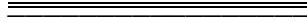
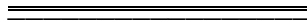


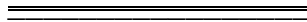
**The Bill Blackwood  
Law Enforcement Management Institute of Texas**



**Financial Education for Texas Law Enforcement Officers**



**A Leadership White Paper  
Submitted in Partial Fulfillment  
Required for Graduation from the  
Leadership Command College**



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September 2010**

## **ABSTRACT**

Many Americans lack a basic knowledge of financial matters, including the different types of financial instruments and the risks associated with them as well as the fundamentals of retirement planning (Clark, d'Ambrosio, McDermed, & Sawant, 2003). Police officers are among those who may not have the financial information necessary to plan for a secure future. Financial planning is essential to gaining the financial security that is necessary for law enforcement officers to maintain their identities (James, 2003). A review of law enforcement journals as well as scholarly material on financial education was conducted. Strong evidence was found to support the need for financial education of law enforcement officers. Garman, Kin, Kratzer, Joo (1999) "found strong evidence that workplace financial education is effective and resulted in better financial wellness for workers" (p. 79).

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## INTRODUCTION

Financial education is increasingly being offered to employees as part of their benefits program (Garman, Kim, Kratzer, & Joo, 1999). Many of these programs involve retirement programs for employees of private companies. These educational efforts should not be limited to private employees; those who work for governmental agencies should be included as well. Law enforcement officers and other public employees would greatly benefit from these efforts.

The efforts should not be limited to retirement issues. There are many other benefits provided to law enforcement officers including health insurance, life insurance, leave time, and incentive pay. The nature of these benefits and the rules surrounding them can be very confusing. An individual's need for and access to benefits changes throughout an officer's career. For example, the guidelines used by a 21-year-old single officer with no children when reviewing life insurance options may be different than that of a married officer who has three children. There are many events that call for changes in life insurance coverage.

Retirement accounts and other savings vehicles present possibly the most complicated area related to the benefits received by law enforcement officers. Retirement options vary by agency, but it is not uncommon for an agency to offer full retirement after only 20 years of service. This translates to the option for a 41-year-old law enforcement officer being eligible to retire. The possibility of early retirement is one that should be explored early. Retirement age and many of the other circumstances related to the retirement of law enforcement officers varies greatly from many civilian positions (Caudell & Peak, 2009).

Most police officers receive a short orientation when they are hired by an organization. The orientation consists of signing forms and getting a brief overview of the benefits available. Some new officers are more often concerned with getting their guns and patrol cars than with the amount of their salary that is contributed to a retirement plan. Law enforcement agencies should provide training and resources to all employees concerning the benefits available to them at regular intervals throughout their careers.

One method that could be used to provide this training is an eight hour seminar that is held every two years. The training should be tailored as much as possible to the individual needs of each officer based on his or her tenure and other individual factors. For example, one seminar might be held for officers with zero to seven years of service and another for those with seven to 15 years of service and a final for those officers with more than 15 years of service. The number of seminars offered will vary based on the size of the department.

## **POSITION**

Educating officers about employer provided benefits as well as personal money management can increase the individual officer's capacity for success. Individuals who are comfortable with their financial situations will likely be less stressed, which will benefit the police organization as a whole. Lusardi & Mitchell (2006) found that many households are unable to make saving and investment choices because basic economic principles are not widely understood. It has also been shown that "financial literacy deficiencies can affect an individual's or family's day-to-day money

management and ability to save for long-term goals such as buying a home, seeking higher education, or financing retirement” (Braunstein & Welch, 2002, p. 445).

Salary, though not commonly thought of as a benefit, is one area where law enforcement officers could gain from education and resources. Many new police officers are starting their first job that pays a steady salary. They may not know how to manage their money and can quickly overspend on cars, motorcycles, and other items. Veteran officers might find themselves and their families with bills they cannot keep up with. A basic discussion of money management could easily guide officers towards making sound spending and saving decisions.

This basic discussion should provide officers with information concerning different financial instruments. A discussion of the different types of bank accounts, including savings accounts, money market accounts, and certificates of deposit will provide officers with a fundamental understanding of these types of accounts. Savings bonds, mutual funds, and bond funds should also receive attention during this basic discussion. The risks and growth potential of these types of investments should be covered as well.

Another money management topic that should be discussed involves credit management. A person’s credit history can dramatically affect an individual’s life. The interest rates that an individual qualifies for when making purchases is directly related to his or her credit score as are insurance premiums. Credit ratings also impact the amount of money that can be borrowed for most major purchases (MSN Money Staff, 2009). Consumers who do not fully comprehend the credit rating systems in place may make decisions that create “both immediate and long-term negative effects on their

ability to obtain mortgage or business loans and on wealth accumulation in general” (Perry & Morris, 2005, pp. 310-311).

Insurance is another confusing area for many. There are two types of insurance that may be provided to a government employee: health insurance and life insurance. Both types of insurance can provide a myriad of choices. Life insurance needs change throughout a person's lifetime, starting with little or no need when a person is young, progressing to greater and greater need as the person takes on more responsibility, and then diminishing as the person grows older (The Kilpinger Washington Editors, 2007). There are different methods used to determine how much life insurance a person needs. One method is to figure approximately five times annual income. A more in-depth method involves considering both the immediate and future needs of dependents and subtracting their income levels (The Kiplinger Washington Editors, 2007). Life insurance is a complicated area, and it is important that police officers receive guidance to make sure they have the appropriate levels of coverage to care for their families in the event of the officer's death.

Education related to health insurance options includes discussions of co-pays, deductibles, and health savings accounts. Some governmental agencies provide access to only one health insurance plan, but others provide their officers with choices about those plans. Health savings accounts are a relatively new option related to health insurance. In some instances, health savings accounts allow a person to save and invest the money tax free over many years. Other similar accounts allow an individual to defer taxes on the amounts needed for medical expenses within a particular year. These and other issues related to health insurance can be very confusing and it is

imperative that officers are provided with the information needed to make the best choices for themselves and their families.

Law enforcement officers have access to two basic types of retirement plans through their employers. The first is the defined benefit pension plan. The United States Department of Labor (1998) defines a “benefit pension plan as one that pays a specified monthly benefit after retirement” (p. 16). There are several different examples of defined pension plans utilized by law enforcement agencies in Texas. In 2008, there were 833 Texas Cities that were members of the Texas Municipal Retirement System (TMRS) (TMRS, 2010). Over 550 counties and special districts use the Texas County and District Retirement System (TCDRS) (TCDRS, 2009). The Employees Retirement System of Texas covers state employees (ERS) (ERS, 2009). Each of these retirement systems is an example of a defined benefit pension plan. It has been shown that “employees with defined benefit pension coverage tend to retire a few years earlier than those without” (Caudell & Peak, 2009, p. 2).

The second type of retirement plan is a deferred compensation plan. This type of plan is funded solely by the contributions of the employee with no employer match. These plans allow the employee to defer paying taxes on the contributed amount until the money is withdrawn (United States Department of Labor, 1998). There are many choices associated with a deferred compensation plan, including contribution amounts and limits as well as the investment vehicles to be used within the deferred compensation plan. The monies invested in deferred compensation plans may be placed in mutual funds, annuities, or other types of accounts. Officers need to be



provided with an understanding of these different types of accounts and the advantages and disadvantages of each type of account.

These advantages and disadvantages will apply to other types of accounts as well. One particular type of account that has many of the same types of options that are available in deferred compensation accounts is the Individual Retirement Account (IRA). IRA's are not employer sponsored accounts, but they can be an important part of an individual's retirement savings plan. There are two basic types of IRA's. The first, a traditional IRA allows an immediate tax benefit while the Roth IRA allows for an expected tax benefit at the time the money is withdrawn. These differences should be explained to the officers, so they can make good choices as they plan for their futures.

Another benefit that may not be thought of in terms of financial planning is leave time. Many police officers earn sick leave, compensatory time, vacation leave, and holidays. The management of this time off can greatly impact an officer in the event of an illness or injury. An officer who abuses sick leave could easily find himself without any paid leave when it is most needed. Leave can also be considered a financial issue because many organizations pay their employees for all or part of their accrued leave upon retirement or resignation. A discussion of the amount of leave paid upon separation at various lengths of service is a vital part of financial education for police officers. Depending on the amount paid at separation, leave buy back could account for a significant part of an individual's retirement planning.

Law enforcement agencies provide other types of benefits that officers should be educated about as well. Tuition reimbursement is a valuable asset to both the employee and the organization. It encourages continuing education for employees.

The employee gains from increased career advancement potential as well as from the gained knowledge. The agency gains as well, by increasing the educational level of its officers.

Certification pay is another way to encourage employees to further their education and training. Many law enforcement agencies pay a monthly stipend to officers when they obtain the different levels of certification granted by the Texas Commission on Law Enforcement Officer Standards and Education. An officer might be paid a similar amount for obtaining college degrees. It is important that officers are aware of these types of programs and the requirements that should be met to qualify for the stipends.

Longevity pay rewards an officer who stays with a department by paying an amount per year of service in a given pay period. Longevity pay, along with certification pay and tuition reimbursement, is a topic to be covered by continuing benefit plan education to officers within a law enforcement agency. As stated above, there are numerous benefits available to law enforcement officers. These benefits vary from organization to organization, which increases the need for agency specific educational programs.

Estate planning is a vital part of any type of financial planning. The decisions related to estate planning are wide ranging. This is how an officer sets forth who will care for dependent children in the event of the death of both parents. Estate planning is also how an individual controls disposition of assets after his or her death. Officers need to understand these issues and be encouraged to engage in estate planning, so their wishes are carried out in the event of death.

## COUNTER POSITION

One argument against providing financial training to law enforcement officers is that individuals may not act on the lessons learned in the seminars. One study, by Braunstein & Welch (2002), found that financial knowledge had little impact on the actions of individuals when it came to money management and other financial outcomes. However, law enforcement officers cannot be expected to make informed decisions about their finances if they are not first provided with the data necessary to make those decisions. Caudill & Peak (2009) found that officers who engaged in financial planning with the support of their employers fared better during their retirement years.

Budget constraints may also be a factor creating a barrier to this type of training for law enforcement officers in Texas. There are many areas where law enforcement officers require training. These areas include weapons proficiency, use of force, and legislative updates. Training requires both time and money, which is something that many agencies do not have in abundance. However, financial training is important for individual officers as well as to the sponsoring agencies. It has been shown that “employee preretirement programs can give participants a feeling of well-being and generate enthusiasm toward their respective organizations, as well as result in greater satisfaction while still working and after retirement” (Caudell & Peak, 2009, p. 3).

One way to overcome the budget issues associated with this training may be to ask representatives of local financial institutions to conduct part of the training as part of their obligation under the Community Reinvestment Act, which requires banks to work toward addressing the credit needs of the communities they serve (United States

Federal Reserve Board, 2008). Some financial institutions believe that engaging in local education efforts is a way “to expand their customer base and promote good will, and such activities are often given favorable consideration in examinations for compliance with the Community Reinvestment Act” (Braunstein & Welch, 2002, p. 448).

## **RECOMMENDATION**

The research clearly shows that financial education is a vital part of a successful work force. Financial worries are a source of stress for law enforcement officers. Caudill & Peak (2009) pointed out that one possible indicator of this stress may be officer suicides, which appear to happen more frequently as an officer nears retirement. Providing law enforcement officers with a sturdy foundation of financial knowledge will help to alleviate some of the stress related to retirement and other money matters.

A financial education plan that meets the criteria set forth in this paper could include money management, retirement accounts, insurance options, savings plans and estate planning. These are complicated issues and officers cannot make sound decisions without first being given a basic understanding of the related concepts. Frequently, the only group who provides information about an employee sponsored health insurance program is the company who is selling the insurance. The persons who provide the information concerning the defined contribution retirement plans may be the salesmen who are often working for a commission.

Law enforcement executives do not expect officers to enforce laws without giving them at least a basic class on the law nor do they expect officers to use weapons they have not trained with. Police executives should also not leave their officers to navigate the confusing arena of financial planning without providing them with the training and

knowledge necessary to make intelligent and informed decisions. Two reasons employers offer financial education to employees are to increase employee loyalty and morale and to increase workplace productivity (Garman et al., 1999). Research has repeatedly shown that employee preretirement education programs “can give participants a feeling of well-being and generate enthusiasm toward their respective organizations, as well as result in greater satisfaction while still working and after retirement” (Caudell & Peak, 2009, p. 3).

The educational programs advocated in this paper are easily adaptable to different sized organizations. Small organizations can work together to provide the training to their employees. The length of the training can also be modified depending on the number of attendees. Online training provides another possibility for the dissemination of the financial information.

One way law enforcement can do a better job of preparing officers for the future is to provide them with the financial knowledge necessary to make intelligent and informed decisions. This type of training will not be a sales pitch. It will not be a means for the officer to make any type of investment. It is also not a way to force the officers into taking any type of action. It is simply a means of providing law enforcement officers with the information they need in order to plan for the future.

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