

Skills for Work:
Financial Services
Intermediate 2

Personal Finance Awareness



Support Material

April 2006
(Revised October 2007)

Acknowledgements

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In addition, we are particularly grateful to the Dunfermline Building Society whose material has also been incorporated throughout this pack.

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Financial Services: Personal Finance Awareness

DM7X 11

Introduction

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Reference Section

What are Skills for Work Courses all about?

Skills for Work Courses are designed to help candidates to develop:

- skills and knowledge in a broad vocational area
- Core Skills
- an understanding of the workplace
- positive attitudes to learning
- skills and attitudes for employability

A key feature of these Courses is the emphasis on **experiential learning**. This means learning through practical experience and learning by reflecting on experience.

Learning through practical experience

Teaching/learning programmes should include some or all of the following:

- learning in real or simulated workplace settings
- learning through role play activities in vocational contexts
- carrying out case study work
- planning and carrying out practical tasks and assignments

Learning through reflecting at all stages of the experience

Teaching/learning programmes should include some or all of the following:

- preparing and planning for the experience
- taking stock throughout the experience
- reviewing and adapting as necessary
- reflecting after the activity has been completed
- evaluating, self-assessing and identifying learning points

The Skills for Work Courses are also designed to provide candidates with opportunities for developing **Core Skills** and enhancing skills and attitudes for **employability**.

Core Skills

The five Core Skills are:

- Communication
- Numeracy
- Information Technology
- Problem Solving
- Working with Others

Employability

The skills and attitudes for employability, including self-employment, are outlined below:

- **generic skills/attitudes valued by employers**
 - understanding of the workplace and the employee's responsibilities, for example time-keeping, appearance, customer care
 - self-evaluation skills
 - positive attitude to learning
 - flexible approaches to solving problems
 - adaptability and positive attitude to change
 - confidence to set goals, reflect and learn from experience
- **specific vocational skills/knowledge**

Course Specifications highlight the links to National Occupational Standards in the vocational area and identify progression opportunities

Opportunities for developing these skills and attitudes are highlighted in each of the Course and Unit Specifications. These opportunities include giving young people direct access to workplace experiences or, through partnership arrangements, providing different learning environments and experiences which simulate aspects of the workplace. These experiences might include site visits, visiting speakers, role play and other practical activities.

A Curriculum for Excellence (Scottish Executive 2004) identifies aspirations for every young person. These are that they should become:

- successful learners
- confident individuals
- responsible citizens
- effective contributors

The learning environments, the focus on experiential learning and the opportunities to develop employability and Core Skills in these Courses contribute to meeting these aspirations.

The Course in Financial Services (Intermediate 2)

Course Rationale

This Course is intended to equip candidates with the necessary knowledge and skills which will enhance their prospects for employment in the wide range of opportunities within the financial services industry. The Course will allow candidates to develop a range of employability skills which are of particular relevance to the financial services industry. Core Skills of numeracy, information technology and problem solving will also be developed throughout the course where opportunities arise. The Course will offer a variety of approaches to learning and teaching and will include a strong element of experiential learning. It is intended that some of the course will be delivered and assessed in a different learning environment to that of the school through a partnership arrangement with a college, training provider or employer.

The primary target group for this Course is school candidates in S3 and S4. However, the Course is also suitable for S5/S6 candidates and adult candidates who are seeking to enhance their employability and vocational skills in the financial services sector, as well as inductees/new entrants within the financial services industry.

The general aims of the Course are to:

- widen participation in vocationally-related learning for 14-16 year olds
- allow candidates to experience vocationally-related learning
- provide candidates with a broad introduction to the financial services sector
- enhance the candidates' financial literacy
- encourage candidates to foster a good work ethic, including timekeeping, a positive attitude and other relevant employability skills
- provide opportunities to develop a range of Core Skills in a realistic context
- encourage candidates to take charge of their own learning and development
- provide a range of teaching, learning and assessment styles to motivate candidates to achieve their full potential
- facilitate progression to further education and/or training

In particular, the aims of this Financial Services Course are to:

- encourage candidates to consider a career in the financial services industry
- develop an awareness of what opportunities there may be within the sector in terms of the types and range of career options
- provide candidates with knowledge and skills which are directly relevant to employment within the financial services sector

- provide opportunities for the personal development of skills and attitudes which will improve the candidates' employment potential within the financial services sector
- develop the candidates' awareness of their individual strengths and weaknesses in relation to the requirements of the sector, and to reflect on how this affects their employability potential
- raise awareness of the impact of the financial services industry on modern society
- raise awareness of the responsibilities of the financial services industry in modern society

Summary of Course Content

Candidates will explore the variety and range of employers and the career opportunities which exist within the financial services sector. Candidates will become familiar with key words and terms used in the sector, and will develop an awareness of the impact of the sector on modern society. Personal development of employability skills will be the main focus across the course with each Unit aiming to enhance such skills. The development of financial acumen and personal financial responsibility are also given high profile. While candidates will be required to develop an awareness of the impact of legislation on the financial services sector, detailed technical knowledge will not be covered in this Course.

Unit Specification: statement of standards

Unit: Personal Finance Awareness (Intermediate 2)

Acceptable performance in this Unit will be the satisfactory achievement of the standards set out in this part of the Unit Specification. All sections of the statement of standards are mandatory and cannot be altered without reference to the Scottish Qualifications Authority.

Outcome 1

Prepare and maintain a personal budget.

Performance Criteria

- a) Identify typical sources of personal income and expenditure related to age and stage.
- b) Describe the difference between a need and a luxury.
- c) Identify key technical terms used in payslips and bank statements.
- d) Maintain a personal budget over a specified period of time.

Outcome 2

Explain the sources and implications of borrowing.

Performance Criteria

- a) Identify a range of sources of borrowing.
- b) Relate sources of borrowing to short, medium and long-term needs.
- c) Describe circumstances which can lead to personal debt problems.
- d) Give examples of the effects of personal debt problems.

Outcome 3

Demonstrate understanding of the need to save and the variety of ways of saving.

Performance Criteria

- a) Identify reasons for saving.
- b) Identify a range of products for short and long-term-savings.
- c) Demonstrate how savings can grow.
- d) Demonstrate knowledge and understanding of the basic features of a bank or building society account.

Evidence requirements for the Unit

Written, oral and/or product evidence is required which demonstrates that the candidate has achieved all Outcomes and Performance Criteria. The mandatory content for this Unit is specified in the Appendix to the Unit Specification.

The evidence should take the form of a portfolio and an end of Unit test. The portfolio should contain the following:

- a list of typical sources of income and expenditure for three selected key life stages
- a short description of the difference between need and luxury, highlighting at least two examples of each
- a record of the candidate's personal budget, maintained over a period of time and updated on at least three consecutive occasions
- information on a minimum of four sources of borrowing and the main purposes of different categories of borrowing
- a case study of how it is possible for personal debt problems to arise
- information on a variety of savings types including saving for a pension, together with illustrations of how these different types of savings can grow in value

An end of Unit test, which will address aspects of the underpinning knowledge and understanding, is required for this Unit, and should take no more than 45 minutes. This test should be carried out under closed-book supervised conditions. The mandatory content for this Unit can be found in the Appendix to the Unit Specification.

The National Assessment Bank pack provided for this Unit illustrates the standard that should be applied. It includes an assessor checklist which should be used to ensure that the candidate portfolio has all the items required and that these are at an acceptable standard. It also includes a test to cover the relevant knowledge as specified in the Appendix. This knowledge will be sampled in the Unit assessment and the extent of sampling is illustrated in the NAB. If a centre wishes to design its own assessments for this Unit, they should be of a comparable standard.

NB Centres must refer to the full Unit specification for detailed information related to this Unit.

Careers Scotland Support for School-College Collaboration for Scotland's Colleges in the Scottish Enterprise area



In August 2006 Careers Scotland (SE and HIE areas) received funding from Scottish Executive to support college/school collaboration and encourage and promote vocational educational choices for pupils in schools. Following consultation each area produced a local action plan outlining how they intended taking forward key activities. Careers Scotland's focus is to support the career guidance needs of all S2-5 pupils involved in the opportunities which school/college collaboration brings, supporting them to make vocational educational choices, and with particular consideration for those young people at risk of becoming not engaged in employment education or training.

Skills for Work (SfW) courses are a key aspect of enhanced school/college collaboration and Careers Scotland has an important role in selection and recruitment and pre-entry career guidance, as well as ongoing support and pre-exit career guidance, to ensure the pupils' experience of SfW is capitalised upon in any future career planning. Careers Scotland also supports the career guidance needs of pupils involved in other vocational/pre-vocational programmes where relevant. Career Box delivery is a valuable tool in helping meet the needs of school pupils and lessons reflect options available within colleges; both at school and post school.

Careers Scotland activity takes place at local and national levels. This may involve a combination of any of the following services which can be tailored to local needs:

- awareness raising of Skills for Work courses (and other vocational programmes where relevant) – for pupils, teachers and parents - demonstrating how these educational choices have implications for future career options, and support the achievement of future career goals
- careers guidance support for individuals and groups, before, during and after involvement in SfW courses, resulting in better informed career decisions and effective transitions
- providing support for pupils who have been unsuccessful in attaining a place on a SfW course
- providing transitional skills development for those completing SfW courses
- capacity building through relevant shared CPD events, for Careers Scotland staff, teachers and college lecturers
- capacity building through the development of resources to support pupils, parents or teachers
- delivery of relevant Career Box lessons, where appropriate
- making connections with other existing support for pupils

- participation in local planning and management arrangements
- contributing to local and national discussions on provision and strategic development
- capturing good practice and evaluating effectiveness, using the community of practice site on our website (www.careers-scotland.org.uk) and sharing successes and concerns

In addition there are opportunities for developmental activities which can help to take forward CPD, good practice, resource development and learning opportunities for Skills for Work for young people, teachers, college lecturers, parents, Careers Scotland Advisers and employers.

For further information on Careers Scotland (SE)'s involvement in school/college collaboration in your college, please get in touch with one of our Careers Scotland Regional contacts:

South East Region (Edinburgh and Lothians; Forth Valley; Borders)

Stephen Benwell 01786 452043 stephen.benwell@careers-scotland.org.uk

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Sandra Cheyne 0141 204 8338 sandra.cheyne@careers-scotland.org.uk

Employability skills profile

In addition to the specific, vocational skills developed and assessed in this Course, employability skills are addressed as detailed in the table below. For the purposes of the table, the Units are referred to as A, B, C and D as indicated.

Financial Services: Introduction	= A
Financial Services: Personal Finance Awareness	= B
Financial Services: Building Positive Relationships with Customers and Colleagues	= C
Financial Services: Employability Skills	= D

Employability skill/attitude	Evidence
• customer care skills	C
• ability to work in a team	C
• communication skills – writing and talking	C, D
• awareness of roles and responsibilities of self and others	A, D
• ability to follow instructions	C, D
• positive attitudes and willingness to learn	D
• confidence to seek feedback	D
• timekeeping	D
• appropriate appearance	C, D
• awareness of external regulations/legislation	A, B, C
• awareness of health and safety issues	A
• ability to self evaluate skills and performance	D

Assessment evidence in all Units:

- A = Written test of knowledge and understanding of regulations and legislation (Including health and safety) within the sector; portfolio of evidence on career pathways including roles and responsibilities of self and others
- B = Portfolio of evidence including legislation on customer protection for financial transactions
- C = Assessor observation checklists of practical activities including team working, verbal and written communications to others, appreciation of role and responsibilities of self and others and demonstration of positive attitudes
- D = Assessor observation checklists for practical activities in demonstrating skills valued by employers in the financial services sector

Tutor Support Section

Introduction to Personal Finance Awareness

This Unit is one of four mandatory Units which comprise the Skills for Work – Financial Services course. Some of the activities suggested may overlap the content of the other three Units. Any overlap will be signposted throughout the support pack.

The aims of this support pack are:

- To provide support materials for delivery of the Personal Finance Awareness unit.
- To ensure that individuals are aware of the importance of financial budgeting, borrowing and savings and investments in their daily lives.
- To encourage young people to people to plan for their future financial security, to raise awareness of the risks associated with borrowing and debt and to develop an appreciation of the importance of remaining solvent.
- To raise awareness of the desirability of making early plans for retirement.

How to use this pack

The use of these materials is not mandatory – teachers and lecturers may use and adapt them to suit their individual centres and student groups and to supplement their own material. However they are used, they should be read in conjunction with the Unit Specification and the NAB for this unit.

Suggested sequence of teaching:

1. Budgeting
2. Borrowing
3. Savings and Investments

Student tasks and activities are identified with the symbol



Learning and teaching with under 16s

Scotland's Colleges have made significant progress in meeting the needs of young learners. Our knowledge of the learning process has increased significantly and provides a range of strategies and approaches which gives us a clear steer on how lecturers can add to their skill repertoire. Lecturers can, and do, provide a stable learning environment where young students develop a sense of self-respect, learn from appropriate role models and see an opportunity to progress. There are basic enabling skills for practical application which can further develop the learning process for this group of students. So what are the characteristics of effective learning and teaching which will help to engage young learners?

Ten ways to improve the learning process for Under 16s

(This list is not exhaustive!)

1. **Activate prior knowledge and learning** – ascertain what the learner knows already and teach accordingly. Young people do have life experience but it is more limited than adult learners and they may not always be aware of how it will assist them in their current learning.

Tips - Question and answer; Quick Quiz; Quick diagnostic assessment on computer; present key words from the course or unit and see how many they recognise or know something about.

2. **Tune learners into the Big Picture** – the lecturer knows the curriculum inside out and why each lesson follows a sequence, however the young learner does not have this information and is re-assured by being given the Big Picture.

Tips – Mind map or concept map; use visuals, for example wall displays of diagrams, photographs, flow charts; explain the learning outcomes in language they will understand; We Are Learning Today (WALT) targets and What I'm Looking For (WILF) targets; give clear and visible success criteria for tasks.

3. **Use Advance Organisers** – these are lists of the key concept words that are part of the course or unit.

Tip – Highlight on any text the concept words that you will be using; make a visible list and put it on display – concept words can be struck off or referred to as they occur (NB this helps with spelling and independent learning as they do not have to keep checking meaning); highlight essential learning and action points.

4. **Vary the teaching approaches.** The two main approaches are instructing and demonstrating, however try to provide opportunities to facilitate learning.

Tips – Ask students what they know now that they did not know before, or what they can do now they could not do before, at appropriate points in the lesson or teaching block; ensure there are problem solving activities that can be done individually or in groups; ask students to demonstrate what they have learned; use a range of question and answer techniques that allow

participation and dialogue, eg. provide hints and cues so that they can arrive at answers themselves.

5. **Preview and review of learning.** This helps to embed previous learning and listening skills and provides another opportunity to elicit learner understanding. Consolidates and reinforces learning.

Tips – At the beginning of each lesson, or session, review previous learning and preview what is coming up; at the end of each lesson or session, review what has taken place and what will be focussed on next time – these can both be done through question and answer, quizzes and mind mapping activities.

6. **Language in the learning environment.** Do not assume that the language which is used in the learning environment is always understood by young learners, some words may be familiar but do not have the same meaning when used vocationally.

Tips - At appropriate points ask students what words mean; explore the various meanings of words to find out if they may have come across this language in another context; by looking at the structure and meaning of words there is an opportunity for dialogue about learning and to build vocabulary.

7. **Giving instructions in the learning environment.** This is one of the most difficult tasks a lecturer has to do whatever the curriculum area. With young learners this may have to be repeated several times.

Tips – Ask a student to repeat back what you have asked them to do before beginning a task; ask them to explain the task to one of their peers; use the KISS principle – Keep It Short and Simple so that they can absorb and process the information.

8. **Effective feedback.** Feedback is very important for the learner to assess their progress and to see how and what they can improve. Provide opportunities to engage in dialogue about the learning function of assessment – provide details of the learner's strengths and development needs either in written or spoken form. With younger learners identifying one or two areas for development is sufficient along with acknowledgement of what has been done well.

Essentially, learners are helped by being given a **specific** explanation of how work can be improved. You can also use summative assessment formatively, ie. as an opportunity to identify strengths, development needs and how to improve.

Tips – Ask students themselves to identify their own strengths and development needs – self evaluation; peer evaluation of work can be successful once they have been taught how to do it; the lecturer can produce a piece of work and ask students to assess it anonymously; have a discussion about the success criteria for the task and ensure the students are clear about them; allow learners to set criteria for success and then measure their achievements against these.

9. **Managing the learning behaviour.** Under 16s are coming into Scotland's Colleges and training establishments from largely structured and routine-driven environments in schools and early feedback indicates that they very much

enjoy the different leaning environment that colleges and other training providers offer. Remember though that these are still young learners. They will still expect lecturers to provide structure and routine and will perform best in a calm, orderly learning environment. Young students will respond to firm, fair and consistent management. Such routines have to be established quickly and constantly reinforced.

Tips – Health and safety is non-negotiable and consequences of non-compliance with the regulations should be made clear and adhered to at all times; set out your expectations from day one and provide a consistent message; have clear beginnings, middles and endings for each session; be a positive role model for your students, ie. be there before they are and manage the learners with respect; always deliver what you promise; build up good relationships and get to know the learners, make the curriculum interesting and stress the relevance of the learning; set up a positive behaviour management system. By following these guidelines you will build up two-way respect, which, while sometimes challenging to achieve, can be very powerful and work to everyone's benefit.

10. **Care and welfare issues.** School/college partnerships mean increasing numbers of young learners in college. Lecturers have to be aware of their professional responsibilities and mindful of young people's rights. However lecturers have rights too, in terms of feeling safe and secure in working with young people and there are basic steps staff can take to minimise risks. It is essential that colleges ensure that lecturers have a working knowledge of the Child Protection policies (local authority and college documentation) and follow procedures and policies diligently. School/College Liaison Officers will be familiar with these documents and can provide support and advice. There are also training sessions on Child Protection available from SFEU (see below).

Tips – Avoid one-to-one situations with young students in a closed area: do not do or say anything that could be misinterpreted; if the opportunity arises, do some observation in schools to see and discuss how teachers use the guidelines for their own protection as well as the young person's.

Most young people are a delight to work with and they will positively enjoy the experience of learning in college however, there will inevitably be some who are disengaged, disaffected and who have not yet had an opportunity to experience success. 'Skills for Work' is a unique educational initiative that young people can be motivated to buy into—you as the lecturer are key to the success of these programmes.

Skills for Work Workshops

To take this 10 point plan forward and to add to it, you can attend one of SFEU's 'Get Skilled Up' half day workshops for lecturers delivering Skills for Work Courses, when we explore further the learning process and look at a range of specific teaching and learning techniques to use with the under 16 age group. To find out when the next event is, visit our website www.sfeu.ac.uk or contact the Learning Process team at SFEU on 01786 892000.

Child Protection Workshops

These are run on a regular basis by staff at SFEU in Stirling and also in colleges. For more information on these workshops please contact members of the Access and Inclusion team at www.sfeu.ac.uk or contact the team at SFEU on 01786 892000.

Student Support Section

Tutor Note on Student Activities

This section includes both student notes and activities. Use of these materials is not mandatory. Rather, they are offered to centres as a flexible set of notes and activities which can be selected, altered and used in whatever way suits individual centres and their particular situation - for example as a supplement to centres' own tried and tested materials. In the case of the student activities you may want to explain and discuss the instructions with the learners before issuing on paper as reminders. Likewise, tutors should decide how much support students will need with notes and information sheets prior to issuing them. In some cases they may be issued designed to reinforce knowledge gained through practical activities or following discussion of specific issues or underpinning knowledge

This section should not be issued as a pack of student notes in its entirety.

Section 1: Budgeting

Without looking, would you know how much money you have in your purse/pocket at the moment?

Do you know how important it is to be able to manage your money? This part of the Financial Services course is going to help you manage your money now and in the future.

Activity

Have a look at the following questions and jot down some ideas in the boxes provided.

1. Is there a connection between the job you do and the amount of money you earn?



2. Can you explain the difference between a **need** and a **want**? Can you give examples of each?




3. What do you spend your money on?



4. Do you think you are good at managing your money?




5. In the future what do you think you will spend your money on?



6. Is saving money important? Why?



7. What do you understand by the term **budgeting**? Is it important?



8. How many different ways can you pay for goods and services? Try to give as many examples as you can, eg. paying cash for a newspaper or paying by credit card in a restaurant.

-
-
-
-
-



9. What do you understand by the terms **credit** and **debit**?

10. What does it mean to be in debt? Is it a good or a bad thing? Why?

Why does money exist?

Why does money seem to matter so much to individual people?

Money is a means to an end. Much of what happens in life requires a basic understanding of money. Money means different things to different people, and there is a link between our unconscious feelings about money and the way we

- earn it
- spend it
- save it.

To decide how our money might be spent we need to look at our **needs** and **wants**. **Needs** are our basic minimum requirements to survive

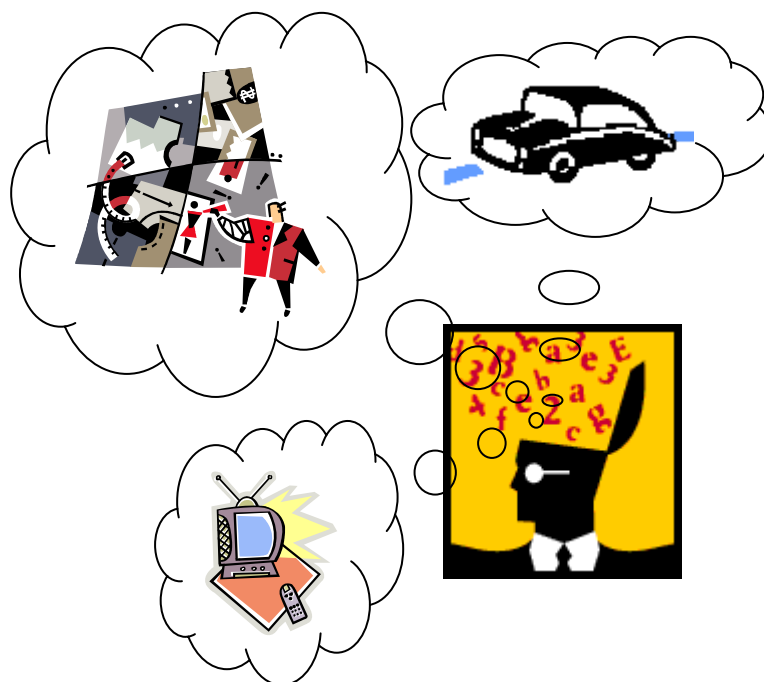
- food
- shelter
- clothes



Wants are really everything else and they are unlimited.

Lifestyle/luxury (you do not need any of these items to survive):

- car
- foreign holidays
- designer clothes
- new mp3 player
- plasma televisions
- new house

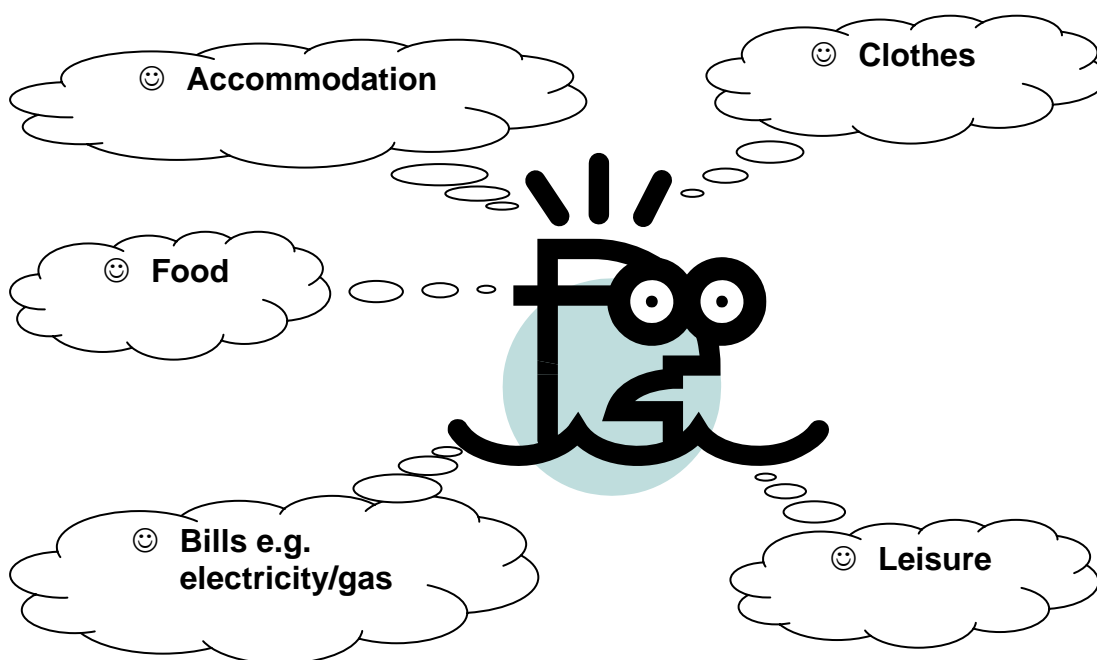


Needs (survival costs) and wants (lifestyle costs)

Only by separating the two is it possible to prioritise and plan accordingly.

Activity

You are being given £109.45, which is your only source of income for this coming week. With a partner, decide how you would spend this money now and then try to decide what you would need to spend the money on if you were living away from home.



How much would you spend on each of these items.

 **Activity**

1. Try to remember what we said earlier about needs and wants.
 - Needs are things that are considered to be _____ for living.
 - Wants are things that are nice to have but are not _____ for living.
2. Now look at the list of spending you mad for the previous Activity and place an **N** next to an item that is a need or a **W** for a want.

With your partner think about these questions:

- Are the things on your spending list ‘needs’ or ‘wants’?
- What other needs do you have?
- Who provides these for you at the moment?

When you go out shopping you should really be asking yourself these basic questions.

You might want to think about them before you set off for the shops.

- Do I really need it?
- Can I buy it second-hand?
- Can I buy it at a discount?
- Can I borrow it?
- Can I rent it?
- Can I share it?
- Can we own it as a group?
- Can I make it myself?



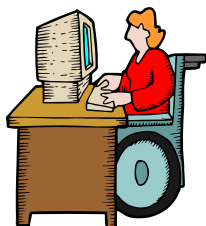
Money allows us as individuals to **satisfy** our needs and wants - both survival wants and life-style wants. Why do we not fund them all? We would if we could but we cannot. All resources are limited and therefore are **scarce**.

Everyone can't have everything they want - there is simply not enough to go around. So you can see how important it is to recognise our needs and wants so that we can allocate our money to each area of our life.



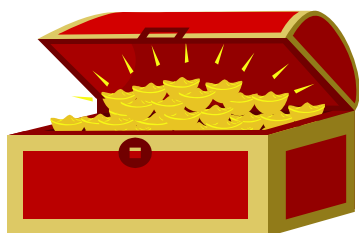
Money is used in exchange for the **goods** and **services** we all use on a daily basis. (A good is a physical thing that you can hold and touch like an mp3 player, a service is something that gets used up right after purchase, like a haircut.)

As a student you must begin to understand how money and your attitude towards it can affect your life choices. Within the next few years you will be leaving school moving on either straight into employment, to a college course or to university.



All of these are choices which ultimately you will make with the assistance of parents/guardians, teachers, career staff and friends. These choices will require to be funded and now is the time to start understanding about money and personal finance.

So what is your life plan going to look like? What are your needs, wants and hopes? It's important to understand that your own attitude to money can affect your life choices.



Typically in a room of 100 people, 60 will have money problems each year. The problems may only be small ones – perhaps a credit card payment, a washing machine repair, an electricity bill they can't afford to pay, but if they're not handled properly they can turn into serious debt.

Of these 100 people, up to 10 of them will borrow money when they shouldn't.

Think about it Do you.....

- want to go to college or university?



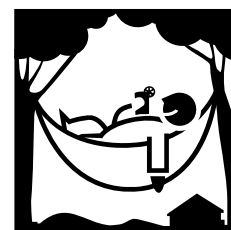
- want to be selected for the next Olympics?



- want to buy a house one day?



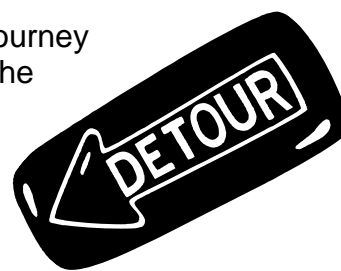
- plan to make your fortune by the time you're 40 and be able to retire at an early age?



These life choices are not just going to materialise. You have to think about where you are now and decide where you would like to be in say 5 years, 10 years etc.



Without a plan it's a bit like taking a car journey from Glasgow to a small village deep in the heart of Wales without a map or road directions, you could end up anywhere and possibly never reach your destination.

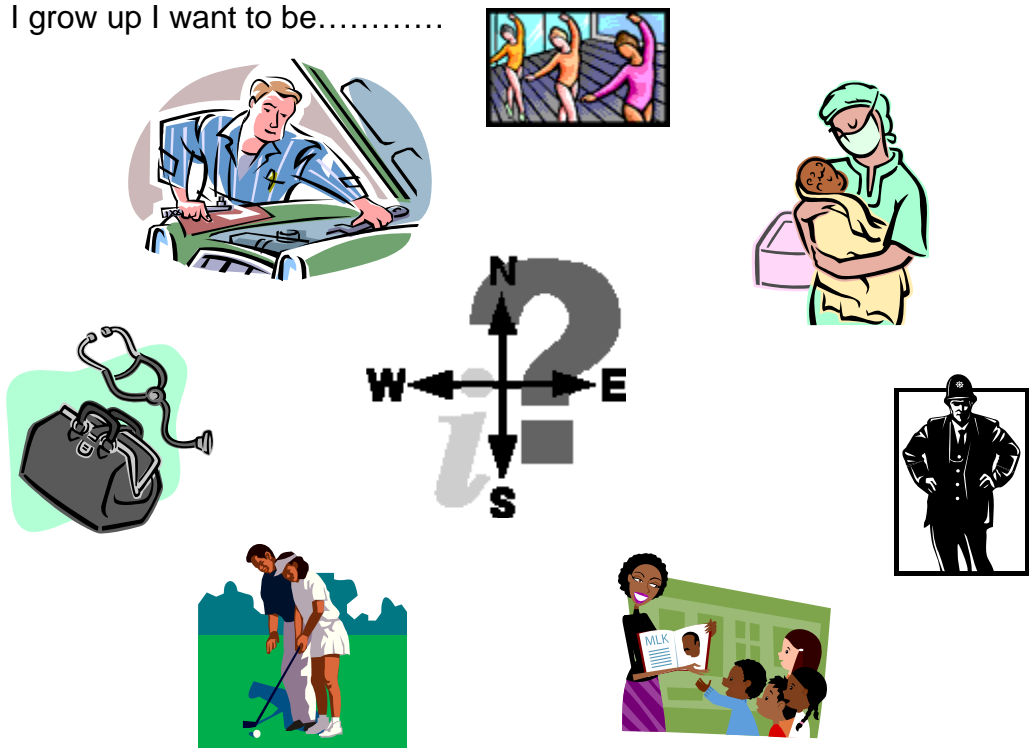


To be successful it's essential that you write down your plan and constantly review and amend it as you move through your different life stages.

We have different needs at different stages in our lives and it's important that we recognise this at the outset.

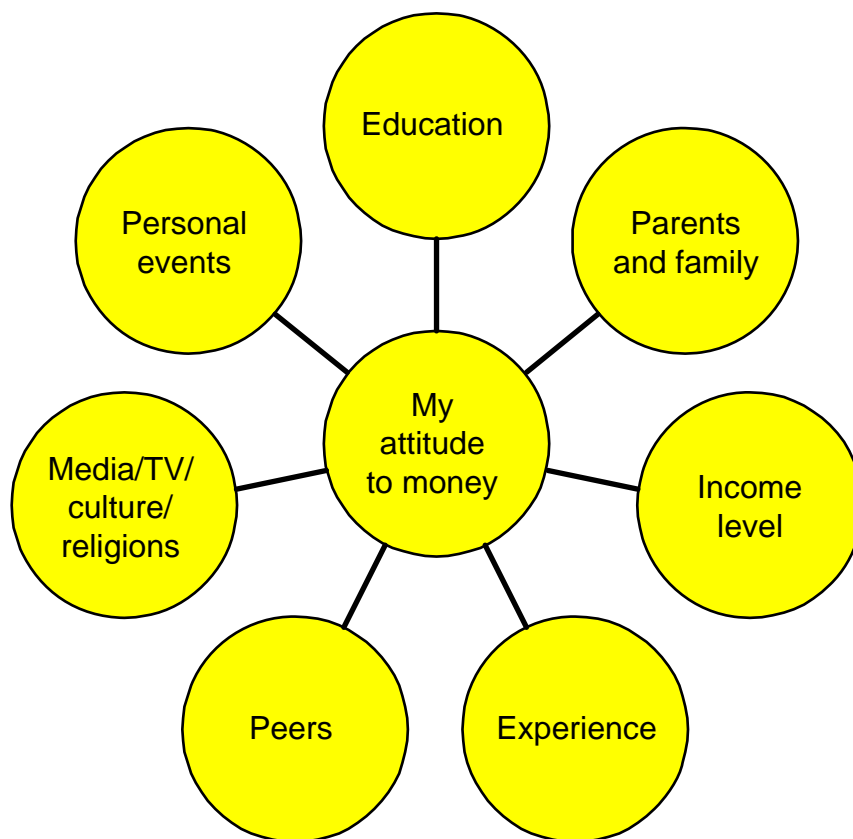
Think about the future

When I grow up I want to be.....



Jot down a few ideas you have about your own future

Your attitude to money can be affected by various factors



What will you be doing when you're 65?

Activity

In your groups have a chat about what you think you will be doing when you are 65.

If you are thinking that you'd like to be retired living a comfortable life-style, driving a new car every few years, taking holidays then you will have to

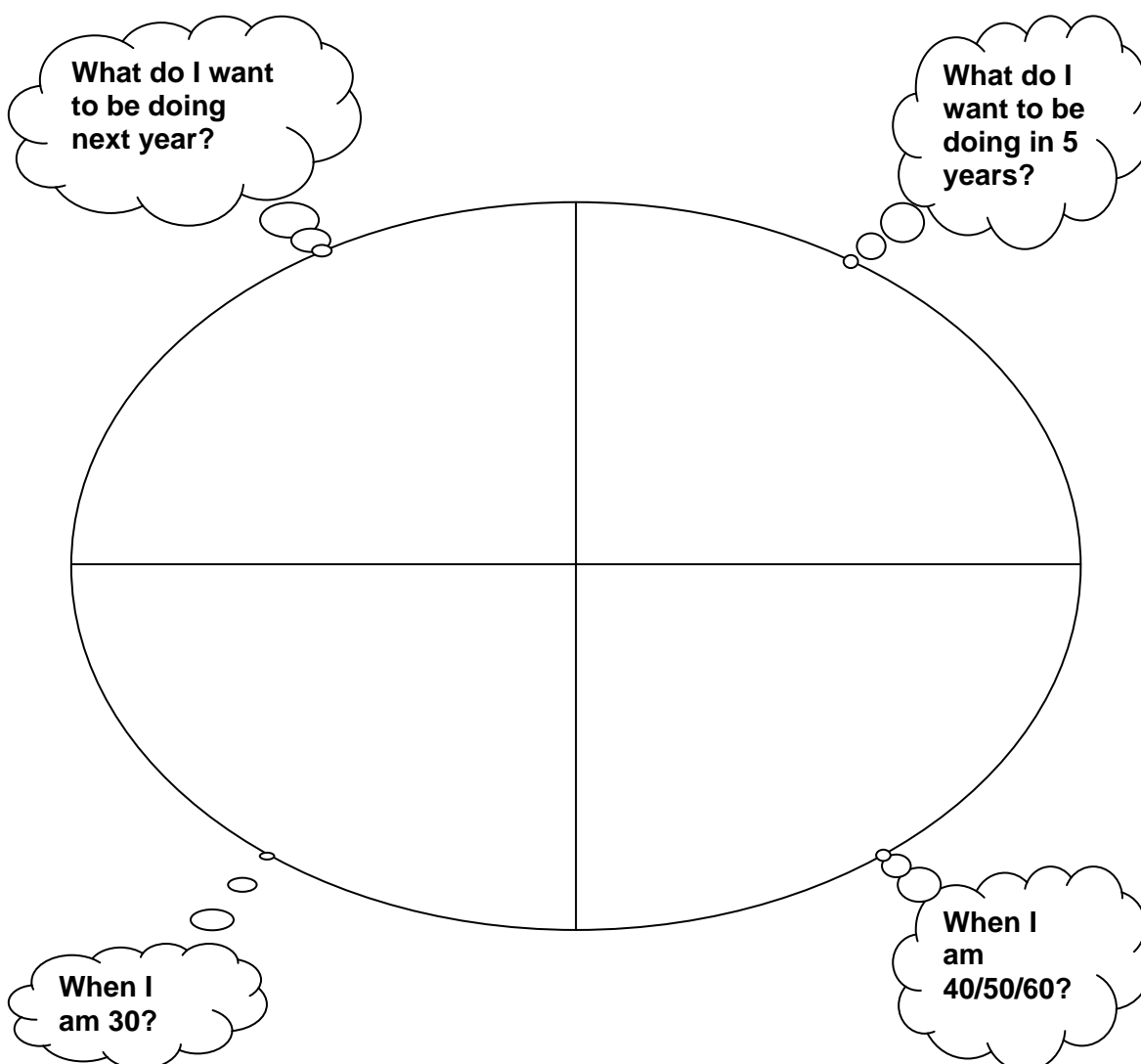


..... and think about how you are going to do all of this when you are no longer in a job earning a regular salary/wage.

 **Activity**

I'll tell you what I want.....

Have a go at completing the following table. Be realistic and think about what you'll need to have to get there, eg. if you want to be an engineer, you'll need to go on to college and then perhaps to university. This will cost money – where will it come from? Jot down what you would like to be doing and where the money will come from.



What do I want to be doing next year?

What do I want to be doing in 5 years?

When I am 30?

When I am 40/50/60?

By now you'll have realised that for you to achieve some of your hopes it is necessary that you know how to manage your finances – and to do this, you'll need to know how the financial services industry operates.

Even if you're extremely wealthy in your own right or are due to inherit a vast amount of money we all depend on making use of the wide and varied selection of financial products available today in the financial market.



Remember, money doesn't grow on trees!

It's important therefore that you develop an awareness of what is available at this stage in your lives so that decisions can be made regarding your life plan.



A teenager aged 16 has different sources of income and spending than a married mother of 3 in her 30s.



A young man in his 20s has very different needs and hopes than a retired couple in their 70s.



Drawing up a life plan helps you to see where you will be and what your wants will be at that particular stage in your life.

Always remember though that life sometimes changes very quickly and it is essential that you take a "Do it and Review it" approach to your plan on a regular basis.

It might be that you had planned to go to college/university, on leaving find a job you liked and then thought you might buy a flat. In reality you meet the man/woman of your dreams and decide to get married as soon as you leave college/university. Think how different your plan will look now.

Research has shown that those of us who do write down our hopes are more likely to achieve success than those of us who do not.



 **Activity**

When you are happy with the goals you have set down, have a think about how you are going to get there financially.

What are my financial strengths	Where might I be able to earn some money/receive money?
What are my financial weaknesses	What financial problems might I face now or in the future?

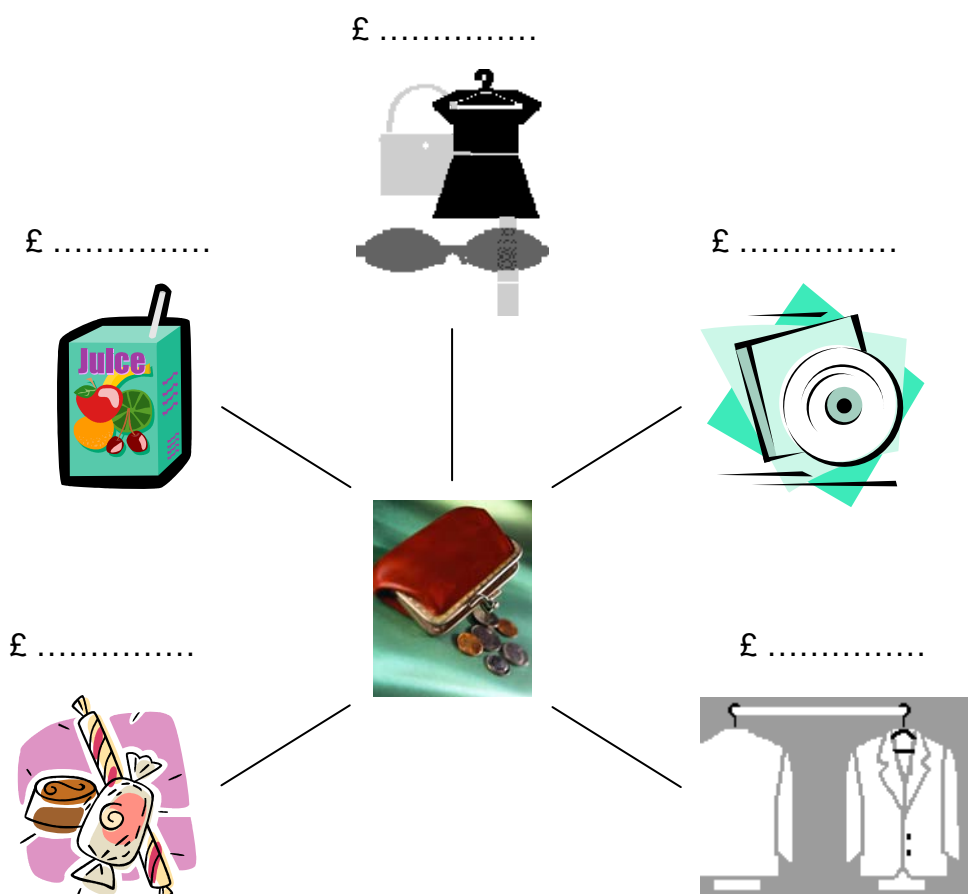
Typical sources of income and spending related to age and stage

Activity



1. Where does your money come from at the moment and what do you spend it on?

2. If you were asked how much money you spent last week, would you be able to give an accurate answer?



 **Activity**

Now get together in groups of about 4 people. Your tutor will supply you with flip chart paper and marker pens. Someone in the group will have to act as the scribe and write down the group's ideas.

In your groups discuss all the different ways in which any of you might receive money (an income) of any type at the moment.

You should combine your individual ideas on the flip chart paper either as a list or a mind map. Through discussion in the group, you may even come up with some new ideas or be able to expand an idea. Remember to write everything down and allow the scribe time to include his or her ideas. You could tick your own list as the scribe writes it down to ensure you have not forgotten to mention anything.

When you have completed the task, the tutor will help the whole class group to combine and discuss all the ideas. The tutor may offer some new ideas to think about. Any new ideas from other class members or the tutor can be added to your list from the previous Activity. You can jot down your own ideas here:

❖
❖
❖
❖
❖
❖

 **Activity**

Now using the information gathered during the group discussion try to complete the following grid. You should be able to complete the first column on your own.

What are the different ways I can receive income?	What are the advantages?	What are the disadvantages?

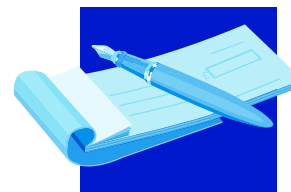
Income

You've now given a little thought to the direction in which you hope your life will go. By now you should realise that to make your plans a reality you will need money!



Think about why family members/your tutors go out to work each day.

Most of us go out to work each day to get paid. Wages tend to be paid weekly, salaries are paid monthly.



Ten to twenty years ago employers may have paid their workers by cash or by cheque.

Each of these methods of payment can cost a considerable amount of money to the firm while one of their main objectives may be to make as much profit as possible.



With advances in technology though, organisations are now able to pay their employees using electronic methods of banking, thereby making considerable cost savings to their budgets.

Direct payment into employees' bank accounts requires each employee to open a suitable account with a bank or a building society if they don't already have one.

There are now more people in the UK with their own bank account than ever before:

- People who are unable to work may receive benefit from the government which needs to be paid into a bank account.
- Senior Citizens in receipt of a state pension require to have their pension paid directly into a bank account.
- If you stay on at school after you are 16 you may qualify for an EMA (Educational Maintenance Allowance). You will need a bank account for the EMA to be paid into.
- If you go to college or university you will need to have a bank account for bursaries or student loans to be paid into.

Q: What did people do with their wages/salaries before they opened bank accounts?

A: Under the bed or perhaps in a sock?!



Gross pay and net pay

Employees are issued with a pay-slip detailing the amount they have been paid for their work. This pay-slip will detail the terms **gross** pay and **net** pay.

Activity

What do you think is the difference is between **Gross Pay** and **Net Pay**?

Gross pay

Gross pay is commonly calculated in one of three ways:

- **Monthly paid staff** on an annual salary will be paid a gross pay which is the employee's **annual salary**.

eg. £12,000 per annum or £24,000 per annum

This annual salary figure will then be divided by 12 to give the monthly gross pay.

$$\text{eg. } \frac{£12,000}{12} = £1,000 \text{ or } \frac{£24,000}{12} = £2,000$$

- The gross pay for **weekly hourly paid staff** will be calculated based upon the number of hours worked by the employee for that particular week. To calculate the employees weekly gross pay simply multiply the hours worked by the hourly rate.

eg. 25 hours worked @ £10.00 per hour = Gross Pay £250.00

- **Piece workers** get paid according to the amount of work done and are not paid a flat hourly rate. For instance home knitting workers will have all of their work assessed so that they are given a rate of pay for all of their work. This rate might be different for each article, eg. a Fair Isle Sweater would probably be paid at a higher rate than a Baby's cardigan. It might also be different for each design worked on. At the end of the week the gross pay is calculated by a manual calculation of all entries in the employee's piecework book or by automated calculation of work sheets and cards.

Net pay

Once the gross pay has been calculated, the computer calculates the net pay by firstly calculating the deductions which will have to be made to give net pay.

There are **statutory deductions** and **non statutory deductions**.

Statutory deductions include:

- National insurance
- Pay as you earn tax known as P.A.Y.E.

Non statutory deductions include:

- pensions
- payments to charities
- trade union subs

These deductions are paid over to third parties usually on a monthly basis. These third parties include:

- Inland revenue collect the tax deducted
- DSS collect the national insurance contributions deducted

Payslips

Employees are issued with a pay-slip detailing the amount they have been paid for their work. Here is an example of a payslip for an employee earning a weekly wage, his wages are calculated on the number of hours he has worked plus any additional hours which are called **overtime**.

When the net pay for each employee has been calculated normally a computer generated pay-slip is provided for each employee. Normally you would expect to find the following details on a pay-slip:

- payroll number
- National health insurance number
- year to date figures for gross pay
- deductions and net pay this weeks/months
- figures for gross pay
- deductions
- net pay
- PAYE code

WEEKLY PAY SLIP							
EMPLOYEE: D WINCH				FROM: 10-09-05		TO: 17-09-05	
EMPLOYEE NUMBER: 639123							
NATIONAL INSURANCE NO: WL894123G							
EARNINGS				DEDUCTIONS			
DESCRIPTION	HOURS	RATE	AMOUNT	DESCRIPTION	AMOUNT		
REGULAR	40	£10.00	£400.00	INCOME TAX	£151.25		
OVER TIME	20	£15.00	£300.00	NATIONAL INS	£77.00		
				PENSION	£12.50		
				STUDENT LOAN	£11.00		
TOTAL			£700.00	TOTAL			£251.75
				THIS PERIOD		YTD	
GROSS PAY				£700.00		£22,400.00	
NET PAY				£448.25		£18,500.00	

NOTE: Income tax has been calculated using flat rate of 22%

$$£700.00 - £12.50 = £687.50 \times 22\% = £151.25$$

(Deduct **Pension contributions** from **Gross Pay** as this is allowable prior to paying tax)

$$\text{National Insurance } 11\% \text{ of } \mathbf{Gross Pay} = \frac{700 \times 11}{100} = £77.00$$

 **Activity**

Using the payslip on the previous page try to answer the following questions.

1.	How much was repaid to the Student Loans Company for this period?
2.	How much was taken in Income Tax?
3.	How much did D. Winch earn in overtime for this pay period?
4.	How much was taken for pension contribution?
5.	How much did D. Winch take home after deductions?
6.	What percentage of Gross Pay is Income Tax?

Here is a blank payslip for an employee being paid according to the number of hours they work in each time period, eg. week, month

EMPLOYEE:			FROM:		TO:	
EARNINGS				DEDUCTIONS		
DESCRIPTION	HOURS	RATE	AMOUNT	DESCRIPTION	AMOUNT	
REGULAR						
OVER TIME						
TOTAL				TOTAL		
				THIS PERIOD	YTD	
GROSS PAY						
NET PAY						

We have just studied in detail the payslip belonging to D. Winch an employee who is paid based on the number of hours worked.

We'll now look at a payslip for employee J. Muir who is paid an annual salary.

Employees who are paid based on an annual salary have the sum divided by 12 and paid out in monthly instalments, eg. last day in every month; or last Thursday in every month; the 15th of every month.

It is possible however to be paid every four weeks as opposed to on a particular day in the month

PAY OFFICE/ PAYRUN	DEPT	LOCATION	EMPLOYEE REF	NAME	N.I.NUMBER	TAX CODE	WEEKLY WAGE/ ANNUAL SALARY	WEEK/ MONTH
ER11	ED	5660	4017899	J.MUIR	WL630903F	475L	£18,522.00	11
PAYMENTS				DEDUCTIONS		TAX YEAR ACCUMULATIONS		
HOURS	RATE	BASIC PAY	1543.50	INCOME TAX	211.68	TAXABLE PAY	9401.76	
				NATIONAL INS	107.13	INCOME TAX	1018.36	
				PENSION	92.61	NAT. INSURANCE	673.89	
				STUDENT LOANS	63.00	SUPERANNUATION	594.05	
GROSS PAY		DEDUCTIONS		NET PAY		PERIOD ENDING		
1543.50		474.42		£1069.08		28-02-05		
PAY OFFICE/PAYRUN	DEPT	LOCATION	EMPLOYEE REF	NAME	N.I.NUMBER	TAX CODE	WEEKLY WAGE/ANNUAL SALARY	WEEK/ MONTH
PAYMENTS				DEDUCTIONS		TAX YEAR ACCUMULATIONS		
HOURS	RATE	BASIC PAY		INCOME TAX		TAXABLE PAY		
				NATIONAL INS		INCOME TAX		
				PENSION		NAT. INSURANCE		
				STUDENT LOANS		SUPERANNUATION		
GROSS PAY		DEDUCTIONS		NET PAY		PERIOD ENDING		
				£				

Gross pay and overtime rate

Gross pay is the total amount an employee earns before deductions, such as income tax and social security tax, are taken out. Formulas that can be used to find regular pay, overtime pay, and gross pay are:

Regular pay = Hourly pay x Hours

Overtime pay = $1\frac{1}{2}$ x Hourly pay x Hours of overtime

Gross pay = Regular pay + Overtime pay

Activity

Check up time

Try these questions and check with your tutor if you have got the answer correct before moving onto the additional questions.

1. Margaret Walker's regular pay is £300.00 and her overtime pay is £72.00.
What is her gross pay? _____

2. If an employee's regular wage rate is £6.00 an hour, then the minimum overtime rate would be _____ an hour.

3. Margaret Allan earns £7.50 an hour. If she works 37 hours a week, her gross pay is _____.

4. _____ is the total amount an employee has earned before deductions are taken.

5. Complete the formula below.

Gross pay = Regular pay + _____ pay

 **Activity**

Try a few more

1. Lin earns £91.00 per day. If a normal work week is 5 days, what is Lin's weekly pay?

2. Lisa earns £30.00 in a day. If a month has 25 work days, then what is Lisa's monthly gross pay?

3. Brian was hired for £72,500 per year. How much does Brian receive per month?

If Brian loses 42% of his monthly salary in deductions how much will he earn as Net Pay?

4. Jeff's hourly rate is £15.00. If Jeff normally works a 40 hour week, then how much is normally earned in a week?

5. Tom's hourly rate is £12.50. If Tom gets to work in the morning at 9 has lunch from 12-1, and then works until 5, then how much did Tom make that day?

6. Linda's hourly rate is £7.00. If Linda normally works for 9 hours, but today works for only 6 hours, then how much money will Linda earn today?

7. Pauline's hourly rate is £10.00. If Pauline works more than 40 hours per week, she gets overtime pay at 1 and ½ times the regular hourly rate for each hour worked over 40 hours. Last week Pauline worked 49 hours. What was the total pay last week?

8.

9. Kate's gross pay is £24,500 per year. She has the following deductions to make from her monthly salary:

- Income Tax 25%
- Pension 10%
- Nat Insurance 11%

How much will Kate's net pay be in December?

 **Activity**

Pay and deductions

Try to complete the following definitions using your own words, this will make it easier to remember. Once you have finished your tutor will check that you have got it right.

1.	Gross pay
2.	Overtime
3.	Voluntary deduction
4.	Involuntary deduction
5.	Net pay

Bank accounts

We have already said that more individuals than ever before hold a bank account in the UK.

Money paid into your account is called:

- a **deposit** or
- a **credit**.

When you take money out of your account it is called a **debit**.

Q. How might you obtain money from your own bank account?

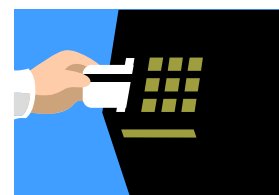
- A. By writing a cheque to yourself and taking it into your branch to exchange for cash.

Using a cash card and a PIN, normally issued by the bank on opening the account, to withdraw money from cash points.



Q. What is a Cash point?

- A. A cash point is a machine sometimes referred to as the “hole in the wall”. Officially known as an ATM **Automated Telling Machine**.



Q. What is a PIN?

- A. A PIN – Personal Identification Number – is issued to you under separate cover by the bank when you open your account. The PIN is a four digit number which you type in when requested to by the ATM. It is usual for customers to be able to change their PINs to a number of their own choice.

This often helps them to remember their PINs.

Some people think doing this might make it easier for thieves to access to all of your accounts should they find your wallet with details on the PIN.

It is very important that you never write down the PIN.

Bank statements

From time to time your bank will send you a statement of your account, usually on a monthly or a quarterly basis.

If however there are few transactions on the account the bank may decide that it is more cost effective to send statements out every 6 months or even once a year.

If your account is your day to day account obtaining a monthly statement will help you to keep a track of your spending and most importantly if something does go wrong you will find out fairly quickly in time to do something about it.

It is **extremely important** to open your bank statements when you receive them and make some time to sit down and reconcile (balance) the statement with your own records.

Remember that each time you withdraw a sum of money from your account using an ATM or making a purchase you really should be taking a note of it in a small notebook.

If you are using your cheque book it is a good habit to take a note of the following details regarding the cheque:

- **Date of cheque** (remember cheques go out of date 6 months from their issue date, ie. the date they were written)
- **Who the cheque is paid to** (Payee)
- **The amount of the cheque**

The cheque book normally provides a separate grid or a cheque stub for completing these details.

On receipt of your statement you must check that all the entries are correct. Banks do make mistakes from time to time – remember human beings are still keying in data, it is not all read electronically.

Also someone else may have illegally withdrawn money from your account.

You might simply have forgotten to take a note of a specific transaction, eg. that withdrawal from the ATM on your way out one Friday evening.

So what is a statement of your account? This is what it looks like

20 August 2005 **Statement No. 16** **BANK OF GLASGOW** £

Miss Brenda Bonner
42 Eastbank Street
GLASGOW
G62 8HG

STATEMENT Page 1 of 1

Bank of Glasgow
The Mall
GLASGOW
G79 2PL
0141-724-9874
Sorting Code: 84-39-65
Account No: 00443322

Withdrawal from cashpoint

DATE	DESCRIPTION	PAYMENTS	RECEIPTS	BALANCE
	Balance brought forward			740.00
5 Aug 2005	Cash ATM	50.00		690.00
5 Aug 2005	O 2 DD	25.00		665.00
7 Aug 2005	Morrisons Supermarkets	72.14		592.86
9 Aug 2005	Cash ATM	30.00		562.86
11 Aug 2005	Transfer from Savings Account		400.00	962.86
14 Aug 2005	Pizza Express	10.90		951.96
17 Aug 2005	John Lewis	37.85		914.11
22 Aug 2005	Thomson's Travel	950.00		35.89
25 Aug 2005	Mobile Phone Bill & Insurance DD	50.50		-14.61

Direct Debit regular payment

 **Activity**

Bank statements

Have a go at completing the following taking the details from the previous bank statement.

1. What is the customer's name on this account?
2. What is the sort-code of the branch?
3. How much money has been paid into this account for this period?
4. How much money is left in the account at the end of this statement?
5. How much money was withdrawn from this account using the Automated Telling Machines?
6. Did the account holder write a cheque which was cashed during this statement period? If yes how much was the cheque for and what was the serial number?
7. What is a BGC?
8. How much did the account holder receive as a salary this month?

Personal budget

Activity

This is a good exercise to get you to begin to understand your own spending habits.

For a week list **absolutely everything** you buy:

- every bar of chocolate,
- magazine,
- CD,
- bus fare.

Once you have completed this exercise over the week you will be asked to set up a Personal Budget for a specific period of time.

This might be a week or a month.

Using the list provided, or a small, notebook start off by noting down how much money you start off with each day. At the end of each day check to see if the amount you have left is the amount you ought to have if you have listed every item you have purchased during that day.



 **Activity**

SPENDING DIARY	Bank account spending Details	How much £	What I spend my cash on	How much £
Cash from ATM's				
Food Eating In				
Food Eating Out				
Saving				
Essential transport				
Essential clothes				
Prescription costs				
Essential Books				
Mobile Phone				
Sweets, drinks				
Hobbies/Sports				
Social				
Presents for family				
Presents for friends				
Non-essential clothes				
CDs, DVDs, Videos				
Total all spending		£		£
What did you start with		£		£
How much have you got left? BE HONEST!		£		£

Are you surprised?

Budget planner

No matter how little or how much cash you have, budgeting really does help you keep an eye on what you have and what you spend.

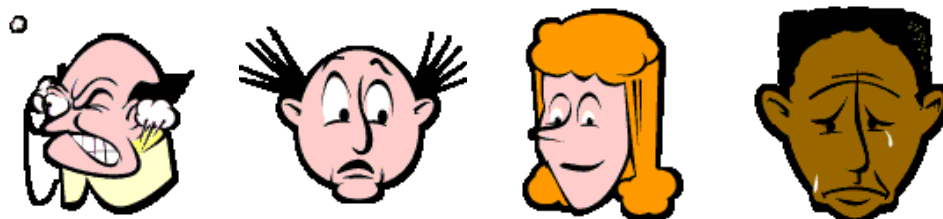
Being able to budget is not something that you are automatically able to do once you have a family, a house and 2 cars.



It's an important skill that needs to be learned and which you should attempt to master at this stage of your lives and you will reap the benefits of it all through your lives.

Research has identified that as many as 70% of relationship problems are money related.

Knowing how to manage your money will impact into every other area of your life. It can lead to happiness or misery, the choice is yours!



How do people budget?



Over to you

- | |
|---|
| 1. List all the money you have identified as income sources. |
| 2. From your spending diary list what you usually spend your money on and the average amount. |
| 3. Think about which things on your list are needs and which are wants .
Necessities and luxuries. |

We all like to treat ourselves to luxuries from time to time but in budgeting you will be able to identify if you have set side the cash to make the purchase.

It's important to learn the art of saving and you should try to save a little from your income no matter how small that income might be. It gets you into a routine. Remember that financial emergencies crop up from time to time -how would you pay for a repair to your bicycle which you use to get to your part-time job if you have no emergency fund/savings?

 **Activity**

Learning to manage your money will help you avoid future debt and the problems debt brings with it.

Budget Planner			
Date:			
	£	£	£
Weekly Income			
Pocket Money			
Allowance			
EMA			
Part time wages			
Cash from birthdays/ Christmas			
Total income			
Weekly Expenditure (Spending)			
Travel			
Food			
Mobile Phone			
Clothes			
Essential toiletries			
Household contribution			
Presents/special occasion			
Extras			
Total expenditure			
Left over			
Savings			

Section 2 : Borrowing

David Copperfield by Charles Dickens

“My other piece of advice, Copperfield,” said Mr Mickawber, “you know. Annual income twenty pounds, annual expenditure nineteen pounds nineteen shillings and six pence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds and six pence, result misery. The blossom is blighted, the leaf is withered, the God of day goes down upon the dreary scene, and in-short you are forever floored. As I am!”

 **Activity**

You should remember that in *Outcome 1* you looked and discussed **the differences between needs and wants**. Can you remember what the differences are? Write your own definition of a need and a want in the boxes below.

Needs	
Wants	

It is likely that at some point in their lives all people will get into debt.

What we will look at in this outcome are:

- How people get into debt
- Trying to avoid debt where this is possible
- If in debt, attempting to reduce the amount as quickly as possible
- Controlling debt

Credit

Activity



1. What does the word 'credit' mean to you?

1	
2	

2. Copy down the definition given to you by your teacher in the box below.

Credit is:

Very often people who are good at budgeting are faced with a totally unexpected expenditure and may have to borrow in order to meet the costs involved, eg:

- the washing machine breaks down
- your car has two irreparable flat tyres
- a bereavement means you have to travel a distance to be with family.

Read the following statement and think about whether you **agree** or **disagree** with it. Your tutor will ask for a show of hands to see who in the group **agrees** or **disagrees**.

'Getting a loan or paying on your credit card is a great way to pay for things you want now'

Borrowing money can be useful and convenient in some circumstances. Using credit can be extremely useful.

 **Activity**

Now get together in groups of about 4 people. Your tutor will supply you with flip chart paper and marker pens. Someone in the group will have to act as the scribe and write down the group's ideas.

In your groups discuss all the different ways in which any of you might make use of credit in the future. Also think about your parents/guardians/family who make use of credit today.

You should combine your individual ideas on the flip chart paper either as a list or a mind map. Through discussion in the group, you may even come up with some new ideas or be able to expand an idea. Remember to write everything down and allow the scribe time to include his or her ideas. You could tick your own list as the scribe writes it down to ensure you have not forgotten to mention anything.

When you have completed the task, the tutor will help the whole class group to combine and discuss all the ideas. The tutor may offer some new ideas to think about. Any new ideas from other class members or the tutor can be added to your list from the previous Activity. You can jot down your own ideas here: Look at the images below as they may help you come up with some ideas.

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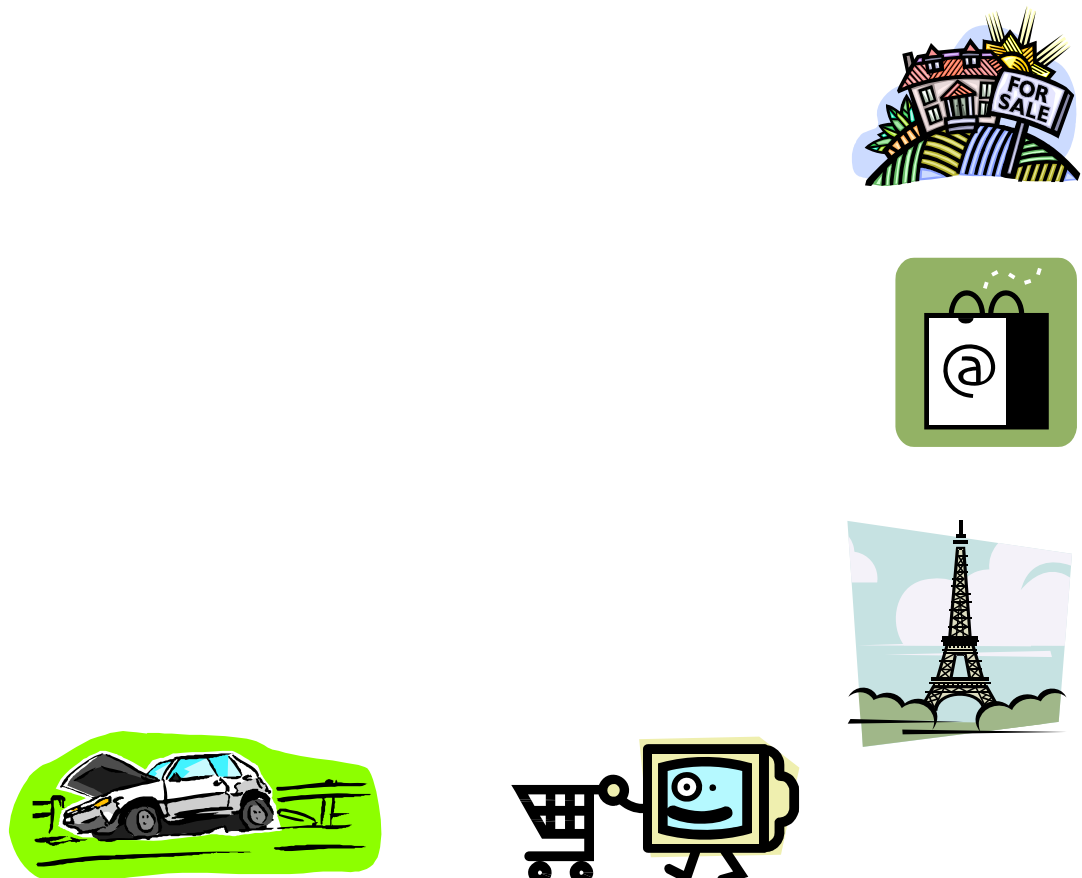
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The image contains several icons: a house with a 'FOR SALE' sign, a shopping bag with an '@' symbol, the Eiffel Tower, a car with an open trunk, a shopping cart, and a smiling tablet computer.

Well, how did you get on?

Listed below are a few suggestions of how people make use of credit in today's society:

- Paying for shopping in store or on-line by using credit cards
- Making online purchases by using credit cards
- Making purchases abroad by using credit cards
- Making purchases we otherwise could not afford e.g. buying a house
- Buying a piece of electrical equipment e.g. PC, WI-FI, televisions, washing machine, DVD player and paying it up on a monthly basis
- Buying a new car and making instalment payments over a set period of time
- Helping us through cash flow irregularities or through difficult times.
- Using mobile phones

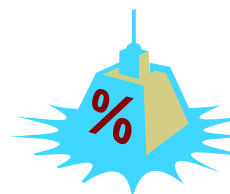
Look on credit as renting money

It is not money that you **own**, it is money that you **owe**. It is only yours on a temporary basis until you pay it back. When you rent a car you pay a rental amount and when you rent a flat you pay the landlord rent.

What is the cost to individuals of renting money?

The **interest rate** is a percentage of the amount you are borrowing. So if the lender charges you 10% per annum and you have borrowed £100, you will have to pay back the original

£100 plus the interest of £10 $\left(£100 \times \frac{10}{100} \right)$.



When you look at adverts for borrowing money in financial sections of newspapers you will see the letters **p.a.** after an interest rate.

p.a. stands for **per annum** which simply means **per year**.

 **Activity**

Now you are going to do a few calculations based on different amounts borrowed and different interest rates. Good luck!

1.	Your uncle tells you he is going to borrow £250 from the bank so that he can pay for a flight to watch Scotland playing in a qualifying round for the World Cup. The bank has told him they will lend him the money and will charge him 6%pa. How much money altogether will your uncle have to pay back to the bank?
2.	Your friend's mum has asked the building society for a loan of £5,000 to pay for a new kitchen. The building society has agreed to lend her the money at an interest rate of 7.5%. How much interest will she pay to the building society.
3.	Your neighbour has been telling you they have decided to have a conservatory built and it is going to cost £19,500. The bank has agreed to lend him the money at a rate of 3.25%. How much will your neighbour pay back over the first year?

How much will the lenders charge in interest?

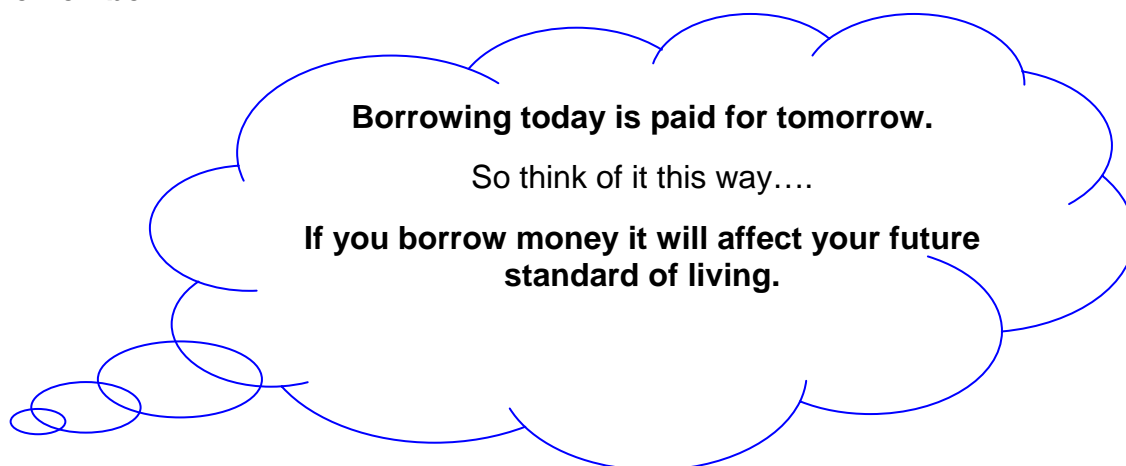
So how do the banks/building societies or other types of lenders decide how much interest to charge you? When calculating how much interest to charge on borrowed money, the bank/building society or whoever is lending you the money will base their decision on:



- **What** you are wanting to borrow the money for
- **How long** you want to borrow the money for
- What your **credit history** is like (have you borrowed before and paid it all back or did you leave an amount outstanding?)

So the rate of interest you pay and the amount of interest you pay for credit (renting the money) will depend on the type of credit that you want and how long you want it for.

Remember:



Activity

Write down in your own words why you think this is the case.

If you borrow money it will affect your future standard of living because you will have to repay the money you borrow today out of any future income.

 **Activity**

Your tutor will distribute a variety of Financial/Money sections from newspapers. Your task in your groups is to identify the adverts offering credit and use these adverts to create a display.



Suggestion:

Look for adverts offering higher and lower interest rates and make a comparison.

Remember it is not only the traditional banks and building societies which lend money. Nowadays high street retailers through some banks also offer financial services.

 **Activity**

Can you think of any of the shops you go into which advertise financial services? Think back to the *Financial Services: Introduction Unit*.

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APR

Pick up any newspaper and you will see many adverts offering loans. Details in these adverts usually include information such as:

- Loans available up to £30,000
- For loans over £5,000 our rate is 6.4% APR
- Rates range from 6.4% to 15.6%
- No monthly loan repayments for the first 3 months
- Fixed monthly repayments to suit your budget
- A cheque delivered to your door within 24 hours (conditions apply)
- Quick and easy to apply online

Do you know that in a survey 83% of people said that APR is the most important thing they take into account when borrowing

.....unfortunately only 41% knew what APR stood for!

It is vital that **you know** and **understand**.

APR stands for **Annual Percentage Rate**.

Put simply it is the rate of interest you will pay on a loan over a year plus any set-up fees (administration fees taken by the lender to set up the loan).

Banks, building societies and other organisations that lend money calculate their interest rates in a variety of ways and so it is difficult to compare them. As mentioned some lenders charge fees for setting up a loan. To make it easier to compare rates, all lenders have to give their interest rates and fees as APR.

You do not need to know how to work out an APR.

The important thing is that APRs show the cost of borrowing on a standard basis. So you can compare one APR with another. It might seem obvious but a loan with a lower APR is generally cheaper than a loan with a higher APR.

Like all percentages, APR is a way to compare different rates. It is not quite accurate to say that if you borrow £100 at 15%APR for a year you would repay £115, but that is the general idea. It is also clear that if you borrowed the £100 at a higher APR you would pay more interest during the year.

It is **very important** to treat credit in the same way that you would any big purchase.

The Office of Fair Trading



“The OFT has a leading role in promoting competition and consumer interests in the UK. The OFT is an independent and professional organisation but has no monopoly of wisdom.”

Source: www.offt.gov.uk



The Office of Fair Trading advises individuals to ask themselves some questions before signing up for a credit agreement – here are some of the main ones:

1. How much will the credit cost you compared with other similar deals?

Compare the APRs. Usually the lower it is, the less you pay. But there may be other charges not included in the APR, so find out what these are. You need to be sure how much you are paying in total.

2. Is it the best deal and interest rate you can get?

Buying credit is like buying anything else – you shop around for the goods so do the same for the credit. The credit offered to you when you buy may not be the best deal.

3. Do you fully understand the credit agreement form you are about to sign?

Don't be pressurised into signing a deal at the till – if you don't understand it take it away and get advice. Remember you can't change your mind if you sign in the shop

4. Will the interest rate stay the same?

Ask if the interest rate is fixed or will change. Find out if the rate offered is an introductory rate.

5. Are there any extra charges if you repay the debt early?

Some lenders charge an extra fee if you pay off a loan early

6. What happens if you miss a payment?

There are often penalty fees if you miss a payment which can greatly increase how much you will have to pay back

7. What do you have to pay each month and for how long?

It's important to look at how long you'll pay back as well as how much. For example £20 each month may be affordable but if it's for 10 years you're paying back a lot more than if it's for two years.

8. What's the total amount you have to repay?

The longer the period of the loan the more you'll pay back. That's why it's important to pay off as much as you can each month on a credit card - the longer you take to pay back the more it will cost you.

9. Can you take the credit agreement away to consider it at your leisure?

A credit agreement is a legal document – you need to read it carefully before you sign. (Also see 3 opposite.)

Source: www.offt.gov.uk

You can find more advice on the OFT website www.offt.gov.uk

Believe it or not a survey carried out on behalf of the OFT suggested that a third of people had arranged a credit deal **without** comparing with other deals and **over a third of 18-24 years olds had actually taken out credit while shopping which they had not intended to before setting out.**

Other key findings from the survey include:

- One in five people have signed a credit agreement which they later regret
- Just under a third of people felt pressurised to take up credit
- A majority of people said that they do not always read the small print before signing.

 **What kind of shopper are you?**



Be choosy about credit – quiz

1. It's Christmas and you have loads of family and mates to buy stuff for. Do you:

- A Hit the shops with a few ideas of what to buy but clueless about how much to spend – 'it all depends what I see'. You see that expensive present you've been promising yourself, you know you can't afford it so you'll get a store card and treat yourself.
- B Write out a list of what to buy and what your rough spending limit is, but go over this if you see a present that's 'just a little bit different', despite the extra cost.
- C Work out beforehand what you can afford to spend and what you want to buy people, and stick to it.

<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C
----------------------------	----------------------------	----------------------------

2. You decide that you need to borrow to cover the extra cost of Christmas. Do you:

- A Take whatever is easiest, whether it's a bank loan, credit card, store card or overdraft.
- B Ask your bank for a loan or a credit card, without checking what's on offer from other lenders.
- C Work out how much money you want and how to pay it back, and then shop around for the best deal.

<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C
----------------------------	----------------------------	----------------------------

3. A friend asks you to go on a last minute holiday to Ibiza. Do you:

- A Say 'party time!' immediately on hearing the word 'holiday'. You'll worry about paying for it when you get back.
- B Say yes – you can pay for a bit of it now, the rest you'll put on your credit card and work out a repayment schedule later.
- C Say yes – you can pay for some of it from savings and you know you can afford any extra credit card payments.

<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C
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4. How do you pay off your store cards or credit cards? Do you:

- A Pay the minimum amount each month – 'the interest can take care of itself.'
- B It depends on what you've bought. Sometimes you can pay off the whole amount, sometimes you pay just the minimum each month.
- C You budget so that you can pay off the whole amount each month. On the few occasions that you can't, you can pay more than the minimum.

<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C
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5. You're out larging it with friends and you've run out of cash, but your friends are headed for a club. Do you:

- A Go for it and put the rest of the night on your credit card!
- B Hit the cash point to get some more money.
- C Decide that you're busted, so call it a night.

<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C
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6. Do you see credit as:

- A Something that the lender offers you to make it easy to get what you want now, a really helpful gesture.
- B Something that the seller offers to increase their sales and profitability, but very convenient and quick.
- C An add on to your main purchase – and something else to shop around for to get the best deal.

<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C
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Source: www.of.gov.uk

So, are you a credit junkie, a postcard from the edge or credit cool? Read on and all will be revealed

Mostly ‘A’s – credit junkie

It's likely that you are at the edge of being unable to manage your money. You're probably still paying for the holiday long after the suntan has faded. Borrowing may help you to buy the things you want now, but how are you going to pay it back?

Mostly ‘B’s – postcard from the edge

You mix occasional budgeting with a laid back approach to money and credit. This sees you teetering on the edge of a debt that you not sure how you will pay for. Try to be as choosy when buying credit as you are when shopping, so you will have less to worry about.

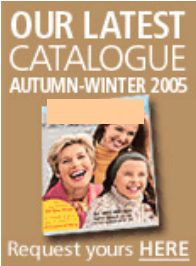
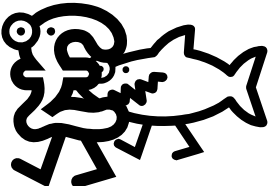
Mostly ‘C’s – credit cool





You treat credit in the same way you treat buying anything else – you shop around for the best deal. You mix this with sticking to what you can afford. You are in the great position of either having no debt at all, or a carefully considered debt that you can afford.



Advantages and disadvantages of credit

Having completed the earlier newspaper exercise you will have identified various ways in which people can borrow money. As with anything there are some **advantages** for choosing a particular method of obtaining credit and there will be some **disadvantages**.

Let's have a look at some advantages and some disadvantages for a variety of credit methods.

<p>Catalogues</p> 	<p>Many people have seen catalogues that sell goods that can be paid for by instalments, but few properly understand how they work. The prices are usually shown in instalments, eg. you might be able to buy a suit or other clothes for 20 instalments of £20. There is no mention of APR because the price is £400 and this price already includes the cost of letting you pay by instalments. The fact is, often the same or similar items can be bought from a shop for much less – if you have the money and can afford it.</p>
<p>Credit – Unions</p>	<p>A credit union is a financial “club” or “people’s bank” to help people who live or work together to save and borrow. The members save into one common fund that pays them interest and, when they have been saving for a few months, they can borrow at a comparatively low APR. (The amount people borrow can be more that they have already saved, but their regular saving shows their commitment to the union.)</p>
<p>Licensed moneylenders</p>	<p>Loans from moneylenders have the highest APRs. This is partly because the lenders run the greatest risks, lend small amounts, make it very easy for the borrower to repay and because the interest takes account the likelihood that the borrower will not be able to make all the repayments on time.</p>
<p>Loan sharks</p> 	<p>It is important that you understand that licensed moneylenders are not “loan sharks” and operate within the law. Loan sharks are not just something made up in Hollywood to sell movie tickets. Unfortunately, loan sharks are all too real and getting involved with one can wreak havoc on your personal and professional life. Loan sharks operate outside the law, charge very high APR and often threaten violence to people who cannot pay.</p>

<p>Point-of-sale credit</p> 	<p>Point-of-sale credit is given when you buy something in a shop and you are asked if you want to pay by instalments. When this happens, the shop will arrange the loan for you. Because this is done quickly and fewer checks are made on you, the lender's risk is greater and so the APR is often higher than for a bank loan. Some point-of-sale credit offers you 0% interest for a specific period but you should note that if you do not pay the full amount before the end of the interest-free period, you might then have to pay a lot of interest.</p>
<p>Credit Cards</p> 	<p>Banks, finance companies and shops supply credit cards. They are used to buy goods or services and also allow you to borrow money. Credit card debt is one of the easiest ways to upset your financial health. Impulse buying is much easier when you have credit cards, which is what retailers are counting on. You will get a statement every month showing you how much you owe with a minimum amount you must pay that month. You may not be charged any interest if you pay the full balance, but you will probably have to pay a higher interest on any outstanding balance. You may also have to pay a yearly fee for the card. Should your monthly payment arrive late, the credit card provider may well charge you a "late payment fee".</p>
<p>Mortgages</p> 	<p>Mortgages are a special type of loan offered by banks and building societies to enable people to buy property. It's typically a big loan, paid back by the borrower over 25 or 30 years, in monthly instalments.</p>
<p>Charge card</p> 	<p>A charge card works a bit like a credit card, but at the end of each month you have to pay off the amount owing in full. The benefit of having a charge card is that it helps you manage your money and get your priority bookings or discounts (eg. on airfares or at certain shops)</p>

<p>Overdrafts</p> 	<p>If you need more money than is in your account at the bank or the building society you can apply for an overdraft. This is usually a cheap way to borrow money for short periods of time, but you must keep to the repayment arrangements to avoid paying penalties and charges. Some accounts have a standing overdraft facility. This means that you can overdraw up to a certain amount without having to ask the bank each time. If you do not have this facility on your account, then you must know there is a second basic type of overdraft ... the unauthorised overdraft!</p> <p>An unauthorised overdraft is where you withdraw (take out) more money than you have in your account without the bank's permission. Unauthorised overdrafts are not cheap! The bank will usually add penalties and charges to what you owe, as well as charging a higher rate of interest than you would have repaid if you had arranged the overdraft in the first place, ie. before taking the money. If you find that you have accidentally overdrawn your account, immediately get in touch with your bank and explain what has happened. When it comes to managing money, there is nothing worse than ignoring a mistake or trying to put it right.</p>
<p>Store Card</p> 	<p>Store cards work like credit cards and charge cards but you can only use a store card in the shop or chain of shops that issued it. If your store card works like a charge card you will have to pay off the full amount owing each month. If it works like a credit card, you may find that the APR is much higher than on a credit card. If you want a store card, you should always read the Terms & Conditions very carefully to find out if it works like a charge card or a credit card, and what the APR is.</p>

As you can see there are many different ways to borrow money. It is very important before signing on the dotted line of any credit agreement that you have checked out the different options available to you and chosen the one that is best for you and your current financial position.

 **Activity**

Using this information and your own knowledge complete the following table. Your tutor will provide you with a few examples to start you off.

What are the different ways I can borrow money?	List a few advantages?	List a few disadvantages?

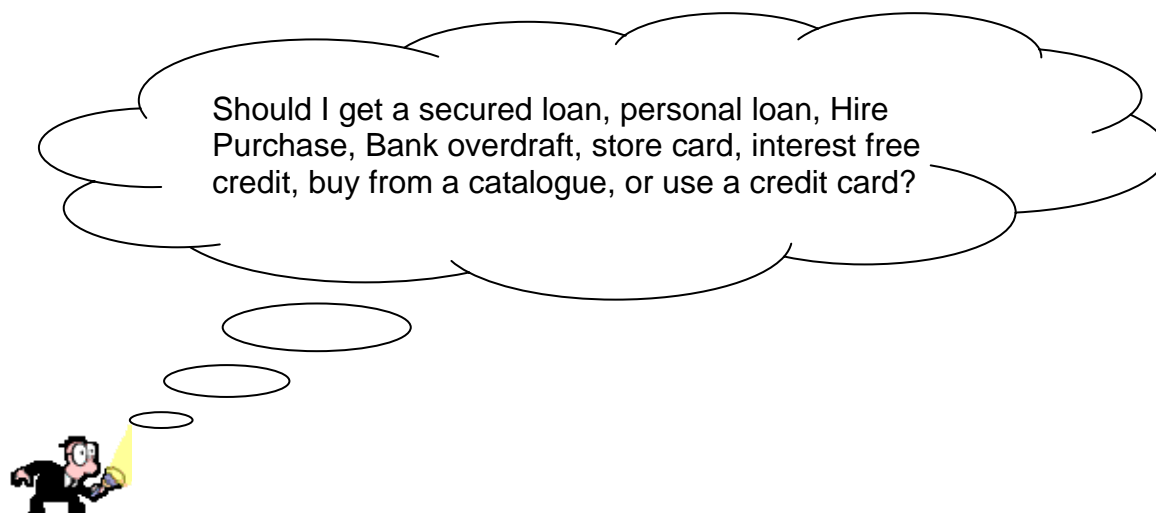
Pay cash, Borrow, Save up

Activity

This next exercise can be completed independently or in pairs – your tutor will advise you how it is to be completed. Take a look at the following statements and then decide which would be the best way in to achieve each of the wants. Indicate your answer by putting a **C** (cash), **B** (borrow) or an **S** (save). Give a reason for your choice.

	C/B/S
1. Your car engine has blown up and the garage advises you that you need to buy a new engine. You need your car to get to your work. Reason:	
2. You're fed up living at home with your family and want to move out and buy a flat. Reason:	
3. Your gran bought new bedroom curtains and the bedding no longer matches. She now wants to buy the matching bedding. Reason:	
4. You want to buy the latest ipod. Reason:	
5. You want to take a year out to travel. Reason:	

So, if you really need to borrow money what is the best way to borrow?



Remember, you must be 18 to enter into a credit agreement.

First of all, you'll want to compare how much it will cost you to borrow money over different lengths of time, eg. If you borrowed money and were to repay it over 2 years your monthly repayment amount would be greater than if you decided to borrow the money over 5 years. However, you will end up paying much more back in interest as you are borrowing someone else's money for longer. The length of time you borrow is often called the loan term or the lifetime of the loan.

You should always work out a budget to see how much you can afford in monthly payments.

Work out how long a period of time you should take out your loan based on your budget figures. You might find that you can afford to pay off your loan sooner than you think.

Your decision about which lender to opt for should be partly based on your loan term, as well as the personal loan interest rate on offer. Some companies will only allow you to borrow for five years or so, or will only offer longer loan terms for larger amounts.

Loans

Money and credit – loan ready reckoner

These tables will let you see how much you would actually pay back if you were to take out credit of £1,000 or £100 (to the nearest pound).

Find the APR on the left hand side and follow it across to the number of years of the loan.

For example if you borrow £1,000 at an APR of 25% for 5 years you'll pay back £1,675 (that's an extra £675 in interest). If you borrow £100 at an APR of 30% for 3 years you'll pay back £146 (an extra £46 in interest payments).

Remember - the lower the APR the less you'll pay back in interest

On a £1,000 loan

	Length of loan					
	1 year	3 years	5 years	10 years	15 years	20 years
5%	£1,027	£1,077	£1,129	£1,266	£1,413	£1,569
10%	£1,053	£1,154	£1,262	£1,557	£1,887	£2,248
15%	£1,078	£1,231	£1,398	£1,867	£2,404	£2,995
20%	£1,102	£1,308	£1,536	£2,191	£2,947	£3,773
25%	£1,126	£1,385	£1,675	£2,523	£3,502	£4,557
30%	£1,149	£1,461	£1,815	£2,860	£4,058	£5,333

On a £100 loan

	Length of loan					
	1 year	3 years	5 years	10 years	15 years	20 years
5%	£103	£108	£113	£127	£141	£157
10%	£105	£115	£126	£156	£189	£225
15%	£108	£123	£140	£187	£240	£299
20%	£110	£131	£154	£219	£295	£377
25%	£113	£138	£168	£252	£350	£456
30%	£115	£146	£182	£286	£406	£533

source: www.ofc.gov.uk

 **Activity**

1. How much would you pay back in total if you borrowed £1,000 over 15 years at an (interest rate) APR of 10%?

2. Your friend's mother is going to borrow £100 over 3 years and she has been quoted an APR (interest rate) of 5%. How much extra will she have to pay back in addition to the £100 she needs?

Secured or Unsecured that is the question?

Loans can be described as being **unsecured** or **secured**?

When a loan is **secured**, the lender e.g. the bank or building society takes an item of value (known as an **asset**) as security, just in case you don't pay back your loan. The bank or building society do not actually physically take the item but have a legal document written up stating that if you as the borrower fail to repay the amount borrowed then the bank or building society will have the item transferred from your ownership into their ownership. Usually the bank or building society will then sell the item in an attempt to recover the money still due to them.

If the loan is secured, say against your house or your car, the lender will be able to obtain some of the money you owe by selling your asset. As a result, secured loans carry a lower interest rate because they pose a lower risk to the lender.

If you take out an unsecured loan and cannot pay it back, the lender has to write you off as a bad debt and their business will obviously suffer the amount outstanding. If a lot of borrowers were to do this then the lender would not remain in business for very long as they would have no money left after writing off the debts which had gone bad.

Activity

1. Kate decides to take out a loan from the bank to pay for her new mountain bike. The loan amount is £650.00 and will be taken out over 2 years. She is to pay back £35.00 every month.

a) How much does Kate pay back after the two years?

b) How much interest does she pay over the 2 years?

c) Why does she have to pay interest?

2. Lorna has been thinking about buying a new kitchen for 6 months. She has finally decided on the one for her and now knows that it will cost her £12,500. The initial deposit is to be 20% and Lorna has arranged a loan from her bank to borrow the rest of the money over 5 years. She is to pay back £200 every month.

a) How much does Lorna have to pay as a deposit?

b) How much does she pay back to the bank after the five years?

c) How much interest did she pay over the five year period?

d) What is the total cost of Lorna's kitchen?

e) Do you think this was the best way for Lorna to buy her kitchen? If not, how might she have got the money to pay for her kitchen?

3. Jack is desperate to get a personal computer. All his friends have one and he wants to be able to download stuff from the Internet. He has seen all the offers online for the kind of kit he wants but it will cost him £400. The company doing the deal are offering credit of 19% APR and he can pay back over 36 months.

He is not sure whether he can afford this. He then sees a PC advertised in a local shop that sells all sorts of gear. It is only £700 and has all the stuff on it he needs. The man in the shop is offering him really low payments each month. He said it would be easy to sort for him and he could sort out insurance on the loan too.

Jack also has a credit card. The bank offered him this when he first opened his account last month. They are offering 0% interest on purchases and balance transfer for the first 6 months. Jack thinks if he can clear the debt quickly that would be a great deal.

a) What deal would you go for? Justify your answer.

b) What risks might he be taking with the different options?

c) What are the benefits of some of the options?

d) What other options might Jack have?

Debt

Nobody deliberately sets out to get into debt. People find themselves in debt for many reasons.

Many people do not have basic budgeting skills.

Learning to budget is an important part of getting out of debt and preventing yourself getting into debt in the first place.

Many changes in circumstances can lead to debts.



Activity

Can you think of any changes in people's circumstances which might lead to them falling into debt?

<ul style="list-style-type: none">••••

 **Activity**

Now take a few minutes to answer True or False to the following statements.

		T/F
1.	Personal borrowing in the UK stands at around £1 trillion, equating to £16,000 for each person.	
2.	16.5 million people, about 25% or a quarter of the population borrow money through credit cards and loans.	
3.	In this country, we pay out £4.5 billion each year because of poor borrowing decisions.	
4.	Up to 10% of borrowers either do not think about whether they can repay what they borrow or borrow knowing they will struggle to repay.	
5.	23% of people do not know how much they owe	
6.	25% of adults (a quarter) cannot work out the change from £2.00 for 3 items of shopping costing £1.58	

It can be tempting to take out a number of credit agreements to help you out when one or more of the above happens to you. Many people have:

- A credit card
- A mortgage
- A personal loan
- A car finance deal

These payments mount up and can easily become overwhelming. Also, if you miss payments, you may have to pay high interest or charges which may lead to even more financial problems.

Sometimes being in debt can happen to responsible people if their personal circumstances change. If this happens to you it's nothing to be ashamed of but something you should get help with immediately, before it becomes even more difficult to handle.

We all make mistakes in life and so even if the debt problem was avoidable you should still get help as soon as possible. Although many people leave it very late before they get help with their money problems, it is usually possible to do something to improve a bad situation.

The UK has the best free money advice in the world.

People should consider they **have a debt problem** if they:

- have **4 or more debts** or
- **spend 25% of their income repaying consumer debts** or
- **spend 50% of their incomes on consumer debts and mortgage.**

Source: DTI Over-indebtedness Report

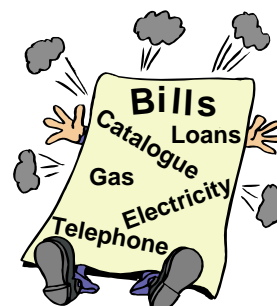
Debt advice agencies frequently report that people seeking typical advice **owe to 10 creditors** in the region of **14-17 months income**.

Tips on debt

You can solve your problems by contacting the people you owe money to and/or the many organisations willing to help you – so get advice now.

Here are some tips that should help you get started:

- get free advice
- don't panic or ignore the problem: unopened bills won't go away
- you can't ignore your debts. Better to pay a small amount than nothing at all – those you owe money to may be prepared to accept low repayments



- if struggling with store or credit cards stop using them
- work out a realistic budget that covers all your income and spending. Check whether there are any benefits or tax credits you are entitled to that you are not getting
- decide which debts take priority – like mortgage or rent – and which cost you most through penalties or higher interest rates
- only agree to pay off debts at a rate that you can keep up – don't offer more than you can afford
- contact those who you owe money to as soon as possible. Let them know that you are having problems. Many companies will be helpful if you talk to them
- if organisations won't accept your repayment offers, seek advice
- if you get a threatening letter get advice from your local Citizens Advice Bureau or trading standards service
- if a debt collector calls at your home you don't have to let them in. If you want time to get advice arrange a later appointment. If a debt collector or lender harasses you contact your local Citizens Advice Bureau or trading standards service
- check if a loan will be secured on your home. If it is and you do not keep up repayments you could lose your home. If you do not understand the terms of a loan get advice
- if you're thinking of taking out a new loan to pay off debts make sure you find out the total cost of the loan, not just the monthly repayments
- think very carefully before borrowing more to pay off your debts. Get impartial advice and don't rush into signing anything you don't understand



- if you are thinking of using a fee-charging debt management company, then make sure you understand exactly what you are signing up to – check what fees you will be paying to a debt management company and how long it will take you to pay off your debts
- keep copies of all letters you send and get about your debts.

Source: www.ofc.gov.uk

 **Activity**

If one of your friends had money problems where might you suggest they go to obtain help?

❖
❖
❖
❖

 **Activity**

Debt problems

1. Margaret is a single mother who has a part time job and also gets additional working tax credit. Her 11 year old is just about to start secondary school. Each week she has about £40 left over after she has paid all her bills. She has 2 catalogue loans and a loan for her car. She has just missed her second car payment and has had a letter from the loan company.

a) What has caused this problem?

b) What should Margaret do?

2. Jack is a student living away from home. He has taken out the maximum student loan for the year. He shares a house with other students but has a room of his own. They share the cooking but Jack prefers takeaway mainly as he is not much of a cook. He has just bought himself a PC and an MP3 player for his own use on his credit card. His housemates are getting fed up with him as this is the third month he has missed paying his share of the telephone bill.

a) What's the cause of the problem?

b) What should Jack do?

3. Tony has worked as a hospital porter for five years and earns the minimum wage; his gross pay is £210.00 per week and he has few opportunities to earn extra money on overtime. After paying his rent, Tony has £35.00 a week to spend on food, travel, clothes etc. Recently Tony went to work with an infection. His colleagues had to take him to casualty where a doctor signed him off work for a week. As the hospital contractor who employs Tony does not have a sick pay policy, all Tony took home was £45.00 so he was unable to pay his rent.

a) What has caused this problem?

b) What can Tony do?

The effect of personal debt problems

Debt affects many different parts of people's lives. It's hardly possible to pick up a newspaper today without it containing some reference to the increasing consumer debt, individual tragedies, and increase in bankruptcies within the UK.

Household debt has broken through the £1trillion barrier. Six years after applying for her first credit card, 'Liz' is now bankrupt. She discussed her situation with a BBC news reporter.

Activity

Get together in groups of about 4 people. Your tutor will ask you to discuss how being in debt can impact on peoples' lives.

Your tutor will supply you with flip chart paper and marker pens. Someone in the group will have to act as the scribe and write down the group's ideas. You should combine your individual ideas on the flip chart paper either as a list or a mind map. Through discussion in the group, you may even come up with some new ideas or be able to expand an idea. Remember to write everything down and allow the scribe time to include his or her ideas. You could tick your own list as the scribe writes it down to ensure you have not forgotten to mention anything.

When you have completed the task, the tutor will help the whole class group to combine and discuss all the ideas. The tutor may offer some new ideas to think about. Any new ideas from other class members or the tutor can be added to your list from the previous Activity. You can jot down your own ideas here:

 **Activity**

This next activity will involve you working in groups, collecting articles on the following topics and any other topics which fit in with the theme. These articles can either be obtained from newspapers or perhaps News websites.

Once you have collected a variety of items you will create a wall poster highlighting the effects of debt.

Topics:

- Current level of debt in UK
- Rate of bankruptcies in under 35s
- Is the debt crisis in the UK spiralling out of control?
- Is debt impacting on family life?

Remember to detail the source of your information.

There are a number of other organisations that can help with your questions about credit and debt. These include:

- **Compare different financial products**
 - Financial Services Authority www.fsa.gov.uk/consumer
- **Debt help**
 - Consumer Credit Counselling Service www.cccs.co.uk
 - Citizens Advice www.adviceguide.org.uk
 - National Debtline www.nationaldebtline.co.uk
 - Trading standards departments www.tradingstandards.co.uk
 - Money Advice Scotland www.moneyadvicescotland.org.uk
- **How to get a copy of your credit report**
 - Callcredit www.callcredit.plc.uk
 - Experian www.experian.co.uk
 - My Equifax www.myequifax.co.uk

Section 3: Savings and investments

Who needs them and what are they?

Very often these two terms, savings and investments, are used interchangeably.

It is **very important** to understand early on in your studies that in fact **they mean very different things entirely**.



We're going to take a look at the differences between Savings and Investments and then look at each in more detail. Making decisions about savings and investments will have an impact upon what you can and cannot afford to do in the future. It is a wise person who makes a plan and sticks to it, whilst of course reviewing their current situation.



So what are the differences between Savings and Investments? The main areas of difference are to do with the **Risk** and **Return** on the capital amount deposited. Oh that makes it clear? Not!

Activity

What do we mean by Capital?

Discuss in your groups what you think we mean by capital and jot down some of your suggestions in the box below.

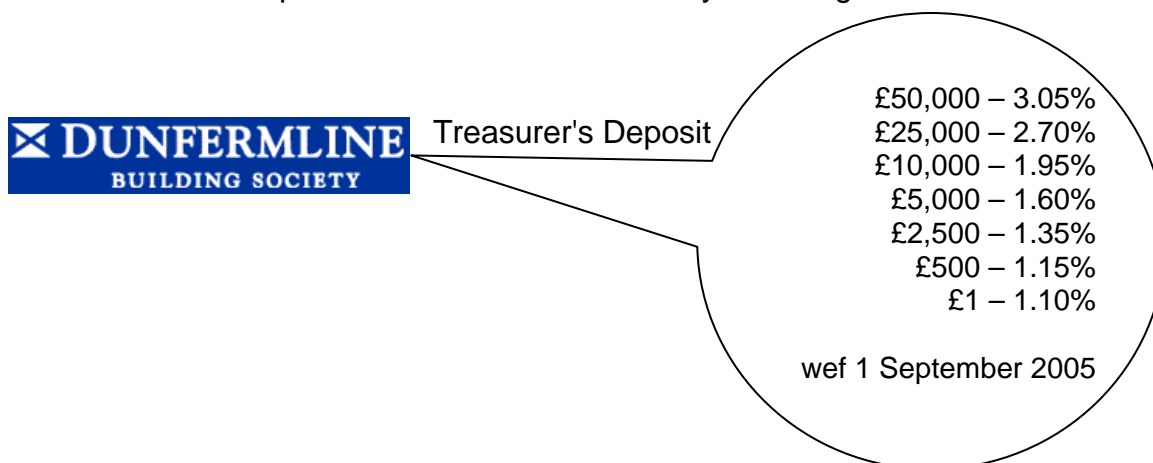
Return

Next we will look at **Return** – what does this mean in relation to savings and investments?

The **return on your money** is the amount you get back on your capital. Point to note is that generally speaking the higher the return the more risky the savings/ investment. Normally when you deposit money into any type of savings account you would expect to receive the original deposit back plus an amount in interest. This interest is the reward given to you by the bank or building society for placing your money with them in the first place. Unless the bank or building society in which you deposit your money collapses, ie. goes bust, and this is an extremely rare event, savings accounts carry no risk to your capital.

Activity

Think about what the following Dunfermline Building Society advertisement is telling savers or potential savers about the rate of return on money deposited into this Treasurer's Deposit account and write down your thoughts in the box below.



£50,000	– 3.05%
£25,000	– 2.70%
£10,000	– 1.95%
£5,000	– 1.60%
£2,500	– 1.35%
£500	– 1.15%
£1	– 1.10%

wef 1 September 2005

Source: www.dunfermline-bs.co.uk

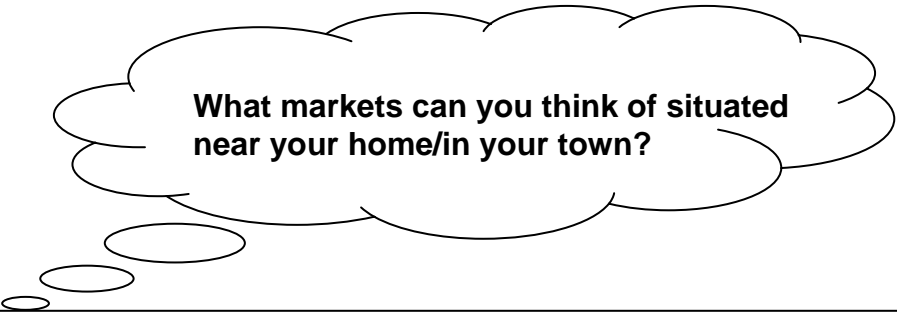
Your tutor will now check what you have written down.

The stock market

Investing is about putting away money (this should be money that you don't need to be able to get your hands on quickly) for quite a long time, often 5 or more years, in the hope that you'll get a better return on your money than by just putting it into a savings account. However, investing is risky, because it's very often linked to the stock market and doesn't usually guarantee that you'll get your money back. This is because the value of the stock you invest in could fall in value. If you're lucky it could rise, so you need to weigh up the risks – **it is a wise person who only invests amounts that they can afford to lose!**

Activity

Think about the word **market** and what that means to you.



What markets can you think of situated near your home/in your town?

Some more examples:

- Farmer's Markets are where local farmers/producers of fresh fruit and vegetables set up their stall and sell their goods to local people.
- The famous outdoor market in Glasgow, known throughout the world is the Barras. There are very often indoor markets as well.

So a **market** is simply a place where buyers and sellers can meet, for sellers to sell and buyers to buy the goods/services on offer. That's market defined, now let's take a look at the 'stock' part.

Companies sell **shares** to raise money for use in their business. When you buy shares, together with all the other shareholders, you become an owner of the company. **Stock** is an American term for shares in a company.

A **stock market** therefore is simply a place where people who wish to buy and sell shares can carry out their transactions.

In the UK, the main stock market is the **London Stock Exchange**.

The other main stock exchanges throughout the world are based in:

- New York
- China, Paris
- Hong Kong
- Japan and
- Germany.



 Activity

Find out the names of each of these Stock Markets

New York	
Japan	
Hong Kong	
Germany	
Paris	
China	

Shares

Around one in five adults holds shares directly. In many cases, they acquired the shares when state industries were privatised (eg. British Telecom, British Gas, the water companies) or when building societies converted to, or were taken over by, banks (eg. Abbey National, Halifax, Woolwich).

Many people are given or buy shares in the company they work for through employee share schemes.

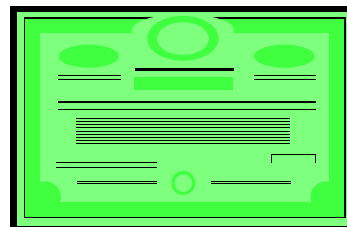
Many more people hold shares indirectly because they have paid money into a pension scheme, unit trust or other investment fund.

What is a share?



A share is a legal document issued by a company. The person who holds the share has part ownership of that company and is issued with a share certificate.

We will look at shares and the stock market in more detail when we study Investments further into this unit.



So what does taking a risk mean to you?

Really risk is all about uncertainty and the unknown. Think about the risk people take if they go to a party where they might know or might not know that some types of drugs are thought to be available. If you're on the premises you run the risk of being arrested should the police be called for one reason or another. Drugs related offences can make future employment prospects difficult - not something you might think of when you are a teenager.

You see a fight in the street and a young man is being kicked by a group of others. What do people do? Do they go to help him and run the risk of being attacked themselves or do they not want to take that risk and walk on by?

The financial risk individuals take when they invest their money as opposed to saving money is that they might get back less than they originally invested.

So now that we've looked at the basic differences between Savings and Investments, we'll examine each one in more detail.

 **Activity**

Think for a minute and jot down some risks you have taken.

Why do people need to save money?

Activity

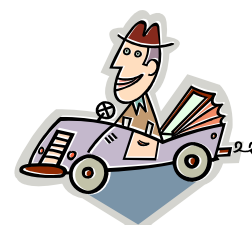
1. Why do people need to save money? On your own try to identify at least 4 reasons why you might need to save money.

-
-
-
-



2. Now write down some suggestions why other people, eg. your parents need to save money.

-
-
-
-



So savings are any money that you put aside for future use. Savings which are for emergencies need to be easily accessible; however, longer-term savings can be built up in order to provide a nest egg.



 **Activity**

Now get together in groups of about 4 people. On a flip chart, combine your individual ideas on why people save money either as a **list** or a **mind map**.

Saving up for a

We talk about saving for:

- short term needs
- medium term needs and
- long term needs.

What do we mean by this?

When we say short term we usually mean some time within the next 3 years, medium between 3 and 5 years and long term is therefore anything longer than 5 years.

Activity

Look at the following items and decide which you think could be described as short, medium or long-term savings. You will be asked to justify your answers, so give it a bit of thought.

Against each item write **short, medium or long**.

Skiing holiday	
Outing to cinema and meal with friends	
Deposit for a car	
Christmas/birthday presents	
Emergency fund	
New house	
New computer	
New MP3 player	
New clothes	
Towards the costs of your college or university education	
Your own wedding	
New CDs	

 **Activity**

Go back into your groups and return to your flip chart/mind map. Now you have to decide which of your savings could be short term or long term. Indicate by placing an 'S' for short, an 'M' for medium and an 'L' for long term on the flip chart.

So now we have looked at **why** people save, we are now going to take a look at **how** people save.

Where does the money that we want to save come from and how much can we save?

Think about this for a few minutes and then jot down some ideas in the box below.

<ul style="list-style-type: none">• • • • • • •

Well what did you come up with?

Hopefully some of you will have thought of your spare cash. Perhaps you might save anything you have left over in your purse or pockets at the end of each day. It's amazing how small amounts of coins can grow into much larger amounts over a short period of time.

Think back to the first section on Budgeting, when you were asked to plan a budget for yourself over a week/month. When you were calculating your income and spending, was there any spare cash left at the end of each week or month? If the answer was yes, then you might think about putting this extra money away into a type of savings account which, in the same way as your left over coins each day, will soon start to mount up.

If there wasn't any money left over when you set up your budget what might you think about doing now?

You might want to adjust your budget to allow for a certain amount to be put aside as savings each week/month. If you have a bank account for day-to-day use, into which you pay regularly, eg. pocket money, an allowance, wages, birthday presents, it's possible to ask your bank to make a regular payment into a savings/deposit account.

This regular payment is called a **Standing Order** and once it is set up, providing there is sufficient money in the account you are transferring from, the money will be transferred by your bank or building society until you tell the bank/building society that you wish to stop it.

By taking this money out of your day to day requirements you will very quickly see a nest egg growing. However, if you keep all the money in the same account what tends to happen is that people spend all that they have in that account.

Activity

Think about another benefit of saving this money.



Images sources from MS Clipart online & www.dunfermline-bs.co.uk

What did you come up with?

- Your cash will grow. The amount you put in doesn't fall in value, but will grow as interest is added
- The financial institution, eg. bank, building society, Post Office where you deposit your cash will pay you interest for leaving the cash with them.

Remember in *Section 2* you looked at borrowing money for a variety of reasons. The banks/building societies involved in lending to borrowers use the money deposited by savers to lend out to others. The Banks/Building Societies charge one rate (higher rate) for borrowing and pay another rate (normally lower) to savers.

- You will always have some money put by for an emergency or a rainy day

So far we've looked at why people save and what cash they use to save. Now we'll take a look at short term, medium term and long term savings.

The Financial Institutions, eg. Banks and Building Societies offer many different types of accounts to cater for short, medium and long term borrowing. The long term borrowing accounts tend to pay a higher rate of interest than the medium and shorter term accounts.

Activity

Why do you think this might be?



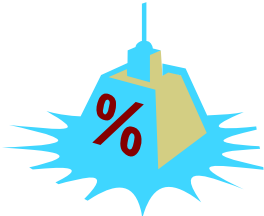

Savings products


When deciding which savings product you should choose it's essential that you ask all of these questions before you make your decision. If you don't do this you may end up paying a hefty financial price.



<ul style="list-style-type: none"> • Is there a minimum amount of money I need to open a particular account? 	<p>Some banks/building society accounts can only be opened with, eg. minimum of £100, others all you need is a £1.</p>
<ul style="list-style-type: none"> • How much interest will I earn if I save my money in this account? 	<p>Interest is the reward the bank/building society pays you for saving your money with them. Interest is normally quoted as a %. A savings account offering 6% would give you a better return than one offering 4%.</p>
<ul style="list-style-type: none"> • If I need my money in an emergency, how quickly can I get at it? 	<p>The savings account may specify a certain period of time during which you are unable to withdraw your money.</p>
<ul style="list-style-type: none"> • Is there a period of notice which I have to give before I can take out my money? 	<p>Notice is the time you have to wait to get your money out of the savings account, eg. 90 days notice, means that you would have to write to the bank/building society and tell them that 90 days from a particular date you wish to withdraw a certain sum of money. Notice accounts usually pay a higher rate of interest than instant access accounts.</p>
<ul style="list-style-type: none"> • If there is a notice period what financial penalty will I suffer i.e. how much interest will I lose for taking my money out earlier than intended? 	<p>If you cannot wait for the notice period to elapse your bank or building society will penalise you, eg. loss of interest for certain period of time.</p>

Deposit Accounts/Savings Accounts

Deposit Accounts/Savings Accounts	
<p>Instant Access</p>	<p>You can access your money immediately</p>
<p>Notice Period</p> 	<p>The bank/building society has stated that the account holder must give notice that they wish to withdraw their money. When the account is opened the period of time required will be advised, eg:</p> <ul style="list-style-type: none"> • 30 days notice account • 90 days notice account
<p>Minimum amount to open</p> 	<p>The bank or building society will state that a minimum amount is required to open a particular account. This can range from:</p> <ul style="list-style-type: none"> • £1.00 • to any greater amount say £500
<p>Interest Rate</p> 	<p>The reward paid to you by the bank or building society for depositing your money with them. It is the percentage that is paid on your savings. The actual rate may be variable, ie. it can change from time to time or it may be fixed for a certain period of time.</p> <p>A savings account offering an 8% rate would give you a better return than one offering 5%.</p>
<p>Gross/Net Interest</p> 	<p>Savings accounts from banks and building societies pay interest after the tax has been deducted. This is called NET interest. Interest paid without deducting tax is known as GROSS interest.</p> <p>If you are a non-taxpayer, and you as a student will not yet pay tax, you can register to have your interest paid GROSS. You can do this by asking your bank or building society for Form R85, which once completed by you and the bank is sent on to the HM Customs and Revenue (Formerly HM Inland Revenue.)</p>

<p>AER</p>	<p>You will see this abbreviation in advertisements about savings accounts and it stands for annual equivalent/effective rate. This shows what the interest rate would be if the interest on savings were paid and added to savings at the end of each year. Interest is very often paid more often, for example four times a year. The AER is worked out in a standard way so you can compare interest rates directly with each other. The higher the AER, the better the return is on your savings, because you earn interest on the interest – called ‘compound interest’.</p>												
<p>Interest Paid</p>	<p>Interest can be paid monthly, quarterly or annually.</p>												
<p>Interest Rate Tiers</p> 	<p>Very often you will see savings accounts offering different rates of interest for different amounts of money deposited.</p> <p>Remember the advert for the Dunfermline Building Society</p> <table data-bbox="651 1003 1358 1294"> <thead> <tr> <th></th> <th>Current Gross & AER Rate</th> </tr> </thead> <tbody> <tr> <td>Asset Plus Account</td> <td>£25,000 - 4.70%</td> </tr> <tr> <td></td> <td>£10,000 - 3.95%</td> </tr> <tr> <td></td> <td>£5,000 - 3.60%</td> </tr> <tr> <td></td> <td>£2,500 - 3.35%</td> </tr> <tr> <td></td> <td>£500 - 3.15%</td> </tr> </tbody> </table> <p>wefSeptember2005</p>		Current Gross & AER Rate	Asset Plus Account	£25,000 - 4.70%		£10,000 - 3.95%		£5,000 - 3.60%		£2,500 - 3.35%		£500 - 3.15%
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	£500 - 3.15%												

 **Activity**

Using the Internet, or by collecting information leaflets available from the Post Office or directly from National Savings & Investment Bank identify the top 4 instant access deposit/savings accounts available on the market at the moment. Justify your answer by giving reasons why you believe the accounts you have identified are the best available.

<ul style="list-style-type: none">• • • •
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Individual Savings Accounts

Individual Savings Accounts, more commonly referred to as **ISAs**

There are a number of tax benefits available from investing money in an ISA:

- No tax is paid on the income you receive from your ISA savings and investments.
- No tax is paid on capital gains arising on your investments.
- You can take your money out at any time (but some types have a notice period).
- You do not have to tell the Inland Revenue about income and capital gains from ISA savings and investments.

Source: ISA HM Revenue & Customs NSV Code R2H 7021

However:

- You may not have a Mini-ISA and maxi-ISA in the same tax year.
- You can only save up to £3,000 in a mini-cash ISA in any one tax year.
- There is an overall limit of £7,000 which you can pay into ISAs each tax year. You can choose to pay money into up to 3 min-ISAs or into 1 maxi-ISA each year.

The tax year runs from 6 April in one year to 5 April the following year.

Where can you get an ISA?

You can get an ISA by going to an ISA manager.

These include:

- banks and building societies
- National Savings and Investments
- financial Advisers
- supermarkets and retailers.



Type of ISA	Individual Savings Accounts
Maxi-ISA	<p>This is an account in which you can hold a wide range of savings and investment products. It is a requirement that stocks and shares are included plus savings accounts and life insurance.</p> <p>How much?</p> <p>You are allowed to put in up to £3,000 into the cash component of a maxi-ISA, up to £7,000 into the stocks and shares part and £1,000 into the life insurance part of the maxi-ISA. However, it is essential that you do not exceed the overall total of £7,000 paid in any one year.</p>
Mini-ISA	<p>You are allowed to hold cash, or stocks and shares, or life insurance in mini-ISAs. You can have up to a maximum of 3 mini-ISAs in anyone tax year made up of three different types of holding. The maximum you can pay into a cash ISA is £3,000, in a stocks and shares ISA is £3,000 and in life insurance ISA is £1,000</p>
Mini-cash ISA	<p>This is a savings account that pays tax-free interest. You can save up to £3,000 in a mini-cash ISA in any one tax year. These are useful financial products to save cash in if you are a taxpayer, as they provide tax-free savings and therefore give you more for your money.</p> <p>One note of caution - it is always beneficial to check out the different rates of interest on offer from the various banks/building societies/National Savings & Investments.</p>

 **Activity**

Now go to www.find.co.uk/banking and look for the best mini-cash ISA recommended by them. Write your answer in the box below.

National Savings and Investments

These are **savings and investments issued on behalf of the government**. They are available in all shapes and sizes with some designed to be attractive to particular types of taxpayers. Others are designed for people seeking an income, whilst others are to provide growth on the capital invested.



Activity

Find out some details of the products offered by National Savings & Investments by looking at www.nsandi.com and then answer the following questions.

1. Describe 3 products offered by National Savings & Investments which would be suitable for a regular saver.

Product Name	Interest rate %	Minimum Deposit	How often Interest Paid	Age restriction

2. Now using the same web site www.nsandi.com look for products which might be suitable for someone wishing to save for a rainy day.

Product Name	Interest rate %	Minimum Deposit	How often Interest Paid	Age restriction

Investments

We've now looked at a number of different types of savings accounts and now we move on to look at **Investments**.

Activity

Can you remember the difference between **savings** and **investments**? Jot down some of the differences in the box below.

Just as there are many different types of Savings products there is also wide range of Investment products available. It's very important to remember that Investments are usually linked to the stock market and are normally bought for the longer-term investment.

When considering the **return on Investments** it is very important that you decide how much risk you are willing to take in the hope that your return will be greater than say depositing your money in a bank or building society account.



 **Activity**

Can you remember what we decided the Stock Market was? Write your answer in the box below and then share it with your tutor when asked.

The Stock Market is:

Did you remember?

The Stock Market is simply where shares are bought and sold.



The **stock market crash of 1987** was the largest one day stock market crash in history. It came to be known as **Black Monday** – when the US market lost almost one-quarter of its value in a few hours.

 **Activity**

Have a look at details of some Stock Market crashes, in particular the crash of 1987, on the Internet.

Jot down some important points here and discuss in your group.

What happened to businesses and individuals as a result of some of the stock market crashes?

<ul style="list-style-type: none">❖❖❖❖❖❖

Owning shares

You can benefit from owning shares in two ways:

1. the company may regularly **distribute part of its profits to the shareholders** in the form of **dividends** – this is a form of income.
2. you may **make a profit when you sell the shares**, if their price has risen since you bought (or were given) them – this is called a **capital gain**.

Over the medium to long-term, shares have tended to give a much better return than putting your money in a bank or building society account.

But always remember that share prices can fall as well as rise.



 **Activity**

Your tutor will give you the finance sections of a daily or Sunday newspaper covering two different trading days. The Stock Market only trades Monday through Friday.

1. Turn to the share price pages in the earliest dated newspaper and have a look at the different companies listed on the pages. You should notice that the companies are grouped together depending on the industry sector to which they belong.
2. What do we mean by that? Take a look at one of the first sectors: Banking & Finance. You will see that included in the list under this heading are all the banks which are listed on the Stock Market. In the same way all building companies are grouped together and companies involved in transport.
3. Choose **2 different sectors** and **3 companies from each of these sectors** and list them in the box below. At the side of each company name are numerous figures and letters. The only figures which are of interest to you in studying this course are the ones included in the column titled **price**.
4. Next, take a look at the share pages from a later dated paper and look up your chosen companies and jot down the new share prices. **Have the share prices risen or fallen over that particular period?**

Date	Sector	Company Name	Share Price	Share Price

So, investing in shares rather than a bank or building society account gives you the chance of a higher return but the risk is that you could lose some or even all of your money.

Having said that, there are many different types of Investments, it is fair to say that broadly speaking they will fall into one of 3 broad categories.

Category	
Funds	This is where you can pool your money with those of other investors and place it into an Investment providers 'product fund'. The provider then uses the pooled money to buy a wide range of investments.
Equities	These are simply the shares in companies which are quoted on the Stock Exchange. Remember that whilst you can make money, known as a capital gain, you run the risk of losing all your money.
Bonds	A bond is normally a loan to a company that will pay you a fixed rate of interest over a certain period of time. The word Bond can be used across Savings and Investment products, therefore it would be to your advantage to check what is actually involved before buying.

That was quite heavy going so let's take a look at some graphs/charts which will show you how savings and investments can grow over a period of time.



Activity

How do savings grow?

Log on to www.ourmoneyshop.co.uk/savings

The charts on this website show how your money could grow at different rates of interest if you were able to save from £25 to £200 per month.



Using the chart work out how much your savings would be worth if you saved:

1. £25 a month at an interest rate of 4% over 5 years
2. £50 a month at an interest rate of 8% over 5 years
3. £25 a month at an interest rate of 4% over 10 years
4. £200 a month at an interest rate of 6% over 10 years
5. From the charts add two more examples of how savings could grow over 5 years and 10 years
6. Set a goal! If you were to save £25 a month over the next 5 years, what would you be like to do with the amount you saved at the end of that time? Assume an interest rate of 6%.

My savings would have grown to £.....

I could use this to _____

The Financial Services Agency

You looked at the work of the FSA in the Introductory unit of this course.

Do you remember what FSA stands for and what they do? Take a few minutes with your partner and try to remember what you have previously learned. Then jot down a few points in the box below. Your tutor will ask for a number of suggestions. If you have not thought of something suggested by another person, be sure to include in your list.

<ul style="list-style-type: none">• • • • •

FSA. Who are we?

The FSA are the independent watchdog set up by the government to regulate financial services and protect your rights.

Now you are going to complete a number of money saving activities.

Remember that people can only save money when their income is more than their expenditure (spending)



Activity

Lucky you! You've been given a monthly allowance of £30.00. You're hoping to go on a school trip next year and want to have some new clothes for the holiday. You decide to save £10.00 per month.

1.	How much money will you have saved at the end of the 12 months. Do not include any interest in your calculation. Show your working.	£
2.	If the savings account states that it will pay 1% interest per year, how much will the bank add to your account at the end of the first year.	£
3.	You read the finance section of the Sunday newspaper and see that the bank has another account offering 5% interest per year. How much of a difference would you receive in the interest paid if you decided to change to the 5% account?	£
4.	Your account information talks about AER. What does this mean?	
5.	As you are a student, you are classified as a non-tax payer. What is the name of the form the bank/building society will ask you to complete prior to sending it off to HM Customs & Revenue?	

Bank and building society accounts

Basic features of a bank and building society account

Finally, we're going to have a look at some of the basic features you would expect to see in a few of the different types of accounts offered to the public by banks and building societies.



Type of account	Cheque Book	Cheque Card	ATM card	Debit Card	Agreed Overdrafts	Debtor Interest	Bank Fees	Creditor Interest	Internet Access Ability to make payments online
Current Account	✓	✓	✓	✓	✓	✓	✓	✓	x
Student Current Account	✓	✓	✓	✓	✓	✓	x	✓	x
Internet Account	✓	✓	✓	✓	✓	✓	✓	✓	✓
Savings Accounts	x	x	✓	x	x	x	x	✓	✓

Current and deposit accounts

Current account withdrawals are made by means of a:

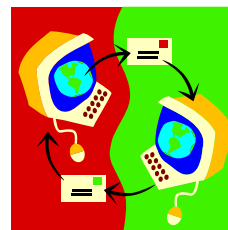
- cheque-book
- cheque-book and cheque guarantee card
- ATM card
- debit card (including an Electron card)
- counter-cheque at the teller.

Deposit account withdrawals can be made either of the following methods:

- ATM card
- with the teller.

Internet banking

One area where the Internet has had a huge effect is in the banking industry. These days, rather than having to visit your local bank, you can now do all your banking in the comfort of your home with an Internet bank account.



The banks and building societies can offer more attractive rates of interest on the online accounts because they don't have to pay the overheads normally associated with high street branches, eg:

- Building overheads:
 - heating and lighting
 - telephone
 - business rates.
- Staff costs:
 - salaries
 - uniforms.

Finally, a reminder about opening a bank account in the United Kingdom.

There are strict procedures in place when opening any type of bank account. Due to an increase in financial fraud including money laundering, the FSA laid down rules and regulations which every financial institution within the UK must follow. Severe penalties are handed out by the FSA if these rules are flouted in any way. If you are a UK resident, you will need the following documents in order to open a bank account with any financial institution, eg. bank/building society:

- completed account application form
- proof of identity (like a passport – but note, a birth certificate is not sufficient)
- proof of residency (such as a gas or electricity bill – but this does need to be in your name. A credit card bill may also be accepted)
- details of your source of income (such as a copy of your pay-slips).

Once you have submitted the account opening form, with the supporting documents, it should take between 1 and 2 weeks for you to be able to use the account.

 **Activity**

Now to see how all this theory relates to the world in which you live.

Try to answer the questions which follow – if you find any of them a bit tricky, go back to what you've learned to try to find the answers.

1. Why should customers shop around for better interest rate deals?

2. Why do you think banks can offer better rates for online financial services?

3. Can you think of a change in circumstances that might trigger a financial crisis?

4. What must individuals do to ensure they have money set aside in case of an emergency, retirement?

5. What reasons do people give for not saving?

6. What makes borrowing attractive to many people at the moment?

7. What are some of the main risks associated with borrowing?

 **Activity**

In groups of 4 or 5 look through the financial supplements of the papers provided by your teacher/lecturer and look for adverts regarding savings accounts. Use these adverts to put together a **savings** poster to be used to try to encourage people to save. Think about the interest rates offered and how long you need to tie your money up with the bank/building society.

You may also make use of the Internet if this is available and search for details of savings accounts. You may wish to go directly to some of the following sites to gather your information:

- www.about-savings-accounts.co.uk
- www.moneysupermarket.com
- www.moneyfacts.co.uk
- www.thisismoney.co.uk

You will now realise that there are thousands of different financial products available for those of us who wish to save some of our money.

 **Activity**

In small groups, consider each of the following scenarios. For each, write down:

- What kind of savings/investment product the individual might consider opening to put the funds into.
- Briefly why you came to that conclusion.

1. A 65 year old man inherits £50,000 on the death of his 87 year old mother. What do you think would be the best products in which he could place this windfall?

2. A 21 year old medical student wins £5,000 in a competition. She still has 2 years left of studying and due to her commitment to her studies is unable to take a part-time job. What do you think she should do with this money?

3. A long-term unemployed builder has recently returned to the work place. When he originally lost his job he realised very quickly that as he had no savings to help him through a difficult time and he would have to depend solely on benefits from the state. In case he was ever to lose his job in the future, what would you recommend that he do when he gets paid each Friday?

4. A 30 year old high flier in the financial world receives a bonus of £50,000. She has a reputation for being a risk taker and tends to live dangerously! Where do you think she might place her money?

 **Activity**

For each of the following state:

- What kind of savings product the individual might consider buying?
- Whether they present a high/low risk to the insurance company
- Whether the premiums they pay will be high/low?
- Briefly why you came to that conclusion.

1. Your 80 year old grandmother is going on a skiing holiday in the French Alps.

2. An 18 year old boy has just bought his first car.

3. A 65 year old man does not want to be treated for any future illness he may develop, by the NHS.

4. A 22 year old married man wants to protect his new wife against financial loss should he die.

5. A 40 year old divorcee with 3 dependant children is worried about losing her job as she is the sole earner in the family.

6. A young couple have just bought their first house in a leafy suburb of the city.



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