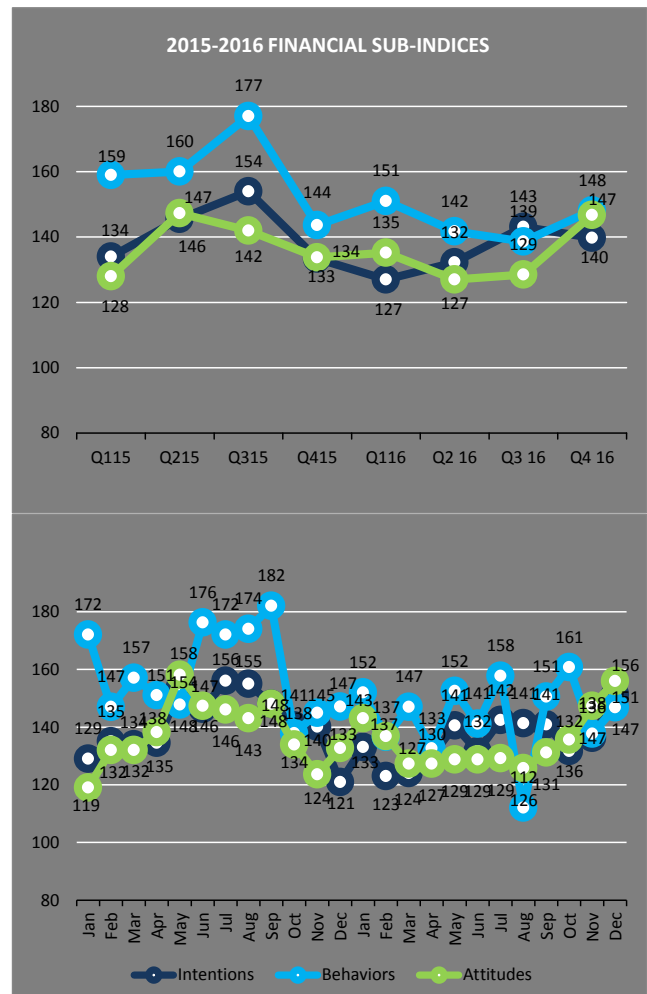
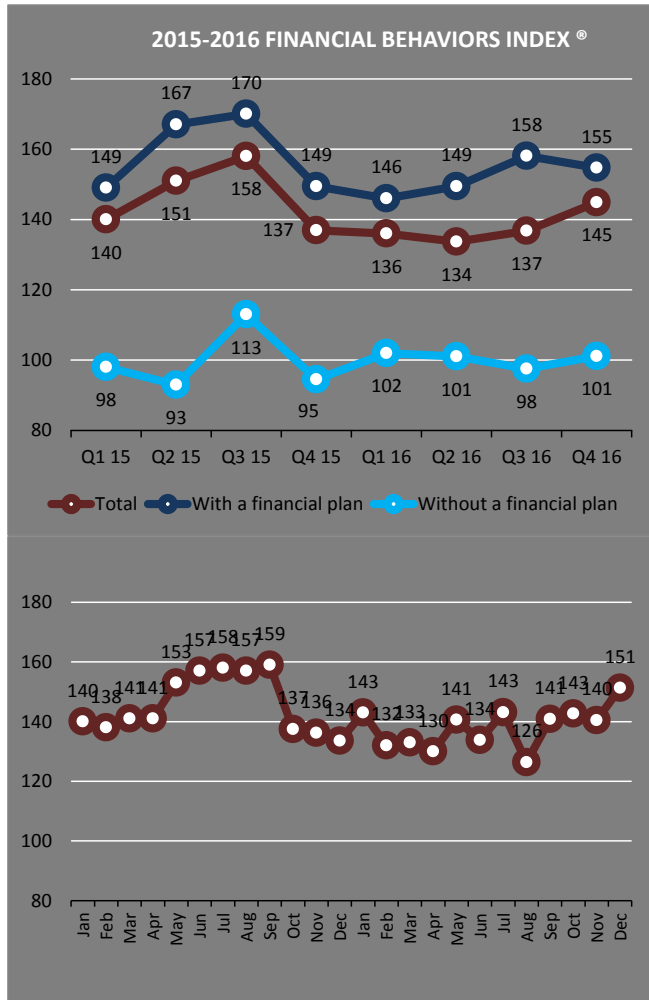
Improvement in attitudes about future finances and ability to retire have bolstered the Attitudes sub-index, while greater participation in short term and retirement savings is boosting the Behaviors sub-index. As typically seen, median contributions to savings and retirement are stronger among those using a financial advisor.

Families who use financial advisors are also more likely to say they will increase savings and debt payments in the future than those who don't use financial advisors (Increase savings: 44% vs. 29%; Increase Debt Payments: 35% vs. 27%).

This ongoing commitment is reflected in those with a financial advisor reporting higher savings and investment behaviors. Additionally, those with a financial advisor report \$35,000 more in accumulated savings and retirement funds than those without a financial advisor and \$66,000 less in debt

% Taking Action and Median Contribution Q416	Financial Advisor		No Financial Advisor	
	Action	\$\$	Action	\$\$
Short-Term Savings	82%	\$500	74%	\$250
Long-Term Savings	65%	\$400	41%	\$300
Retirement	82%	\$500	69%	\$250
Short-Term Debt Paid	75%	\$500	78%	\$600
Long-Term Debt Paid	72%	\$800	77%	\$975

Current Holdings:	Financial Advisor	No Financial Advisor	Difference
Savings & Retirement	\$137,665	\$102,398	\$35,256
Debt	\$59,801	\$125,772	(\$65,971)



In Q416 the top financial concerns among military families are *state of the economy*, *the ability to retire comfortably* and the *cost of health insurance*. Those without a financial advisor are *more likely* to be concerned about *their ability to retire comfortably*, *personal debt*, and *ability to send kids to college* than those with a financial advisor. Those with a financial advisor are more likely to be concerned about *the stock market* and *the cost of health insurance*. Top financial concerns in Q416 include:

	With Financial <u>Planner</u>	Without Financial <u>Planner</u>
<i>The state of the economy</i>	41%	39%
<i>Cost of health insurance</i>	40%	26%
<i>Ability to retire comfortably</i>	34%	54%
<i>Cost of everyday goods</i>	34%	32%
<i>Personal debt</i>	30%	44%
<i>The stock market</i>	28%	12%
<i>Ability to send kids to college</i>	26%	36%
<i>Cost of gas</i>	26%	21%
<i>Ability to cover medical expenses</i>	25%	24%
<i>The value of real estate</i>	24%	19%
<i>Mortgage interest rates</i>	24%	11%
<i>Ability to buy a home</i>	17%	20%
<i>Unemployment/ Job Security</i>	16%	14%

The Financial Behaviors Index® survey shows that on average 74% of military households indicate feeling extremely/somewhat anxious about cuts to defense spending and 74% already feel financially affected by the cuts. The top concern among military families remains *reduction in annual pay increases* (35% on average) followed by *increased responsibility for healthcare costs* (32%).

This corresponds to basic pay ranking first again this quarter as the top military benefit, followed by retirement pay, and healthcare benefits. In addition, military families are feeling less secure about their future job security compared to general population families (51% feel concerned vs. 31% of GenPop families).

Compared to prior quarters, more military families (35%) indicate an interest in opting in to the new Blended Retirement System. In addition, about half of military families have viewed online training to explain the new retirement system options, and two in three (67%) are aware of educational classes that will be available in 2017. Most military families indicate they are likely to consult a financial advisor regarding their retirement system options – particularly those who already work with an advisor

(65% extremely/very likely to consult their advisor vs. 25% without an advisor).

In Q416 most military families continue to indicate that they are taking action to prepare for cuts in defense spending (87% vs. 55% of GenPop families taking some action to prepare for sequestration), primarily through increased saving and cutting back on every day spending. However, a majority of military families have confidence that Congress will void sequestration before the full return to automatic budget cuts in 2018 (58% vs. 30% of GenPop families). Military families expressed some anxiety about the possibility of a government shutdown, with two in three families being anxious about the possibility, and despite the stopgap measure applied in September.

Military families end the year feeling more confident in their financial future than at any time in the past year, and they are much more confident than the general population.

	Q415	Q116	Q216	Q316	Q416
Not financially stretched	34%	37%	36%	33%	34%
Financially secure	41%	40%	37%	35%	39%
Financial situation will improve	53%	54%	52%	54%	62%
Ability to retire comfortably	48%	52%	48%	49%	59%

Those with a financial advisor have an even more promising outlook. Military families with financial advisors are more confident that their financial situation will improve in the next year and in their ability to retire comfortably than those without a financial advisor (67% vs. 38% Extremely/Very Confident; 65% vs. 33% Extremely/Very Confident Will Retire Comfortably).

In November nearly six in ten military families reported that their personal financial situation today is better off than one year ago. Heading into 2017 these families are focused on further strengthening their position by getting out of debt and cutting back their spending. A good sign of that is the fact that a majority of military families plan to use their 2.1% pay raise to increase savings and pay down debt. In spite of their anxiety about budget cuts, seeing and feeling the benefits of sensible financial planning is keeping these families focused on financial discipline and feeling very confident about their future.

% Taking Action and Median Contribution	Q415		Q116		Q216		Q316		Q416	
	Action	\$\$	Action	\$\$	Action	\$\$	Action	\$\$	Action	\$\$
<i>Short-Term Savings</i>	72%	\$500	71%	\$500	70%	\$500	71%	\$341	81%	\$500
<i>Long-Term Savings</i>	69%	\$500	56%	\$350	55%	\$350	55%	\$300	61%	\$400
<i>Retirement Accounts</i>	61%	\$500	69%	\$500	69%	\$300	72%	\$496	80%	\$490
<i>Short-Term Debt</i>	78%	\$500	72%	\$500	77%	\$500	76%	\$500	75%	\$500
<i>Long-Term Debt</i>	74%	\$1,000	68%	\$1,000	68%	\$809	68%	\$953	73%	\$850

Balances Held in Following Accounts (average running balance)	Total	Financial Advisor	No Financial Advisor
	Q3/Q4 16		
<i>Checking Accounts</i>	\$6,281	\$ 7,308	\$ 3,251
<i>Short-Term Savings</i>	\$13,171	\$ 14,147	\$ 10,131
<i>Long-Term Savings</i>	\$50,263	\$ 56,386	\$ 30,124
<i>Retirement Accounts</i>	\$59,590	\$ 59,812	\$ 58,892
<i>Short-Term Debt</i>	\$11,538	\$ 8,954	\$ 19,518
<i>Long-Term Debt</i>	\$64,300	\$ 50,847	\$ 106,254

METHODOLOGY

The First Command Financial Behaviors Index® examines financial behaviors, attitudes and intentions among U.S. consumers. The Index, launched in February 2008, was created by First Command Financial Services, Inc., and Sentient Decision Science, an independent market research and consulting firm, was commissioned by First Command to compile the Financial Behaviors Index®. The research is based on a monthly survey of approximately 530 U.S. consumers, ages 25 to 70 with annual household incomes of at least \$50,000. Survey respondents are asked questions related to three separate measures:

Behaviors:

How much money did you put into savings and investments last month? (Dollar amounts)

Short-term (savings accounts, CDs, liquid money market funds)

Long-term (stocks, mutual funds, bonds, college savings 529 plan)

Retirement (401k, 403b, Simple IRA, Personal IRA accounts, TSPs)

How much did you pay on your short-term and long-term debt last month?

Short-term (car loans, credit card debt, etc.)

Long-term (mortgages, student loans, home equity loans/lines, etc.)

Intentions:

Will you increase or decrease the amount you put into savings and investments next month?

Will you increase or decrease the amount you pay on your debt next month?

Will you increase or decrease the amount of debt you carry next month?

Attitudes:

How financially secure do you feel month to month?

How would you rate your confidence that your financial situation will improve in the next year?

How confident do you feel about your ability to retire comfortably?

How financially stretched do you feel month to month?

The margin of error for a survey based on 530 interviews is +/-4.3 percentage points with a 95 percent level of confidence. The method for calculating the First Command Financial Behaviors Index® may be subject to change depending on data tracking history and correlations with movements in the U.S. economy. For more information about the Index and the monthly survey, please contact Mark Leach at First Command Financial Services.

About First Command Financial Services, Inc.

Through comprehensive, personalized financial plans comprising investments, insurance and banking products and services, First Command Financial Services has since 1958 assisted individuals and families in their efforts to reduce debt, build wealth and pursue their financial goals and lifetime dreams.

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About Sentient Decision Science, Inc.

Sentient Decision Science is a full service behavioral science and market research firm with special vertical expertise within the financial services industry. Sentient specializes in advanced research design and statistical analysis of behavioral and attitudinal data.

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