CHAPTER THREE

Your LES Is a Wealth Document

Reading your Leave and Earnings Statement as an investor, not an employee.

"The best time to plant a tree was 20 years ago. The second best time is now."

— Chinese Proverb

THE DOCUMENT YOU THROW AWAY EVERY MONTH

There is a piece of paper that lands in your account twice a month, and I would bet most of the money in my own pocket that you have never once read it the way it deserves to be read.

It is your Leave and Earnings Statement. The LES. To most service members it is a receipt. You glance at the bottom number, the part that hits your bank account, and you move on with your day. The other lines might as well be in Latin.

I want to tell you about a Petty Officer named Sofia who changed her entire financial future by reading her LES one time, slowly, with a pen.

She had been in for six years and had always treated the LES like a stub. One afternoon, bored, she actually went line by line. And she found that she was receiving thousands of dollars a month she had never really seen, tax-free money the government quietly handed her every paycheck and that she had been spending without ever asking what it was for.

That afternoon, Sofia stopped reading her LES like an employee checking a paycheck and started reading it like an investor checking a portfolio. The numbers were the same. The future they pointed at was completely different.

Your LES is not a receipt. It is the most important wealth document in your life. Let me teach you to read it.

THREE LAYERS OF PAY, AND YOU ONLY MANAGE ONE

Military compensation comes in three layers. And here is the quiet tragedy: most service members actively manage the first layer and passively receive the other two, which is the exact opposite of what they should be doing.

The whole gap between Marcus and Tasha, the whole gap between Path A and Path B, lives almost entirely in what you do with layers two and three.

Let me walk you through all three.

LAYER ONE: THE PAY EVERYONE WATCHES

The first layer is your basic pay. This is what most people think of as their salary, the number they would say out loud if you asked what they make. It is set by rank and time in service, and it shows up on the LES under the simple heading of basic pay.

Basic pay is taxed. Federal income tax, state income tax in most places, Social Security, Medicare. It is visible. It sits right at the top of every LES and feels like the headline number.

And here is the thing about almost every piece of financial advice floating around the military: it is about this layer only. Budget your basic pay. Save a percentage of your basic pay. Live below your basic pay.

It is not even close to the whole story. The most powerful money you receive is in the layers nobody talks about.

LAYER TWO: THE INVISIBLE TAX-FREE MONEY

The second layer is your allowances, and this is where the magic that civilians cannot touch begins.

Your housing allowance, the BAH, and your food allowance, the BAS, are not taxed. Not by the federal government. Not by your state. Not for Social Security or Medicare. They land in your account as untouched dollars, exactly as the line item shows.

Let me make that real. Take an E-5 in a mid-cost city receiving about two thousand thirty-five dollars a month in housing allowance and four hundred sixty in food allowance. That is roughly thirty thousand dollars a year in tax-free compensation.

Now think about what a civilian would have to earn to match that. To put thirty thousand dollars of spending money in their pocket after taxes, a civilian in the same bracket might need to earn closer to forty thousand. Your allowances are the equivalent of a ten-thousand-dollar invisible raise that quietly compounds across your entire career.

It is some of the most valuable compensation in the entire American economy. And almost all of it gets spent without a second thought, because it does not feel like income.

LAYER THREE: THE DEPLOYMENT MONEY THE TAX CODE FORGOT

The third layer only shows up sometimes, and when it does, it is the most powerful of all.

Combat zone pay is excluded from federal income tax. For enlisted members, all of it. For officers, up to a generous cap. Bonuses paid in a combat zone are tax-free. Re-enlistment bonuses signed in a combat zone are tax-free. The list goes on, and we will cover it carefully in Chapter 5.

This creates a category of income that is genuinely unprecedented in the tax code: money you earn that the government agrees not to tax. And it shows up on your LES with all the fanfare of an unread email.

For now, just hold the shape of it in your head. Three layers. You watch the taxed one and spend the tax-free ones. Tasha did the opposite.

YOUR HOUSING ALLOWANCE IS A WEALTH MACHINE

Let me stay on the housing allowance, because it is the single biggest lever you have, and almost nobody pulls it.

For that E-5, the housing allowance runs around two thousand thirty-five dollars a month. Over a four-year tour, that is ninety-seven thousand dollars. Across a twenty-year career, with rank increases and area adjustments, it can easily exceed seven hundred thousand dollars in tax-free money flowing into your account for the single purpose of putting a roof over your head.

The question almost everyone asks is: is my housing covered? Yes. Good. Moving on.

The question Tasha asked was different and far more valuable: how much of this ninety-seven thousand dollars can I redirect toward building real wealth, without changing my life in any meaningful way?

The answer, for most people, is a lot more than they think.

LIVE BELOW YOUR ALLOWANCE

Your housing allowance is set to cover the median rent for your pay grade in your area. Read that word carefully. Median. The middle.

That means by definition, roughly half the rentals available to you cost less than your allowance. Half. The military is not assuming you will spend every penny. The math is constructed so that anyone willing to live in the lower half of the market gets to keep the difference.

I knew an Airman named Diego who figured this out at his first base. His housing allowance was around eighteen hundred dollars. He found a clean, safe one-bedroom apartment ten minutes from the gate for fourteen hundred. The difference, four hundred dollars a month, was tax-free money the government had already handed him.

Here is the move, and it is mechanical, which is the whole point. Diego set up an automatic transfer of that four hundred dollars into a Roth IRA on the first of every month. He never saw it land. He never had to decide whether to invest it. The decision was made once.

Four hundred dollars a month does not feel like wealth. But four hundred dollars a month, invested across a career, becomes a number that will surprise you. We will do the math in Chapter 4. For now, just understand: that is the wealth machine. It runs on the gap between what you receive and what you spend.

THE HIGHEST-LEVERAGE VERSION: THE HOUSE HACK

There is a more powerful version of this, and it deserves its own chapter, which it gets in Chapter 6. But I want to plant it here so you see the shape of it.

Instead of renting below your allowance, you buy a small multi-unit property using your VA loan, with zero down. A duplex, a triplex, a fourplex. You live in one unit and rent out the others.

The rent from your tenants covers most or all of the mortgage. And your entire housing allowance, the whole two thousand dollars, becomes surplus. Tax-free surplus that you can route directly into your TSP, your Roth IRA, your taxable brokerage, or all three.

This is not real estate speculation. I want to be clear about that, because the word real estate scares a lot of people. This is not about flipping houses or timing markets. This is about turning a benefit you already have into a tax-free machine that produces income while you sleep.

THE PROPERTY LADDER ACROSS A CAREER

And here is where it compounds into something that genuinely changes a life.

You buy at your first duty station. When orders come and you PCS, you do not sell. You convert that property into a rental and you buy again at the next station, also with your VA loan, also with zero down.

Do that across a few moves, and by year twenty you may own three to five income-producing properties, funded almost entirely by tax-free housing allowance and the rent of strangers. By the time you reach EAOS, the cash flow from those properties may exceed your military retirement check.

That is not a fantasy. That is a plan that ordinary service members execute every year. The only thing standing between most people and that plan is reading their LES and noticing that the wealth machine has been running the whole time.

DO NOT FORGET THE FOOD ALLOWANCE

The food allowance, the BAS, is the overlooked little brother of the housing allowance, and it deserves a moment.

It runs about four hundred seventy dollars a month for enlisted members, three hundred twenty-five for officers, and like the housing allowance, every dollar is tax-free.

Most service members eat on base, eat at the chow hall, or simply spend less than the full amount on food. And the surplus just dissolves into the general checking account, where it is no longer tagged as anything in particular and gets spent on whatever drifts by.

The EAOS rule for the food allowance is dead simple: every dollar you do not spend on food goes automatically into a Roth IRA. You set it up once. You never think about it again.

A modest food-allowance surplus, automated and left alone for twenty years at a reasonable return, can grow past a hundred twenty thousand dollars on its own. From a line you never looked at on your LES.

THE LINE THAT QUIETLY STEALS FROM YOU

While you have your LES out, I want to point at the deductions, because there is a category of them that quietly works against everything we are trying to build.

Most of the deductions on your LES are fine and necessary. Taxes. Your TSP contribution, which is the good kind of deduction, money moving from your pocket to your future. Insurance. These belong there.

I think of a Specialist named Hassan who, going line by line for the first time, found he was paying for a credit-monitoring service and an old subscription benefit he had signed up for at boot camp and forgotten about. Forty dollars a month. Two recurring charges he could not even name.

Forty dollars a month does not sound like a tragedy. But forty dollars a month is also a real Roth IRA contribution. Every recurring charge you do not actively want is a small leak in the wealth machine.

Reading your LES line by line, just once, often pays for itself in the first ten minutes. Find the charges you did not choose on purpose, and redirect that money into something that pays you back instead.

WHY TAX-FREE CHANGES THE WHOLE EQUATION

I want to spend one more minute on the word tax-free, because I do not think most service members feel how big it is.

When a civilian wants to invest a hundred dollars, they first have to earn quite a bit more than a hundred dollars, because the government takes its cut on the way in. A civilian in a typical bracket might need to earn a hundred thirty dollars to invest a hundred. The current of tax is always pushing against them.

Your housing and food allowances arrive with no current at all. They are already after-tax, except there was never any tax. So when you redirect a hundred dollars of BAH surplus into an investment, you are investing a true hundred dollars. Every dollar of allowance surplus you invest is the equivalent of a civilian investing about a dollar and thirty cents.

That is not a small advantage. That is the kind of structural edge that, repeated for twenty years, explains most of the distance between Path A and Path B.

READ IT LIKE TASHA, NOT LIKE MARCUS

So here is what I want you to do, and it is the whole chapter in one instruction.

Pull out your actual LES. Find your basic pay, your housing allowance, your food allowance, and any special pays. Add up the tax-free lines, BAH plus BAS plus any combat pay or special duty pay. Write that number down somewhere you will see it.

That is your invisible income. That is the money the tax man cannot touch and that almost everyone spends without thinking. Then ask Tasha's question: how much of this can I move toward wealth, today, without changing my life?

Whatever that number is, even a hundred dollars, automate it out of your checking account the day your pay arrives. The money you never see is the money you keep.

THE RAISE YOU CAN GIVE YOURSELF

Most people think the only way to have more money is to earn more money. Get promoted. Pick up a side job. Wait for the annual pay raise.

But there is another way, and it is faster and entirely in your control. Stop letting the money you already earn leak out unnoticed.

Every dollar of allowance surplus you redirect is a raise you gave yourself, except better, because it is tax-free and it is permanent and it does not require anyone else to sign anything.

And unlike a promotion, this raise compounds. The three hundred dollars a month, invested, becomes a number that dwarfs the original raise within a decade. By twenty years, it is not even close.

A SECOND LOOK AT THE SAME PAYCHECK

I want to give you one more way to see your LES, because the reframe is worth more than any single tactic in this chapter.

Stop thinking of your pay as one lump that arrives and gets spent. Start thinking of it as a small business with several revenue lines, and you are the owner.

An owner does not let revenue wander off unassigned. An owner gives every line a job. Some lines cover costs. Some lines fund growth. The owner asks, of each revenue line, what is this line for?

You are the owner of a small enterprise that earns a surprisingly large, surprisingly tax-advantaged revenue every month. The LES is your income statement. The question is whether the owner is reading it.

THE MYTH OF THE HOUSING UPGRADE

Let me dismantle one specific story, because it costs people more than almost any other, and it hides as a reasonable choice.

The story goes: my housing allowance went up when I got promoted, so I should move somewhere nicer. The bigger place. The better neighborhood. After all, the money is for housing.

But watch what just happened. The promotion you earned, the raise in your housing allowance, got absorbed entirely by a bigger apartment, and your net wealth did not move an inch. You worked, you earned, you got promoted, and the only thing that changed is your rent.

The service member who keeps living in the perfectly good place when the allowance goes up, and invests the new surplus, turns every promotion into a permanent wealth event. That is the difference between feeling rich and being rich.

THE LINE MOST PEOPLE NEVER READ

There is a number on your LES that quietly tells you whether you are winning, and most service members have never once looked at it on purpose.

It is the gap between what you bring home and what you keep. Not your gross pay. Not even your net. The amount that is still around at the end of the month, available to invest.

An employee looks at the bottom line of the LES and asks, did I get paid. An owner looks at the leftover and asks, how much of this did I keep for the future.

If the leftover is zero, it does not matter how much your gross pay grows. You can make rank every two years and still arrive at your EAOS with nothing. The leftover line, not the gross line, is the line that decides whether the wealth machine ever starts running.

THE LES PLEDGE

This week, pull out one real LES. Find your basic pay, your housing allowance, your food allowance, and any special pays. Add up the tax-free lines and write the number down. Then automate one dollar amount, any amount, out of your checking account the day your pay arrives.

The money you never see is the money you keep.

This is Chapter 3 of *Hurry Up and Invest — One Retirement. Two Checks. The Service Member's Plan.* by Terence J. Pitre, PhD, U.S. Navy Veteran. Take the free EAOS Wealth Score at hurryupandinvest.pplx.app.