

# Finance: your own Police Mutual right on the money

The financial climate means the need for financial help, support and guidance has never been greater so Christopher Locke takes a look at the history of Police Mutual, which genuinely puts members' needs first, and interviews its chief executive, who gives sound advice to police officers and staff on saving money, investing and planning for the future

There can be few police employees who will not have heard of Police Mutual or, as it is also known, PMAS.

Police Mutual started life as the Police Mutual Assurance Association in 1866 and was replaced by the Police Mutual Assurance Society in 1922. By 1940 its assets under management reached £1m for the first time and reached £1 billion by 1997.

Police Mutual is unique in many respects, which is why officers and staff should consider them first for all financial matters. As the organisation doesn't have any shareholders, the profits earned are used to reduce what you pay and allows it to invest more on your behalf.

Also helping to keep costs down is its network of over 1,100 volunteers that keeps members up to date with information about the services on offer. Police Mutual's services are available to all police officers, police support staff, PCSOs, special constables and their families.

The turbulent year for financial markets in 2008 impacted on consumers purchasing savings and investment products, with overall savings down and investments falling compared with 2007.

However, despite these difficult conditions, the Police Mutual Group saw an increase in the amount invested last year and regular savings business has continued to show growth. In addition to savings business, in 2008 alone over 26,000 home insurance policies were sold.

This year the Society's Committee of Management, which comprises police officers and police staff, appointed Stephen Mann as the new chief executive.

## INTERVIEW WITH STEPHEN MANN

Stephen began his career as a solicitor specialising in investment management and pensions before joining Norwich Union Life in 1994, where he became director of legal services.

He went on to become an executive director, firstly as the company's strategic development director in 2003 and then as Business Services director two years later.

Stephen joined Police Mutual in April this year and also became the chairman of Roland Smith Insurance Brokers – the company acquired by Police Mutual in 2007.

### Stephen first spoke about his appointment at Police Mutual

I am delighted to have joined a society that has such a close and enduring relationship with those it serves.

The financial climate means that the need for financial help, support and guidance has never been greater and, at a time when many financial services companies have completely lost customers' trust, I believe there is a crucial role for an organisation that genuinely puts members' needs first.

The society's commitment to doing the right thing is one of the reasons it is different. We need to make this difference more visible and demonstrate it wherever we can.

We must also ensure



police officers, police staff and their families understand that Police Mutual is part of the fabric of the Police Service and that the mutual nature of the society means that we share the same interests and objectives as our members.

We have a great heritage, but also have an important challenge ahead – we must change and evolve if we are to remain relevant to the Police Service and the wider police family.

### What is your philosophy with regard to financial services?

My philosophy is really similar to the philosophy of our chairman back in 1928.

He saw that policemen and women were getting better paid, which meant they could afford better things but he was concerned as to whether they were saving enough.

I believe this myself – if you have a police force where officers feel confident with regard to their financial matters and are not in debt they would be a happier, better and more stable workforce.

Those beliefs all those years ago are now supported by current research. A recent occasional paper published by the Financial Services Authority on what they call "financial incapability" shows the links between financial wellbeing and a range of factors, such as relationships and the ability to hold down employment.

The research showed that, on average, people with money worries tend to die earlier, their earning power will be about 15% to 20% less and they will have more dysfunctional relationships.



### Are police staff financially secure and protected?

I think an important aspect of Police Mutual is what we call our "pastoral role". Through our education programme we ensure police officers are aware of the right level of savings and protection and the action they could take.

We all know that many people are massively underprotected when it comes to life insurance and savings. A recent study said that 42% of people are expected to have money problems in retirement.

Many officers still feel that when they get to 50 they should be able to retire and be financially well-off and whilst that may be true of officers joining the Police Service at 18 and saving from that age, recent Home Office figures show that about 50% of officers join at between age 26 and 40.

So some of these officers may have just graduated and already accrued quite large debts and those in their 30s may well have been in several relationships, or be married with children and perhaps have a mortgage and other debts, so their welfare needs are likely to be quite different and makes

it quite difficult to make general assumptions about them.

This is very different from the old model where most officers joined at around 18 and served 25 or 30 years.

### How large is PMAS?

Police Mutual is one of the largest friendly societies in the UK, with around 220,000 members, and the number we can offer our services to, which we call the police family, is about 1.7 million people and includes husbands, wives, partners and their children.

On the new-business front, we generate about £120 million per year and our total fund is around £850m depending on the stock market. We are a good size and probably one of the largest, if not the largest, in the affinity sector.

Our stakeholders are very important to our governance and we are accountable to a board of trustees - the Committee of Management - made up of some of the most senior policemen and women in the country, which is fantastic as they act as the conscience of the society.

They have the right to appoint and fire me so, in terms of accountability,

it's a really strong model. So on the one hand it is a Mutual owned by the members, but it's also run by the members.

We also have force authorised officers who are appointed by each chief constable to act as our representative in each force and who vote on behalf our members. We also have about 1,000 authorised officers around the UK; all unpaid volunteers who act as our stakeholders and advocates to their colleagues.

### Has Police Mutual's performance been affected by the financial crisis?

Our position over the past 12 months has been very good, relative to the market. We took some good investment decisions last year to move into safer and less-volatile investments.

We only invest in assets of a certain grade so we do not invest in any of the funny stuff – as they say, if it sounds too good to be true it probably is. It's our members' money so we are cautious and that was a good set of investment decisions.

Whilst the whole market in 2008 was down by around 30%, we were down by only 10%, which meant that we

had the second-best performing fund in the UK. We are not happy to be down 10% but we can't defy gravity and we have performed better than most.

### **Do you think Police Mutual will recover quicker?**

It depends on a lot of different things, such as where and when the market picks up. We have a small amount of the fund in cash; some in government bonds as they are reasonably safe; we have some investments in property and about 35% in equities so it depends on which of those picks up quickly.

It is a hard set of decisions to take. Historically, equities have done very well compared to others, but they are more risky than other forms of investment and we will be cautious about that when the market recovers.

### **What effect does a change in the interest rate have?**

The interest rate is an interesting dynamic – clearly, in investment performance, it has an impact on what we earn and it also makes other asset classes look more attractive by comparison.

But the interest rate has more of an impact in terms of the minds of our members, who all remember interest rates being five or six per cent even 12 months ago.

The reason for that was that there were lots of people chasing a limited number of savers and there were banks making promises they could not afford, so it was always unsustainable.

Our aim is to out-perform the traditional bank rate in the medium to long term but people have not quite yet switched their mindset into the situation of the low inflation/low

return environment where three or four per cent is actually a very good return.

In terms of everything else, prices are going down and the interest rate offered by the bank is relatively small – I think my current account is giving me 0.19% at the moment.

I think the public has to reacquaint itself to a complete structural shift, which will be low inflation, low return.

### **Some people are tempted to buy premium bonds as they could make more than the low interest rate, or buy an antique or gold, what would you say to them?**

It is interesting that since the interest rates have come down, the prize levels for premium bonds has come down, thereby lessening your chance of beating a low interest rate.

There is no silver bullet to investment; we would always say that the most important thing is to have a balanced portfolio and always have some rainy-day money in case something unexpected happens and you need some money quickly.

Trying to reduce your debts is good advice for most people and then start thinking about getting some exposures to equities through ISAs.

If you have say £20,000 to invest – and you have other significant investments saved elsewhere, such as in your pension – you might think about higher-risk investments such as hedge funds. There are also risks with things like premium bonds or even the lottery but if this is your only money for saving, be conscious of the risks you are prepared to take.

### **What would your advice to young police employees be?**

Obviously it will all depend on their circumstances but generally, as a young man or woman in the Police Service, I would make sure I took advantage of all the benefits and services available because the overall package is very good. I would also check to make sure they were not paying for things twice.

For example, the level of life cover you get either through your employer or through the Police Federation is extremely good so think twice if someone from your bank or building society has advised you to take out more cover.

You should always aim to keep three to six months worth of wages on short-term investments for rainy-day money.

Then start to build small pots of money relevant for your future family position – in a few years you may be getting married or starting a family when perhaps only one of you will be working for a while – or perhaps just getting a better car.

Should they be buying a flat or a house, I always think you should be buying a property to be a home, a place to live in and not as an investment.

If you are in a position where you are borrowing large amounts of money to speculate, then you have to think if you can afford it if anything goes wrong. So a good rule of thumb is if you can't afford to lose it you shouldn't do it.

However, if you have a decent deposit, and with low interest rates and lowish property prices, perhaps it is a good time to buy. As to where property prices will go, it is hard to say, but as house building is currently at its lowest rate since 1934, there will always be supply and demand issues which may well maintain price levels.

So, in short, reduce debts, think about building a deposit for a home and make sure you have some savings for when you have children and perhaps your partner has to stop work for some years and, eventually, to

pay for university or further education for your children. Also remember that your retirement may well be as long as your working life.

### **What would you advise police employees who have young children, probably have equity in their home building up and may not have been as prudent as they could be?**

Likewise, this will depend a bit on individual circumstances but generally my view is that they should now be taking steps to reduce their borrowing as that is a quick way to save money. Another dimension that people often forget is that if they have become a higher-rate taxpayer which, some by this age will be, that paying down a debt is equivalent to earning returns on other things at a higher rate.

You should start to think about regular investments you can make and forget about for five to ten or 15 years, with the expectation that they will continue to build up.

The advantage of saving regularly is that no one can predict the timing of the market so there will be times when the markets are low and other times when they are high but over that sort of period, it smoothes out that risk.

### **How about police staff coming up to retirement who have grown-up children, paid off their mortgage and, again, had not been prudent?**

In general terms, once again, if you have debts you should be looking hard to reduce them or pay them off because once you retire your earning power reduces considerably so your ability to pay them off becomes increasingly more difficult.

You should also look at your outgoings and see how they can be reduced as often people can save quite considerable amounts of money with a minimal effect on their lifestyle.

In the wider sense, you should be thinking about your plans over the next 15 to 20 years. And, depending on your assets, you will have to split them

so that some money will be available in the short term and, to have that flexibility, you will have to sacrifice some interest.

For the money you will not need for perhaps five or ten years, you can take a bit more risk and have less flexibility but with the opportunity of higher returns.

Above all, don't go for anything that looks too good to be true or too speculative because that money will need to last a long time if you are going to live to your late seventies, early eighties or perhaps longer these days.

Another option you can look at is equity release. This is when you go to an insurance company and get them to advance you some money on your house, which they recover after you die or when you sell the house.

We only offer this service with independent advice as it's a tricky area to get right and there are so many factors to take into consideration. Such things as the views of the children need to be considered as it would have an effect on them.

I had experience of this when I worked for Norwich Union and what we did there with equity release was to involve all the family in making the decisions, which I think is absolutely essential.

A lot of people in their sixties or seventies can be quite vulnerable so great care needs to be taken as people can be very tempted when companies are waving big cheques in front of them.

### **Tell us what police employees should go to PMAS for.**

Financial services are a bit of a minefield and people should bear in mind that Police Mutual is a mutual, owned by and effectively run by our members. It is absolutely essential that officers opt into the police pension as it is a very strong benefit. People who feel that it's not going to be strong enough can save additionally through schemes offered by their employers or through a scheme we run.

For the future, we will be developing a cash ISA, which we are very excited

about as it gets people into the savings habit and it can be relatively accessible. People should also be thinking about building up a small portfolio that will mature in ten to 15 years time and we have products that will suit that too.

We also have some products that give the opportunity for higher returns and we take great care in choosing these investments as we would only want to offer them if we feel reasonably confident that they are good-value products.

When it comes to areas that are highly speculative, we don't feel comfortable so tend not to go into those as people who are tempted to do that really need specialist advice in the areas they are considering.

As a Mutual Society, we do not have to look at making the biggest profits for shareholders so all we make goes back to the members. We also pay to provide educational training to over 26,000 officers each year to help them get honest information about financial planning and debt management.

We are also looking to develop our Web capability so we can focus much more on giving people guidance and information on financial planning.

There is so much information available through the Web nowadays and officers are more computer-savvy than ever before and often use comparison websites or other financial information from the Internet.

What they don't know is how accurate the information is and if a company is high on the Google rankings, is that because they are really good and lots of people use them or is it because the company has worked out Google's algorithms to get themselves higher up?

They may also not know how comparison websites work and about the commissions paid by the product providers and whether that may influence listings.

*For more information about the Police Mutual visit [www.pmas.co.uk](http://www.pmas.co.uk) or contact your local Police Mutual representative.*

