



Matt Samson  
President & Financial Advisor  
Business Phone/Text  
402.204.0230  
Cell Phone  
402.980.5183  
Matt.Samson@ilsfinancial.com

## The ILS Decision Sequencing System™

### Financial Planning Framework for Retiring Senior Military Officers (O-5 / O-6)

---

#### Executive Summary

Retirement from military service is not a single financial decision. It is a structured transition involving income replacement, benefit coordination, irreversible elections, tax sequencing, risk containment, and long-term capital optimization.

The ILS Decision Sequencing System™ organizes these decisions in the proper order:

1. Establish the Income Floor
2. Map Lifetime Benefit Streams
3. Pressure-Test Irreversible Decisions
4. Sequence Tax Buckets
5. Contain Fragility
6. Optimize Return

Sequencing matters. Decisions made out of order may reduce optionality or create unintended long-term consequences.

This framework is designed for active-duty senior officers retiring with pension eligibility and pursuing a second career.

# 1. Establish the Income Floor

The military pension forms the baseline income floor of retirement.

Unlike investment assets, the pension represents contractual lifetime income adjusted for inflation under current law (Defense Finance and Accounting Service [DFAS], 2023).

## Checklist

- Verify High-3 calculation accuracy
- Confirm retirement date and terminal leave sequencing
- Model gross and net pension income
- Confirm Survivor Benefit Plan (SBP) base amount calculation
- Evaluate pension taxation under projected state residency
- Identify minimum lifestyle income requirement

The pension is not treated as an investment asset. It is the structural income base upon which all other decisions are layered.

---

# 2. Map Lifetime Benefit Streams

Military retirement includes multiple potential income and benefit sources. These must be modeled in coordination rather than isolation.

## A. VA Disability Compensation

VA disability compensation is tax-free income (Internal Revenue Service [IRS], 2023).

We model three structural tiers:

### **Tier 1: Less than 50% Service-Connected**

- Potential pension offset (absent CRSC)
- Healthcare copay exposure may apply
- Limited concurrent receipt eligibility

**Tier 2: 50% or Greater Service-Connected**

- Eligible for Concurrent Retirement and Disability Pay (CRDP) (DFAS, 2023)
- Expanded healthcare priority access
- Increased tax-free income floor

**Tier 3: 100% Service-Connected**

- Maximum tax-free compensation
- Priority Group 1 healthcare access (U.S. Department of Veterans Affairs [VA], 2023)
- Expanded federal and state-level benefits

Even with TRICARE eligibility, VA healthcare access may influence long-term healthcare cost modeling.

---

**B. TRICARE & Health Coverage**

- Confirm TRICARE Prime or Select enrollment
- Evaluate employer-sponsored health plan (if applicable)
- Assess copay exposure differences
- Model Medicare coordination at age 65

(Defense Health Agency, 2023)

---

**C. Social Security (“Second Retirement”)**

- Estimate Full Retirement Age benefit
- Model delayed retirement credits
- Evaluate spousal coordination
- Incorporate longevity assumptions

(Social Security Administration [SSA], 2023)

---

## 3. Pressure-Test Irreversible Decisions

Some elections are difficult or impossible to reverse. These must be analyzed before optimizing investments.

---

### A. Survivor Benefit Plan (SBP)

- Full vs reduced coverage modeling
- Actuarial break-even analysis
- Insurance replacement feasibility
- Interaction with VA Dependency and Indemnity Compensation (DIC)
- Paid-up provisions (age 70 / 30 years of payments)
- Spousal concurrence requirements

(DFAS, 2023)

---

### B. SGLI Conversion Window

- Confirm 120-day conversion period
- Evaluate private underwriting options
- Model term ladder structure
- Assess estate liquidity need

(U.S. Department of Veterans Affairs, 2023)

---

### C. Retirement Date Finalization

- Validate DD-214
  - Confirm terminal leave tax impact
  - Evaluate leave sell-back taxation
  - Review post-retirement employment overlap rules
- 

© 2026 ILS Financial, LLC. All rights reserved.

This document may not be reproduced or distributed without permission.

Investment advice offered through ILS Financial LLC, a Nebraska registered investment advisor.

Irreversible decisions are evaluated before capital allocation decisions.

---

## 4. Sequence Tax Buckets

Retirement from the military often creates a temporary tax planning window.

### A. Transition Year Planning

- Model final military tax year
- Identify reduced-income “gap” year
- Evaluate Roth conversion opportunity
- Coordinate state residency timing

(IRS, 2023)

---

### B. Retirement Account Architecture

- Traditional TSP balance
- Roth TSP balance
- Post-separation rollover analysis
- Creditor protection considerations
- Required Minimum Distribution (RMD) projections

(TSP, 2023)

---

Tax sequencing is addressed before return optimization.

---

## 5. Contain Fragility

Military retirees often underestimate civilian income risk.

The military compensated service members during illness or injury. Civilian employers may not fully replace income.

© 2026 ILS Financial, LLC. All rights reserved.

This document may not be reproduced or distributed without permission.

Investment advice offered through ILS Financial LLC, a Nebraska registered investment advisor.

---

## A. Civilian Disability Coverage

- Evaluate employer long-term disability limits
- Confirm own-occupation definition
- Model benefit caps relative to lifestyle
- Identify income shortfall risk

---

## B. Cash Reserve Design

- Establish 6–24 month liquidity buffer
- Account for career transition uncertainty
- Plan for estimated tax payments
- Fund large known purchases

---

## C. Liability & Risk Management

- Umbrella policy review
- Estate document updates
- Beneficiary audit
- Trust evaluation (if applicable)

Fragility containment precedes return optimization.

---

# 6. Optimize Return

Only after income floor, benefits, irreversible elections, tax sequencing, and fragility containment are addressed should portfolio optimization occur.

---

## Investment Design Considerations

- Pension treated as bond-equivalent income floor
- Sequence-of-returns risk modeling

© 2026 ILS Financial, LLC. All rights reserved.

This document may not be reproduced or distributed without permission.

Investment advice offered through ILS Financial LLC, a Nebraska registered investment advisor.

- Liquidity tiering (short, intermediate, long-term)
- Equity allocation aligned with second-career risk profile
- Coordination with future Social Security timing

Return optimization without sequencing may increase unnecessary risk.

---

## Conclusion

Military retirement requires disciplined sequencing.

The ILS Decision Sequencing System™ ensures:

- Income floor is established first
- Lifetime benefit streams are coordinated
- Irreversible elections are pressure-tested
- Tax buckets are sequenced
- Fragility is contained
- Return is optimized last

Proper order preserves optionality.

---

## Educational Disclosure

This white paper is for educational purposes only and does not constitute individualized financial, tax, or legal advice. Military benefits, VA disability rules, tax laws, and healthcare eligibility are subject to change. Consult official sources and qualified professionals for current guidance.

---

## References

Defense Finance and Accounting Service. (2023). *Military retirement and survivor benefit plan*. <https://www.dfas.mil>

Defense Health Agency. (2023). *TRICARE program overview*. <https://www.tricare.mil>

© 2026 ILS Financial, LLC. All rights reserved.

This document may not be reproduced or distributed without permission.

Investment advice offered through ILS Financial LLC, a Nebraska registered investment advisor.

Internal Revenue Service. (2023). *Publication 525: Taxable and nontaxable income*. <https://www.irs.gov>

Social Security Administration. (2023). *Retirement benefits*. <https://www.ssa.gov>

Thrift Savings Plan. (2023). *TSP withdrawal and rollover options*. <https://www.tsp.gov>

U.S. Department of Veterans Affairs. (2023). *VA disability compensation and health care eligibility*. <https://www.va.gov>