

Managing my money for young adults

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Introduction and guidance

Introduction and guidance

Welcome to this free course, *Managing my money for young adults*.

The course is made up of eight sessions, with approximately three hours of study in each. It is suggested that you do one session per week, but you can work through the course at your own pace, so if you have more time one week there is no problem with pushing on to complete another session.

The eight sessions cover the following:

- 1 You and your money
- 2 Earning money, understanding tax
- 3 Being a savvy shopper and building a budget
- 4 Preparing for life after school
- 5 Living in shared households
- 6 Understanding debt and how to borrow wisely
- 7 A good credit rating and how to keep it
- 8 Planning now for later in life – buying a home and planning your pension.

At certain times, the course author Martin Upton will be on hand to discuss the course contents with you in the course forum. Here you will also be able to chat with other learners on the course. The next time for discussion is: **13 November 2017**.

After completing this course, you will be able to:

- budget effectively, taking into account changes such as getting older and leaving the family home
- understand how to choose and manage bank and savings accounts
- understand how to finance further and higher education studies
- borrow sensibly and manage debts effectively
- plan ahead to make life's goals financially achievable.

Moving around the course

In the 'Summary' at the end of each session, you can find a link to the next one. If at any time you want to return to the start of the course, click on 'Full course description'. From here you can navigate to any part of the course. Alternatively, use the session links at the top of every page of the course.

It's also good practice, if you access a link from within a course page (including links to the quizzes), to open it in a new window or tab. That way you can easily return to where you've come from without having to use the back button on your browser.

What is a badged course?

While studying *Managing my money for young adults* you have the option to work towards gaining a digital badge.

Badged courses are a key part of The Open University's mission *to promote the educational well-being of the community*. The courses also provide another way of helping you to progress from informal to formal learning.

To complete a course you need to be able to find about 24 hours of study time, over a period of about 8 weeks. However, it is possible to study them at any time, and at a pace to suit you.

Badged courses are all available on The Open University's [OpenLearn](#) website and do not cost anything to study. They differ from Open University courses because you do not receive support from a tutor. But you do get useful feedback from the interactive quizzes.

What is a badge?

Digital badges are a new way of demonstrating online that you have gained a skill. Schools, colleges and universities are working with employers and other organisations to develop open badges that help learners gain recognition for their skills, and support employers to identify the right candidate for a job.

Badges demonstrate your work and achievement on the course. You can share your achievement with friends, family and employers, and on social media. Badges are a great motivation, helping you to reach the end of the course. Gaining a badge often boosts confidence in the skills and abilities that underpin successful study. So, completing this course should encourage you to think about taking other courses.



How to get a badge

Getting a badge is straightforward! Here's what you have to do:

- read each session of the course
- score 50% or more in the two badge quizzes in Session 4 and Session 8.

For all the quizzes, you can have three attempts at most of the questions (for true or false type questions you usually only get one attempt). If you get the answer right first time you will get more marks than for a correct answer the second or third time. If one of your

answers is incorrect you will often receive helpful feedback and suggestions about how to work out the correct answer.

For the badge quizzes, if you're not successful in getting 50% the first time, after 24 hours you can attempt the whole quiz, and come back as many times as you like.

We hope that as many people as possible will gain an Open University badge – so you should see getting a badge as an opportunity to reflect on what you have learned rather than as a test.

If you need more guidance on getting a badge and what you can do with it, take a look at the [OpenLearn FAQs](#). When you gain your badge you will receive an email to notify you and you will be able to view and manage all your badges in [My OpenLearn](#) within 24 hours of completing the criteria to gain a badge.

Get started with Session 1.

Acknowledgements

This free course was written by Martin Upton.

This course has been generously funded by the Chartered Accountants' Livery Company Charity to ensure that young people have access to personal finance learning that will enable and empower them to make the best possible financial decisions now and in the future. For more information about the charity go to [Chartered Accountants' Livery Company Charity website](#).

The course team would also like to thank the staff and students of Denbigh School, Milton Keynes for their help in the production of this course

The course and teacher's resource pack were created by leading academics at the True Potential Centre for the Public Understanding of Finance (True Potential PUFIn), a dedicated research and teaching centre of excellence based at The Open University Business School, funded by True Potential LLP. For more information go to [True Potential PUFIn](#).

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Session 1: You and your money

Introduction

Let's get started. Bobby Seagull introduces the course in the first video and outlines some of the ways your money becomes more important as you come to the end of school or college. In this session you will explore banking and saving, and why you need skills in managing your money. It's all about choosing to keep safe and take control.



By the end of this session, you should be able to:

- go about selecting a bank account, savings account and credit card
- check your bank statement
- understand the role that credit rating agencies play in your financial life
- make good decisions about phone contracts, including whether to buy phone insurance
- undertake financial transactions securely.

The Open University would really appreciate you taking a few minutes of your time to tell us about yourself and your expectations of the course. Your input will help to improve the online learning experience. If you would like to help, and if you haven't already done so, please fill in this [optional survey](#).

1 Talking points

First, watch a video of students at Denbigh School in Milton Keynes, England, talk to the Open University's Will Brambley about their experiences of managing money and their views on a range of financial issues.

Do their financial activities, their views and concerns match yours?

The video is fairly long, at 8 minutes, but it includes all the subjects that will be raised throughout the course.



2 You and your money now

How does your money reach you? Do you get it in cash or does it arrive in some other form? Do you spend time planning what to do with it? Do you stash it somewhere like a savings account or a bank? Or do you go ahead and spend the lot when it arrives? What do you like to spend it on? What do you save up to buy? Do you pay for your own phone? What about your clothes? Do you shop around before you buy, or do you spend on impulse?

The point of this first activity is to make a record of where you and your money are right now. Curb your impulse to look at the feedback before you've answered!

Activity 1 What's your situation?

Allow about 20 minutes

Have a go at answering the following questions. If you like, add your answers to the boxes in the table.

Question	Your answer
Where does the money that you spend come from?	<i>Provide your answer...</i>

Do you have a bank account ?	<i>Provide your answer...</i>
How do you access your money? Does it come to you in cash? Or do you take it out of an account, like a bank or savings account? Or do you get it via an app like goHenry ?	<i>Provide your answer...</i>
Do you have a part-time job? Do you work in school or college holidays?	<i>Provide your answer...</i>
Do you have a budget – a way to record your income and manage your spending? How does this work?	<i>Provide your answer...</i>
How far ahead do you plan your finances – a week? a month? a year? not at all?	<i>Provide your answer...</i>
If you have a bank account how often do you check that the balance is correct? If you don't yet have an account, how do you keep an eye on what you've got?	<i>Provide your answer...</i>
Do you have a savings account and do you know how interest on the account is calculated?	<i>Provide your answer...</i>
If you pay for your phone, how far do you shop around to get the best deal?	<i>Provide your answer...</i>
Who, or what, influences your financial decisions – the choices you make – especially when you're spending money on phones, computer technology and clothes?	<i>Provide your answer...</i>

Have a look at the feedback to those questions. Everyone's situation is going to be different in some way, but here we're interested in your particular financial set-up.

Feedback

Question	Feedback
Where does the money that you spend come from?	The money you spend might be given to you – as pocket money (or an 'allowance') – or you might earn it. Even if your money is given to you, it might come with expectations or requirements from your parents or guardians – for example you might have to carry out certain household chores. (We'll often talk of parents in the course but we use 'parents' while acknowledging that there are many differences between households and that those looking after you might be other members of your family (grandparents, siblings) or other guardians.) So in this sense your 'pocket money' or 'allowance' is money that is 'earned' and not just given freely.
Do you have a bank account?	Your own bank account is a key starting point to managing your finances.

How do you access your money? Does it come to you in cash? Or do you take it out of an account, like a bank or savings account? Or do you get it via an app like goHenry?	Increasingly pocket money is credited to accounts or given via an app. Parents can use an app to control and monitor how and where pocket money is spent.
Do you have a part-time job? Do you work in school or college holidays?	Many, but certainly not all, the 16–18-year-olds still at school in the UK have a part-time job.
Do you have a budget – a way to record your income and manage your spending? How does this work?	If you keep a record of your income – whether pocket money or other earnings – and a plan of how you intend to spend or save it, this is a good start.
How far ahead do you plan your finances – a week? a month? a year? not at all?	It's a good idea to be clear on your month-to-month financial position and to start to think about how your financial situation will change after you leave school or college.
If you have a bank account how often do you check that the balance is correct? If you don't yet have an account, how do you keep an eye on what you've got?	Checking your bank account regularly is important. This not only confirms how much money you have but acts as a check against possible fraudulent activity affecting your account. Even if you don't have a bank account, regularly checking how much money you have available is sensible.
Do you have a savings account and do you know how interest on the account is calculated?	If you have a savings account you should check out the interest you're paid. Changes to the rate of interest paid do occur fairly regularly. Providers of savings accounts – the post office, building societies, banks – need to notify you of changes, but it's easy to ignore their letters.
If you pay for your phone, how far do you shop around to get the best deal?	This is a good way to keep the cost of your phone down. It's so easy to do, using comparison websites.
Who, or what, influences your financial decisions – the choices you make – especially when you're spending money on phones, computer technology and clothes?	Financial influences could be your family, your peer group, social and marketing pressures, and role models. Peer-group pressure is especially influential and it can be harmful to your finances, as you'll learn later in the course.

3 Why a bank account?

By the time you're 18 it's a good idea to have your own bank account up and running. You can open a bank account from the age of 11.

Having a bank account is a key component in learning to manage your money. For example, you're already picking up financial management tips as you check your balance – this is what is left following the inflows and outflows of money that have already gone through your account. Get into the habit of doing this regularly. It can easily be done online.

If you have a job, your employer can pay your wages directly into your account.

It's possible to have earnings paid into a savings account, like a post office account, but really by the age of 18, particularly if you expect to be leaving home, you need the flexibility a bank account can provide.

What other types of account exist? There are children's savings accounts offered by banks and building societies, usually for those aged 11 to 18, and some from the age of 7.

Another form of bank account, known as a **basic bank account**, operates for applicants with poor credit histories – for example a record of poor debt management. With these, once money has been paid in, you can set up direct debits to cover bills and you can withdraw cash using a **cash card**. You can't have an **overdraft** and you can't buy things by card (no **debit card**). You can only spend money that you have in your account, and this stops you getting into debt without realising.

4 Which bank account?

The good news is that the market for bank accounts – also known as 'current accounts' – is fairly competitive, so it's important to shop around for the best deal to suit your needs.

You can use online comparison websites or the websites of consumer organisations like [moneysavingexpert](#) or [Which?](#). Note, though, that comparison websites do not always provide a full picture of the relative attractions of products. Use a checklist of your own to support your research into which account is right for you.

What should you look for?

- An account that pays you interest on your balance
- An account that enables you to make one-off and regular payments online
- If you are 18 or over, select an account with an overdraft facility to enable you to borrow funds – ideally just temporarily – when you have a shortage of money. Check carefully the fees and interest rate payable when you go overdrawn, and make sure you have a plan to get your bank account back into credit.

To choose your account apply this checklist.

- Does this account pay interest? Interest is the money that financial institutions pay periodically on the balance of money you have in your bank and savings accounts. This interest is expressed as a percentage – for example 5% per annum (p.a.), where 'per annum' means 'per year'.
- Do you get a cash card? This enables you to withdraw money from your account via a cashpoint (or **ATM**).
- Do you get a debit card? When you buy things using this, the amount you pay is deducted automatically from your bank account. A debit card can also be used to withdraw cash from your account via an ATM.
- Do you get a **cheque book**? Some trades people and organisations still require cheques to be used to pay for their services, but using cheques to buy things or to pay for bills is increasingly uncommon.
- If you are aged 18 or over: do you get an overdraft facility? If so, what is the maximum amount you can be overdrawn? What fees and interest apply to this overdraft facility?

- Are there any perks for opening the account – like a bonus paid in when you open the account, or vouchers?
- What fees could you be liable to? An example would be fees charged when you withdraw cash from your bank account while you're overseas.

Start to draw up a checklist for own circumstances now.

If you already have a bank account, which of those features and facilities do you have?

If you don't have a bank account, which of those features and facilities are essential for you?

Which are not essential but still 'nice to have'?

All bank accounts should enable you to set up standing orders or direct debits. Both enable you to make regular payments to other people or organisations or other accounts that you might have. The only major difference is that direct debits have to be set up by the organisations to whom you are making payments (on instructions provided by you). By contrast you have the responsibility for setting up, changing or cancelling standing orders.

5 How to check your bank account

A key aspect of financial management is checking your bank account. This is called 'reconciling' your account. You should aim to do this at least every two weeks, and even more regularly if you have a large number of transactions flowing through your account. The reconciliation process has three objectives.

- 1 Check that there are no odd or suspicious transactions going through the account. If there are, you need to contact your bank immediately.
- 2 Verify your current financial position so that you know exactly how much cash you have at your disposal.
- 3 Ensure that you're keeping your account in credit or, at least, not risking a breach of the overdraft limit your bank permits you to have.

The next video describes the stages involved in reconciling your account, keeping a record of transactions and checking them carefully when your statement arrives. It explains pending items and the importance of knowing the difference between the 'balance' and your available funds. Watch it carefully.



6 Staying secure

What risks do you take when you buy and bank online?

The huge growth in online transacting has been matched by a growth in fraud. Savings and bank accounts are being hacked and money is being drained from accounts.

But there are some basic rules that will keep you secure, and they're explained in this video.



7 Why a savings account?

One reason for having both a savings account and a bank account is that you can separate your finances into distinct categories.

A savings account should be used to plan for the future – perhaps the not too distant future. It enables you to build up money for major purchases like holidays or for life-changing events like leaving home.

By contrast, your bank account deals with routine, week-to-week cash management.

Another reason for a savings account is that it can pay higher interest than a bank account.

A major player in the savings market is the ISA (individual savings account). The big feature of these accounts is that interest is not subject to tax, unlike other types of savings account. (More on taxation of savings later in this session.) With ISAs all savers always get the full (or gross) amount of interest. In the past people were only allowed to save fairly small amounts each year in ISAs but in recent years, to encourage saving, the annual limit of investments has been raised substantially. For the 2017/18 tax year, the annual limit is £20,000. For so-called 'cash ISAs' the interest rate paid can be fixed rate or variable rate: you can choose the type that's best for you.

There are three special savings accounts that could be of interest to you.

- **Lifetime ISAs, called LISAs:** these can be opened by anyone aged 18–40 years. LISAs allow tax-free savings of up to £4000 per annum, with the government topping up balances by providing a bonus of £1 for every £4 saved. LISAs (which once opened can be built up only until the age of 50) are intended to help people save for their first property purchase or to help provide income in retirement. Note that you lose the bonuses and pay a charge if you withdraw the money before using it for property purchase or retirement income.
- **Help to buy ISAs** can be opened from the age of 16 by those wanting to start saving to buy their own home. You can save up to £200 a month. Once you have at least £1600 saved the government tops up your account by 25% when you buy your home. The maximum top-up amount is £3000.
- **Help to save:** this is a savings scheme for people who are working but on low incomes. Those eligible can save £50 per month for up to 4 years and get a 50% top-up (up to a maximum of £1200) from the government.

8 Do I pay tax on the interest I earn?

Given the availability of ISAs and recent changes to taxation in the UK it is very unlikely that you will have to pay any tax on the interest you earn on your savings.

As mentioned earlier, interest earned from ISAs is tax free. On non-ISA accounts you have to earn more than £1000 in interest (in the 2017/18 tax year) to be at any risk of having tax deducted from your interest earnings. Even if you do earn non-ISA interest above the £1000 threshold, you will not be liable to tax if your other income – say from a job – is low. The fact is that for the vast majority of people in the UK no interest is now paid on interest earnings.

But you might want to check if you paid income tax on interest earnings *prior* to April 2016. If you did, you can apply to reclaim tax that has been deducted. You will need to complete form [R40](#) and send it to HMRC (Her Majesty's Revenue & Customs).

9 Why different interest rates?

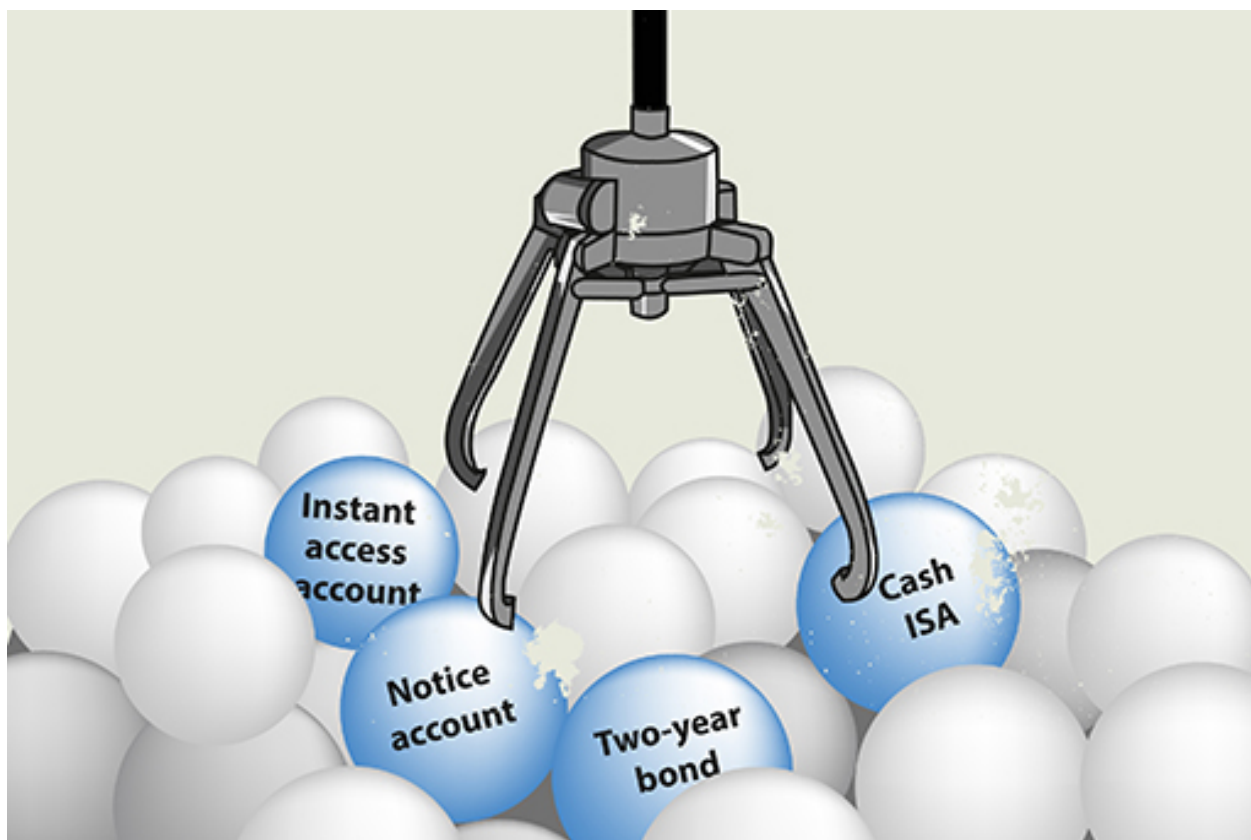


Figure 1

As you'll have realised, the many types of savings account from **banks** and **building societies** offer a mix of interest rates.

Activity 2 Reasons for difference

Allow about 20 minutes

Why do interest rates vary from one account to another? See if you can work out the reasoning from this table of savings accounts.

Table 1 Interest paid on different types of savings account

Account type	Interest tier	Gross interest (AER) (%)
Internet Savings	£1–£1000	0.5%
An instant access online savings account	£1000–£100,000	0.6%
Instant Access	£1+	0.4%
An instant access telephone savings account		

Instant Access Cash ISA A tax-free instant access account with cash card Maximum saving £20,000 per year	£100+	0.5%
Lifetime ISA Maximum saving £4000 per year	£1+	0.6%
Notice Account A 120-day notice account	£1000 – £100,000	0.8%
2-Year Fixed Rate Bond	£100–£10,000	1.2%
5-Year Fixed Rate Bond Interest paid annually	£100–£10,000	1.5%

Feedback

- You normally get a higher rate if you tie your money up for longer. So the rates on the 2-year and 5-year bonds are higher than on the other products.
- With a notice account you have to let the bank or building society know in advance (for example 90 days or 180 days in advance) if you want to withdraw savings without paying a fee.
- You normally get a higher rate on a 'notice' account than an 'instant access' account. This is because you're giving up the ability to withdraw money immediately without paying a fee for breaching the notice period.
- The rates paid on internet savings accounts are often very slightly higher than non-internet accounts because savers themselves manage the account. This reduces the costs to the bank or building society in terms of issuing a passbook or requiring branch availability to make transactions.
- The amount saved may influence the rate paid, with higher rates paid on higher balances.

So, on the basis of this information, what would be the right savings account (or accounts) for you?

Keep your eyes on the rates being offered from different savings, and be prepared to switch accounts when a better deal is on offer.

10 Calculating interest on savings accounts

Interest payments are computed on a per annum basis. This means that interest earnings are based on the length of time you keep money in your account. So, for example, in cash terms the interest for a 6-month period will be half that for a full year.

If you have an average balance of £1000 in your account and the interest rate is 3% per annum then you will receive an interest payment for the year of $£1000 \times 3/100 = £30$. The balance on your account will rise to £1030.

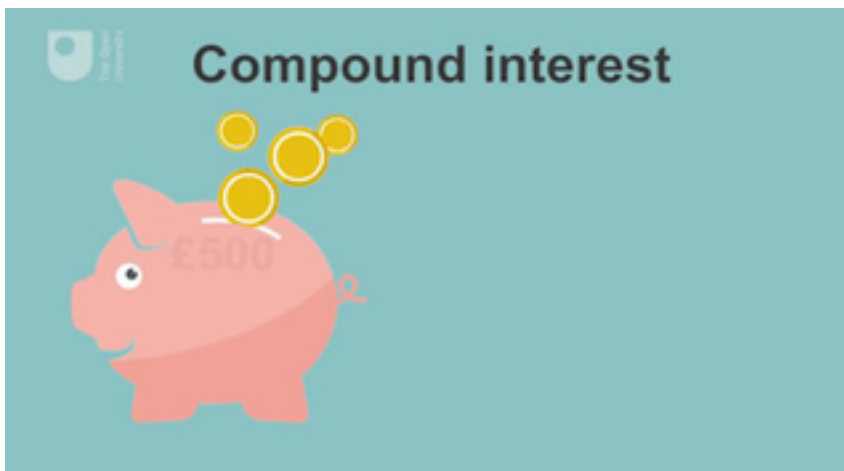
If the balance stays at £1030 over the next year and the interest rate paid stays at 3% per annum then the interest paid will be $£1030 \times 3/100 = £30.90$. This will mean that the balance on your account will rise to £1060.90.

The interest is higher for the second year because interest has been paid not only on the original balance of £1000 but also on the £30 interest earned in the first year. This process, which is very important to understand when saving or borrowing money, is known as 'compounding'. Interest that is paid on interest previously paid is known as 'compound interest'.

Some accounts pay interest monthly, some quarterly and some half-yearly. But by far the majority of accounts pay interest annually. You should check which rate applies to your account.

The interest paid to you will be based on the average balance of your account during the interest period. It is not paid on the basis of the money you have in your account at the date that the interest is computed. So if the amount of interest paid to you looks a little odd given the money you have in your account, this will almost certainly reflect the fact that the average balance is different – perhaps markedly different – from the balance of your account on the interest payment day.

The next video offers you a chance to try an example of how interest earnings build up (or 'compound') on a savings account.



This example looks at the way compounding helps build up the balance in your savings account. But remember the same process of compounding would apply if you borrow money and fail to make repayments when due. Interest charged on borrowed money is normally higher – often much higher – than interest earned on savings accounts. You can see how quickly debts can build up if people do not manage the money they borrow responsibly.

11 Alternatives to savings accounts



Figure 2

Interest rates have been very low in recent years, and especially since 2012. This is why alternatives to savings accounts are so attractive.

One alternative is stocks & shares ISAs for those aged 18+. These are different from cash ISAs. With these products your money is invested in **bonds** and **shares** issued by companies and other organisations. Bonds are also known as stocks, hence the term 'stocks & shares ISA'. The return you get will depend on how the market prices of these bonds and shares move. Bond and share prices can go down as well as up, which means that the value of your stocks & shares ISA can do likewise. Given this risk, such investments should only be considered if:

- they're for the long term (ideally at least 5 years) so that you're not left open to any short-term reduction in the value of the investment
- they form only part of your total savings and are balanced by your ownership of other investments that are low risk.

Another alternative is **Premium Bonds**. You can buy these from the age of 16. They're sometimes bought as gifts when a child is born or at certain points in childhood.

Premium Bonds require a minimum investment of £100. Each month the bonds are included in the prize draw and can win prizes of up to £1 million. All prize money is tax free. The bonds can be cashed in at any point without the need to give notice.

The downside is that the money invested in the bonds does not earn interest, so the return from the investment comes if and when you win a prize in the monthly draws. If you win no prizes your bonds will generate no earnings at all.

If prices in the economy are rising during the time you own your Premium Bonds the value of what you can buy when you cash them in will be lower than when you invested in them. This fall in the so-called 'real' value of an investment is a risk when you hold Premium Bonds as an investment.

One idea, though, could be to buy a small number of Premium Bonds and treat them like continuous lottery tickets, with the monthly chance of winning up to £1 million!

12 Your first credit card



Figure 3

When you reach 18 you should aim to get a credit card. After a bank account and a savings account, a **credit card** is the third cornerstone to personal financial management. Until you reach the age of 18 no provider will give you a credit card – in the same way that bank overdraft facilities are not available to those under 18. This is because until you are 18 you are not normally legally responsible for your debts.

It may make sense to apply for a credit card from the existing supplier of your bank account, because they will have evidence (hopefully!) of your experience in managing your bank account properly. This will help in their assessment of whether or not you should now be given a credit card.

A credit card allows you to pay for goods and services over a period of time. Instead of the cost of items being taken directly from your bank account, you receive a monthly bill – typically online – telling you the outstanding balance on the account and the minimum amount that you need to pay off this month (for example the greater of 1% of the balance or £25). It makes good financial sense, though, to pay off each monthly bill in full to avoid paying the high rates of interest that you would otherwise be charged.

So a credit card enables you to buy goods that you might not be able to afford in total over the period of a single month but that you can afford if the sum can be spread over a number of months.

All cards have a maximum balance limit that you cannot exceed. This limit will be communicated to you, and at the age of 18 you can expect the limit to be small – maybe just a few hundred pounds.

One reason for using a credit card is that it can help to build up a positive record of how you manage your money. If you use the card sensibly this positive record will help with your **credit rating** – a subject you'll explore later in this course. Mismanaging your credit card account – for example by missing monthly repayments or even just being late with them – can damage your credit rating, as well as racking up interest charges and penalty fees.

So take great care in managing your credit card account. The UK credit rating agencies will be watching you.

Now watch this video where moneysaving expert Martin Lewis talks to students at Denbigh School in Milton Keynes about the pros and cons of credit cards.



Activity 3 Good and bad uses of credit cards

Allow about 15 minutes

Work through the list and say whether – and why – each of these descriptions is a wise or an unwise reason to use a credit card. Add your answer and any notes to the table.

	Good use or sensible	Misuse or unwise
You can shop at various outlets and have only one bill to settle each month.	<i>Provide your answer...</i>	<i>Provide your answer...</i>

If you pay off the full balance each month you will not be charged any interest.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
You can use credit cards to obtain cash at an ATM.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Some cards offer inducements to use them, such as 'cashback'. This is where the credit card provider pays you back a small percentage of the money you have spent using their card.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
The interest rate applied to the unpaid balance of your credit card bill is usually very high. This adds materially to the overall cost of your purchases.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Use of the card – for example, being late with repayments – may adversely affect your credit rating.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Purchasing with credit cards can provide an additional guarantee (of reimbursement) if the goods acquired are faulty.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
You might spend more on the card than you really wanted to.	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Cards often offer a 0% interest rate (typically for a few months) on balances that are transferred to them from other credit cards.	<i>Provide your answer...</i>	<i>Provide your answer...</i>

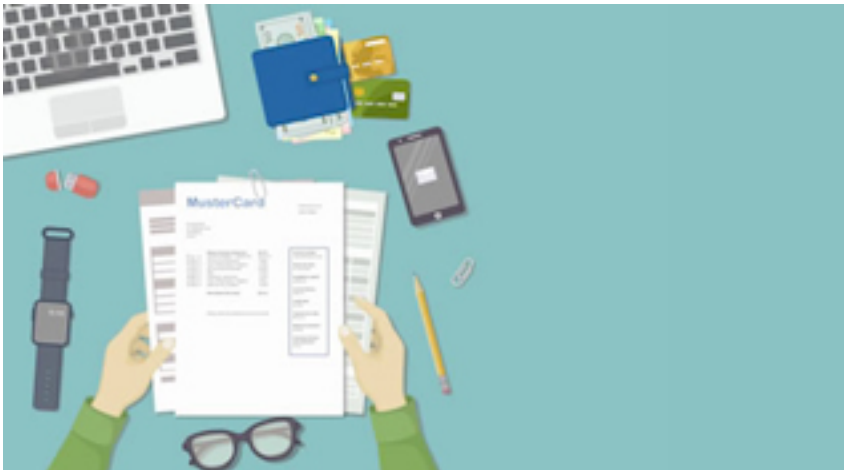
Feedback

	Good use or sensible	Misuse or unwise
You can shop at various outlets and have only one bill to settle each month.	Credit cards can be an easy way to make transactions – an easy 'transactions medium'.	
If you pay off the full balance each month you will not be charged any interest.	You can get an interest-free period of up to 2 months between the date you used the card for a purchase and the date the credit card bill has to be paid.	

You can use credit cards to obtain cash at an ATM.		You can borrow cash in this way but it's a bad idea to do so. You get charged interest from the day you borrow the cash and at a rate that can be close to double the rate charged on the balances relating to non-cash transactions.
Some cards offer inducements to use them, such as 'cashback'. This is where the credit card provider pays you back a small percentage of the money you have spent using their card.	This is certainly an advantage of some cards. It's details like this that you should take into account when choosing your credit card provider.	
The interest rate applied to the unpaid balance of your credit card bill is usually very high. This adds materially to the overall cost of your purchases.		This is a clear risk if you spend more with your card than you can afford to pay off when the bill comes in.
Poor use of the card – for example, being late with repayments – may adversely affect your credit rating.		Late payments, for example, will be registered by the agencies compiling credit files on you.
Purchasing with credit cards can provide an additional guarantee (of reimbursement) if the goods acquired are faulty.	This is one advantage of purchasing goods and services with credit cards, provided the cost is £100 or more. This is known as ' Section 75 protection', after the relevant piece of legislation.	
You might spend more on the card than you really wanted to.		Using a credit card can give you a temporary sense of detachment from the financial consequences of your purchases.
Cards often offer a 0% interest rate (typically for a few months) on balances that are transferred to them from other credit cards.	Yes (if you are careful!). Being a so-called 'rate-tart' can save you money on interest payments on your credit card balance. But you need to be careful to note when a 0% deal come to an end. An upfront fee is charged when you make a transfer, and this needs to be considered when you're deciding if a transfer will really save you money.	

13 What is the credit card statement telling me?

The next video explores what you will find on a typical credit card statement. Watch carefully so that you can complete the next activity – the last one in this session.



Activity 4 Understanding interest charges on credit card accounts

Allow about 10 minutes

The credit card statement estimates that if only the minimum amount of £25 is paid off then the interest to be added will be £23.53.

- What is this estimated figure as a percentage of the outstanding balance (less the £25 minimum payment)?
- The monthly rate of interest for balances held on the card is 1.24%. Why is the percentage much lower than the percentage you calculated in the first question?

Provide your answer...

Discussion

- The percentage is $[\text{£}23.53/(\text{£}1077.84 - \text{£}25)] \times 100$ This is $(\text{£}23.53/\text{£}1052.84) \times 100 = 2.23\%$
- This is higher than the monthly interest rate of 1.24% because it is based on the time period between the purchases made with the card and the payment date on *next* month's bill. This will be much longer than a month – in fact it will typically be closer to two months.

14 End-of-session quiz

Well done. You've reached the end of Session 1 and can take the quiz to test your understanding.

Session 1 practice quiz

Open the quiz in a new tab or window (by holding ctrl [or cmd on a Mac] when you click the link) and come back here when you're done.

15 Session round-up

In this session you've examined the first types of financial products that people make use of – savings accounts and bank accounts. You then looked at credit cards and their pros and cons. Using a credit card or having an overdraft facility will lead to a credit file being opened about your use of credit. Later, in Session 7 of the course, you'll explore in detail how the credit agencies go about their work.

You should now be able to:

- go about selecting a bank account, savings account and credit card
- check your bank statement
- understand the role that credit rating agencies play in your financial life
- make good decisions about phone contracts, including whether to buy phone insurance
- undertake financial transactions securely.

In the next session you look at income from employment – a subject that requires an understanding of income tax, tax codes and national insurance contributions. You also look at price inflation and how this impacts on the value of your income.

You can now go to Session 2.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Session 2: Earning money, understanding tax

Introduction

To start, watch the following video in which Bobby Seagull introduces Session 2, where you investigate earning your own money and paying tax.



As you start to earn an income from part-time or holiday work you'll want to understand why some of what you earn can be deducted in the form of **Income Tax** and **National Insurance contributions (NICs)**. What are these, when do you have to pay them and how do you claim back tax if you've paid more than you should?

What does the government do with the Income Tax and National Insurance that it raises? As you'll learn here, a substantial proportion of government spending is on benefits for various groups within the population. Might you be eligible for any benefits?

By the end of this week, you should be able to:

- know about the minimum wage and the other employment rights to which you are entitled
- identify the pros and cons of zero-hour contracts
- understand Income Tax and National Insurance contributions, and how these are deducted from earnings
- understand Income Tax codes and when to make Income Tax returns
- understand the basics of state benefits, their funding and how means testing works.

1 Earning while you're learning



Figure 1

In the next video Bobby Seagull talks to personal finance expert Jonquil Lowe about the issues and rights of young adults in part-time work. Whether you're already working or you're planning to work, this conversation is aimed at you.



Limits on working hours

- Under 13. You're allowed to work if your job is in television, theatre or modelling. You need to get a child performance licence from your local council.
- Under 16. You may work up to 8 hours a week between the ages of 13 and 16.
- Between 16 and 18. You may work up to 40 hours a week, but clearly you cannot work during school or college time.

Wage entitlements

National Minimum Wage entitlement starts at school leaving age, at the end of June in the school year you become 16.

National Living Wage entitlement starts at age 25 and replaces the National Minimum Wage.

In 2017/18 the rates per hour for the minimum and living wage were:

under-18 years	£4.05	National Minimum Wage
18–20	£5.60	National Minimum Wage
21–24	£7.05	National Minimum Wage
from 25	£7.50	National Living Wage

If you're in an approved apprenticeship a separate minimum wage applies. In 2017/18 the rate per hour was £3.50.

From the age of 18 you're entitled to full adult employment rights, including the right to a contract of employment from your employer.

The key thing is that your studies should come first. Why? Because they're designed to skill you up, to get you to an entry point that gives you more options than you have at present. They equip you with what you need for a great future career. At the very least, a careful balance needs to be maintained.

Activity 1 Minimum wage check

Allow about 5 minutes

What's the minimum wage for your age?

If you're working part-time look at your most recent pay slip. Are you getting paid at least the minimum wage rate that applies to your age?

Provide your answer...

[Feedback](#)

Hopefully your employer is complying with minimum wage regulations. If they're not, you need to bring this to the attention of your parents and then take it up with your employer.

2 Zero-hours contracts – good or bad?

Zero-hours contracts have featured heavily in UK media recently. Hundreds of thousands of people, particularly workers aged 16–21, are on these 'casual' working contracts. But is the so-called gig economy really useful to younger workers – particularly if they're still in education – or is it seriously bad news?

In the video Bobby seagull talks to Jonquil Lowe about zero-hours contracts.



Activity 2 Zero-hours contracts: the positives and negatives

Allow about 5 minutes

Do you have an opinion of the pros and cons of being on a zero-hours contract? The amount you can earn is clearly an important consideration. What other issues make these contracts very different from more regular employment?

Provide your answer...

Feedback

The benefit of a zero-hours contract is the flexibility to change the number of hours you work. This could help you fit the work around your other commitments. For example, as you approach exam time in the early summer months you might want to scale back your working hours to focus on revision. After the exams are over you might want to take on more hours again.

The big disadvantage of a zero-hours contract is that the employer can decide whether you get any work at all. They might not have hours available when *you* want to work. Or they might become difficult with you when you turn down the hours *they* want you to work.

Another major disadvantage is that you're unlikely to have any rights to sick pay or holiday pay.

3 Understanding Income Tax

Employee name: Mr M Smith		Visual Ltd			
Payment period	Staff reference	Tax code			
25/05/15	ABC1234567	1060L			
	Credits	Debits			
Salary	2435.50				
Expense claim (mileage 37.5p)	29.63				
Deductions					
PAYE		282.14			
National Insurance		292.26			
Pension (company scheme)		121.78			
Student loan repayment		89.00			
GAYE		20.00			
Other		0.00			
Totals	2465.13	805.18			
Taxable pay this period	Taxable pay to date	Tax paid to date	NI to date	Pension to date	NET PAY
2435.50	4871.00	564.29	584.52	243.56	1659.95

Figure 2

When you earn money by working you don't receive the whole of your wage (your 'gross' pay). Instead, you get your gross pay minus certain payments to the government. What's left is your 'net' pay.

In the UK the top two payments that come out of your **gross income** are Income Tax and National Insurance. Government's tax and National Insurance receipts fund all benefits as well as other public services and state provision (for example, state education, the NHS, police, social security, some aspects of transport, the armed services). Depending on your circumstances, your wage might also be topped up with benefits.

Some people have further deductions in the form of contributions to a pension scheme. These schemes are discussed later, in Session 8.

Income Tax is imposed – levied – on almost all types of income (it's not payable on gifts, lottery winnings, Premium Bond winnings and ISA earnings). When it's collected through an employer (when the worker is employed rather than self-employed) it's often referred to as a 'pay as you earn' (PAYE) tax.

Income Tax is paid on income that is received by you within a given tax year, from 6 April in one year to 5 April of the following year. It is the single largest source of government revenue.

In 2016/17, **Her Majesty's Revenue & Customs (HMRC)**, the government department responsible for collecting taxes, collected £176 billion in Income Tax – close to a third of all government receipts (ONS, 2017).

Watch the following video to find out more about Income Tax.



In the UK Income Tax system most people are allowed to earn up to a certain amount of money before Income Tax has to be paid. This is called receiving an 'allowance of income', and the type of allowance is called a 'personal allowance'. The personal allowance for the tax year 2017/18 was £11,500. The allowance is higher for certain groups of people, such as those who are registered blind.

The personal allowance has an income limit of £100,000, so if you earn above this limit the allowance tapers away.

Income above the personal allowance is subject to tax at three different standard rates:

- in 2017/18 the first £33,500 (after the basic allowance had been taken into account) was taxed at 20%
- above this figure and up to £150,000 of taxable income, the rate was 40%
- there was a rate of 45% on taxable incomes over £150,000.

Note that slightly different tax income ranges for these tax rates applied in Scotland.

Since 1999 Scotland has had some discretion over its Income Tax rates. There are also plans to extend discretion over Income Tax to Wales and Northern Ireland.

By taxing additional income slices at higher rates, the proportion of tax increases with income. UK Income Tax is an example of '**progressive**' **taxation** because the proportion of income paid as tax increases as a person's income increases. This tax structure helps to reduce income inequalities in the country.

4 Understanding National Insurance contributions



Figure 3

The second important deduction from gross income is National Insurance contributions (NICs). National Insurance is paid by employees and employers. Historically, it formed the basis for paying social security benefits related to unemployment, illness and retirement. It was first introduced in 1911 and gradually expanded, especially in the 1940s.

NICs from employers and employees make up the second largest single contribution to UK government receipts, at £124 billion in 2016/17 or approximately 22% of all government receipts (ONS, 2017).

The mechanics of collection are that HMRC issues each person in the UK with a National Insurance account number against which contributions are recorded. The level of contributions influences entitlement to, and in some cases the level of, certain benefits.

As with Income Tax, the rules and regulations surrounding National Insurance change regularly. In 2017/18 there was a primary threshold of £8164 per year and an 'upper earnings limit' of £45,032. On income between these limits, employees' National Insurance was generally levied at 12%. Any portion of income above the upper earnings limit was subject to only a 2% levy.

Have a go at using what you've learned about Income Tax and NICs by trying some calculations for yourself.

Activity 3 Calculating tax and National Insurance

Allow about 15 minutes

How much Income Tax and National insurance would be paid by someone earning £26,000 in 2017/18?

The Income Tax-free allowance for the year was £11,500 and the rate of tax on incomes above this (and up to £45,000) was 20%. Information about NICs is given above.

If you find it helpful, work out your answer using the following process.

Income from employment or pension		£26,000
Minus personal allowance		£
		<i>Provide your answer...</i>
Leaves taxable pay of		£
		<i>Provide your answer...</i>
Basic rate %	on £	£
<i>Provide your answer...</i>	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Tax to be paid in the year 2017/18		£
		<i>Provide your answer...</i>
Income from employment or pension £26,000		
Threshold for paying National Insurance contributions (NICs)		£
		<i>Provide your answer...</i>
NICs %	on £	£
<i>Provide your answer...</i>	<i>Provide your answer...</i>	<i>Provide your answer...</i>
NICs to be paid in the year 2017/18		£
		<i>Provide your answer...</i>

Feedback

Income from employment or pension		£26,000
Minus personal allowance		£11,500
Leaves taxable pay of		£14,500
Basic rate 20%	on £14,500	£2900
Tax to be paid in the year 2017/18		£2900
Income from employment or pension £26,000		
Threshold for paying National Insurance contributions (NICs)		£8164
NICs 12%	on £17,836	£2140.32
(£26,000 minus the threshold of £8164)		
NICs to be paid in the year 2017/18		=£2140.32

5 What's the right tax code?

Employee name: Mr M Smith		Visual Ltd			
Payment period	Staff reference	Tax code			
25/05/15	ABC1234567	1060L			
		Credits			
Salary		2435.50			
Expense claim (mileage 37.5p)		29.63			
Deductions					
PAYE		282.14			
National Insurance		292.26			
Pension (company scheme)		121.78			
Student loan repayment		89.00			
GAYE		20.00			
Other		0.00			
Totals		2465.13			
		805.18			
Taxable pay this period	Taxable pay to date	Tax paid to date	NI to date	Pension to date	NET PAY
2435.50	4871.00	564.29	584.52	243.56	1659.95

Figure 4

Understanding how Income Tax is deducted is important, but you also need to keep an eye on your tax code. This code determines how much Income Tax you pay. You will find it on every pay slip.

The code comprises four numbers and a letter – for example, 1150L.

The numbers define your tax-free allowance. You simply add a zero (0) to the end of the number, so in the example above your personal allowance would be £11,500 for the tax year.

The letter in the code defines the nature of your income. L is the most common letter in tax codes as it applies to most people who have just one job – be it full time or part time.

There are two tax forms that you will become familiar with in your working life:

P60 the annual statement of income and deductions provided to you by your employer. You will normally receive this within two months of the end of each tax year (5 April)

P45 the statement of income paid and tax deducted for the year when you leave a job (called the 'prevailing tax year'). This form needs to be passed to HMRC.

The table sets out the alternative letters used by HMRC in their tax coding.

Table 1 The different tax codes

L	You are entitled to the standard tax-free personal allowance
M and N	These relate to additional marriage allowances some people are eligible for
S	For an employee whose main home is in Scotland
T	This code applies when the computation of tax due is made more complicated – for example by earning a very high income
OT	Either your personal allowance has been used up (e.g. by being applied against another source of income) or you have started a new job and you don't have a P45 form (see above) or your employer has insufficient details to give you your tax code
K	This code applies if deductions due to having company benefits (for example a company car) or having a state pension or for tax due from a previous tax year exceed the total amount of the personal allowance
BR	All your income is taxed at the basic rate of tax (20% in 2017/18) – normally applies if you have a pension or more than one job
D0	All your income is taxed at the higher rate of Income Tax (40% in 2017/18) – normally applies if you have a pension or more than one job
D1	All your income is taxed at the additional rate of tax (45% in 2017/18) – normally applies if you have a pension or more than one job
NT	This code applies if you are paying no tax on your income. It applies to those in some categories of self-employment
W1 and M1	These are emergency tax codes (M1 if you are paid monthly, W1 if you are paid weekly). This means the tax is calculated only on the income earned in the current pay period, rather than an assessment of what you will earn on a full year. Emergency tax codes are usually updated automatically after you have given your employer your P45 (see above). You will always start a new tax year with a normal tax code, not an emergency one.

Activity 4 Working out your tax code and personal allowance

Allow about 5 minutes

If you do have a job, find the tax code on your most recent pay slip and check it against the information above. If you don't have a job, ask a friend or family member if you can look at their payslip.

What personal allowance is indicated? Use the information above to help work out the allowance being given to you.

Make a record of the code. Do you think it's correct? If you think it is not correct, what are you going to do about it?

Provide your answer...

Feedback

- If the personal allowance is less than the normal personal allowance for the year you should check why this is the case.
- If you're coded OT, W1 or M1 then you should take action to ensure that your employer has your P45 form from your previous employment. This will ensure that you're given a normal tax code and this, in turn, will ensure that you're refunded if you've been paying too much Income Tax due to the application of an emergency tax code.
- If at the end of the tax year you believe you've paid too much tax you should contact HMRC – preferably in writing – setting out your grounds for a refund. The tax office you need to contact is the one that deals with your employer. The pay slip provided by your employer might tell you which tax office is the relevant one. Alternatively you can track down the right office online.
- Keep a record of your tax code and other taxation details.

6 Do you need to complete a tax return?



Figure 5

A common question about tax is whether an annual Income Tax return to HMRC needs to be made.

If your only income comes from being employed, and from no other source, then you don't need to complete one of these. The most usual reasons for completing a tax return include:

- making money from freelance or self-employed work
- getting income from abroad
- making profits from selling property or investments.

The full list of circumstances that call for a tax return is here:

[Who needs to complete a tax return?](#)

If the HMRC writes to you asking for a return to be completed make sure you do so even if you think there's no outstanding tax for you to pay.

Hard copy tax returns must be submitted to HMRC by 30 September after the end of each tax year (as you know, tax years run from 6 April to the following 5 April).

If you're completing the return online you have until 31 January after the end of the tax year. You need to register for online submission by going to [HMRC Services](#). Failure to submit your return on time will mean that you incur a penalty.

Any outstanding tax also has to be paid and reach the HMRC's account by 31 January after the end of the tax year – so amounts due for 2017/18 would need to be paid by 31

January 2019. Failure to pay on time means that your tax account starts to accrue interest at a penalty rate – currently 2.75% per annum.

If your tax-paying arrangements indicate that there will, on an ongoing basis, be tax outstanding after each tax year the HMRC will establish a tax account for you. Under this arrangement the outstanding tax due will have to be paid in two instalments – the first by 31 July after the tax year and the second by the following 31 January. This reduces the time that the HMRC has to wait for receipt of outstanding tax revenues.

If your annual return shows that you're due a refund as a result of the overpayment of tax then you will receive this as soon as the HMRC has processed your return. You will not have to wait until a specified future date.

Two final points on tax.

- 1 Tax calculations are formulaic, not personal. You only have to pay the tax that is mathematically due. If you're owed a refund you will get it.
- 2 Don't play games with the 'tax man' – you will always end up losing!

7 Why pay taxes? Are you entitled to benefits?

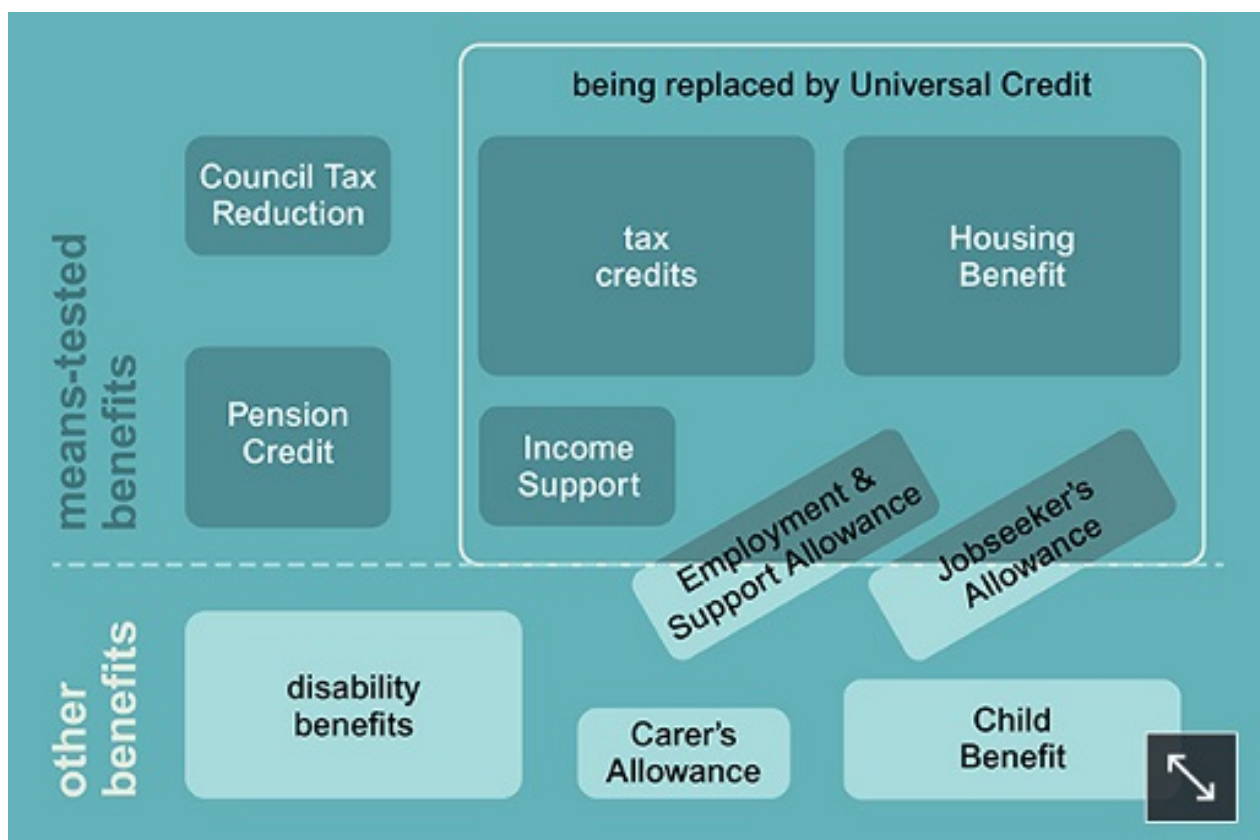


Figure 6

You've learned about Income Tax and National Insurance in some detail. There are other taxes too, such as **Value Added Tax (VAT)**, **excise duties**, **Stamp Duty Land Tax (SDLT)** and **Inheritance Tax**. All of these taxes raise revenue to pay for state benefits and services such as health, education, defence, public order and safety, protection of the environment and recreation.

Money raised in taxes goes a long way towards paying for the physical and social framework in which citizens live and work. This money is raised and spent collectively. It reduces the need for private expenditure. Without it, the costs of health, education and much of the infrastructure on which we depend for the smooth running of our lives would have to be funded entirely from private individuals and organisations. Our society would be very different.

State benefits account for a large proportion of government expenditure and represent important components of the welfare state. They have been built up in the UK over the last century or so to provide social protection against various risks such as unemployment, sickness or work injuries, and to ensure that financially poor and marginalised citizens have sufficient income.

The Conservative/Liberal Democrat coalition government elected in 2010 introduced substantial changes to the benefits system. Its strategy was to partly replace the benefit paid to the unemployed (**Jobseeker's Allowance**) and benefits paid to those in work but on low incomes (**tax credits**) with a new benefit called a **Universal Credit**. The diagram above summarises the benefits that Universal Credit is replacing. Employment & Support Allowance and Jobseeker's Allowance are being only partly replaced by Universal Credit. Other measures included restricting **Child Benefit** payments to households where neither parent is a higher rate taxpayer, placing a cap on **Housing Benefit** payments and putting an overall cap on benefits.

Until you reach 18 you're unlikely to have any personal and direct entitlement to state benefits if you're in full-time education. Depending on how much they earn, your parents may be able to receive Child Benefit for you. This is not payable to you personally. The benefit is intended to cover at least some of the costs of bringing up children.

Other benefits may be paid to your parents if they are on a low income, and these are linked, in part, to the number of dependent children they have. But, once again, any payments linked to children in a household will not be paid to you personally.

Once you become 18 or are no longer in full-time education you may gain entitlement to certain government benefits – for example to cover housing costs, or if you on a low income from work (in which case you could claim for Universal Credit). If you're unemployed you could claim for Universal Credit and Jobseeker's Allowance.

Activity 5 What's the meaning of 'means tested'?

Allow about 5 minutes

In Figure 6 some benefits are categorised as 'means tested'.
What is this about, and why is it applied to certain benefits?

Provide your answer...

Feedback

Benefits that are 'means tested' are linked to how much income ('means') a benefit claimant has. People who are considered to have sufficient income are not entitled to these types of benefit.

The two main reasons put forward for applying means testing are:

- 1 it keeps down the overall cost to the government of providing state benefits
- 2 it maintains the incentive to work. If it was possible to live comfortably on government benefits some people, at least, would be disinclined to work.

8 End-of-session quiz

Well done. You've reached the end of Session 2 and can take the quiz to test your understanding.

Session 2 practice quiz

Open the quiz in a new tab or window (by holding ctrl [or cmd on a Mac] when you click the link) and come back here when you're done.

9 Session round-up

In this session you've looked at how you can earn an income from part-time work while you're still at school. You've also looked at the deductions that can be made from gross incomes – although the likelihood is that you should have no liability to these until you move into full-time employment or, at least, work a substantial number of hours each week.

You also explored government benefits and looked at those you could become entitled to when you leave school or college.

You should now be able to:

- know about the minimum wage and the other employment rights to which you are entitled
- identify the pros and cons of zero-hour contracts
- understand Income Tax and National Insurance contributions, and how these are deducted from earnings
- understand Income Tax codes and when to make Income Tax returns
- understand the basics of state benefits, their funding and how means testing works.

To finish the session watch this video where Martin Lewis talks about his first job and a key lesson he learned that helped his future career.



In the next session you look at spending and then, by combining your expenditure with your income, you start the process of building a budget for yourself – something that is essential to ensure you keep on top of your finances.

You can now go to Session 3.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Session 3: Being a savvy shopper and building a budget

1 Talking points

First, watch a video of students at Denbigh School again talking to the Open University's Will Brambley about the financial problems they face.



2 How to manage your spending



Figure 1

You'll have spotted that your spending is sometimes on essential things and sometimes on fun items that are clearly not essentials. But what about the things that are neither of these?

Activity 1 Can't live without?

Allow about 10 minutes

How would you classify the items of expenditure listed below? Work through the list and decide which of these categories best describes each item:

- an essential
- a non-essential
- a desirable (not an essential but something you can't really do without).

Keep a record of the categories you've chosen. You might find it interesting to take a look back at these at the end of the course.

Phone	<i>Provide your answer...</i>
iPad/tablet	<i>Provide your answer...</i>
Gym membership	<i>Provide your answer...</i>
Meal out with friends each week	<i>Provide your answer...</i>
Clubbing	<i>Provide your answer...</i>
A holiday or break away	<i>Provide your answer...</i>
Christmas presents for aunts and uncles	<i>Provide your answer...</i>
Insurance for your phone	<i>Provide your answer...</i>
Daily Costa Coffee (or other brand)	<i>Provide your answer...</i>

Feedback

Phone	Essential!
iPad/tablet	Non-essential
Gym membership	Non-essential or, perhaps, desirable
Meal out with friends each week	Non-essential
Clubbing	Non-essential
A holiday or break away	Desirable?
Christmas presents for aunts and uncles	Desirable?
Insurance for your phone	Essential!? – we'll examine this later in this session
Daily Costa Coffee (or other brand)	Non-essential or, perhaps, desirable

Some suggested answers are given in the feedback, but really classifying the items of spending is a personal matter.

Most people view a phone as an essential. It's a means of wider e-communication and making transactions. Insuring your phone could be an essential cost too.

Most people would view having a break away, even if not a full holiday, as being close to an essential.

The other choices will vary from one person to another and will depend in part on what other members of your family and your friends do. The people closest to you and social pressures are very influential when it comes to financial behaviour.

What's the reason for linking your spending to what is essential and what is important to you but not essential? It's so that you develop clear thinking about where to make economies if your income is not keeping pace with your planned spending.

When you have to make cutbacks to your spending, start with the clear non-essentials. And then, if necessary, target those things that are not really essential – even though it's difficult for you to do without them. Sometimes managing money means making tough choices.

3 Your phone contract and insurance



Figure 2

There's a huge market for phone contracts. For a lot of people still at school their phone bill is their largest expense.

There are two questions that you need to ask yourself:

- 1 What should I take into account when I choose a contract?
- 2 Does it make sense to insure my phone?

Choosing a contract

Your first step: check out the contracts on offer from a comparison website. Carefully record the details on the different contracts. Often comparisons between deals are not straightforward.

Here's a checklist.

- Cost each month if you want a monthly contract, or call tariffs for a pay-as-you-go deal?
- Length of contract? Usually from 1 year to 3 years. Cost for a monthly contract falls the longer the deal you sign up to.
- Data allowance?
- Overseas tariffs (if you expect to use your phone abroad)?
- A good network? Does it have UK-wide coverage and a strong signal?
- Will you be able to use apps that will reduce the monthly cost?
- Is it worth just having a SIM-only contract instead of getting a new phone?

If you're thinking of renewing a contract with your current supplier be prepared to haggle over the new deal – and be prepared to switch if you can secure a better deal with a new supplier.

Should you insure your phone?

Buying insurance for a phone is not cheap. The cost typically varies from £5 to £15 per month.

So you need to do some 'cost–benefit' analysis.

- When you get insurance cover, what exactly are you getting cover for?
- Does this cover justify the cost?

The most basic phone insurance covers you in case your phone is lost, stolen or broken. More expensive insurance policies provide cover for unauthorised calls, accidents and phone accessories including apps and games. Protection overseas might also be included.

But policies will exclude a number of situations where you will not be covered. These are called 'exclusions to the cover'. They could include damage resulting from carelessness, theft of the phone when it was left unattended or water damage. Exclusions might also apply if there's delay in reporting your phone lost or stolen.

So before you sign up check what's in the cover and what's not.

Activity 2 Choosing a level of protection

Allow about 5 minutes

What influences would make a real difference in helping you decide whether to sign up for cover? Make a list and keep a record of what you decide.

Provide your answer...

Feedback

First, check whether you already have protection through a home contents insurance policy for the family home. If you have a bank account, check there too. Some banks and building societies offer free phone insurance to their customers.

Next, if neither of those solutions covers your phone, run through these statements to see if any applies to you.

- I have a history of lost or broken phones.
- I am (genuinely!) very reliant on the phone – and I need to be able to replace it quickly (in this case make sure the insurance contract offers speedy replacement).
- I have a very expensive smartphone.
- I could not afford to replace the phone myself.

Are you any closer to deciding whether or not to take out insurance cover? The greater the number of statements that apply to you, the more insurance cover would make sense.

4 Your biases do affect your shopping

What pressures lie behind your shopping choices?

People around you exert influences, as you know, and their opinions or their styles can have an effect on your own shopping. But there are also other influences on how you spend your money – ‘short-cuts’ in your thinking, and assumptions in the way you make shopping decisions. These are used by marketing experts all the time, and they’re called **‘heuristics’**.

We all use heuristics – ‘shopping beliefs’ – to assess situations where there’s only limited information available to us.

People sometimes pay a higher price for an item or a service they want because they think the higher price equals higher quality. So they’re using price as a mental short-cut to assess quality. But any link between price and quality might or might not exist, or at least the difference in price might not mean a difference in quality, especially when it comes to more expensive branded items.

The next video describes heuristics and how they operate in our lives. Do you recognise any of the heuristics presented here? Which ones influence your behaviour?



5 Comparison websites – not the full story

Comparison websites are a common part of making spending decisions, for example when you're looking for the best deal on a phone or a new pair of trainers or car insurance. They're also widely used to research utility services and e-services – to help choose between gas and electricity suppliers, and internet providers.

Comparison sites started to emerge in the 1990s, coinciding with the start of the internet. They're a way for customers to compare the costs and benefits of one company's products against another's. They provide a quick way to gain quotations from different organisations.

Most of them offer a choice between buying online and, less commonly, by phone. In effect, comparison sites are a form of intermediary: companies that supply the goods and services pay the owners of the comparison site each time one of their products is sold.

The strongest brands currently are:

- www.confused.com
- www.gocompare.com and
- www.moneysupermarket.com

The consumer advice organisation Which? also provides product comparisons:

- www.which.co.uk/

To offer something different, there are firms that are making a virtue of not being on comparison sites by claiming that their products are cheaper as a result, such as Direct Line.

Taking an impartial overview, the financial services regulators have raised concerns about customers not getting the level of clarity they need to make decisions about which products to buy.

However, despite these issues, comparison sites continue to proliferate and grow in use.

Activity 3 Estimate their impact on markets

Allow about 10 minutes

Think about the ways internet comparison sites affect customer behaviour, and the knock-on effect on the suppliers of the goods or services.

Now apply these ideas to the insurance market: what do you think might be the impact of comparison sites on the market for insurance products such as phone insurance?

Provide your answer...

Feedback

These websites make it easier for customers to shop around and therefore switch insurer on a more regular basis. This makes the market more competitive.

It also means that insurers are likely to have a higher turnover of customers, leading to higher costs – since it's usually less expensive to keep a customer than to gain a new one. This in turn has led insurers to look at ways of driving down their operating costs – or, in some cases, at withdrawing from these comparison sites altogether.

Another impact is that some insurers have altered the structure and terms of their products to make them appear cheaper on the comparison sites – for example by heavy discounting, but for only the first year of insurance cover. In these cases the insurers hope that inertia will lead to a good proportion of customers not moving to new insurers after the end of the 'cheap' first year.

So while the sites are convenient to use it's important that consumers remember to identify all the features and terms of competing products.

Comparison sites are a key driver for switching from one supplier to another. In this video Martin Lewis talks about the sense in being a 'switcher' instead of being a 'loyal customer'.



6 Virtual shopping – pros and cons

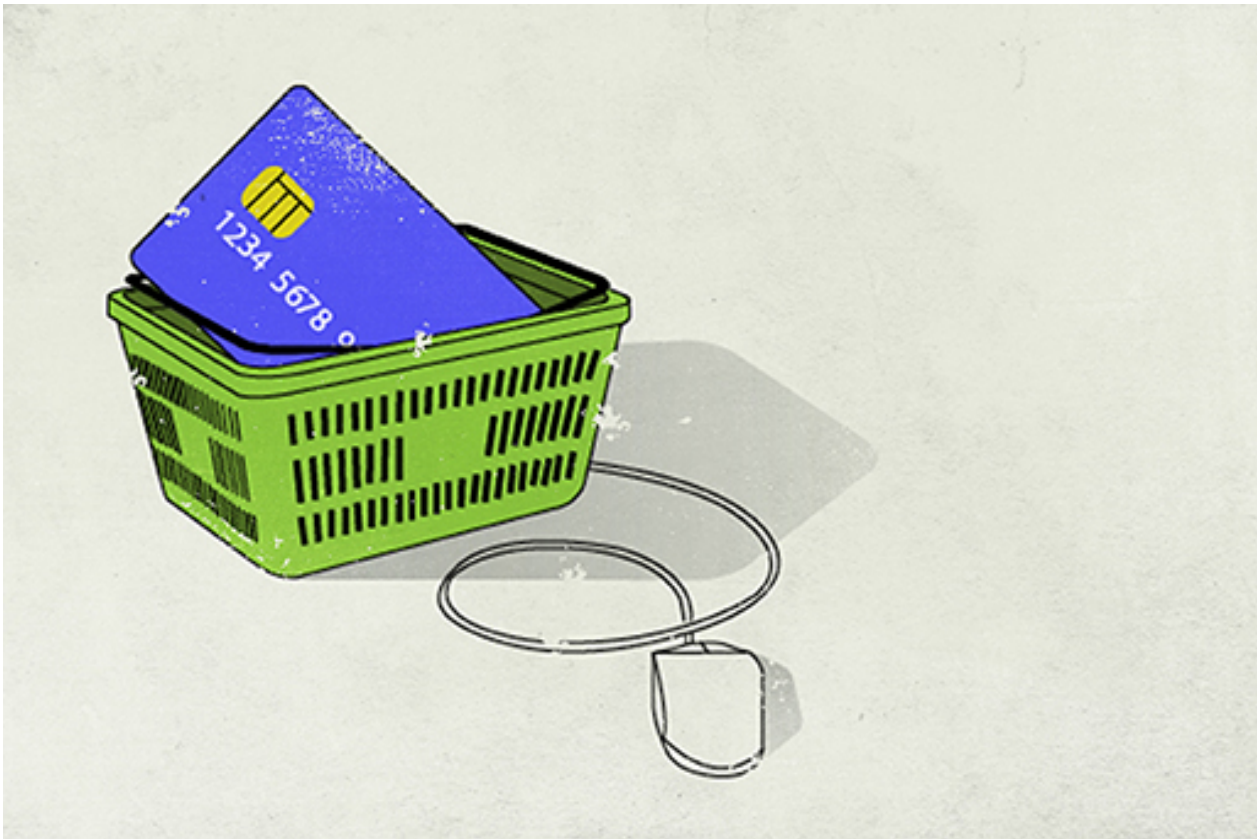


Figure 3

Online shopping provides the convenience and ability to shop around in a global marketplace. If you have access to the internet you have the chance to find the best deals. In 2016 77% of all adults in the UK used the internet to buy or order goods and services – the highest proportion for all countries surveyed (ONS, 2016).

It can also be argued that the convenience of paying online can lead to spending even more. Consumers can shop around the clock in the comfort of their home and might be more likely to make impulse buys.

Such technological changes in the way we buy goods and services are not new. There were similar effects with the shift from using cash to using cheques, and then from cheques to debit/credit cards.

The transformation that the internet is bringing to our shopping habits has been vividly demonstrated by the results of Christmas shopping periods. The UK stores that have tended to deliver the most impressive results for sales – John Lewis, House of Fraser and Next – all have huge and highly effective internet shopping systems. Among super-markets, those that perform strongly have tended to offer a good online shopping capability.

Activity 4 Spoofs and scams

Allow about 10 minutes

One major problem, though, is that shopping online exposes all of us to the risk of being defrauded by rogue sites posing as genuine online retailers. Try this test.

Have a close look at this website.

Does anything strike you as being suspicious?

Identify the features that make you suspicious of this online retailer.

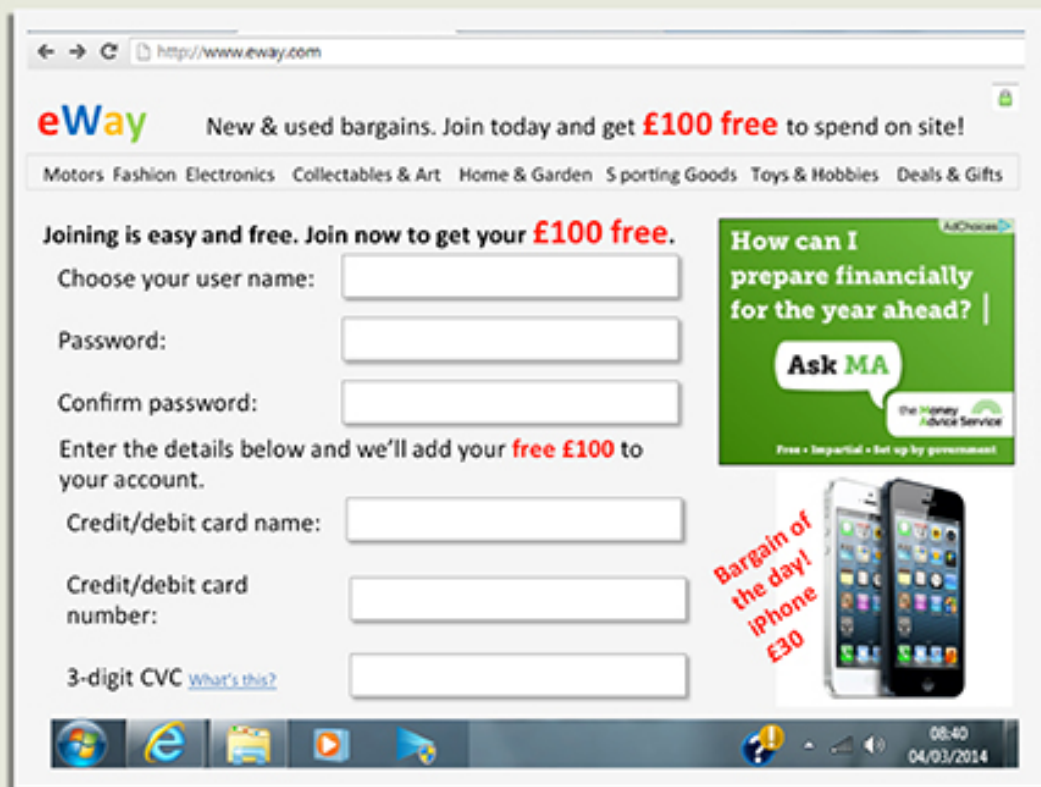
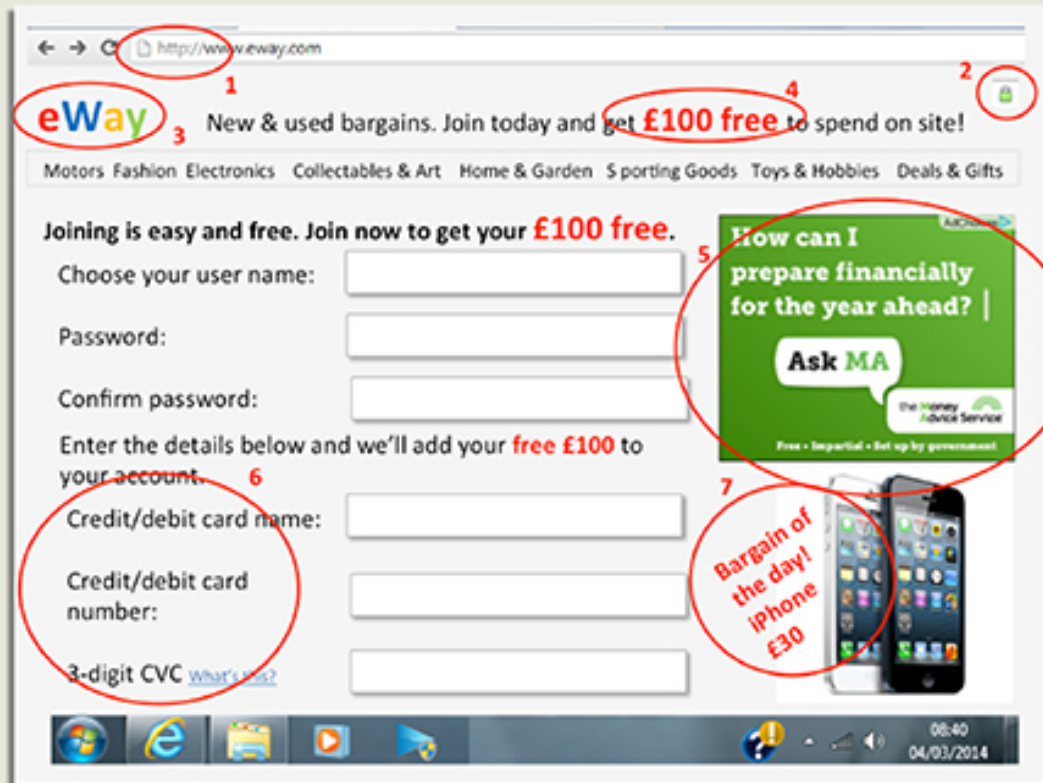


Figure 4

Provide your answer...

Feedback



The spoof website

What aroused your suspicions? You might have spotted some, or all, of the following.

- 1 This site is asking for details, like a password, that should be gathered only over a secure site. But the site address (**URL**) starts with 'http://'. A secure site's address will start with 'https://'.
- 2 Another sign of a secure site is a padlock symbol. It should appear just before the website address or sometimes in the bar at the bottom of your screen. If, as here, it appears only in the body of the website, this is an indication that it could be fake.
- 3 A name and logo that are very similar to a real website. It's designed to trick you into thinking you're on the real website or an associated company's site.
- 4 Inducements to sign up right now, so you don't have time to think carefully about what you're being asked to do.
- 5 Genuine ads from real organisations designed to reassure you that the site is a trusted one.
- 6 Collecting card or bank details over an unsecure site and unrelated to any purchase. This is the whole purpose of the fraudsters: to steal your card details and then go shopping at your expense.
- 7 If an offer sounds too good to be true, then it usually is.

You might have also noticed that there are no contact details on the site, so there's no way to find out more or to complain if things go wrong.

Here are some useful tips for consumers buying online (although many tips on buying online are the same as for buying from a shop).

- Shop around. That great deal might be on offer somewhere else – and cheaper.
- Use retailers and services you know about – or ones that have been personally recommended to you.
- A company might have a great website, but that doesn't mean it's law-abiding.
- Make sure you know the trader's full address – especially if the company is based outside the UK. The internet makes buying from abroad easy so it's important you know your rights.
- Don't assume an internet company is based in the UK just because its web address has 'UK' in it – check out the physical address and phone number.
- Take into account the shipping, postage and packing costs. Weigh them up against the parking and travelling costs you would have to pay if you went to the high street.
- Although shopping from overseas websites is relatively safe, it could be difficult to enforce your contract if things go wrong. If the item or service is over £100 consider paying by credit card. As you saw in Session 1 this provides protection if, for example, the goods you buy are faulty
- Look for websites that have a secure way of paying (known as an encryption facility) – these show a padlock, as noted above, before the web address or at the bottom of the screen when you're filling in the payment details.
- Check whether the company has a privacy statement that tells you what it will do with your personal information.
- If buying from an auction site, check the seller's reputation. Be careful. Some traders will make up accounts and post good comments about themselves. Look to see how many transactions the person giving feedback has carried out online; a number next to their name will indicate this.
- Be wary: if the price is too good to be true, it usually is.

(Adapted from ONS, 2010, p. 4, cited in Callaghan et al., 2012, pp. 109–10)

7 The reasons for budgeting



Figure 5

Managing your money is about being smart with what you've got. It's a bit like exercising and eating well to keep healthy. The skills you're learning here are equipping you with a training regime that will keep your money in good shape.

Like most people, you probably feel the pressure to spend money on goods and services – on 'stuff' and on things you like to do. And of course there are those 'invisible' bills if you contribute to the essential costs of staying alive in the first place, such as accommodation, heating, lighting, food, washing, transport.

So we need to spend money, but at the same time we all need to avoid debt, to save and to invest for the future. Why?

Why do you need to avoid getting in debt? Because debt means paying back the money you've borrowed plus more money on top. It means that whatever you've spent costs you a whole lot more than it should have.

Why save and invest for the future? Because anything you stash away now makes your life so much easier in the future.

In this part of the course you learn the process of budgeting – a technique that can help you to solve competing demands on your income. A budget identifies and adjusts the flow of your money coming in and going out – your 'income and expenditure flows'. It looks forward, to estimate and plan income and expenditure over a future time period.

So how does setting a budget help you manage your household finances?

- It helps you control spending by comparing your income with your spending.

- It helps you check that you have enough income to pay current and future bills without having to borrow.
- It enables you to plan on how to meet your goals.

Carrying out a budgeting exercise once is useful to help you to work out if your spending is under control, but budgeting is most effective when you use it as part of an ongoing process.

Earlier in this session you looked at how effective budgeting also means identifying essentials, non-essentials and desirables. It's the non-essentials that are the first to go if your expenditure is exceeding your income.

8 Budgeting when at home

You can do a budget at a very early age. Probably your first source of income was when you started to get pocket money. Whatever the source, your first income meant that you could make choices about what you wanted to do with the money. You would have been able to spend it or save it towards a future major expenditure.

By the time you get to 16 the nature of your budget will have started to change.

Activity 5 What's changed at 16?

Allow about 5 minutes

Can you think of any reasons why your budget starts to change from around the age of 16?

Provide your answer...

Feedback

By the time you get to 16 even if you remain in full-time education things are likely to change when it comes to your personal finances.

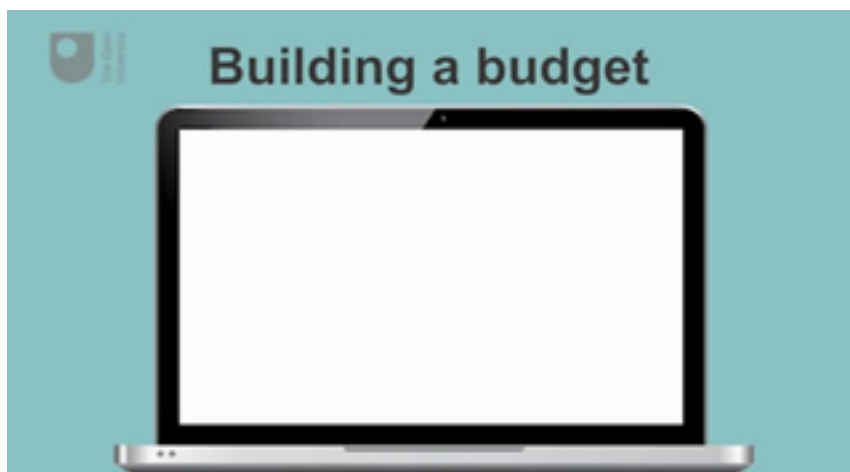
- You might be working part-time. This will give you additional money to spend or save on top of your pocket money.
- You might now be expected to take financial responsibility for items that used to be financed by your parents (such as the running costs of a phone).
- From the age of 17 you might need to meet the running costs of a car – paying for petrol and perhaps, in addition, insurance, repairs and Vehicle Excise Duty, usually called road tax. This means that your financial planning might need to cover a full year so that you can meet those larger, once-a-year, bills.
- You might be more inclined to save money towards a planned future event. This could be an end-of-school trip away with your friends. Or you might want to build up a store of savings to meet at least some of the costs of going into higher education.

So between 16 and 18 the process of running your own budget becomes more complex. There could now be multiple sources of income, some of your spending might be on meeting large annual bills (such as road tax) and you're likely to start

thinking about expenditure that will arise well beyond the current month or even the current year.

9 Building your first budget

It's time to start building your budget. Before you do so watch this short video which sets out the simple steps involved.



Activity 6 Your first budget grid

Allow about 15 minutes

Now have a go for yourself. You can either key your answers into the table below or download and complete a Word version of the budget grid.

Pay close attention to the income and spending categories.

One of the key benefits of a budget is the insights you can gain from it. When you've compiled your budget answer the three questions that follow.

Monthly income	£	Monthly spending	£
Pocket money	<input type="text" value="Provide your answer..."/>	Mobile phone cost (including insurance)	<input type="text" value="Provide your answer..."/>
Income from work (after any deductions like tax)	<input type="text"/>	Clothing/ footwear	<input type="text" value="Provide your answer..."/>
Other income (e.g. birthday presents)	<input type="text" value="Provide your answer..."/>	Travel/ transport	<input type="text" value="Provide your answer..."/>

Proceeds from sale of items (e.g. trade-in payment on mobile phone)	<i>Provide your answer...</i>	Socialising	<i>Provide your answer...</i>
	<i>Provide your answer...</i>	Presents	<i>Provide your answer...</i>
	<i>Provide your answer...</i>	Holidays	<i>Provide your answer...</i>
	<i>Provide your answer...</i>	Deposit into your savings account	<i>Provide your answer...</i>
		Other spending	<i>Provide your answer...</i>
Total	<i>Provide your answer...</i>	Total	<i>Provide your answer...</i>
Surplus income	<i>Provide your answer...</i>	Surplus income	<i>Provide your answer...</i>

- Have you got a surplus of income over spending or the reverse?
- Are all months similar when it comes to budgeting?
- What's the reason for having a contribution to a savings account as an item of monthly spending?

Provide your answer...

Feedback

- If you've ended up with a surplus of income over spending this is good news. It enables you to save more for the short term at least to cover a month where spending exceeds income. If you have an excess of spending over income you will have to draw on another source of funds (your savings account?) to cover the shortfall.
- No, each month is different. Spending should be expected to peak at key points of the year – at an annual festival that you celebrate with your community, like Christmas, or when you go on holiday. Income can expect to rise during school holidays when you can work for longer hours, or when it's your birthday.
- This is a good way to embed 'savings activity' into the management of your finances. It makes sure that you have extra resources to draw on when you make major purchases or at other times when your finances are under pressure.

To help you further develop your budgeting skills, why not try our budgeting app, [Managing my budget](#)? Get registered and then follow the details in the User Guide to get started. The guide can be found by clicking on the 'Help' button in the top-right of the screen.

Remember to return to the course after you've explored the app. You can do this by following the link at the bottom of each page.

10 Budget case studies

Before the end-of-session quiz check what you've learned about budgeting.

Activity 7 Two monthly budgets

Allow about 30 minutes

Draw up two monthly budgets for an 18-year-old who's still at school but who has a part-time job.

- Draw up the budgets for the months of December and January and identify whether there's a surplus of income over expenditure or an excess of expenditure over income.
- Explain the differences between the two months.
- What should be done to manage these variances in monthly budgets?

December budget

Income from part-time work £240

Pocket money £60

Other income £100

Spending on phone £45

Spending on clothing £60

Spending on socialising £80

Spending on presents £120

January budget

Income from part-time work £68

Pocket money £60

Other income £0

Spending on phone £45

Spending on clothing £40

Spending on socialising £60

Spending on presents £10

Provide your answer...

Feedback

December budget

Monthly income	£	Monthly expenditure	£
Income from work	240	Phone	45
Pocket money	60	Clothing	60
Other income	100	Socialising	80
		Presents	120
Total	400	Total	305
Surplus income	95		

January budget

Monthly income	£	Monthly expenditure	£
Income from work	68	Phone	45
Pocket money	60	Clothing	40
Other income	0	Socialising	60
		Presents	10
Total	128	Total	155
		Excess spending over income	27

December is clearly a month that sees more income generated and more spending too than in November.

This is to be expected. Schools are closed for the Christmas and New Year holiday for part of the month, and there's an extra demand for labour because of the season. There's greater potential to earn income from part-time employment. Income might also come in if Christmas presents are given in the form of cash from relatives.

On the other hand spending is likely to be higher too. You might buy Christmas presents and then there's the costs of socialising during the festive season.

But despite these additional costs there's still a surplus of income over expenditure for the month – caused mainly by the high part-time earnings during the holiday period.

The different outcomes for December and January (an excess of income over spending in December and the reverse in January) makes it clear that finances should be managed with a longer time frame in mind than just a single month.

Clearly the excess of income in December can be put into a savings account and then these funds can be used to subsidise those months where there's a shortfall of income relative to spending.

11 End-of-session quiz

Well done. You've reached the end of Session 3 and can take the quiz to test your understanding.

Session 3 practice quiz

Open the quiz in a new tab or window (by holding ctrl [or cmd on a Mac] when you click the link) and come back here when you're done.

12 Session round-up

This session has shown you how to compile and manage a basic budget – one suitable for you while you're still at school or college and before you leave home.

You also spent some time looking at spending and the factors that influence it. Then you explored risks and benefits of online spending.

As you reach the age of 18 and complete your school or college studies you meet perhaps the biggest change to your lifestyle in your life.

You could be about to start an apprenticeship or your first job, or you could be going on to more study. Any of these possibilities mean that your skills in managing your money will become a bigger presence in your life.

You should now be able to:

- understand the difference between essential and non-essential spending
- make good decisions about phone contracts – including whether to by phone insurance
- appreciate the behavioural biases that affect the way we spend money
- shop online wisely and without exposing yourself to scams
- understand, draw up and use a simple budget.

The next session looks at the transformation from school to life after school and the greater financial responsibilities this brings.

You can now go to Session 4.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Session 4: Preparing for life after school

Introduction

In the following video Bobby introduces the crucially important decisions you will need to address as you approach the end of your time in secondary education.



Your focus in this session is reaching that key point in your life where you decide what you want to do when your schooldays are over. Whatever choice you make, it will have financial consequences for you – especially as this is normally when wider responsibilities for financial management are passed from your parents to you.

Some of the alternatives include:

- taking a break – the so-called ‘gap year’ before starting one of the other alternatives (we’ll use ‘gap year’ even if it’s less or more than 12 months)
- going into an apprenticeship
- moving into a job and starting a career – perhaps by doing an internship (usually a short-term period of unpaid work – although employers might cover part of your travel costs)
- continuing full-time education at a college or university.

The session ends with a longer quiz of 15 questions that cover not only this session but also Sessions 1, 2 and 3. It marks your completion of the first half of the course and counts towards your badge.

By the end of this session, you should be able to:

- understand the choices available to you when you finish secondary education

- understand how you can finance further and higher education studies
- take advantage of the deals and discounts that are available for young adults
- build a more detailed budget that you can use when living away from the family home
- understand the budgetary pressures that can arise when you live away from home, and how to manage these.

1 Planning a gap year



Figure 1

Gap years are now very popular. They can involve travelling overseas and perhaps working for the funds you need to cover accommodation, living and transport costs.

Here's a basic checklist of essentials.

- Check that you're going to have sufficient funds to support yourself, particularly if you're not planning to take on paid work in your time away.
- Examine the visa requirements for countries you plan to visit, to make sure you have no problems gaining entry.
- Check that the countries you plan to visit will allow you to work temporarily during your stay.
- Take out travel insurance to cover you during your time away.

- Make sure you have a European Health Insurance Card ([EHIC](#)) – to cover all or part of the costs of medical care in European Economic Area (EEA) countries and Switzerland.
- Check that you comply with the health guidance of different countries – for example the injections you need before you travel and the medical supplies you're advised to take with you. This site will help you: [Foreign Travel Advice](#).
- Make sure that you have the means to keep in touch with your family during your time away.
- Know who to contact in an emergency in each country you visit.
- Check that your passport is not only valid for the entire period you're planning to be overseas but also that it has an expiry date *at least* six months beyond the planned end date of your travels (entry to certain countries may be blocked if you have less than six months left to expiry on your passport).

A gap year will not have a negative impact on your application to college or university or on your application for a job.

Colleges, universities and employers know that many people will be taking a gap year. In any case, you can secure a university place before starting your gap year and then simply defer starting your studies until the following academic year. If you are planning a gap year, do refer to it in your personal statement in support of your university application. And make sure you explain the reasons for taking it and the skills you're planning to develop. Also find out if there's any guidance for applicants planning a gap year in the prospectuses of the universities you're planning to apply to.

Activity 1 Pros and cons

Allow about 5 minutes

Those tips above will help, but the question has to be asked: are gap years a good idea?

What do you think are the potential pros and cons?

Provide your answer...

Feedback

There are a lot of pros. Here are some of them.

- Having a break before deciding on your next move into education or work can be a help if you're not clear about what you really want to do after leaving school. A gap year gives you thinking time.
- Travel might broaden your horizons. It might open up possibilities for where you want to study, work and live in the future.
- You can earn money – not only to support you during the year but also to give you a financial buffer if you move into further or higher education.
- The time away from home will help you develop key life skills like managing your money, making travel arrangements and even learning foreign languages. You might also learn to understand and appreciate the cultural differences in different countries.

But there are some cons. Here are a few.

- Because gap years are so very popular, you might end up being swept into one alongside your social group. The decision should be yours. It should be based on your ambitions and personal readiness.
- A gap year, by definition, means a delay in starting further or higher education.
- You'll need money, at least to begin with, even if you're planning to work during the year.
- You might find it daunting to be away from your family and overseas for a long period of time.

If you don't take a gap year immediately after finishing school you'll still have the opportunity later in life. A lot of people take a gap year later, typically after finishing further or higher education.

2 Going into an apprenticeship

In the next video Karl Digby, Careers Advisor from Denbigh School, Milton Keynes, talks about the factors you should take into account when thinking about starting an apprenticeship.



Apprenticeships combine on-the-job training with study – typically one day a week. The result is that you earn while you learn and you make a head start in your career before you reach your 20s.

You can apply for an apprenticeship while you're still at school. To start one, you must be:

- 16 years of age or older
- not in full-time education.

Apprenticeships take from 1 to 4 years to complete depending on their educational level.

Table 1 Apprenticeship levels

Apprenticeship level	Equivalent educational level in England, Wales and Northern Ireland
Intermediate	GCSE

Advanced	A level
Higher	Foundation degree and above
Degree	Bachelors or masters degree

The minimum pay level for apprentices is laid down by the government. In 2017/18 this was £3.50 per hour for those aged 16 to 18 as well as for those aged 19 or over and in their first year of an apprenticeship. After that you're entitled to the National Minimum Wage. However, many employers do pay more than these minimum wage levels. There is no upper age limit on applying for apprenticeships.

There are three steps in applying for an apprenticeship.

- 1 Search for an apprenticeship on [the gov.uk website](https://www.gov.uk).
- 2 Sign in or create your account on the site.
- 3 Complete and submit an application.

The [National Careers Service](https://www.nationalcareersservice.co.uk) has advice on writing applications and preparing for interviews.

Further help is available on the apprenticeship helpline on 0800 015 4000.

Different schemes for apprenticeships operate in England, Scotland, Wales and Northern Ireland.

- For England follow [Apprenticeships in England](https://www.apprenticeships.gov.uk).
- For Scotland follow [Apprenticeships in Scotland](https://www.apprenticeships.gov.uk).
- For Wales follow [Apprenticeships in Wales](https://www.apprenticeships.gov.uk).
- For Northern Ireland follow [Apprenticeships in Northern Ireland](https://www.apprenticeships.gov.uk).

If you think that an apprenticeship is right for you make sure you do your research. Take time to identify the best one, and make sure that it fits with your longer term career aspirations.

The growing cost of going into higher education is making increasing numbers of school leavers opt for an apprenticeship to kick off their careers.

3 Starting a career

Another route when you leave school is to move straight into work.

In the next video Karl Digby talks about the factors you should take into account when choosing your career.



The decision should involve serious planning. Here's a checklist of essential considerations.

- What is the long-term career you're looking to start?
- What training and further study is involved? And is your employer going to pay for this?
- Will the job you're looking for mean relocating from the family home? If so, are you financially prepared for this?
- Will the job you're looking for mean a significant commute to work? If so, have you researched and factored in the cost of your travel?
- Have you looked for advice? What advice have you found? Seek advice not only from the careers service at your school or college but also from people who have experience of the work you want or who have worked for the companies you're applying to.
- Have you prepared a carefully constructed curriculum vitae (CV) to support your job applications? If you've had a part-time job already, this will help make your CV attractive to prospective employers. Successfully completing an internship will help too. This is touched on below.

Working through these factors reduces the risk that your job and career choices are leaps in the dark.

Your first move into employment is one that can be reversed. Often, early in working life people change jobs with some frequency until they find the role and career (and employer) they're comfortable with. Try not to make too many moves, though, as this might not look good on your CV.

It could well be that you start your career by first doing an internship. An internship is usually a short-term period of unpaid work – although employers might cover at least part of your costs of getting to and from work. Doing an internship helps make your CV attractive to prospective employers because it demonstrates a positive attitude towards starting a career. Often, interns find that they're subsequently hired on a normal working contract by the employer.

Bear in mind that going from school straight into work does not prevent you from applying to go to college or university in the future. Universities do welcome applications from older, 'mature' people who bring with them experience of working life. If there's any likelihood of you aiming to become a mature student do make sure you retain evidence of your pay from work – ideally your annual P60 forms that detail the income earned and tax paid in

each financial year. These details will help provide proof of your financial independence from your parents and will, therefore, help you to get financial support in addition to the normal student loans to support you while you study.

4 Going on to further and higher education

For around two-thirds of school leavers, according to UK data, the next destination is more education (DoE, 2017). Generally, study for a diploma qualification will be in a college of further education, and study for a degree qualification will be in a university, but there are all kinds of different courses on offer across a range of educational providers. Since the 1980s there's been a huge increase in the proportion of school leavers choosing to go to college or university. Inevitably the cost of funding an enlarged further and higher education sector has risen too. The primary consequence is that the cost of going to college or university now falls very much on students and their families.

In this video Dan Bennett, Assistant Head of Year 13 at Denbigh School, Milton Keynes talks about factors to take into account when you're choosing universities and courses.



Annual tuition fees charged by the universities have gone up to £9,250 at the time of developing this course. On top are the accommodation and other living costs while you're at university. These can be covered by borrowing money in the form of student loans. You'll look at these loans later in the session.

Governments justify these financial arrangements on the basis that graduates end up in better paid jobs than non-graduates. They argue that the money paid for further and higher education should be viewed as an investment for the future – and therefore it's worth the cost.

But whatever the economic justification, getting a degree is a costly exercise. Students are now graduating with debts well in excess of £40,000. Looking at this figure, you'll see why understanding the cost of education after you've left school is so important.

You need to consider taking courses that will help your future career, but you also need to balance this by making sure you'll like the subjects you'll be studying.

Allow time and space to research your options, and even at this stage review the employability record of graduates of courses you're thinking of applying for.

5 Student loans – what can you get?



Figure 2

Student loans are offered to eligible students to cover the costs of education and living.

How do you apply?

The arrangements for student loans vary across the four constituent countries of the UK – England, Scotland, Wales and Northern Ireland. The scheme that applies to you is the one for the country you're resident in – not the country where your university or college is based.

What loans can you get?

All the UK schemes offer two types of student loan:

- 1 to cover the tuition fees charged by universities
- 2 to cover 'maintenance' costs – living costs, including accommodation, while you're studying.

For tuition fees, an annual maximum borrowing amount is set each year. Normally this is the amount of the highest fees charged by universities for undergraduate study. The maximum for part-time study is lower than for full-time.

Maintenance loans also have an annual maximum, although note that the maximum for a student living in the family home is lower than if they were living away. These loans are means tested by being linked to your parents' income. The higher the income the lower the loan.

Residents in Scotland

If you're resident in Scotland and you're studying at a Scottish university, your university fees are paid by the Scottish government. Bursaries and loans are available to cover maintenance costs while studying. Instead of being paid once a term as in the rest of the UK this financial support is paid on a monthly basis. As in the rest of the UK, however, the amount of maintenance loan available to you is means tested on your parents' income. Higher education finance in Scotland is set up differently from the rest of the UK, and details of the arrangements can be found on the [Student Awards Agency Scotland \(SAAS\) website](#).

When do you get the loans?

Tuition fee loans and maintenance loans are usually paid in instalments at the start of each of the three university terms in an academic year. The size of instalments for tuition fee loans matches the way that tuition fees are charged. Normally the money advanced goes directly to the university or college. This means that the only funds to which a student will have access are the maintenance loans.

The fact that maintenance loans arrive as a lump sum at the start of each term (except in Scotland, as explained above) can present a major budgeting problem for students.

Activity 2 What's the problem?

Allow about 5 minutes

What do you think are the potential problems with the whole maintenance loan arriving in one go?

What can be done to avoid the potential consequences of not managing your money?

Provide your answer...

Feedback

As you might have guessed, some students race through their maintenance loan. They go out and blow a big hole in their funds and the result is a disaster.

But there are more dangers than spending sprees like this: if you fail to spread your loan over the entire term *and* the next vacation, you will run out of money. Many students who spend freely in the first part of each term struggle to make ends meet in the later part or in the vacation. Wise budgeting means drawing on the loan in stages for each of the weeks it must cover – all of the term and all of the next vacation.

In the next section you'll look at how student loan debt can build up, and at how and when it needs to be repaid.

6 Student loans – accumulating and repaying the debt



Figure 3

Student loans do not have to be repaid in the same way that conventional loans from a bank have to be repaid. However, they do attract an interest charge from the date the money is advanced.

The interest charge is set in September of each year. The basis of the charge has varied over the history of student loans.

The scale of the loans involved, and the outstanding debt accumulated even during just a three-year degree course can be substantial.

As an example, a student living in London, who takes out the maximum annual loans for tuition fees and maintenance for the 2017/18 academic year, will borrow £9250 and £11,002. Over a three-year period their accumulated debt could exceed £60,000.

For new student loans, from the date the money is advanced until the April after you leave the course, interest is added at the Retail Prices Index (RPI) inflation rate plus 3%. This rate of interest is adjusted each year in accordance with March's RPI inflation rate.

From the April after leaving the course the rate of interest you're charged is simply the RPI rate if you earn less than £21,000 a year.

Once your annual income rises above £21,000 the rate charged is the RPI rate plus a margin of *up to* another 3%, depending on your earnings level. The top interest rate of RPI

plus 3% is applied to the student debt owed by those earning over £41,000 a year. So if the RPI rate is 2.5% per annum, for example, the maximum interest charge will be 5.5% per annum for those earning over £41,000.

Of course, adding interest to the original sum of the loan causes the total accumulated debt to build up steadily.

The crucial matter, though, is not how much you have to borrow to finance your education but how much you will end up paying back.

For those going to university from September 2012 onwards you only start to repay the loans:

- from the first April after you've left your course (or, if you study part-time, from the April four years after your course started)
- when you have an income level above the defined threshold for repayment – currently £21,000 per annum in England and Wales and £17,775 per annum in Scotland and Northern Ireland. (Note that the threshold for England and Wales may soon be raised to an annual salary of £25,000.)

The rate you repay the loans is then set at a percentage of your marginal income above £21,000 – with the current marginal rate being 9%.

So if your income does not exceed the threshold level then you will not have to make any repayments of your debt. This means that repayments of student loans are really more like a tax than conventional debt repayments for which no consideration of your income level is made.

Note that student debts are written off if they are not repaid within specified periods. For new students these currently are 30 years for England and Wales, 35 years for Scotland and 25 years for Northern Ireland.

Watch this video where Martin Lewis explains further how student loans end up being, in effect, a graduate tax with only a minority of people forecast to end up repaying the full amount of money borrowed, including the interest accumulated.



Important questions about student loans

Let's look at a couple of questions that are often raised about student loans.

If you expect to be earning above the threshold level during your working life could there be a case for simply paying off your student loan debt as quickly as possible?

This would only apply if you are certain that you would repay your student loans (plus interest) prior to the point where the remaining debt is written off. Even then you are taking a risk as a future government could write off student debts immediately – so if you repay early you would miss out. Additionally if you are replacing your student loan debt with new borrowed money you need to check that the interest rate on the new debt is lower than on your student loan debt. For most people repaying early would not be a wise move.

Does your student loan debt affect your ability to borrow other money, such as a mortgage for property purchase?

The debt will not be taken into account when determining your credit rating. Repayments on student debts are unique in being linked to your ability to repay, and this means that student loan debt is disregarded in the computation of your credit rating. However, when you apply for other loans or a mortgage your student loan commitments will be taken into account when the lender considers if you can afford to repay the money you want to borrow.

7 Other sources of income and funds for study

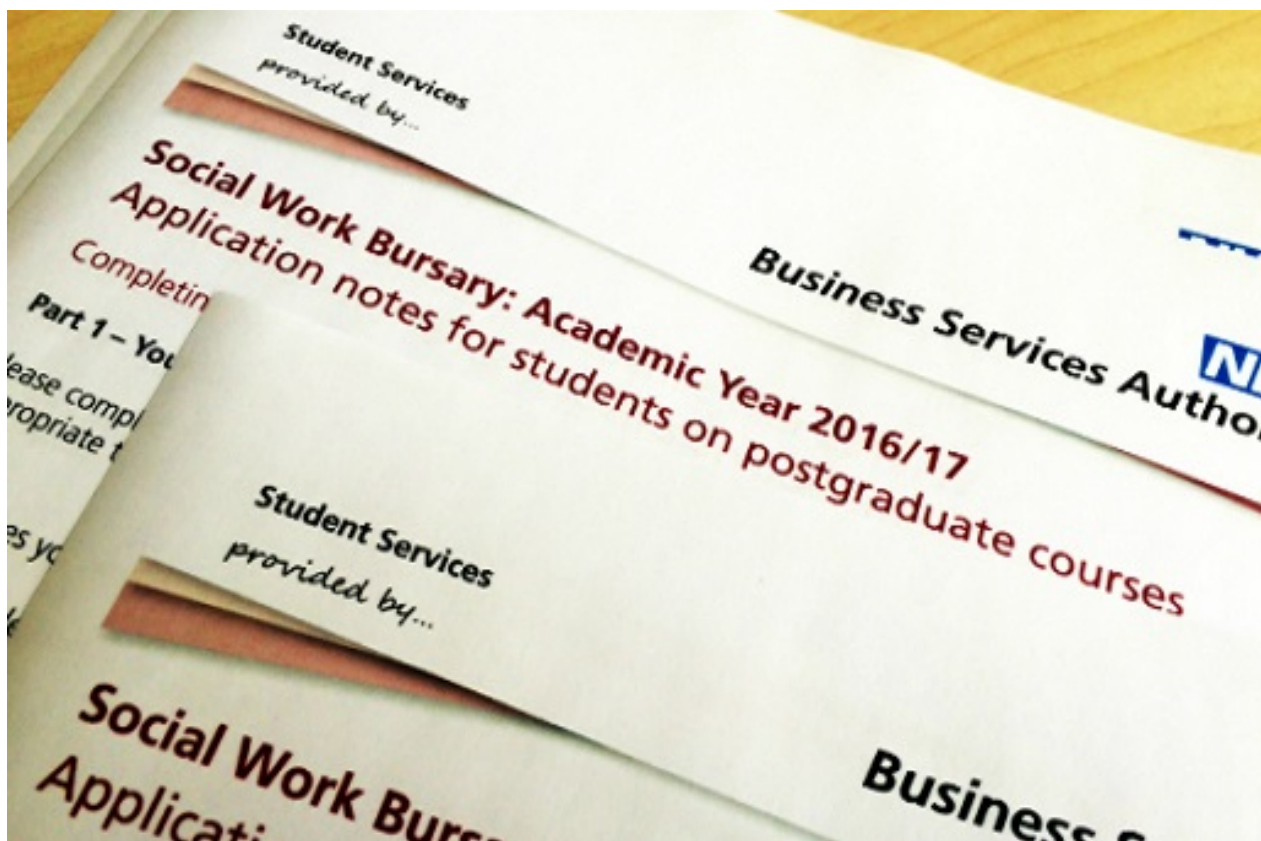


Figure 4

Although most students survive through student loans, there are other sources of funding. Two of the most obvious are:

- personal savings, often built up by working before 'going up' to university
- the 'Bank of Mum & Dad' – although the support that parents can provide will depend on their own financial circumstances.

But there are more potential sources of funds that should be researched.

Universities who charge more than the minimum fees for tuition are obliged to offer bursaries to students from low-income backgrounds. Students who are eligible do not have to repay these bursaries. Eligibility depends on household income, location and individual circumstances.

There are also grants and scholarships that can be applied for. Some benefactors are very specific about the types of student they will support, but there's wide variation in eligibility. Again, these funds are normally not repayable. A letter of thanks is recommended if you gain financial support in this way. You can check out some of the scholarships on this site: [scholarshipsearch](#). Alternatively just search online for 'student scholarships'.

Support, in the form of grants for students from low-income households, is also available from the [Educational Grants Service](#).

Some funding could be available locally in the form of bursaries from organisations or individuals. Sometimes people leave money in their wills to support education. Ask your teachers and parents, and keep an eye out in the local press.

If you go to university as a 'mature' student (aged 24 years or more) there are loans available to help with tuition costs. You can learn more from [Advanced Learner Loans](#).

Have you any opportunities to get grants and bursaries to support your studies? Take a moment now to record ideas, and follow them up. Who knows where making an enquiry or completing an application might lead? There's nothing to lose!

8 Making the most of discounts and deals

Keeping financially afloat when you're a student means being smart about spending – and about not spending.

- A 16–25 railcard will give you discounts on train travel.
- Discounts are usually on offer in the Students' Union – and usually this is the cheapest place to get a drink.
- Discounts might also be available at local retailers on presentation of your University Student Card or your National Union of Students (NUS) card.
- Some organisations provide student-specialised services where prices are lower than the equivalent product from non-specialist providers. Insurance is a good example of this.
- Food and groceries shopping in bulk with other students can trim your supermarket bills. Aim to do this when living in shared rental accommodation. More on this in the next session.
- For new copies of the books you need for your course, try to buy second-hand copies, or borrow from the library, or share with students on the same course.
- Moving to a new student bank account can help too. The banks fight for student business. There's more detail on student bank accounts in the next section.

Keep your eyes open for all the deals on offer. They can make a big difference to your living costs.

9 Upgrading your bank account

When you've been accepted on to a college or university course and have the documentation to prove it, take time to check out which bank offers the best student account. A student account is simply a bank account for someone who is a student.

Be prepared to switch to a new student account if your existing bank account provider does not match the best deal around.

Banks do compete keenly for student business. Their logic is that as future graduates and future high earners, today's students will be tomorrow's active customers who will do plenty of business with financial institutions.

The carrots that banks dangle in front of students could include:

- interest-free (0%) overdrafts (subject to a time limit for being overdrawn)
- free railcards
- discounts on rail, other travel and other goods and services
- vouchers for book purchases.

You can switch to a student account even if you've already been a student for some time. And, as is normal each time you open an account with a financial institution, you will need to provide proof of your identity (such as passport, birth certificate or driving licence) and address (such as utility bill or credit card statement).

Note, though, that you will be credit scored by the bank you apply to for your student account. If you're rejected on the basis of your credit score it's important that you access your credit file to find out the reason. As you explored in Session 1, understanding and managing your credit rating is something you need to be mindful of throughout your life.

10 Budget pressures away from home

Moving away from your family home for the first time, whether to work or to study, is the point when, if you're not careful, you might lose control over your finances.

In the next video Ellie, Katy, Olga and Jamie talk to Bobby about their experiences in dealing with money at university. As you watch, make the most of being a fly on the wall and see if you can work out the three top pressures described here.



Activity 3 Key messages

Allow about 10 minutes

What do you think are the key messages from the video?

Provide your answer...

Feedback

Three clear pressures on your budget emerge when you leave home.

- First, you'll take on wider financial responsibilities such as rent, travel costs, and the costs of food and drink. If you're studying there'll also be the costs of texts, IT equipment and other study items. Depending on your accommodation you may also be responsible for utilities costs (gas, electricity and water).
- Second, you'll come under pressure from your peer group to spend money – on membership fees for clubs and for socialising.
- Third, if you're at university your maintenance loan will be paid to you in three or four lump sums. Many people have spent money too freely when the lump sum arrives and find that their income has run out before the end of the time it was supposed to cover.

So when you're leaving home your budgeting becomes more complex and in need of robust control.

11 A budget for living away from home



Figure 5

In the next activity you get your first chance to try out the 'living away from home' facility on the budgeting app.

Earlier you explored a basic budget for living at home. Now you work with a detailed living-away-from-home budget.

The first difference is that this budget works on an annual rather than a monthly basis. This is in part because you're now dealing with much larger sums of money, such as your maintenance loan for an entire term plus the next vacation, or your deposit for a year's accommodation. Any poor decision making can have more drastic consequences. Using just a monthly budget when such large figures are at stake can risk overstating how well or how badly off you are. As a general rule you need to be careful when building spending that occurs irregularly (like the cost of holidays) into a monthly budget. An annual budget, encompassing a full academic year, gives you a full picture of your financial position.

The budget grid enables a fairly forensic analysis of the current year's financial flows (Year 1) with the option of adding summary financial forecasts for the next two years (Years 2 and 3).

It can be used for anyone living away from their family home – not just students (although only students will have cash flows relating to student loans in their budgets). The year is divided into either terms or quarters to suit your circumstances. As a full-time student you are not liable to certain costs in the budget grid, for example Council Tax. Depending on

your accommodation arrangements other costs such as water charges might not be payable either.

Expenditure is divided between essential spending (B) and non-essential spending (C), to provide a focus if there's a need to make economies.

Pay attention to the net position at the bottom of the grid (income less expenditure).

If there's an excess of expenditure over income a plan should be in place to meet the shortfall. This could mean:

- increasing income – say by working more hours part-time
- making spending cuts (focus on Section C spending)
- drawing on existing savings (if you have some)
- drawing on your bank account overdraft facility (but make sure your overdraft is authorised)
- having a fallback if none of the above options are available or if the overdraft option is prohibitively expensive ('Bank of Mum & Dad?').

Activity 4 Your detailed budget grid

Allow about 20 minutes

Have a go at filling in the budget grid. You can either add your answers directly into the table or download the Word version of the detailed budget grid.

	Autumn term or Quarter 1	Spring term or Quarter 2	Summer term or Quarter 3	Summer vacation or Quarter 4	Year 2	Year 3
Balance from previous period	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Income	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>

Student loans	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Earnings (after deductions like tax)	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Support from parents	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Other income (e.g. grants and bursaries)	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Total income (A)	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Expenditure	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Rental costs	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>

Deposits for future accommodation	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Council Tax & water charges	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Food/drink	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Day-to-day spending	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Essential travel	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Insurances	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Utilities (e.g. gas and electricity)	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>

TV/licence	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Digital technology/ phone	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Haircuts	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Medical costs/ dentist	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Total essential spending (B)	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Clothing	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>

Holidays/optional travel	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Socialising	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Presents	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Other	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>
Total other spending (C)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Outturn (= balance for start of next period) A minus (B+C)	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>	<input type="text"/> <i>Provide your answer...</i>

If you have not already accessed the budgeting app for this course during your time spend on Session 3, why don't you try it now? It will help you to further develop your budgeting skills and enables you to build a budget that fits your personal circumstances. Follow this link: [Managing my budget](#).

Get registered and then follow the details in the User Guide to get started. The guide can be found by clicking on the 'Help' button in the top-right of the screen.

Remember to return to the course after you've explored the app. You can do this by following the link at the bottom of each page.

12 What if spending exceeds income?



Figure 6

What are the options?

- 1 Do nothing and hope things get better. Things might get better (an unexpected Lotto win?), but they might also get worse (an unexpected car repair bill?). Unexpected bills are a common reason why people go into debt.
- 2 Increase income. This could be done by working overtime or by taking a second job.
- 3 Reduce total spending and change the pattern of expenditure.

Let's assume that the first approach is rejected, and that the second is not realistic for the moment. This leaves the third option – reducing total expenditure and changing the pattern of expenditure.

Although reducing total expenditure is all that is necessary to close the gap between income and expenditure, in practice this will involve changing the pattern of your spending too. This is because there are some forms of spending that are difficult to reduce and so others will have to take a bigger hit. For example, you might not be able to reduce spending on your accommodation or your travel, and so all the savings that you need to make are going to fall on the other items. It's also very hard to carry out a plan simply to reduce total expenditure. Where and in what way the cuts are to fall has to be decided in advance.

The first step involves thinking about essential and non-essential expenditure. Spending on food and housing would be defined as essential, but other items are less easily defined.

Look at the goods and services you spend money on. Which do you consider to be essential?

Where particular goods or services are seen as essential, expenditure on them can't be cut out completely. In this instance, budgeting is more about reducing the costs of these and other items, for example by buying fewer of them, or cheaper versions. Part of this process usually means careful shopping around, searching and comparing prices.

13 How to make economies on spending



Figure 7

There are so many ways to save money. Here are a few of the more common ideas from personal finance experts.

- Paying some bills by direct debit might save you money, for example utility bills. But check carefully, because the opposite is the case with some bills such as household and car insurance, which can cost more if you pay them monthly by direct debit.
- Shop around when it's time to renew insurance premiums. Premiums are often increased each year, and they rely on customers not bothering to switch to another company. Also check that you're not paying for any 'extras' that you didn't ask for and don't want.

- If you're paying high interest on your credit cards, look for 0% deals on balance transfers but check for transfer fees. If no deals are available try to pay off your credit card debt as soon as possible. If necessary use alternative, and cheaper, borrowed funds.
- Switch suppliers of gas, electricity, landline or your internet connection – although you will need to sort this out with your landlord if you're in rented accommodation. There are major savings to be had in these areas. **OFGEM** has created a website to help you [find the best deal on your energy suppliers](#).
- Reconsider your gym membership, if you have one, and look into 'pay as you go' instead. Depending on how often you go, you could save money.
- Think about whether a branded item is really value for money.
- Cut down on the number of takeaway meals you have. Cutting from two to one a week would save typically over £250 a year.
- Call your phone supplier and ask them if there's a better tariff to suit your needs.
- Buying in bulk for items such as contact lenses saves a lot of money.
- Taking packed lunches to work can save lunch costs.
- Check whether a local market is cheaper than the supermarket – particularly for fruit and vegetables.
- Turn off lights, don't leave stand-by buttons on and turn down the thermostat to save large amounts on energy bills (and help the environment) each year.
- Make a shopping list and stick to it. Try to use money-off coupons from supermarkets and other retailers, as well as those offered by papers and magazines.

14 End-of-session quiz

It's time to complete the Session 4 badge quiz. This is similar to previous quizzes but instead of 5 questions there are 15.

Session 4 compulsory badge quiz

Remember, this quiz counts towards your badge. If you're not successful in passing it you can have another go in 24 hours.

Open the quiz in a new tab or window (by holding ctrl [or cmd on a Mac] when you click the link) and come back here when you're done.

15 Session round-up

You've covered a lot of ground in this session.

You examined the variety of directions that school-leavers can take and the things that they need to know as they move into adulthood and the next stages of their lives.

You also examined how controlling personal finances through effective budgeting becomes both more important and more complex. More important because, on leaving home, you have greater responsibility for running all aspects of your life including financial management. More complex as the items on both the income and expenditure sides of

your budget grow in number and complexity. More complex, too, because as a young adult living away from home you are likely to experience social pressures that will impact on the way you live and spend your money.

You looked at the finances of going into further and higher education – studying for a degree is likely to mean accumulating a large debt courtesy of the student loans advanced to you. Getting your head around how student finance works is essential for those planning to study after leaving school.

You should now be able to:

- understand the choices available to you when you finish secondary education
- understand how you can finance further and higher education studies
- take advantage of the deals and discounts that are available for young adults
- build a more detailed budget that you can use when living away from the family home
- understand the budgetary pressures that can arise when you live away from home, and how to manage these.

To finish the session watch this video where Martin Lewis talks about the importance of being financially and socially savvy when you leave home.



When you leave home to go to university or to move into a job away from your home town the likelihood is that you will, for some time at least, be living in shared rental accommodation. This situation brings with it particular financial responsibilities and pressures. For many it is a problematic time financially as you get the hang of having your own home. So in the next session you focus on how to manage your finances in shared rental accommodation.

You can now go to Session 5.

If you are a teacher working with young adults, you might find this additional guidance for teachers helpful.

Session 5: Living in shared households

Introduction

In this video, Bobby presents the focus of this session, which is all about moving into a shared rental home.



From the age of 18 it's likely that you'll start living away from home for at least part of the year, either to study or to start a job in another part of the country. As a student, even if you spend your first year in student accommodation, you'll probably move into rented accommodation with other students at some point. For your first job, even if it's close enough for you to stay in the family home, as time moves on there's a high chance you'll want to move out, particularly if you're in a long-term relationship. Although the time line varies, and whatever the reason for your move away, there's a high chance you'll find yourself living in a shared rental with people of your own age. This means changes to your budget, and it's these changes that you focus on here.

Learning how to manage your money in a shared household is important. Getting it wrong could mess up not just your finances but also your studies and your relationships with friends and housemates. Getting it right will give you experience and confidence that will benefit you throughout your life.

Most of the examples in this session are taken from the experience of a student who's moving into shared property, but the crucial lessons concerning legal contracts and financial consequences apply equally to non-student rentals.

By the end of this session, you should be able to:

- make good decisions about choosing a rental property

- understand the financial costs of renting a property
- know what responsibilities you will have as a tenant
- understand how to deal with issues that might arise during the tenancy
- understand the impact living in a shared rental property has on your budget.

1 Finding the right property

Remember most students are offered accommodation in halls of residence in the first year of studies. So the guidance below relates to accommodation for the second and subsequent years of study.

There are some key messages for you to consider.

First of all you might need to start organising your rented accommodation for the next academic year before Christmas in the prevailing academic year. Although universities and colleges might advise – often strongly – that you should only start looking for accommodation in the spring term the reality is that many students do not leave it this late. The risk is that if you delay the best lets will already have been snapped up before you even start looking.

Next you should have a clear idea of the maximum rent you can afford to pay – this will clearly influence the choice of property.

You also must have a clear view about how many of you're going into the shared let – and who these future housemates are. The most common sizes of property for share rentals are for 4, 5 or 6 people. Properties for smaller or greater numbers of tenants are available – but they're in shorter supply and this might be reflected in the rents charged (they could be relatively expensive). Most universities have good accommodation support services and lists of available accommodation. Check out all these services before you start your search.

The next thing is to decide where you would prefer to be based. Most university towns have fairly clearly defined student areas – and it's within these that most students prefer to be based. Try to be based as close as possible to your college or university to cut your travel costs.

The next stage is to check out the accommodation on offer.

Have a checklist ready when you're doing viewings and have at least one of your future housemates with you to cross-check your findings.

One other thing to check is whether the landlord has been accredited by the university's accommodation services. This is important as it will mean that the university has done its own checks. It also means that if you have issues with your accommodation during your tenancy the university is in a position to put pressure on the landlord to resolve them.

One last point: if you find yourself in the uncommon position of not having a place in a hall of residence in the first year you'll have to go through the steps above as soon as possible before you arrive at university or college. You should make maximum use of the university's accommodation services in this situation, particularly as you're likely to be moving to an unfamiliar city or town.

If you're not a student but working in a job, most of the guidance above still applies. The timing of your move into a rental and your choice of location will all depend on your job. You might have less control over who you share with and you might find yourself sharing

with people you have not met before. In this case it's wise to meet up with your potential housemates to work out whether you'll get along together.

Activity 1 Finding your accommodation – a checklist

Allow about 10 minutes

What key things should you be checking when viewing potential rental properties?
Put together a checklist and see how many key points you can identify.

Provide your answer...

Feedback

- Is the accommodation safe? Does it have fire and **CO2** alarms? Have the gas fittings (including the boiler) been serviced and checked? Have checks for **Legionella** bacteria been completed?
- Is the accommodation secure? Are the door locks good? Is there a burglar alarm? Do the windows have locks?
- Does your own bedroom have its own internal lock? This is important if you want to get insurance cover for your possessions.
- Has the accommodation got adequate heating? Have you checked the energy performance certificate?
- Are there signs of excessive damp or infestation (mice, for example)? If there are, then the property might not provide a healthy environment for you to live and study in.
- Are there adequate cooking and other kitchen appliances? You'll need a fridge – ideally a big one.
- Is wifi available – or will you need to set this up?
- Generally is the accommodation at least reasonably well furnished, clean and well decorated?
- Has it got enough bedrooms?

2 Deposit and rent



Figure 1

So you've found the property that you and your future housemates are happy with. What happens next is that you will need to get on top of the financial obligations of the tenancy.

The first thing that you will normally need to provide, upfront, is a deposit to secure the accommodation. You need to have the money available for this. You might also be asked to supply references. Currently fees might be charged by the landlord or the letting agency for seeking these references and there might be a fee for tenancy agreement itself. However it is likely that in the near future legislation will outlaw such additional fees. So watch out if you are charged these. If applicable these non-refundable fees need to be taken into account in your budgeting. Make sure you're clear about all the fees that you may be liable for.

Your deposit might not be returned to you in full at the end of the tenancy if your landlord has grounds to make deductions. It will depend on how you and your housemates have

looked after the property. When you're placing the deposit make sure you know the reasons why deductions could be legitimately made by the landlord. Deposits are typically a few hundred pounds per tenant.

There should be an inventory describing the property, its state of repair, the functioning of appliances and any furnishings. When you pay your deposit take the opportunity to advise the landlord of any issues you spotted when you visited the property that need to be sorted out (repairs and decoration, for example). You should also ask for new appliances or furniture to be provided if your checklist has identified these needs. Remember to check if these matters have been addressed by the time you move in, and if they have not been fixed let the landlord know immediately.

You should also ensure that your landlord protects your deposit by registering it under the [tenancy deposit protection](#) (TDP) scheme. Your landlord is legally required to do this within 30 days of your payment of the deposit.

By the time you pay your deposit you will have confirmed not only the rental cost per tenant but the dates when rent has to be paid. Commonly rentals are paid quarterly (at the *start* of each quarter), but you might get a deal where the rent can be paid monthly.

Most student rentals run from the start of July to the end of the following June. So you will have to be able to put up typically a full quarter's rent for your property by the start of July. Paying rent for the summer vacation period when you're back at the family home or on holiday will feel like a waste of money – but that's the reality of student lets; they run July to June not September to June.

Once you've found the property and secured it by each paying a deposit, you enter into the tenancy agreement, which you'll explore in the next section.

Activity 2 Early budgeting challenges

Allow about 5 minutes

What budgeting problems can arise from the early financial costs of a property rental (deposit and first quarter's rent)?

Provide your answer...

Feedback

The problem is that you're having to start paying bills for accommodation for next year before you've finished the current academic year, and before the income for next year (your maintenance loan) has arrived. This can put a strain on finances. You'll need to ensure, for example, that you have the money for the deposit and the first quarter's rent. It's likely that this will be the first time you've experienced a need to manage money in this way.

3 The tenancy agreement



Figure 2

You will have to enter into a tenancy agreement with your landlord before moving in. Note that when you do this you might be dealing directly with the landlord or with the agency they use to administer their rental properties.

You and your parents should read the agreement in full to ensure that you fully understand your commitments and liabilities. If you're unsure about the meaning of parts of the agreement you can take it to your university's accommodation services to check. If you're particularly concerned, you could get a solicitor to check and comment on the agreement – although they will charge a fee for doing this.

The reality is that you might have little chance to change the terms of what are, normally, fairly standard tenancy agreements. In most university towns it's a supplier's market when it comes to (sound) student accommodation – so your landlord will have little incentive to change the terms of the agreement in your favour.

One thing to check carefully is whether the tenancy agreement is with you individually or, in any way, with you and your fellow students jointly. Avoid a joint tenancy agreement as far as possible since you could find yourself liable to costs arising from the actions of your co-tenants.

What happens if one, or more, of your co-tenants quits before or during the tenancy period? In these cases you need to check that you have no liability to cover their rental payments. Not taking up residency after signing a tenancy arrangement is quite common. It often happens when a student fails their previous end-of-year exams and does not return to university for the following year. In this case the tenancy agreement should

stipulate that it's up to the non-returning student to meet the rental payments due under the agreement unless a replacement tenant is found.

Key questions to examine in the agreement are these.

- What are the timings of rental payments?
- What happens at the end of the term of the tenancy? What obligations do you have regarding the state of the property when you move out?
- What are the arrangements and timings for the repayment of the deposit? And what might the landlord charge against this deposit? It's common for students not to get all their deposit back. Landlords might even deduct the cost of replacement light bulbs (to deduct a sum in this way is to 'set off' against the deposit).

There are two other important matters.

- You will almost certainly need to provide a guarantor of your financial responsibilities. Your guarantor will have to complete the paperwork specifying the terms of this guarantee. They might have to provide proof – financial statements – that they have the resources to meet any possible obligations arising from the guarantee. So even ahead of identifying the property you want to rent make sure that your parents (or alternative guarantors) are warned about this.
- Your landlord, or the agency they employ, might need to obtain proof that you and your co-tenants have the right to be in the country. Note that this requirement only applies to certain parts of the UK and is your landlord's responsibility. It's not your responsibility, although in completing the task your landlord might require certain details from you. It's more likely that your landlord will deal directly with your university if there is a need for the checks to be made.

Activity 3 Guarantors – why do you need one?

Allow about 5 minutes


Why will landlords usually require guarantors when you enter into a tenancy agreement?

Provide your answer...

Feedback

Most students are not well off. Without guarantors the landlord is at greater risk of rent not being paid when it's due. With a guarantor in place a landlord can obtain financial redress if a student fails to pay the rent themselves.

4 Shared bills and a household bank account



Your Credit Card Account Statement

PAYMENT INFORMATION

New Balance:	\$ 3663.23
Your Minimum Payment:	\$ 36.63
Your Minimum Payment Due Date:	May 24, 2015

Estimated time to pay

The estimated time to pay your New Balance in full if you pay only the Minimum Payment each month is 2 year(s) and 4 month(s).

SUMMARY OF YOUR ACCOUNT

Previous Statement Balance:	\$ 2654.48
Payments:	\$ -2654.48
New Purchases:	\$ 1957.24
Balance Transfers and Access Cheques:	\$ 1200.00
Cash Advances:	\$ 500.00
Interest:	\$ 0.00
Fees:	\$ 5.99
Subtotal	\$ 3663.23
Your New Balance:	\$ 3663.23
Credit Limit:	\$ 9000.00
Cash Advance Limit:	\$ 500.00
Credit Available:	\$ 5336.77
Cash Advance Limit:	\$ 0.00
Statement Closing Date:	April 30, 2015
Days in Statement Period:	30
Annual Interest Rate for Purchases:	19.99%
Annual Interest Rate for Balance Transf. and Access Cheques:	2.50%
Annual Interest Rate for Cash Advances:	19.99%


Statement Period:
From April 01, 2015
To April 30, 2015

Account Number:
9999 99XX XXXX 1234

Primary Cardholder:
Yourname Yoururname

Ways to Pay:
Online Banking
Telephone Banking
ATM
Pie-Authorized Payment
By Mail To:
YourBank
P.O. Box 1234 Section Z
BankCity, NY, 98456

Contact Information:
www.websitename.com
Customer Service/Lost or Stolen
1-888-123-4567
TTY/TDD
1-888-123-4567



Payment Slip

PAYEE FIRSTNAME LASTNAME
PAYEE ADDRESS:
99 STREETNAME
CITYNAME, ZIPCODE
STATE, COUNTRY

Account Number: 9999 99XX XXXX 1234
Your New Balance: \$ 3663.23
Your Minimum Payment: \$ 36.63
Your Minimum Payment Due Date: May 24, 2015

Amount you're paying:

999 999 999 99999 999 9999 99XX XXXX 1234 XX

Figure 3

Some shared households set up a separate bank account for settling the bills.

This can be very useful: each utility service and other essentials (gas, electricity, water, internet) is normally set up in the name of just one of the tenants, so a household bank account helps make sure everyone contributes fairly when it comes to paying the bills for these services.

The account can be used to settle these essential bills using through direct debits or standing orders. It can be also used to settle general household costs, for example cleaning materials.

It's probably best not to use the household bank account as a way to settle the rental payments. Each housemate should settle these direct from their own accounts, given that each has entered into their own agreement with the landlord.

To pay for these outgoings each person in the shared tenancy would be required to pay in a monthly amount to cover their share of the joint costs.

At the end of the tenancy any funds left in the account can be shared between the tenants. If there are any shortfalls on the shared costs, make sure that the individuals concerned are chased and the money secured before people leave at the end of the year.

Ideally the household account should have at least two joint signatories, who can access details. This means that the responsibility of looking after the account is shared and there's at least a second pair of eyes monitoring movements on the account.

Once the tenancy has ended and all sums of money into and out of the account have been resolved properly the direct debits and standing orders can be cancelled and the account closed.

Activity 4 A joint account – pros and cons

Allow about 10 minutes

You've read about the advantages of having a joint household account. Now unpack this idea by comparing the pros and cons. Draw up a set of benefits and downsides and see which list – the pros or the cons – is longer for you.

Provide your answer...

Feedback

A household bank account is a way of ensuring that all the shared costs arising during a tenancy are dealt with simply and fairly. It avoids the need to gather in money from each housemate on a bill-by-bill basis.

The potential downside is the bank account holder(s) will have to keep a check on the account and might, at times, have to chase housemates to ensure they pay into the household bank account.

Watch out for disputes too when it comes to shared costs. For example if a housemate is away from the property for a time (for example on a field trip related to their course) they might feel that they are due a reduction in shared costs for not being in the property for the same amount of time as others.

In some ways your views on this method of paying joint bills will depend on your own experience of personal finance so far.

5 Moving in and taking control



Figure 4

What are the things you need to do as soon as your tenancy starts? Regardless of whether you actually move in properly, these are the immediate priorities.

- Take notes and photos of pre-existing issues (any cracked or broken windows, damaged furniture, damaged items in the kitchen, bathroom and toilet). Immediately advise your landlord of these issues to make sure that you and your housemates do not end up paying for them to be fixed.
- Take meter readings and send these to both the utility firms and your landlord. Again the key thing here is to ensure that you pay only what is due to be paid by you, and not someone else's gas or electricity bill. You should supply meter readings throughout the tenancy so that you're not paying for utility bills on the basis of estimated consumption. If use of gas or electricity, for example, is under-estimated you'll get a nasty surprise when you get your final bills at the end of the tenancy. Remember, too, that utility bill payments will need to be paid through the summer even if you're not living in the property.
- Locate all the manuals on how to operate equipment and appliances (particularly the boiler and kitchen equipment). You might find that some of the items are within the period of their manufacturer's guarantee, which could help if an appliance breaks down.

Those are the absolute essentials to keep you safe. But there are some other actions you need to take, or things you need to check, from the start of the tenancy or even, ideally, before your tenancy starts.

- Check that the local council knows the property is a student house. As a student you don't pay Council Tax, but your council might not know who you're. You can do this online on the local council's website. Anyone living in the house who's not a student will pay Council Tax on a pro-rata basis but students will pay no part of that bill.
- Charges by water companies may be covered in your rent payment. Check if this is the case. In Scotland students are, in any case, not liable to such charges.
- Do you want to take out contents insurance? Does a parent's insurance policy cover, for example, your bedroom and its contents? Insurance cover can be expensive. Does your room have a lock fitted? If not, could one be fitted? Perhaps a desk or a wardrobe might have a lock fitted? You can mark valuable items like your laptop using 'invisible' marker pens to identify them as yours. Take care at the time you move in, when it's so easy to leave doors unlocked while you're distracted. If you own an iPhone and you lose it, there's a free service ('find my iPhone') to help locate it.
- You need a TV licence for the whole property (not for each person) even if you're only accessing channels on your laptop or tablet or other device. See if you can all save money and get a discount by proving that the property is empty during the summer months.
- Who's responsible for buying light bulbs, toilet rolls and cleaning products? It's probably the tenants, not the landlord.
- Do you have a vacuum cleaner? This should be supplied. At the end of the tenancy the cleanliness of your property is going to be checked.

Once you've moved in you might also want to check price comparison websites for utility services and wifi. If you find that you can get better deals contact your landlord first rather than going ahead and switching services. Your landlord might have agreements for these services and you might not be able to alter providers yourself. But even if you can't switch to get better deals yourself, you can ask your landlord to do so for you.

Activity 5 Reading meters and avoiding shocks

Allow about 5 minutes

Estimated bills for gas and electricity in rented properties can turn out to be very inaccurate. Why do you think this is?

Provide your answer...

Feedback

Estimated gas and electricity bills are based on past consumption of these services. If the previous tenants had a lower consumption than you and your housemates then your bills will be under-estimates. This could happen if, for example, the winter months turn out to be colder than normal during your tenancy. Submit regular meter readings to avoid getting a shock with a big bill or two.

6 Resolving issues



Figure 5

What could possibly go wrong??

At some point in your tenancy of a rental property there will be issues that you need to resolve. This is all perfectly normal and it would be unusual for everything to go smoothly all of the time.

The general rule is to record dates and details of any matters that arise and report them to your landlord or the letting agent immediately.

The most urgent attention should be paid to anything that affects your health or security in the property.

- Any break-ins to the property should be reported to the police as well as the landlord. Check who has to bear the cost for repairs to doors or windows or for replacement locks if these are needed after a break-in. You must also report unsuccessful break-ins, where there's evidence of an attempted entry to the property.
- Damage to the property that heightens the risk of break-ins should be addressed. So broken or cracked windows need to be sorted out as a matter of urgency as well as any problems with door locks.
- Any infestations (mice or other rodents; wasps' nests) require quick action as there's a potential adverse effect on the health of tenants. You can do a lot to keep down the risk of infestation by keeping the property clean and tidy, disposing of rubbish promptly and keeping all food properly stored (not left out on kitchen tops!).

- Wear and tear to the property, such as a leaking roof or guttering, must be reported immediately to the landlord. Aside from the impact such things have on the fabric of the building there's the discomfort these might cause you.

What should you do if appliances and equipment stop working? If you've followed the checklist for moving in, you'll have located any instructions and guarantees. Clearly if the boiler breaks down you need to act immediately as otherwise you might be without heating and hot water. If kitchen equipment breaks, then again prompt action is called for. You need to be able to cook meals and keep your food refrigerated.

One other matter common to student lets is mould on the walls – particularly in bathrooms. If the mould issue is particularly bad or persistent then you need to get the landlord to take action. Bad cases of mould can cause respiratory problems for some people and should never be left untreated.

Keep a record of all the details of the actions your landlord takes to resolve issues, and the timeliness of their responses. If you feel that the landlord is not meeting their responsibilities under the tenancy agreement you should tell them. A further step if the landlord is particularly unhelpful is to make a report to the university's accommodation services – particularly if your landlord has university accreditation.

Don't panic if matters arise – they commonly do. Keep notes and act promptly.

7 A budget for shared rentals

It will be abundantly clear to you that living in a shared property changes the things you have to budget for and can have a material impact on your finances. In this video you'll see students Katy, Olga Ellie and Jamie explore these issues as they talk with Bobby about their experiences of living in shared rentals.



Activity 6 How will your budget change?

Allow about 10 minutes

Take a look back at the budget in Session 4 and make a list of all the ways your budget will change because of living in shared accommodation.

What financial benefits can arise from living in a shared rental? Think in terms of different criteria – factors such as financial savings, or useful financial learning experiences, or ease of budgeting.

What possible financial risks to your budget could arise from living in a shared rental?

Provide your answer...

Feedback

- The items on the spending side of your budget will change.

You will be likely to have responsibility for utility bills (gas, electricity and possibly water too), wifi bills and a share of the TV licence cost. When you live at home or in a student hall of residence you have no liability for these.

You might be more inclined to pay out for contents insurance than when you had a room in a (secure) hall of residence. You'll have to pay for more cleaning materials, and you'll have to do the cleaning yourself as landlords do not normally provide cleaners! Taxi costs are likely to rise because you'll probably be living further away from the places you go to in your social life, such as clubs, the student union and cinemas.

- The main benefit is that your rent for a shared tenancy is usually lower – often much lower – than for a place in a hall of residence. This provides the financial scope for you to meet those bills that fall to you in a shared rental. Other financial benefits can include shopping and cooking together through bulk buying and sharing foodstuffs. Beware, though: good intentions to shop and cook together at the start of the year might fall into disarray – particularly if people feel that jobs are not shared fairly.

On the costs side of your budget you could get an unexpectedly high gas or electricity bill, or you might have to buy something like a TV that the landlord is not obliged to provide. There might be repairs that you, rather than your landlord, must pay for. The reality is that virtually all households – and not just student households – find that some unexpected bills arrive each year.

8 Towards the end of the tenancy agreement



Figure 6

As you move towards the end of your year in a student property there are certain matters you need to be prepared for.

Your landlord or the agent will be showing round prospective tenants for the next year. Sometimes the landlord can expect you to do the tour of the property on their behalf. This can actually start quite early in your year in residence. The peak time for viewings is January and February. Make sure you store away securely your valuable items in case you're out at the time of a viewing.

The prospect of your landlord turning up at short notice should be an incentive to keep your property clean and tidy. Your landlord might make checks on the property at other times too.

Keep your notes of all the issues you raised with your landlord during the year and whether the issues remain unresolved. When you leave take some final photos for evidence of how you've left the property.

When you leave there'll be a final inspection and this will determine how much of your deposit your landlord feels should be returned. Be prepared for deductions from your deposit if the landlord decides that additional cleaning is necessary or where repairs and replacements have to be made as a result of how you looked after the property. Be ready to be charged for replacing light bulbs. The costs will include the cost of the bulbs but also

the cost of fitting them. There is one reported case where a tenant was charged £109 for the replacement of a £3 light bulb.

If there are no disputes between you and your landlord about any deductions you should receive your deposit back (net of any deductions agreed) within 10 days.

If deductions from the deposit are disputed take up your case with the tenancy deposit protection (TDP) scheme.

So to help avoid a financial shock when you move out: prepare carefully, checking all lights and appliances, and keeping a good written record of property matters supported by photos. Be aware that some landlords will not only refuse to return any of the deposit but will also submit a bill for the cost of extra remedial work needed at the end of the rental. At the very least many former tenants experience a long delay before they get their deposit back.

9 No longer a student



Figure 7

As you complete your studies your status changes once again. This in turn brings changes to some aspects of renting accommodation and the bills you'll pay.

The date on which you normally cease to be an undergraduate student is 30 June in the academic year that you complete your degree.

If you aim to rent a property the likelihood is that you will need to enter into a 6-month tenancy agreement, with the opportunity to renew the rental at the end of the 6-month period subject to agreement with the landlord. Rent will now normally become payable monthly rather than quarterly.

To secure such a rental you will be asked to supply details of your occupation and salary. Importantly you will need to declare if you're on a probationary term for the post and whether the post is permanent or has a fixed-term, such as a contract of 12 months. Being on a fixed-term contract might make it difficult to secure a tenancy, given the risk that you might end up unemployed before the term of the tenancy finishes.

As a non-student you will become liable to all Council Tax and other property-related charges, including water bills. So you will need to budget for these charges. You might, though, get some relief from Council Tax if you're the single occupier of a property.

If all this seems daunting then remember that if you're in full-time employment your income will exceed what you received as a student. Your financial commitments might be increasing but so should your financial resources.

10 End-of-session quiz

Check what you've learned this session by taking the end-of-session quiz.

Session 5 practice quiz

Open the quiz in a new window or tab then come back here when you've finished.

11 Session round-up

To end this session, watch the following from Bobby.



This has been a session with a single focus – the financial realities of living in shared rented accommodation. Even if you don't go on to college or university after school it's fairly likely that at some stage of early adulthood you'll be in a house share.

Be alive to the reality that during a house share there will be issues that you'll have to tackle and resolve.

- A number of things (hopefully only a small number) are likely to go amiss with the property – perhaps a breakage of a piece of furniture or the malfunction of a kitchen appliance. This is just the way life goes.
- Tensions in the relationships between some housemates are common even if everyone was best friends at the start. This can happen simply through living life together at close quarters, often in accommodation that might not be spacious.
- Some surprises might occur that affect people's budgets – perhaps a larger than expected heating bill due to a cold winter or a breakage that has to be paid for.

The information and checklists in this session should help you face any glitches when you're in a house share and help to keep your finances in order.

You should now be able to:

- make good decisions about choosing a rental property
- understand the financial costs of renting a property
- know what responsibilities you will have as a tenant
- understand how to deal with issues that might arise during the tenancy
- understand the impact living in a shared rental property has on your budget.

You can now go to Session 6.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Session 6: Understanding debt and how to borrow wisely

Introduction

In Session 4 you explored the first type of borrowing that many young people have direct experience of – the student loans used to finance further and higher education study.

In the video Bobby draws together the themes of the session. In this and the next session you'll explore other types of borrowing that people use, including loans for cars and mortgages for property. You'll look at the different types of lending institution too, including the ones to avoid!

The build-up of personal debt is a controversial subject. Some people unfortunately find they cannot afford to repay their debts – or, at least, cannot repay them on time. But for the vast majority of people, debts are manageable and the money borrowed is used to buy things that simply could not be afforded from savings.

In this session you look at what's involved in borrowing (and repaying) money, at how interest rates work, at the financial institutions that are involved in setting rates, and at how debt can be used sensibly to support your goals and aspirations.



By the end of this session, you should be able to:

- understand who you can borrow from and what debt products are available
- know when borrowing is sensible and when it is reckless

- understand what determines the cost of borrowing money
- understand the ranking of debt products in terms of the interest rate charged.

1 Borrowing – when and why?



Figure 1

Debt arises when you borrow money. There are many forms of borrowing – from credit card debt to bank overdrafts, bank loans, student loans to finance further and higher education, and mortgages to finance the purchase of property or land.

Debt can be used to finance everything from day-to-day spending, to holidays and to items you use over a number of years, such as furniture, cars and homes.

Since 1993 in the UK the aggregate (total) value of personal debt has risen 3.5 times to a total of £1.51 **trillion**. The majority – around 88% – is **secured debt**. This is money lent against the security of property or other assets. The lenders can take possession of these assets if the borrower fails to repay the money.

Interest rates are an important part of the cost of borrowing. The UK has seen some dramatic swings in interest rates in recent decades – from the highs of the early 1980s to the historic lows we're currently witnessing. Understanding what determines the interest rates is important when it comes to the financial planning associated with borrowing money. You'll look at the factors that affect interest rate levels later in this session.

Activity 1 Why has personal debt risen so much?

Allow about 5 minutes

Can you think of any factors that have contributed to the huge rise in personal debt in recent decades? If you can come up with more than one factor, which one do you think has had the greatest impact?

Provide your answer...

Feedback

The chief factor has been the rise in house prices. The vast majority of personal debt is accounted for by mortgages used by people to buy property. Rising house prices have pushed up the amount people need to borrow to buy a home.

A further factor has been the proliferation of debt products – including credit cards and store cards. These have all made it easier for people to get into debt.

2 Debt – some basic facts



Figure 2

When someone acquires a debt the money they have to repay to the lender consists of three elements.

The amount originally borrowed. This is normally referred to as the principal sum, or sometimes the capital sum. Let's say £10,000 is borrowed for 5 years to buy a car. How will this be repaid? There are two usual ways to repay the principal sum (the £10,000): either in one amount at the end of the term of the loan (five years), or in stages over the life of the loan. The first way is often referred to as an 'interest-only loan' and the second a 'repayment loan'. In the first way, the borrower will need to build up savings to pay off the loan.

The important additional cost of having debt. This is the interest that has to be paid on the debt. In effect, interest is an additional charge on the repayment of debt. It is normally expressed as a percentage per year – for example 7% per annum, more commonly abbreviated to 7% p.a.

Charges. There might be charges associated with taking out, having or repaying debt. These will be explored in more detail later.

Let's look at interest payments in more detail. If £10,000 is borrowed and no repayments of this principal sum are made during the year, and the interest rate is 7% p.a. with interest being paid once a year at the end of the year, the interest charge for that year is £700.

So, provided the principal sum owed to the lender remains at £10,000 and the interest rate is 7% p.a., the borrower will have to pay £700 each year to the lender. This is an example of a simple interest calculation where the interest rate is applied just to the original sum borrowed.

3 The impact of compounding interest

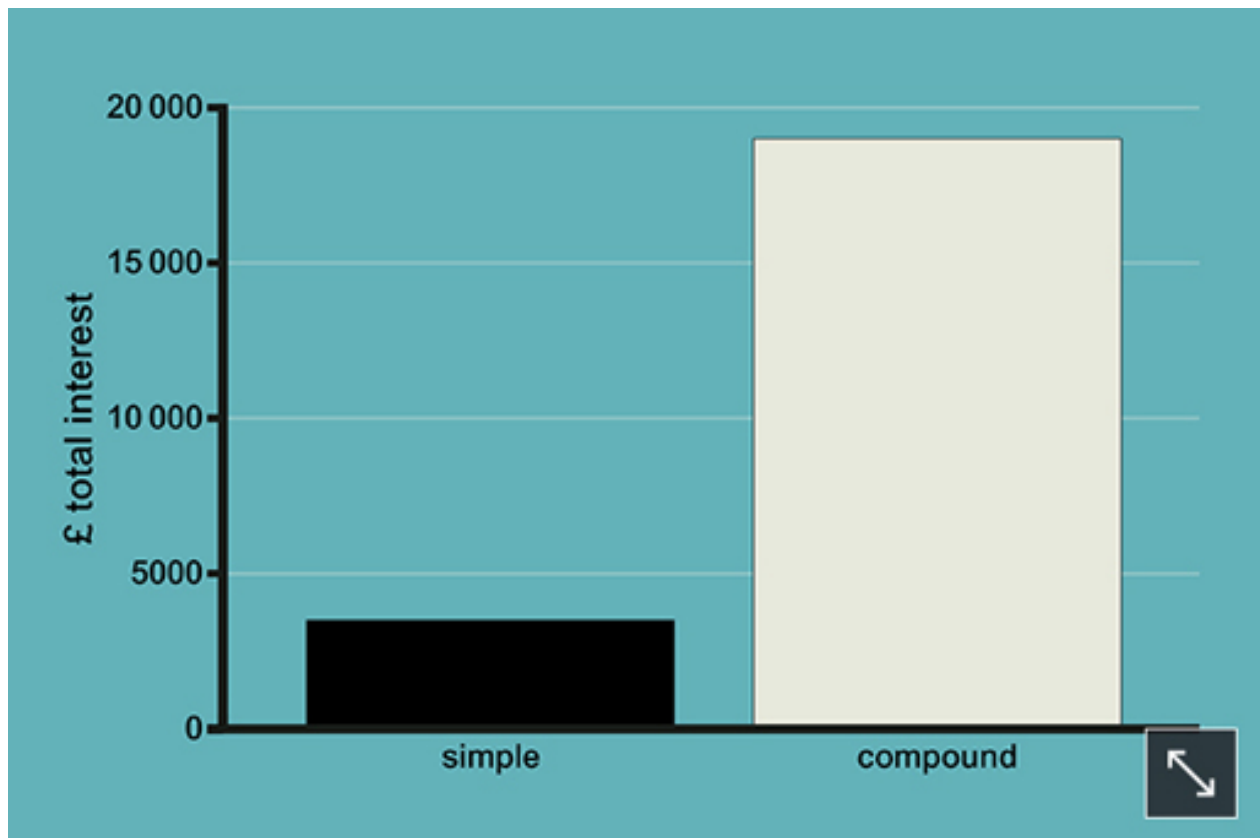


Figure 3

You looked at a simple interest calculation in the previous section. But there are factors that can complicate the calculation of interest. For example, what would be the interest charge if some of the principal sum is repaid during the course of the year?

In many cases, the answer is that the interest rate calculation will be based on the average balance of the principal sum during the year.

For instance, if £10,000 is owed at the start of the year and £100 is repaid halfway through each month, then the outstanding balance at the end of the year will be £8800. This is £10,000 minus £100 for each of the 12 months of the year, or £10,000 minus £1200.

But the average balance of principal outstanding during the year will be the average of the balance at the start and at the end of the year. This is $(£10,000 + £8800)/2 = £18,800/2 = £9400$.

Based on this average balance, the interest for the year at 7% p.a. will be £658. The maths is $(£9400 \times 7/100) = £658$. This is rather less than the £700 if no repayment of the principal sum had been made.

What happens if the borrower does not repay the interest due to the lender? Again, this will depend on the details of the contract with the lender and their attitude to borrowers who fall into arrears. Normally, the lender will add the interest charge left unpaid to the principal sum. This means that the following period's interest charge is going to be higher since the borrower will be paying interest not only on the original principal sum but also on the unpaid interest. This is known as compounding, and can quickly enlarge debts.

Here's an example of compounding.

What happens if someone borrows £1000 at an interest rate of 35% and makes no repayments over 10 years?

Over this period of time the debt will rise from £1000 to £20,107.

The total debt includes £19,107 interest on top of the £1000 borrowed.

As you can see, this is much more than if interest had been charged on a simple rather than a compound basis. Simple interest over 10 years would have been just £3500.

4 Alternative interest rate bases

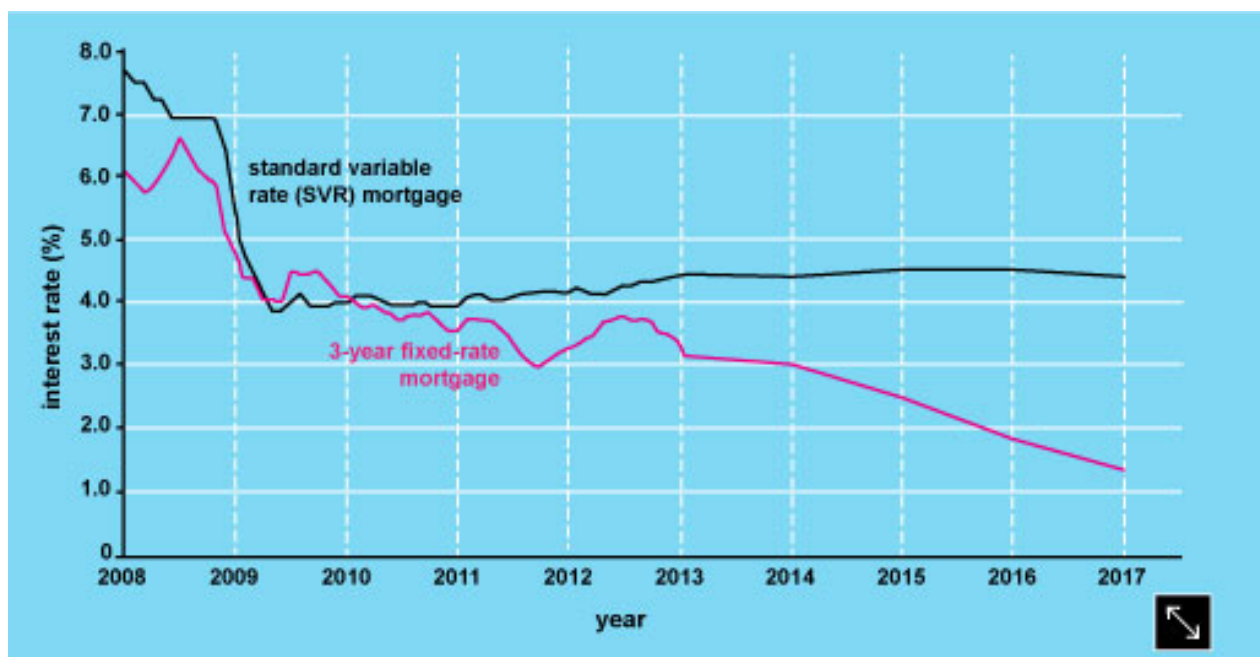


Figure 4

Interest rates can be set in a number of ways.

- **A variable rate**, which can move upwards or downwards during the life of the loan. In the UK variable rates usually move in tandem with movements in the official rate of interest. Some products (called 'trackers') are specifically linked to specific rates of interest such as the official **Bank of England** rate.
- **A variable rate with a 'floor'**. This is the same as a variable rate except that the rate cannot fall below a defined minimum level, known as the 'floor'.
- **A fixed rate** where the rate is determined at the start of the loan and remains unaltered throughout the fixed-rate term. The rate will be based on what the lender has to pay for fixed-rate funds of the same term.
- **A capped rate** where the rate cannot rise above a defined maximum (the 'cap'), but below this 'cap' it can move in tandem with movements of official interest rates. A variation to a capped-rate loan is a 'collared'-rate loan where rates can move in line with official rates but cannot go either above a defined maximum (the 'cap') or below

a defined minimum (the 'floor'). Such products usually require the payment of a fee to the lender at the start of the loan.

Most commonly, personal loans are set at a fixed rate; credit card debt and overdrafts are set at a variable rate; while mortgage lending is split between the four interest rate forms defined above.

Households with variable-rate mortgages are, along with most of those with credit cards and overdrafts, at risk from increases in interest rates. As mortgages account for a large proportion of personal debt, it is easy to see why the UK economy can be easily affected by even relatively small movements in interest rates.

Activity 2 Why are fixed-rate products popular?

Allow about 10 minutes

Can you work out why debt products with fixed rates of interest are always popular with households regardless of expected future trends in interest rates in the economy? See if you can come up with your own answer to this before you look at the feedback.

Provide your answer...

Feedback

They are popular as they give certainty about the cost of borrowing. This makes things easier when it comes to running a household budget. With variable-rate products where borrowing costs could rise or fall it's not straightforward to work out your budget.

5 Annual percentage rate of interest (APR)



Figure 5

You've seen that borrowers have to repay to the lender both the principal sum and the interest. On top of this there are often extra costs. Some come from fees when you get a loan in the first place and others, in certain circumstances, arise if you repay the loan before the end of the term.

- Arrangement fees paid to the lender: usually flat-rate, one-off fees charged when the loan is first taken out. Sometimes they might be added to the loan.
- Intermediary (broker) fees: might be paid when a borrower does not deal directly with a lender but deals instead with a **broker**.
- Early repayment (or 'pre-payment') fees: might have to be paid to a lender if a loan is repaid early. The argument used by lenders is that earlier repayment can incur additional costs. In the case of personal loans, early repayment charges mean the lender gets a share of the interest that would have been paid had a borrower kept the loan for the full term.
- Tied insurance: taking out insurance (for instance, payment protection insurance, life insurance, home insurance) might be required with a loan. In other cases, insurance might be optional, although this is not always made clear to borrowers, who might end up paying for inappropriate policies.

Given all these different potential charges, and the different methods of calculating interest, it's important to have a good means of comparing the total cost of debt on

different debt products. Fortunately, in the UK there is a way of ensuring a fairly accurate 'like-for-like' comparison and of assessing which debt product is most appropriate. This is known as the Annual Percentage Rate (APR) of interest.

The APR includes interest and those charges that are compulsory. It does not include:

- optional charges, such as buildings insurance, that are not required as part of a mortgage package
- 'contingent' charges, such as early repayment fees, that depend on certain circumstances and that would become payable only in situations that are not applicable to all lenders.

The APR also takes into account when the interest and charges have to be paid. Generally, a low APR means lower costs for the borrower. You will see the APR set out in posters and other advertisements for debt products, helping consumers to make comparisons between them.

6 The role of the Bank of England

To understand what determines the level of interest rates charged when you borrow money, you first need to understand how 'official' interest rates are set. In the video Andy Haldane, Chief Economist at the Bank of England, talks about the factors that are taken into account when official interest rates are set. The setting of interest rates is a key facet of **monetary policy** – and this is used to help manage the economy.



Before 1997, 'official' interest rates in the UK were decided by the UK government, usually after consultation with the Bank of England. Arrangements changed in May 1997 when the incoming Labour government passed responsibility for monetary policy and the setting of interest rates to the Bank of England to make the bank independent of political influence. This matches the arrangement in the USA and in the 'euro zone', where the Federal Reserve Bank and the European Central Bank respectively set official rates.

The rate set by the Monetary Policy Committee (MPC), also known as the 'Bank Rate', is the rate at which the Bank of England will lend to the financial institutions. This, in turn, determines the level of bank 'base rates' – the minimum level at which the banks will normally lend money. The result is that the Bank Rate (also known as the 'official rate') effectively sets the general level of interest rates for the economy as a whole.

Each month the Bank of England's MPC meets for two days to consider policy in the light of economic conditions – in particular the prospects for **price inflation** (the rate of increase in the price of consumer products like groceries, clothing, household goods and fuel). The MPC's decision is announced each month at 12 noon on the Thursday after the first Monday in the month.

The prime objective is for the MPC to set interest rates at a level consistent with keeping price inflation at around 2% p.a. For example, if the MPC believes inflation will go above 2% p.a. it might increase interest rates in order to discourage people from taking on debt – because if people spend less, it could reduce the upward pressure on prices. Conversely, if the MPC believes inflation will be much below 2% p.a. it might lower interest rates (also known as 'easing monetary policy'), and people might then borrow and spend more.

However, after 2013 this approach to setting Bank Rate was modified to one where the MPC takes greater account of other measures of economic activity like the level of unemployment. The video explores this change of emphasis.

Official rates of interest tend to move in cycles, rising to peaks and then falling to troughs. Since 1989 the trend in the UK has been for the peaks in interest rates to be successively lower. The official rate of interest (or Bank Rate) set by the Bank of England fell to 3.5% in 2003. In 2009 it hit a then record low of 0.5% and was reduced further to 0.25% in August 2016.

Note, though, that for individuals the rate paid on debt products will be 'at a margin' – sometimes a very high margin – over Bank Rate and bank base rates. In other words, the rate that is actually paid by individuals will be higher.

One other factor to take into account is the difference between price inflation and interest rates – the difference is referred to as the 'real' interest rate. When interest rates are higher than price inflation then real interest rates are positive. This is good news for savers who will see the purchasing power of their savings rising. When price inflation exceeds interest rates then real interest rates are negative. This is bad news for savers who will see the purchasing power of their savings falling.

For anyone who is borrowing the reverse applies – positive real interest rates are bad news but negative real interest rates are good news.

Activity 3 Why a historic low?

Allow about 10 minutes

UK interest rates are currently at a historic low. Can you think of any reasons why this is the case? Again, have a go at working out reasons for yourself before you look at the feedback.

Provide your answer...

Feedback

The chief reason is that price inflation has been low for many years – although it has risen slightly since 2016. Interest rates rise when price inflation is high or expected to move much higher.

The other main reason for low interest rates is that the Bank of England believes this will help the economy during the period of uncertainty surrounding the UK's departure from the European Union (or, as it is termed, Brexit).

7 Good debt, bad debt?

The impression you might get from some sections of the media is that all debts are bad. Such views are simplistic. For most people borrowing money is the only way they can afford to buy property, cars and other expensive goods. Of course, some borrowing is ill-advised, but in most cases people are making sensible, and affordable, choices when they borrow money.



Figure 6

Activity 4 Case studies on debt

Allow about 15 minutes

Here are four case studies of debt. Some are good debts (sensible borrowing) and some are bad debts (ill-considered borrowing). Work out which category each case study falls into, and why. As you'll see, it's not always straightforward.

Case study A

I've been saving up to get a mortgage, a place for me and my family to live. We've managed to get a big enough deposit, it's over 10%. We're looking for somewhere for the long term, not an investment. We're getting a fixed-rate mortgage for five years. It's affordable and is actually cheaper than our current rent. Good debt, bad debt?

Feedback

Borrowing in these circumstances is a no-brainer. The funds would be used to buy a property and save money at the same time. So it's a good debt.

Case study B

I've just seen a holiday to Jamaica. It costs £5000. I earn £19,000 a year, but the bank says they'll lend me the money. Good debt, bad debt?

Feedback

Clearly this is a bad debt. Borrowing more than 25% of your annual income for a holiday looks reckless. The loan is likely still to be in the process of being repaid months, perhaps years, after the holiday is over. The loan repayments could well cause budgetary problems too for the borrower.

Case study C

I lost my job six months ago and it's been a real struggle to find a new one. This week, I've just been offered a new job. It's in the countryside. I'm going to have to move myself and my family, but we've found a house we can afford to live in. The problem is we always went by public transport in the past, and where we're going to be living now, my kids' school is 7 miles in one direction and my work is 8 miles in the other direction. I need a car. But I've got a very bad credit score because I've been unemployed, so it's going to cost me 20% interest on the loan and the repayments over 5 years are going to put me at the brink of affordability. I can just do it, just manage it on a single income. But I've got a 3-month probation period on my job. If I don't get the car, I can't get the job. If I get the car and take the job but fail my 3-month probation I'm totally gone because there's no way I could afford to pay back the loan, and, frankly, it'll push me over the edge. I'd go bankrupt. Good debt, bad debt?

Feedback

This is a more complex one. There is a risk in taking on the loan if the probation period is not completed successfully. In these circumstances the car could be sold to allow at least a large proportion of the loan to be repaid. The fact is, though, that most people do complete their probationary periods successfully and if this happens the borrower will be OK. I think that once the probationary period is completed and the job is confirmed the borrower should shop around for a replacement loan at a lower interest rate.

Case study D

I'm buying a house. It costs £250,000. I had £25,000 in savings for a deposit but the building society would only give me a mortgage of £200,000 over 25 years. To cover the difference I went online and borrowed the other £25,000 I needed through a 5-year bank loan. Good debt, bad debt?

Feedback

This is a bad debt since it is unlikely the ploy will work. The mortgage lender will want to know how the £50,000 difference between the mortgage and the cost of the property is going to be bridged. When the £25,000 loan is disclosed the lender will, almost certainly, revise their mortgage offer downwards on the basis that with a bank loan to repay the borrower will have less money left to cover mortgage repayments. The borrower would then be back to square one with a new shortfall between the cost of the property and the money they've collected to pay for it.

So whether a debt is good or bad depends on the circumstances. Certainly debt is not always a 'bad thing'. In most cases it provides the means to buy key assets like property and cars. And in most cases borrowers are able to repay their debts without financial stress to themselves or their families.

8 Who are the lenders?

Here Jonquil Lowe, personal finance expert at The Open University, presents a tour of the lending industry in the UK.



Although the global financial crisis in the late 2000s caused havoc with the UK financial services industry, the sector is still dominated by banks. This domination had been reinforced by the conversion of most of the large building societies to banks in the 1980s and 1990s – although all those that did convert were then either acquired by other banks or, in the case of Northern Rock Bank and parts of Bradford & Bingley Bank, were taken into public ownership during the financial crisis.

Building societies are 'mutual' organisations that are owned by their customers – both the customers who place their savings with them and those who borrow from them (in the form of mortgages) to buy property. This contrasts with banks, which are owned by their shareholders.

9 Debt products



Figure 7

Here's a run-down of the most common forms of borrowing.

Overdrafts: a flexible means of accessing debt on a bank current account, up to a limit approved by the lender. Unapproved overdrafts normally attract penalty fees and high interest charges.

Credit cards (including store cards): their credit limits are set by the lender and normally require a minimum amount to be repaid each month – typically between 2% and 5% of the balance of debt. They might offer a short period of interest-free credit until payment is due. Credit cards vary widely in the interest rate charged on the balance that is not paid off and normally the interest rate charged is high. Store cards are a form of credit card used for buying from specified outlets. They tend to have much higher interest rates than credit cards.

Charge cards: can be used like credit cards to make purchases and obtain approximately two months' free credit between purchase and paying off the outstanding amount. Charge cards differ from a credit card in that a borrower is required to pay off the entire balance each month. The two-month free credit period arises when the charge card bill is sent out monthly, with a further month in which to settle the bill. A fee might be payable for the card.

Personal loans: loans made to individuals, typically with terms of between 1 and 10 years. They may be either **unsecured** or **secured** debt against a property (such as a house) or other assets. Unsecured personal loans are not contractually linked to any

assets the borrower buys. These are available from credit unions, banks, building societies, direct lenders and finance companies.

Student loans: loans used to finance further and higher education studies. We looked at these in Session 4.

Hire purchase (HP): a form of secured debt where payments (interest and part repayment of the principal) are made over a period, normally of up to 10 years, to purchase specific goods. The legal ownership of the product only passes to the borrower when the final instalment has been paid.

Mortgages: loans to purchase property or land, which are secured against these assets. Debt terms for mortgages are normally up to 25 or 30 years. There are many types of mortgage. It's possible, for example, to fund spending through equity withdrawal mortgage products where you borrow money on the basis of the amount of any remaining mortgage.

Alternative credit: these include buying on instalments through mail-order catalogues, doorstep lending and 'payday lending', which is described in the next section. These areas are known as 'sub-prime' lending, which is lending to people who have poor creditworthiness and who, as a result, have a high risk of being unable to repay money they have borrowed. Commonly, interest rates are very high and there are heavy penalties for late payment.

Peer-to-peer (Peer2Peer) lending: this is an emergent form of lending in the UK and involves savers pooling funds to lend on (on-lending) to individuals and businesses. This form of lending, arranged through intermediaries like Zopa and Financial Circle, circumvents banks and other conventional lenders.

Personal contract payments (PCP): an increasingly popular form of car finance. These normally involve making a monthly payment for 2 or 3 years at which point the residual sum left to be paid-off on the car purchase is the same as its trade-in value. At this point consumers can either make a one-off payment to complete the purchase or trade the car in for a new one (and a new PCP deal).

Activity 5 Put them in order

Allow about 10 minutes

You've looked at the range of debt products. Now put them in order, starting with the cheapest (the lowest interest rate) and ending with the most expensive

- (A) Store card
- (B) Unsecured bank loan
- (C) Overdraft
- (D) Payday loan
- (E) Credit card
- (F) Mortgage
- (G) Secured loan such as a car loan
- (H) Student loan (at the highest rate currently applying which is the Retail Prices Index (RPI) inflation rate plus 3%. In recent years the RPI rate has been at close to 3%)

Mortgage

1 (the cheapest – lowest interest rate)

Secured loan such as a car loan

2

Unsecured loan

3

Student loan (at the highest rate currently applying which is the Retail Prices Index (RPI) inflation rate plus 3%. In recent years the RPI rate has been at close to 3%)

4

Overdraft

5

Credit card

6

Store card

7

Payday loan

8 (the most expensive)

Feedback

The cheapest (mortgage) to the most expensive (payday loan).

- (A) Mortgage
- (B) Secured loan such as a car loan
- (C) Unsecured loan
- (D) Student loan (at the highest current rate applying)
- (E) Overdraft
- (F) Credit card
- (G) Store card
- (H) Payday loan

10 Danger! Payday lenders

In this video Hugh Stickland, Chief Economist of Citizens Advice, talks about trends in enquiries from people in difficulty with payday loans and asks whether the new rules of the **Financial Conduct Authority (FCA)** are helping consumers.



Payday lenders are an alternative source of credit that have emerged in recent years. Lately, their business practices have come under fire and attracted great interest in the media and with regulators.

They are criticised for charging extortionate rates of interest on short-term loans and for dubious lending practices.

Tighter regulations on the way the payday lenders do business were introduced in 2015. This includes a 0.8% per day cap on interest charged. Additionally, no one now has to pay back more than twice the sum borrowed (the aggregate interest charge is capped at 100% of the loan).

The Archbishop of Canterbury, Justin Welby, has gone on record as wanting to help credit unions take on payday lenders and force them out of business. There are over 350 credit unions in the UK who collectively lend around £700 million – these are small mutual organisations often linked to places of work or particular localities that lend money from pooled savings.

So should payday lenders be forced out of business? Should their business be redirected to the credit unions?

While credit unions represent a lower cost alternative to borrowing, the scale of the funds they have available is insufficient to replace the lending being done by the payday lenders. Additionally, credit unions generally take a little longer to approve loans and this might be prohibitive for customers who need immediate cash. The harsh reality is that without payday lenders, many of their would-be customers could fall into the hands of the unregulated 'loan sharks'.

While certain of the practices of the payday lenders might be condemned, their very existence and proliferation in recent years highlight both the current problem of falling living standards for many families and the underlying issue of financial exclusion from mainstream financial services for thousands of households in the UK.

Activity 6 The effect on your credit rating?

Allow about 5 minutes

What do you think will be the impact on your credit rating of getting a payday loan?

Provide your answer...

Feedback

The impact is likely to be adverse. It indicates that you might have no access to other, cheaper, forms of borrowing and is suggestive that you have poor financial management skills. For some lenders it is a 'knock-out blow' if they discover from your credit history that you've applied to them for a loan or a mortgage.

11 End-of-session quiz

Check what you've learned this session by taking the end-of-session quiz.

Session 6 practice quiz

Open the quiz in a new window or tab then come back here when you've finished.

12 Session round-up

This session has focused on the debt product market place – the lenders, their products, their interest rate characteristics and the factors that set the level of interest rates in the economy.

You also looked at the difference between using debt sensibly, as part of your life's plans, and debt that is irresponsible and leads to financial problems.

You should now be able to:

- understand who you can borrow from and what debt products are available
- know when borrowing is sensible and when it is reckless
- understand what determines the cost of borrowing money
- understand the ranking of debt products in terms of the interest rate charged.

In the next session you focus more closely on the factors that affect how much you can borrow and on what terms – a subject that brings you back to the credit rating agencies you first met in Session 1.

You can now go to Session 7.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Session 7: A good credit rating and how to keep it

Introduction

In the video, Bobby puts in context the themes of the session. You've looked at the institutions that lend money, the various ways money can be borrowed and at what determines the cost of borrowing. You've also looked at when borrowing is rational and when it is foolish. In this session you extend your analysis of debt and explore how to integrate the cost of managing your debts within your budget. You take a look at the activities of the credit rating agencies and at how you can manage your financial profile to maximise the credit rating assigned to you.

You start by looking at how decisions about whether or not to borrow money should be taken only after examining alternative routes for financing major acquisitions.



By the end of this session, you should be able to:

- understand the pros and cons of borrowing money to buy things – relative to other ways of financing a costly purchase
- understand credit rating and the activities of the credit rating agencies
- know how to maintain a good credit rating
- know what you can do if you have problems with debts.

1 To borrow or not to borrow?



Figure 1

Philip wants to purchase a new Sonos sound system costing £1000. If you assume that he cannot simply fund the purchase out of his monthly budget, his options include:

- 1 using existing savings
- 2 building up savings first, then purchasing the item later
- 3 using a mixture of savings and debt
- 4 borrowing £1000.

Activity 1 What are the deciding factors?

Allow about 10 minutes

What factors will affect the decision Philip takes as he chooses from the four options available? Before you look at the feedback try analysing for yourself the issues involved in each option, using what you've learned so far.

Provide your answer...

Feedback

Let's start by running through some generic issues related to each option.

- **Option 1** involves using existing savings. When deciding whether or not to use his savings, Philip might think about the 'opportunity cost' involved. What's this? It's a neat technique to help weigh up tricky choices. Here's how to work out the opportunity cost in Philip's case: if he uses his savings to buy the music system they will not then be available to buy something else. He will also have to give up the interest he would have received on those savings. He might want to compare

debt costs with the loss of income on his savings. In normal circumstances it's likely that the interest rate for debt will be higher than the rate earned on savings.

- **Option 2** is to build up savings before purchase. Again, this depends on having disposable income to allow savings to be built up. It also depends on Philip being prepared to defer the enjoyment of the music system. For the same reasons as Option 1, this second option is most likely to be cheaper than using debt to fund the purchase.
- **Options 3 and 4** both involve taking on debt. For the reasons already given, it's likely that using a mixture of savings and debt would be cheaper than funding the purchase solely through debt.

Activity 2 And what are the deciding factors now?

Allow about 5 minutes

Let's say that Philip chooses to borrow the full £1000 to buy the system.
What factors will he now need to consider?

Provide your answer...

Feedback

- Philip would need to think about the constraints on his resources, and calculate whether he can afford the repayments within his household budget.
- In terms of the affordability of the debt, Philip should consider the possibility that his circumstances might change. For instance, if his household income were to fall or be interrupted during the term of the loan, would Philip still be able to afford the repayments? This assessment of affordability is essential – and it will, in any case, be undertaken by the lender when scoring Philip's creditworthiness ahead of approving a loan.

2 Credit rating agencies and you

Your credit rating, which is allocated to you by credit rating agencies, is a key factor in your ability to borrow money.

As soon as you open a bank account or take on a credit card from the age of 18 your credit history is recorded and a profile of you starts to build. The main UK credit rating agencies are:

- [Experian](#)
- [Equifax](#)
- [Callcredit](#)

These agencies will score your creditworthiness and keep a credit file on you.

Where do they get the information about you?

This is provided by your bank or credit card provider and other organisations that have extended credit to you. They include your phone provider if you have a contract with them.

The information covers the amount of credit granted to you, whether you make repayments on time and the proportion of your bill that you repay each month.

Increasingly financial companies are using what are called 'geo-demographic models' to help them assess customers. For example, postcode profiling of the location where you live can help draw up a picture of your likely financial lifestyle based on census and other survey data. One insurance company recently tried, unsuccessfully, to access information from Facebook to analyse motorists' profiles for clues about how sensible they are.

Facebook blocked this move but it highlights the need to be careful about what you post on social media given who could be watching!

Your credit score will be accessed by financial and other institutions when you're seeking to borrow money from them. A poor credit score means you will be turned down for a mortgage when you're seeking to buy your own property.

Have you taken a look at your own credit rating? It's recommended that in future years, and particularly when you become active borrowers, you should keep an eye on your credit files at least once a year.

Watch this video where Martin Lewis uses a storyline based around exchanges in a non-alcoholic bar to illustrate the key principles that will affect a person's credit rating.



3 They are watching you



Figure 2

Let's look at how the rating agencies compile credit scores.

They don't have access to, or explore, all your personal financial data but they do examine the following.

- Have you any **county court judgments (CCJs)** (in Scotland, decrees) or other court orders indicating that you have a history of debt problems?
- Have you ever been convicted of a fraud?
- Has anyone stolen your identity in the past and then used this false identity to commit fraud?
- Have you ever defaulted on a payment (not paid a bill in full when it was due)? Defaults normally stay on your file for 6 years. Are you still in default?
- How do you operate your bank and credit card accounts? For example, do you pay off your credit card bill in full each month?
- How many applications for credit have you made? Note, though, that the agencies cannot find out whether you were accepted or rejected when you made these applications.
- Are you on the electoral register? This is one vital piece of non-financial information that will affect your ability to borrow money.

On the other hand – and proving that the agencies are not ‘big brothers’ scrutinising all aspects of your life – these are some financial and other matters that are **not** recorded by the rating agencies:

- your income or pension
- details about your savings and investments
- your medical records or time taken off work for sickness
- your race, religion, ethnicity or any political affiliations (like membership of a political party)
- student loans – unless you’ve defaulted on payments
- your record in making Council Tax payments on time
- fines for driving and parking offences.

The analysis made by the credit rating agencies leads to a score being assigned to you. The scores for an excellent credit rating are set out below – although note that the agencies may, on occasion, make changes to their scoring ranges.

Table 1 Credit rating agencies’ excellent scores

Callcredit	Credit rating 5
Equifax	467–710
Experian	961–999

When lenders make decisions about credit applications they use the information on your credit file(s), as compiled by at least one agency they employ. They also use information about your current status that you, yourself, supply in your application. This typically includes such routine personal information as:

- Your age.
- Your employment. This might include confirmation of whether the job is permanent or a fixed-term contract. You may also have to disclose whether you have completed the probationary period that commonly applies when you start a new job
- Your salary. Normally bonuses are not included unless they are contractually guaranteed
- Your marital status and whether you have any dependent children.
- Your address.
- Whether your home is owner-occupied or rented, or whether you’re living in someone else’s home – for example, your parent’s house.

The information supplied by the credit rating agencies and in your application to a lender builds up an assessment of whether you’re likely to be a ‘good credit’ – someone who does not default on bills or loans.

The information also helps lenders know if you’re likely to be a customer who generates profits for them. This would be the case, for example, if you build up interest on your credit cards by not paying off the balance in full each month. Provided you don’t default this would be good news for the profits of the credit card company – but obviously bad

financial news for you. Credit card debt is almost invariably expensive and should be avoided.

4 The credit ratings game



Figure 3

Activity 3 Rate four borrowers

Allow about 15 minutes

Look at the following credit profiles of four people.

With all the information you gained in the previous section, have a go at rating four applicants for credit.

Bill

Age	How old are you?	20
Employment	How would you describe your work?	Semi-skilled
	How long in current employment?	2 years
Marital status	Single / married / separated / divorced / widowed?	Single
Children	How many?	No children
Bank account	Do you have one?	Yes
Credit card	Do you have one?	Yes
Housing status	Home owner or tenant?	Furnished tenant
	How long at your current address?	2 years

Dave

Age	How old are you?	19
Employment	How would you describe your work?	Unskilled
	How long in current employment?	Not employed
Marital status	Single / married / separated / divorced / widowed?	Separated
Children	How many?	1 child
Bank account	Do you have one?	Yes
Credit card	Do you have one?	No
Housing status	Home owner or tenant?	Furnished tenant
	How long at your current address?	1 year

Jo

Age	How old are you?	39
Employment	How would you describe your work?	Professional
	How long in current employment?	5 years
Marital status	Single / married / separated / divorced / widowed?	Married
Children	How many?	No children
Bank account	Do you have one?	Yes
Credit card	Do you have one?	Yes
Housing status	Home owner or tenant?	Furnished tenant
	How long at your current address?	2 years

Rajeev

Age	How old are you?	40
Employment	How would you describe your work?	Skilled
	How long in current employment?	19 years
Marital status	Single / married / separated / divorced / widowed?	Married
Children	How many?	1 child
Bank account	Do you have one?	Yes
Credit card	Do you have one?	Yes
Housing status	Home owner or tenant?	Owner-occupier
	How long at your current address?	4 years

Feedback

How did you do? What order of creditworthiness did you put our four borrowers in?

First you should note that the credit scoring models employed do vary from one institution to another. This means that the scores they generate can vary when applied to the same applicant.

The key factors that score well, besides having a good or high level of household income, are those that imply stability and orderliness in the financial affairs of applicants. So stability of both employment and domestic residence scores well.

Being an owner-occupier also scores well – even when the borrowing being applied for is not going to be secured against the property.

Being older helps, as you might be able to demonstrate a record of creditworthiness that stretches back over decades.

Having fewer children also helps as it implies lower household expenditure commitments.

Being in a professional job helps as this is likely to reduce the risk of having periodic gaps in employment that reduce household income.

Having a bank account and credit cards also helps – particularly as they demonstrate that credit scoring tests have been ‘passed’ on previous occasions.

Being married is positive for your score. Being divorced is negative. This is because, again, the inference is that married status carries stability and robustness of household finances.

By contrast being young, having a large number of dependants, living in rented accommodation – particularly if there is a record of moving home regularly – having a poor employment record and limited existing access to banking facilities are generally bad news. Such factors provide no comfort to the credit rating agencies about the solidity and orderliness of household finances, and send a message that lending to such applicants is risky. In addition, it is less likely that such applicants will have been able to build up a long-term record of proven creditworthiness. Lending to people with a poor credit score might still happen, but the interest rate charged might be higher – perhaps materially – to reflect the risks involved.

The assessments of credit rating agencies are, though, not based on unquantified assumptions. They’re underpinned by data analysis of statistical relationships between aspects of social status and evidence of credit defaults.

So our model produced the following credit league table ranking:

- 1 Rajeev
- 2 Jo
- 3 Bill
- 4 Dave.



5 Credit ratings: myths and facts

There are quite a few misrepresentations of how credit ratings are formed. Have a go in the next activity at separating the myths from the reality.

Activity 4 Myth or fact?

Allow about 10 minutes

Which of these are facts and which are myths when it comes to credit ratings?

- (A) National credit blacklists exist
- (B) Having no credit history is a drawback
- (C) Having borrowed from many lenders helps
- (D) Student loans impact on ratings
- (E) Not using the credit cards you already have is a problem
- (F) Previously declined applications count against you
- (G) Your credit file influences the interest rate you get
- (H) Paying a utility bill late can hit your rating

Feedback

OK, let's look at which of these are myths and which are facts.

Table 2 Myths and facts about credit ratings

Myth or fact	Feedback
National credit blacklists exist	Myth – no they do not exist.
Having no credit history is a drawback	Fact – without a history there is no proof of your creditworthiness.
Having borrowed from many lenders helps	Fact – this indicates that many lenders have already approved your creditworthiness and provides information for ratings agencies to make assessments.
Student loans impact on ratings	Myth – they are disregarded when it comes to credit ratings. Lenders – particularly mortgage lenders – will, though, take student loan repayments into account when assessing how much they are prepared to lend to you.
Not using the credit cards you already have is a problem	Fact – if you have unused cards then you have unused credit capacity that is available for you to use. The perceived risk is that you may use this capacity to go on a spending spree, amassing debts in the process that you then have difficulty repaying.
Previously declined applications count against you	Myth? – A trickier one. Lenders might ask if you have had other applications to borrow money declined in the recent past. The credit rating agencies will keep records of how many applications you've made for credit but not of the numbers accepted or rejected. However they may be able to detect how many have been accepted by the record of the accounts you have open.
Your credit file influences the interest rate you get	Fact – increasingly lenders are adopting risk-adjusted pricing when it comes to debt products. The better your credit rating the lower can be the interest rate you pay when you borrow money.
Paying a utility bill late can hit your rating	Fact – increasingly the credit rating agencies are accessing data from utility firms and 'phone companies. If you are a late payer of bills this could hit your credit rating.

Adapted from MoneySavingExpert.com (2017)

6 Credit ratings and taking control



Figure 4

The earlier sections might give the impression that your credit rating is controlled by factors you have no power over. This is not true. There are a huge number of ways for you to take control of your rating.

First – as mentioned earlier in the session – check your credit files at least once a year. This is a vital step. If information held on the files is incorrect you could end up having applications for credit declined as a result of errors. Ideally access the information on the files of the 'Big 3' agencies – Experian, Equifax and Callcredit. You might be surprised to find the variations in the information held about you between these agencies. If there are errors get them corrected.

In particular do check your credit files before any major applications (for example, before applying for a mortgage) and if you have an application for credit rejected. In the case of a rejection for credit you need to be alive to what a rejected application does to your credit score: it could have knock-on implications for future applications.

As well as checking your files make sure that you're registered on the electoral roll or, if you're not eligible to vote in the UK, that you have proof of residency. The electoral roll is updated annually. Staying registered is vital because if you're not on the roll it's unlikely that any institution will want to lend to you.

Next you need to check whether there's anything about your current or recent domestic arrangements that could threaten your credit score. This issue can relate to current or previous spouses, partners or even housemates. If you are or have recently been

associated with someone else in respect of any financial product (such as a joint bank account) then you can find yourself joint-scored by the agencies. So if such a current associate has a poor credit record then this will adversely affect you whatever your own personal creditworthiness. If this is a problem for you then terminate such joint accounts, inform the agencies and get them to send you a 'notice of disassociation' from the other person.

Most of the other good tips for managing and improving your credit score come down to 'good financial habits':

- Make sure you're not late or miss completely any credit repayments.
- Get into the habit of paying all your other bills on time – you may never know when details of a late payment find their way on to your credit file.
- Don't apply for too many accounts – particularly within a short time period. Rejections will count against you and applying too often will make it appear that you're desperate for credit.
- Dispense with unused credit cards and make sure the accounts are closed. Even though you're not using them the credit limits for these cards might limit your ability to borrow elsewhere.
- Try to manage down your debts, particularly the more expensive ones, as this can help your credit score.
- Avoid action that can seriously damage your credit score – for example taking out a payday loan.

Maximising your credit score means scrutinising your credit file and applying good financial habits throughout your life. Remember, as well, never to lie when making any applications for credit as, if detected, this could come back to haunt you.

7 Debts and repayments – build them into your budget

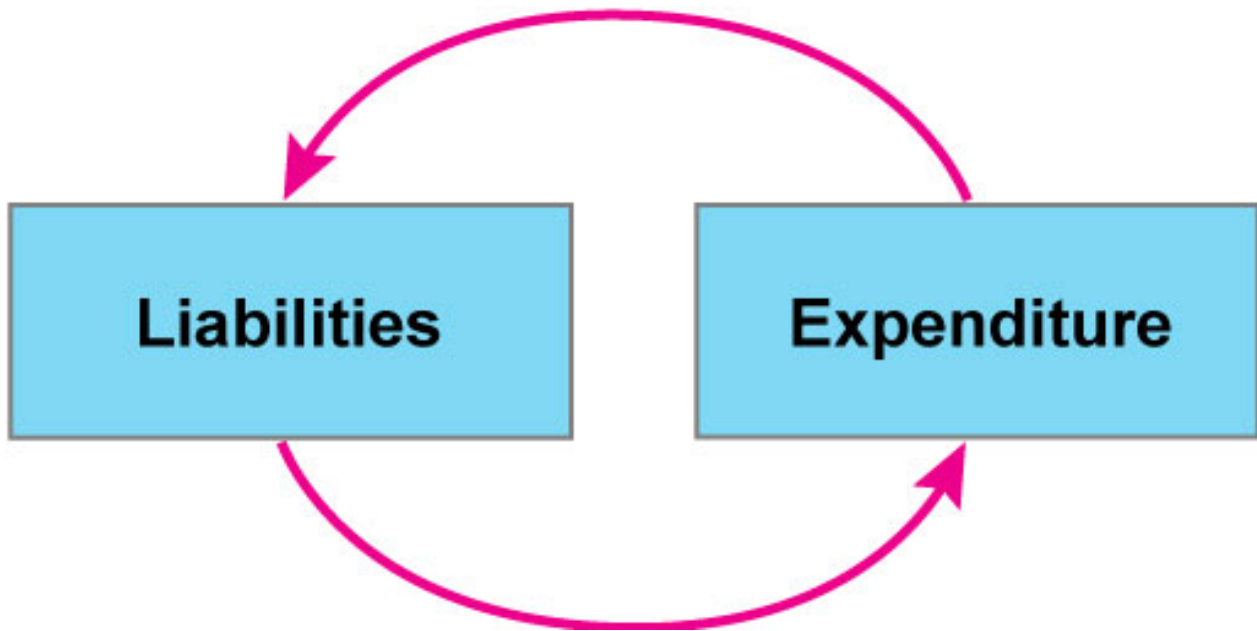


Figure 5

Let's complete our coverage of borrowing by looking at how to incorporate its financial consequences into your budget. In doing this please bear in mind that borrowing money is a normal aspect of adult life. Virtually everyone borrows money at some stage in their life and the vast majority are able to pay off these debts without problems.

The key change to your budget is that the expenditure side must now have a line added for debt repayments. This is in addition to any section that you have for the repayment of student loans, since these loans are different from conventional debts. With student loans you only make repayments if your income is above the threshold for making them. For conventional loans you're committed to making repayments – typically monthly – regardless of your income level.

If you have a series of loans – say credit card borrowings, a bank loan and a mortgage – it makes sense to have a line in the expenditure side of your budget for each one. This enables your position with each debt to be more clearly visible to you.

Aside from adjusting your budget you should keep a record of each loan to see how much is left to be paid off and over what future time span. Your lender should provide you with an annual statement to help you with this.

8 Budget shortfall? Do not borrow!

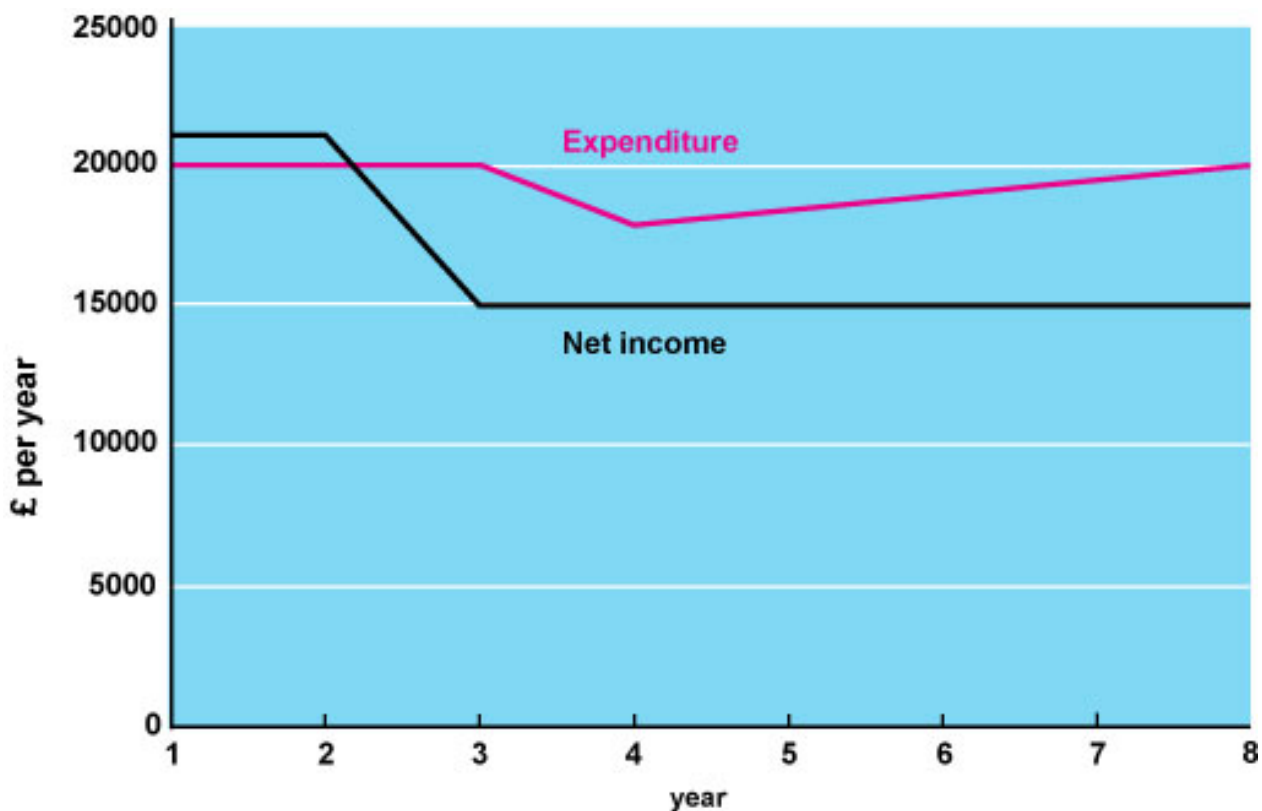


Figure 6

When you consider your budgetary position it's critical that you check whether the overall position is ringing any financial alarm bells. If you've taken on debt, for example, because of a continued excess level of expenditure over net income then your alarm should be ringing. This is a situation that could be caused by a number of factors.

To explore these circumstances, in this section you'll use the example scenario of the Syme family, a household consisting of a lone parent and two children. The Syme household allows you to see how flows of expenditure and income relate to debt.

The main income earner in the household loses her full-time job in Year 2, and so household income falls below expenditure. This is a realistic scenario as research over many years shows that job loss is a major reason for households both getting into debt and having problems with debt (Citizens Advice, 2003; AOL, 2017).

From Year 3 onwards net income, made up of state benefits and earnings from part-time work, totals £15,000 per year. Expenditure remains constant at £20,000 in Year 3, and then the household manages to cut expenditure down to £18,000 in Year 4.

However, the shortfall between expenditure and income must be covered. This can be done by either using up any savings, or taking on debt, or a mixture of the two.

For simplicity, in this example assume that the Symes have no savings and that they borrow money to finance the expenditure over and above net income. This debt leads to expenditure increasing from Year 5 onwards as interest and other charges are added to existing household expenditure. This, in turn, will require more debt.

Such a situation is not sustainable in the long term and, eventually, the Symes will either have to make other cuts in expenditure or find a way to increase income. However, by forecasting how their finances will change in the coming years the Symes have given themselves time to take carefully considered action to address the situation. Such forward planning reduces the risk of having to resort to panic measures to resolve a financial problem.

Debt problems often arise when a household already has debt but then faces unexpected life events like those mentioned above. The Syme scenario highlights how certain life events, such as job loss, relationship breakdown or illness might lead to households having to take on debt. Other more predictable life events, such as full-time study, are easier to build into financial plans. A household, for instance, with one member who intends to go to university, might plan to finance current levels of expenditure through taking on debts and then using the benefit of increased earnings after graduation.

So one reason why individuals and households take on debt is to finance expenditure that is above income. Another reason is to spread the cost of expensive purchases, such as a car or house, over a number of years. In these cases, a household takes out a relatively large debt that is repaid over time. Taking out a debt to pay for these expensive items does not mean that the debt can be considered to be part of income. It might sometimes seem as though money that is borrowed can be used like income to pay for items. But the reality is, of course, that unlike income, debt is a liability that has to be repaid.

So effective financial management means incorporating your debt repayment obligations into your budget.

9 Help! Is there anyone out there?



Figure 7

Even with good budgeting and financial planning, sometimes unfortunate or unexpected developments – like illness or divorce – can result in people experiencing problems with their debts. The good news is that there are things you can do and people who can help if you do encounter problems. So don't wait for what might be minor financial issues to escalate to major problems for you and your family.

Two organisations that are experts at providing advice on debt issues are:

- [StepChange](#)
- [Citizens Advice](#)

Here are some expert tips on how to deal with borrowing issues.

- 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 might be prepared to accept low repayments.

- If you're 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're entitled to that you're 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 you owe money to as soon as possible. Let them know that you're 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 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 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 debt, 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're thinking of using a fee-charging debt management company, then make sure you understand exactly what you're signing up to – check what fees you'll be paying to the company and how long it will take you to pay off your debts.
- Keep copies of all letters you send and receive about your debts.

A poll was taken of The Open University's personal finance tutors to ask them what they thought were the most useful of these tips. The four deemed most helpful were:

- work out a realistic budget that covers all your income and spending
- don't panic or ignore the problem
- decide which debts take priority
- contact those you owe money to.

10 End-of-session quiz

Check what you've learned this session by taking the end-of-session quiz.

Session 7 practice quiz

Open the quiz in a new tab or window (by holding ctrl [or cmd on a Mac] when you click the link) and come back here when you're done.

11 Session round-up

In this session you've looked at how you can put yourself into a good position when it comes to taking borrowing decisions and access to credit.

You looked at how you should first weigh up alternatives to financing major acquisitions before making a decision that you need to borrow the money.

If you're going to access credit – a bank loan, a mortgage or just a credit card account – make sure your credit file is in order. This is to ensure that you not only have access to such products, but that you also have access on the best terms for someone with your financial profile.

Finally ensure that you properly incorporate the future financial flows that arise from borrowing – the debt repayments, including interest – into your budget. This will mean that you avoid the risk of either having to borrow even more money to meet existing debt repayment commitments or failing to meet repayments on your existing debts when they fall due. Both scenarios are potentially disastrous and, at the very least will hit your credit score and your future ability to borrow money.

Managing debts is one of the most important features of personal financial management. So make sure you do this in an informed and proactive way. Don't wait for problems with debts to start taking over your life. Take control and borrow responsibly!

You should now be able to:

- understand the pros and cons of borrowing money to buy things – relative to other ways of financing a costly purchase
- understand credit rating and the activities of the credit rating agencies
- know how to maintain a good credit rating
- know what you can do if you have problems with debts.

You can now go to Session 8.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Session 8: Planning now for later in life – buying a home and planning your pension

Introduction

Welcome to the last session of the course. Bobby once again introduces you to the main themes and explains their context.



Here you investigate two aspects of personal financial management that you need to be aware of from early adulthood:

- how to go about buying your own home
- how to organise a **pension** to provide you with income in later life.

If you're wondering how either of these has any relevance to you – particularly planning a pension – you're not expected to take action now but simply to understand the choices available to you. It's important that you're equipped with certain insights as early in life as possible, so that your decisions as you get a little older are based on sound knowledge.

Around two-thirds of households in the UK are owner-occupiers – meaning that their properties have been bought, or are in the process of being bought, by the occupiers. Knowing what to do to get on the housing ladder is essential.

The earlier you start to plan and save for your pension the better the outcome will be for you in later life when you retire from work. Starting a pension plan in your early 20s make

sense. If you leave it until you're in your 40s and 50s you risk being in income poverty when you retire. Here you'll learn more about the risks and returns from different types of investment.

You finish this session and the course with another longer quiz of 15 questions based on the content of this session as well as Sessions 5, 6 and 7.

By the end of this session, you should be able to:

- understand what you need to do to buy a property
- understand how to plan for a good pension
- know what pension you can expect from the state
- understand the alternative pension products and the factors that determine how much pension income you get from each
- understand how the four-stage financial planning model can be used when making important financial decisions.

1 Talking points

Watch the following video where Denbigh School students talk to Will Brambley about buying a home and sorting out a pension.



2 Why buy your own home?



Figure 1

'Getting onto the property ladder' is a phrase that you hear repeatedly in the UK. This contrasts with most other European countries where ownership is far less common and renting properties throughout life is the norm.

Activity 1 Buying versus renting

Allow about 10 minutes

What do you think are the reasons for buying your own property rather than renting? For example, think through the risks of renting, the comparative monthly costs, the costs over a longer time-span, the issue of investment and the level of security in each case.

Provide your answer...

Feedback

- When you rent a property you might be given notice to move out if the owner wants to sell it or move into it themselves.
- You have freedom to renovate and decorate your own property as you want, although you will have to pay for the work yourself.

- House prices in the UK have risen markedly over time – even allowing for price inflation. So your home is likely to become a good investment. Note, though, that periodically house prices do fall – this can happen at times when the economy is weak and unemployment is rising.
- Buying a property can often be cheaper than renting. As you will see, buying a property involves upfront costs (such as legal fees) and ongoing costs (principally the cost of the ‘mortgage’ you’re likely to need to buy your home). However, in aggregate, these may be less than the rent on a rental property. In addition the money you spend when you buy is going towards eventually owning the property outright. By contrast the money spent on rent is commonly called ‘dead money’ as you do not end up owning the property.

3 Getting the funds together

The first step to buying your own home is determining how much you can afford to pay for a property.

For most people – certainly when buying their first property – the key element is how much you can afford to borrow in the form of a mortgage.



There are many different types of mortgage product. In the video financial services expert Jonquil Lowe guides you around the mortgage market.

Mortgages are simply loans used to buy property or land. Typically the term of a mortgage is 25 years – although they can be for longer or much shorter terms.

For most mortgage lenders the maximum they will be prepared to advance you is 95% of *their valuation* of the property you’re buying. This means that you will have to cover at least 5% of the property cost – through money you’ve saved or perhaps via a donation from your family.

Setting up a Lifetime ISA will help you save up for a deposit for your first home. These ISAs, launched in 2017, allow tax-free savings of up to £4000 per annum with the government topping up balances by £1 for every £4 saved. Lifetime ISAs, which can be built up until the age of 50 years, are intended to help people save for a first property purchase.

Help to buy ISAs can be opened from the age of 16. You can save up to £200 a month. Once you have at least £1600 saved the government tops up your account by 25% when you buy your home. The maximum top-up amount is £3000.

You should certainly try to get together as large a deposit as possible. One of the key factors in the amount of interest you pay on your mortgage is the amount of deposit you put down in relation to the value of the property. To put it another way, the lower the size of the mortgage that you need in relation to the value of the property, the lower the interest rate on the mortgage you're likely to have to pay. This is because the lower the 'loan-to-value' the lower the risk of lending to you is from the perspective of the lender.

There is one over-arching control, though, on the size of the mortgage. This is the 'affordability test'. When you apply for a mortgage the lender will conduct a detailed exercise to establish how much you can realistically afford to borrow. They'll work through the following stages.

- Analysing your income and spending for at least the previous 3 months before you apply, to ascertain your budgetary position.
- Ascertaining whether you're in permanent or temporary employment. Not having permanent job is a negative factor in affordability tests as lenders will be concerned about the potential drop in household income once the temporary job ends.
- Detailing all your financial commitments. This will include existing debt repayments that you have to make and might also cover education costs for children (nursery and school fees), transport costs (car lease payments) and, perhaps, the cost of gym membership.
- Stress testing your budget to see if you could still afford to repay your mortgage if the mortgage rate rises sharply (typically by 3%).

One thing to remember is that if you cover part of the property purchase cost through another loan (even a loan from your parents) the costs of the loan will be included in the affordability calculations and will therefore reduce the size of the mortgage offered to you. This is why if your family is supporting you when you buy your home they will need to complete a 'gift agreement' that states that the money given to you is a gift (it does not have to be repaid) as opposed to a loan (it does have to be repaid).

Affordability tests vary from one lender to another and some are more generous than others. However current evidence indicates that if you have an income of £30,000 per year then – at the interest rate levels seen in recent years – the mortgage you're likely to be offered will be between £85,000 and £125,000. You can scale this range up and down based on how your income compares with £30,000 per year. Clearly if your outcome is towards the bottom end of the range you should really try an alternative mortgage lender or get a mortgage broker to seek out the best deal for you. Brokers will normally charge a fee and might also receive commission from the mortgage provider.

Activity 2 Before the affordability test

Allow about 5 minutes

If you're planning to buy a property in a few months' time what should you do ahead of the affordability test to improve your chances of the lender approving the mortgage you need?

Provide your answer...

Feedback

First check your current credit ratings and credit files to ensure that both are satisfactory. The mortgage lender will do this when you apply.

Then take action to improve your financial profile, focusing on the cash flows that go through your bank account.

- Pay off existing debts, including credit card debts, if possible.
- Do not take on any more debts (such as a car loan).
- Avoid non-essential spending in the 3 months ahead of your mortgage interview.
- Perhaps even cancel – albeit temporarily – activities that have a monthly cost (such as gym membership).

If you're in a temporary job contract try to get this made permanent ahead of applying for a mortgage.

Make sure you have evidence of the deposit you will contribute to the property purchase.

4 What are the costs of buying?

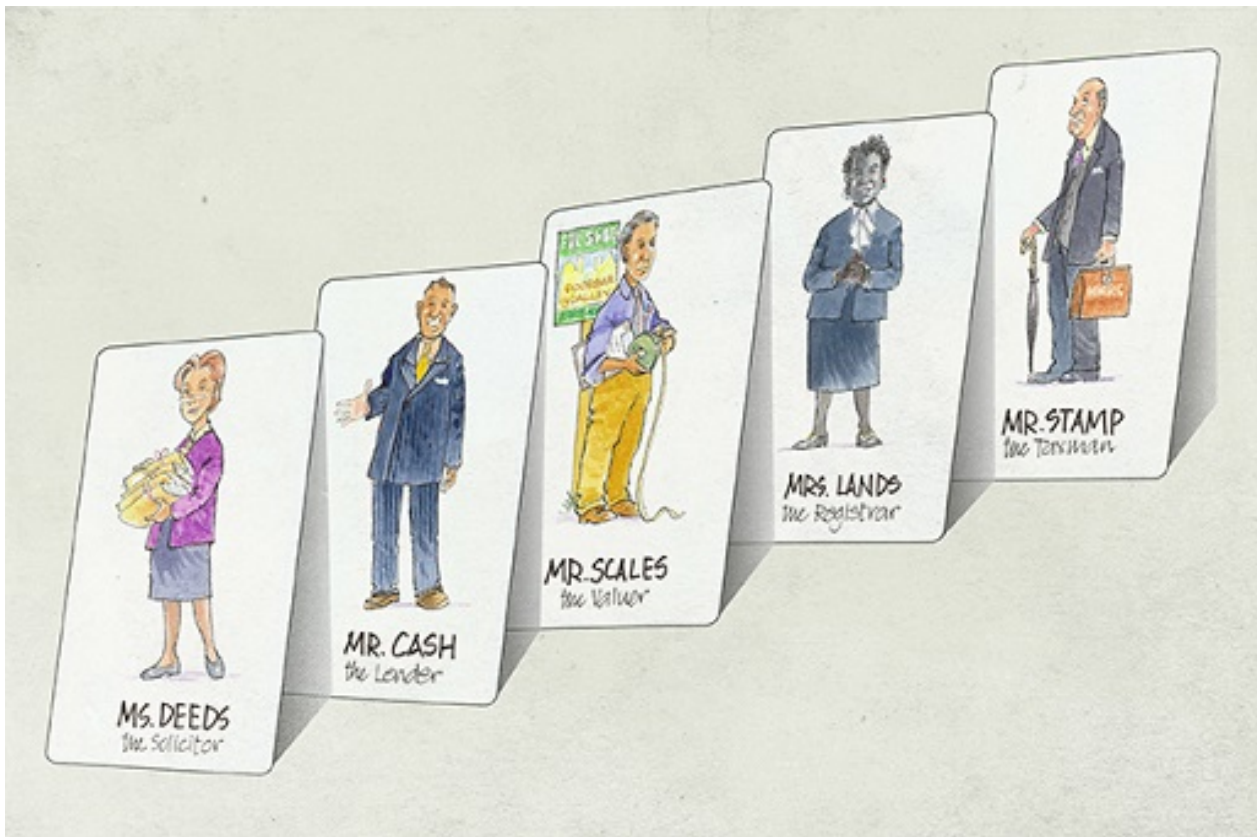


Figure 2

It's a good idea to secure an offer of a mortgage before you put in an offer on a property. Once your offer on the property has been accepted you can proceed with the purchase. In addition to the deposit, this is where homebuyers rack up other bills as well.



To show you how these costs might add up, let's suppose you're buying a property for £200,000. What additional costs do you incur? The animation leads you through the workings including:

- mortgage arrangement fee (common with fixed rate, capped and discounted mortgages)
- legal costs including local searches and Land Registry fee
- survey and valuation
- **Stamp Duty Land Tax: (SDLT)** (note that SDLT is applied at different rates (or 'marginal' rates) depending on the value of the property). In Scotland the equivalent tax is Land and Buildings Transactions Tax (LBTT)
- removal costs.

There might also be a fee to the mortgage broker if you've used one to help choose and organise the mortgage.

The largest cost will be the price of the property itself, which you, the buyer, can try to negotiate down from the seller's asking price.

For the seller the only costs incurred in the list above will be legal costs and removal costs plus the cost of an energy performance report that sets out how energy efficient the property is.

5 Completing the transaction



Figure 3

Once the price of a property has been agreed between the buyer and the seller, both parties approach their solicitors (or other conveyancer) to seek completion of the transaction. This part of a property transaction is not without its pitfalls.

First there is the issue of whether the agreed price is binding.

In Scotland the buyer submits their offer to the seller by an agreed date and the seller selects the best offer. Usually, at this point, the price agreed is binding so the mortgage needs to be arranged before the offer is made.

In England, Wales and Northern Ireland, until the legal contracts are 'exchanged' between the two parties, both the buyer and the seller are able to seek to change the price originally agreed and even to pull out of the deal without penalty. Sellers might accept a new, higher offer up to the point when contracts are exchanged – an unpopular process known as 'gazumping' – but if the market is weak there is the risk of 'gazundering', where the buyer cuts the level of their offer at the last minute.

The exchange date is particularly important if there is a long 'chain' of sales involved. Usually buyers and sellers in a chain of housing transactions coordinate to try to ensure that no one remains committed to buying a property without having secured a commitment to have their existing property bought. The longer the chain, the greater the risk of problems that will prevent completion of the individual transactions.

When all the documentation is ready a 'completion date' is agreed, binding contracts are exchanged and the buyer pays a deposit to the seller. If the buyer pulls out of the

agreement for any reason after contracts have been exchanged there are various financial sanctions that can be imposed. The completion date is when ownership passes legally from the seller to the buyer and the money is paid. This is also usually moving-in day too.

One decision that needs to be made if two people are going to buy together (whether as partners or not) is how the property will be owned legally. For instance, if they own it as joint tenants, each jointly owns the entire property, so on the death of one party their interest in the property would pass automatically to the survivor. Therefore, couples will usually buy a property as joint tenants.

By contrast, tenants-in-common each have a distinct share in the property. In Scotland, the equivalent terms are joint owners and owners-in-common. However, in Scotland, joint owners will have to have a 'survivorship destination' clause in the deeds to determine what happens to the property if one of the joint owners dies.

Activity 3 Chain reaction

Allow about 5 minutes

What problem can arise if all the parties in a chain of property transactions do not exchange contracts simultaneously? Have a go at plotting the financial and practical implications.

Provide your answer...

Feedback

The risk is that one party could find themselves committed to buying a property (by having exchanged contracts) before a similar commitment has been made on the sale of their existing home. If the buyer of their existing home pulls out of the deal (which can happen, even at a very late stage) then the affected party has a major problem. Without the proceeds from the sale of their existing home they may not have the money to complete the purchase of their new home.

6 Thinking ahead about your pension



Figure 4

It may seem odd to think about a pension as soon as you start your working life but the fact is that the earlier you start to plan for income in later life the better. The more you can save for your pension in your 20s and 30s the less you will need to set aside for it each month than if you start later. If you start to plan a pension from your 40s or 50s it might simply be too late to build up sufficient funds to retire when you want to or to have the standard of living in later life that you aspire to.

A minimum level of pension income is provided by the state pension – although this is, for most people, not enough for a comfortable retirement. So you need to supplement what the state will give you with your own pension – a pension that might come via a workplace scheme (an occupational pension) or a scheme that you arrange personally (a personal pension).

The basics of pension planning are reasonably straightforward.

- 1 Estimate how much income (after tax) you need to have a comfortable retirement. This means forecasting what your spending needs will be.
- 2 Deduct the amount of state pension you expect to receive and when you expect to receive it (bear in mind that the age at which the state pension is paid is moving upwards).
- 3 Find out how much you need to invest each month to ensure that the fund built up over your working life provides the income needed to bridge the gap between the outcomes of the first and second steps.

This is not a precise science but you should get a fairly clear idea of your needs through this three-step analysis. Repeating this analysis as you go through your working life will keep you on track. One way to deal with any discrepancies between your forecast and the amount of income you need is to shift the age at which you start you retire. With the exception of certain specified occupations, compulsory retirement ages in the UK have been discontinued.

Activity 4 How will your spending change?

Allow about 5 minutes

How do you think your spending will change in retirement relative to your pattern of spending in your working life? Itemise here the broad categories of your spending and then consider whether they're likely to move up or down in retirement.

Provide your answer...

Feedback

Some items of spending will fall (travel costs, if work involved a long commute) and others are likely to fall away completely (mortgage costs, since by it's probable that by retirement you'll have completed the repayment of your mortgage). Other costs might rise (medical costs; heating costs – due to more time being spent at home). For most people annual spending tends to be lower in retirement than during their working life.

7 The state pension



Figure 5 State old-age pensions were first introduced by Lloyd George in 1909. The first state pensions paid 5 shillings (25 pence) per week in 1909 – that is equivalent to around £24 in today's money!

Limited state retirement pensions were first paid in the UK in 1909. These were improved in the 1946 National Insurance Act, which brought in flat-rate universal state pensions (with effect from 1948).

While various developments in state pensions have taken place since then, the main thrust of policy between 1980 and 2016 has been to limit public expenditure on state pensions.

The UK government plans staged rises in the age at which people can receive their state pension, to reach 68 years in the late 2030s, with further increases likely. Many predict

that the state pension age will eventually rise to 70 years. One aim of these moves is that, on average, no more than a third of adult life should be spent in retirement. So the longer the population lives on average the higher will be the state pension age (SPA).

Since 2011 the basic state pension has increased each year with the higher of either earnings inflation, price inflation or 2.5%. This rule is referred to as the 'triple-lock'. It means that, in future, the basic pension should retain its value relative to earnings (or even rise a little faster).

Entitlement to the basic state pension depends on paying, or being credited with, the National Insurance contributions (NICs) during working life that you explored in Session 2. Credits are given for certain periods out of work, such as being ill, unemployed or caring for children. Since April 2016 the required contribution record for a full state pension has been 35 years of NICs. A shorter record means a reduced pension.

The key point is that even if you're entitled to a full state pension this is highly unlikely to be enough for even a basic lifestyle in retirement. In 2017 the full state pension amounted to only £155.65 per week. Those with less than 35 years of NICs get less than this.

The message is clear – the government will provide you with only a limited income once you reach state pension age. You are responsible for organising the additional pension income you need to have a comfortable retirement.

8 Auto enrolment into a pension scheme



Figure 6

A major development in pensions occurred in 2012 with the start of the government's 'automatic enrolment' scheme for pensions, which meant employers offering a workplace pension scheme to their employees and automatically enrolling them on to the scheme. Large employers started first and others followed, with all employers involved by 2018. If employees do not want to be enrolled in the pension scheme offered by their employers they have to take action to opt out. The prospect is that, for many, inertia will result in them becoming, and remaining, enrolled in a workplace pension scheme. Automatic enrolment is an important initiative to get people to contribute to a pension plan, and the encouraging news to date is that the majority of people enrolled automatically on to workplace pension schemes are not opting out of enrolment.

Activity 5 Action and inertia

Allow about 5 minutes

What's the reasoning, do you think, behind workplace pensions requiring employees to make a decision to opt out if they don't want to join the scheme?

Provide your answer...

Feedback

The intention is that the need to take action to opt out will mean that the only a small proportion of those automatically enrolled will leave the scheme. The majority will, perhaps through nothing else but inertia – a tendency to do nothing rather than to do something – stay enrolled in the scheme. Staying enrolled will boost the chances that a sufficient pension income will be available on retirement. The tactic is proving successful: so far only 20% of those in workplace pension schemes have opted out. Most have stayed enrolled.

9 Occupational pensions

Occupational pension schemes are set up by employers for their employees. They typically provide a package of benefits:

- a retirement pension for the employee payable from the scheme's normal pension age
- a tax-free lump sum for the employee at retirement
- a pension payable if the employee has to retire early due to ill health
- pensions for a widow, widower, registered civil partner and dependent children if the employee dies either before or after retirement. Most schemes also pay such a pension to an unmarried partner
- lump sum life insurance if the employee dies before retirement.

There are generally two types of occupational pension scheme: defined contribution schemes (also called money purchase schemes) and defined benefit schemes.

Defined contribution schemes invest contributions from the employer, and normally the employee as well, to build up a '**pension pot**' for the employee. The key features to note are that employees don't know in advance how much pension they might receive, and the pension is directly affected by factors such as the value of investments rising and falling with the stock market.

By contrast, a defined benefit scheme promises to pay a specified pension at retirement (often – but not necessarily – linked to the employee's pay while working). In a defined benefit scheme, the yearly pension is commonly worked out according to a formula, for example:

- Yearly pension = accrual rate × number of years in scheme × salary

The accrual rate is a fraction, typically 1/60th or 1/80th. How 'salary' is defined depends on the type of scheme and its rules. For instance, the salary that counts towards the pension might be less than the total salary the employee gets. In a 'final salary scheme', salary would mean pay just before retirement (or pay at the time of leaving if the person leaves before reaching retirement).

Whatever the definition of salary, this type of formula works in basically the same way. For example, a person earning £36,000 a year and retiring after 30 years in a 1/60th scheme would receive a pension of $\frac{1}{60} \times 30 \times £36,000 = £18,000$ a year.

Increasingly, defined benefit schemes are shifting to a 'career average revalued earnings' (CARE) basis. This means the pension is based on average pay over all the years in the scheme, after adjusting each year's pay for inflation between the time it was earned and the person retiring or leaving the scheme. Watch the animation to learn more about how CARE pension schemes work.



In recent years there's been a marked decline in the number of employees who belong to defined benefit schemes. For the employer, defined contribution schemes are less risky than defined benefit schemes because the employer promises only to pay specified contributions – a predictable, stable cost to the employer's business.

Defined contribution schemes are also less costly because most employers pay far less into this type of scheme than they would into a defined benefit scheme. What this means, of course, is a reduction in the money going into an individual's pension pot, which will reduce the eventual pension income.

10 Personal pension schemes



Figure 7

Personal pensions are those that people organise for themselves as opposed to those organised by their employers.

The pension depends on:

- the amount paid in, which is invested in a pension pot
- how much the invested pension pot increases in value
- how much is taken out of the pension pot in charges
- how much the saver decides to draw out as a cash lump sum at retirement
- how much pension the remaining pot can buy at retirement. Most commonly the pot is used to buy an **annuity** (an annual pension income), but an alternative is 'income drawdown', which is simply withdrawing money from the pot in stages, rather like taking money out of a savings account.

Anyone can have a personal pension and anyone can pay into a personal pension for someone else – so, for example, the main earner in a couple could pay into a plan for a partner who has a caring role.

Personal pensions (unlike occupational defined contribution schemes) do not necessarily offer a package of benefits. It's up to the individual to choose whether to buy extra benefits, such as life cover, a pension for a partner or increases to the pension once it starts to be paid.

Personal pensions and occupational defined contribution schemes expose the individual to a variety of risks. To understand these risks, put yourself into the position of someone who is currently many years from retirement and who has to organise their own pension scheme to provide themselves with retirement income.

How much should you pay into the scheme? It's important to get this decision right because if you pay in too little, your pension will be too small. Pay in too much, and you could limit your current spending and standard of living. You can't be certain of the correct amount. The eventual cost of the pension will depend on these factors.

- Investment returns: when investing for the long term – and pension savings are very long term – stock market investments, like shares and bonds, are likely to be most suitable. What counts here is the investment return after all the charges have been deducted. An investment fund that offers the chance of higher returns but has high charges might be a poor choice compared with a less ambitious investment fund with modest charges.
- Inflation: rising prices reduce the buying power of money. To protect against this, you would need to invest extra money to compensate for the effect of inflation both over the years when the savings are building up and once the pension starts.
- Longevity: the aim is that the pension, when it starts, will provide a regular income, usually paid monthly, until your death. The longer you live, the more months of pension have to be paid out, and the greater the total cost of the pension.

Therefore, personal pensions, defined contribution schemes, lead to individuals shouldering the risks up to the time when the pension starts. This means that different people saving the same amount can receive very different pensions, and a person's pension can be markedly different depending on when they retire.

11 Recent pension reforms in the UK



Figure 8

In recent years there have been extensive changes to state, occupational and personal pensions. These reforms have been driven by the following factors.

- The need to make pensions affordable given **growing longevity**. This has led to the state pension age rising, and to occupational and personal pensions becoming less generous.
- The desire to give people greater flexibility in how they can access and use their pension savings.
- The need to reduce the cost to the government of the tax incentives relating to pensions given size of the government's budget deficit.

From 2015, those retiring or approaching retirement are no longer faced with the option of just buying an annuity based on the value of their pension pot. The funds in the pot can be accessed – 25% of them tax free – and the money used freely. Some people will doubtless take the opportunity to spend the money that is realised. The likelihood is that most of those who do access their pension funds in this way will invest the money in alternative ways of providing an income in retirement – perhaps by investing in buy-to-let property.

Future decades will inevitably see more changes. It is essential as you move through your working life that you monitor these and track what they mean to you in terms of when you can afford to retire and the income you have in retirement.

Activity 6 Risks of opening the pension pot

Allow about 5 minutes

Can you think of any risks for pensioners from the recent reforms that give them more flexible access to the money in their pension pots?

Provide your answer...

Feedback

There several risks that those approaching retirement are exposed to as a result of the reforms.

- They could use up their pension pots too quickly and end up being poor in later life.
- They could invest their pots in risky projects that fail to generate the income needed in retirement.
- They could become the victims of scams, with fraudsters targeting the money in their pension pots. Sadly there is evidence that many pensioners have already lost money through such scams.

12 A model for financial decision making

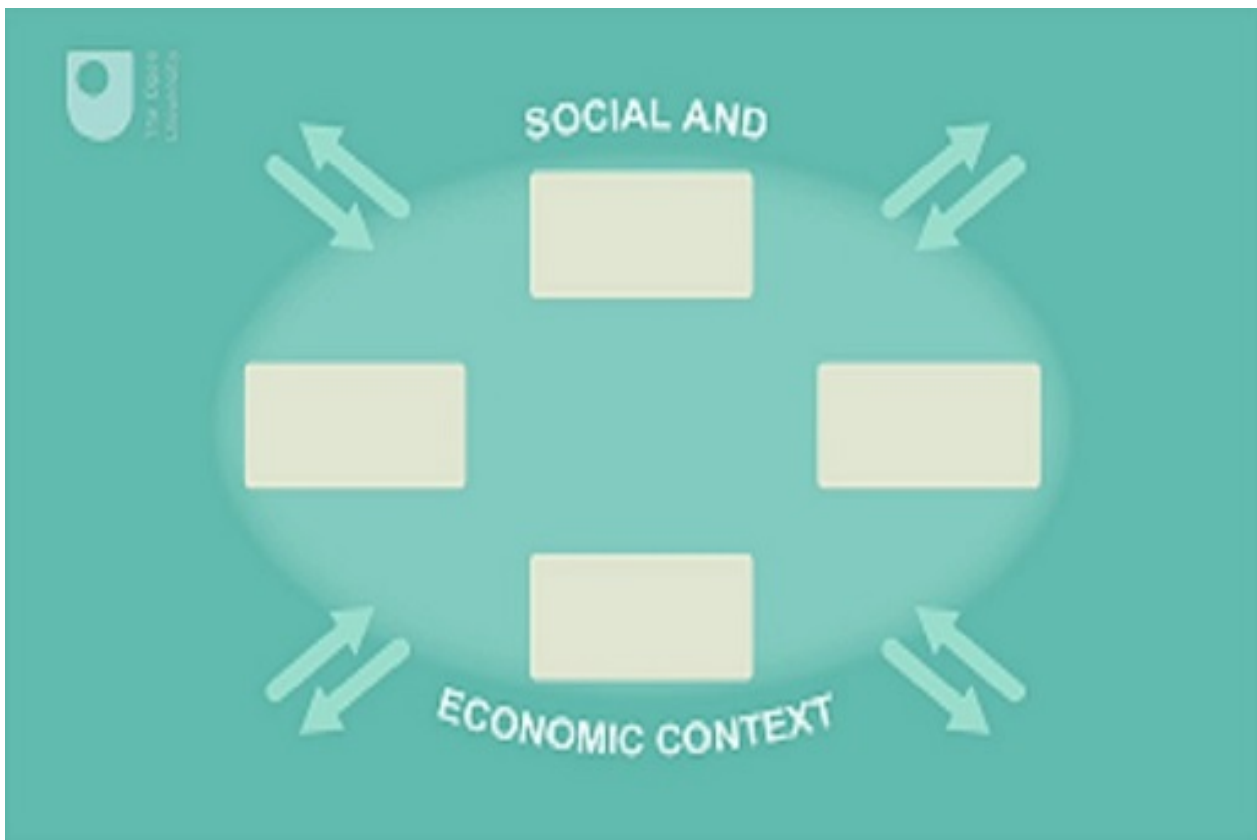
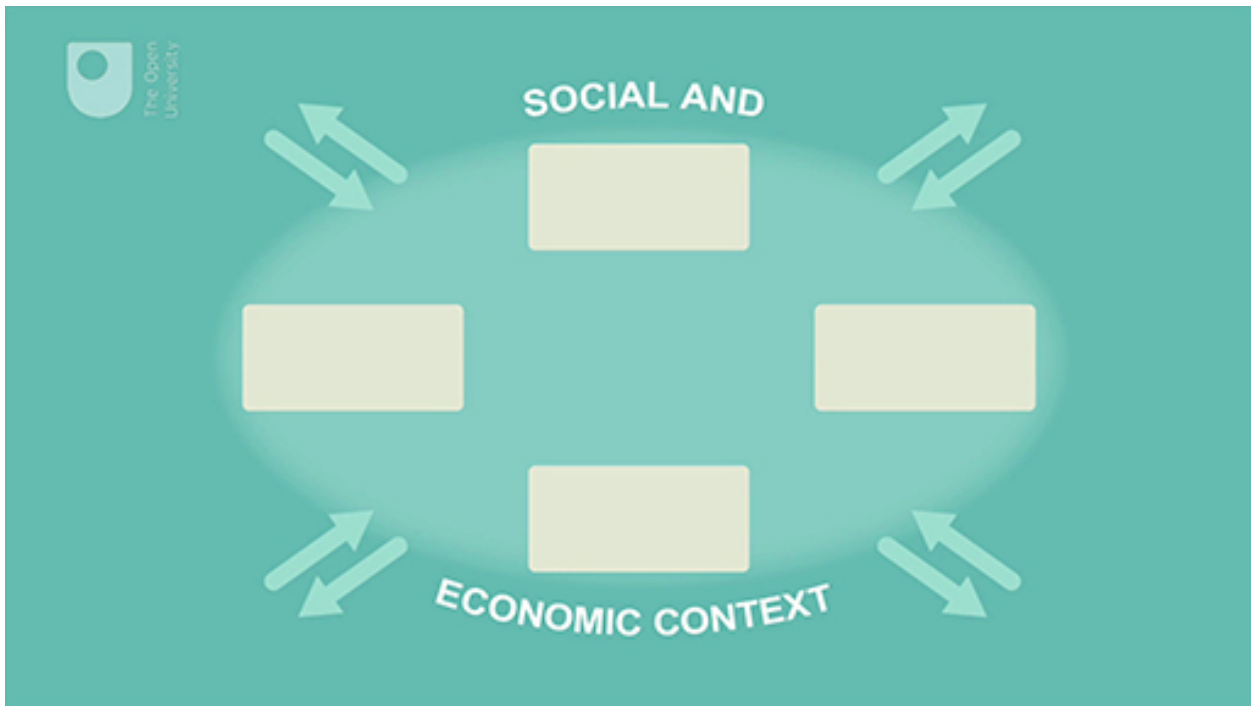


Figure 9

You're close to the end of the course now and we're finishing with a simple model that can be used for making all your important financial decisions – both now and in the future.

The four-stage model provides a framework for evaluating a financial issue, deciding on a plan of action, acting on that plan and then subsequently reviewing the outcome.

The video explains these four financial planning steps and the links between them.



If you need help when applying this model to major financial problems – for example how to get out of problem debts – you will find that it is offered free of charge by organisations like the Money Advice Service (MAS), StepChange and Citizens Advice.

See also

Money Advice Service

Money Advice Service (MAS) is an independent service set up by government, specialising in providing free, impartial advice while working in partnership with other organisations to help people make the most of their money.

Citizens Advice

Citizens Advice provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities on a range of topics, including personal finance.

StepChange Debt Charity

Known in the past as the Consumer Credit Counselling Service (CCCS), StepChange Debt Charity is an independent charity dedicated to overcoming problem debt, providing a wide range of free advice on the subject.

13 Applying the model to your decisions

Now, as a final activity, you will think of a recent financial decision that you've taken and analyse your own process of financial planning.

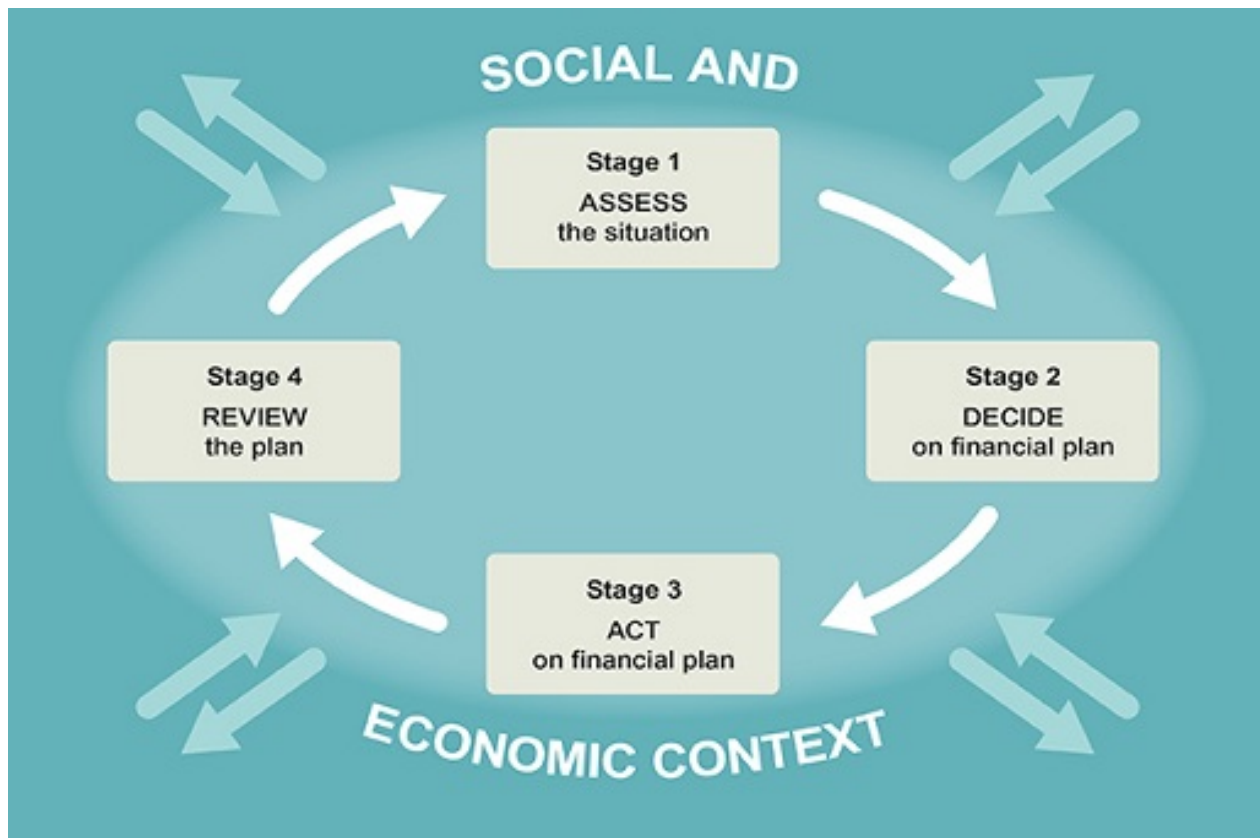


Figure 10

Activity 7 Applying the model in real life

Allow about 10 minutes

Try to remember each stage of your decision and have a go at analysing the stages in terms of the financial planning model. The decision could be something to do with acquiring a phone or a tablet, or going on holiday with your friends or buying a car. Another great way to apply the model is in connection with securing a property rental. Think about the different things you have to do – agreeing who to share with, deciding which area of the town to live in, locating a property, signing the tenancy agreement and then deciding whether to renew it at the end of the tenancy term. Where do these actions fit into the four stages of the model?

If you were to make a similar financial decision right now, would you approach it differently?

14 Bobby says goodbye

Bobby says goodbye to you in this final video and provides his top financial management tips from this course for you to remember.



15 End-of-session quiz

Congratulations on almost reaching the end of the course.

This is where you complete your Session 8 quiz, which has 15 questions. Remember that this quiz counts towards your badge. If you're not successful in passing the quiz you can attempt it again in 24 hours.

Session 8 compulsory badge quiz

Open the quiz in a new tab or window (by holding ctrl [or cmd on a Mac] when you click the link) and come back here when you're done.

16 Session round-up

This last session of the course has been all about taking action now to plan for your financial future.

Getting on the property ladder, investing for the future and planning your pension are all things you should start to think about as soon as you start your working life.

Delaying action will defer the time when you have a property of your own and will make it difficult to secure sufficient funds in your pension pot to give you a comfortable life in retirement.

So while you should still enjoy life to the full when you're young, don't neglect to take decisions to ensure that you can still have an enjoyable lifestyle when you're older.

You should now be able to:

- understand what you need to do to buy a property
- understand how to plan for a good pension
- know what pension you can expect from the state
- understand the alternative pension products and the factors that determine how much pension income you get from each

- understand how the four-stage financial planning model can be used when making important financial decisions.

If you are a teacher working with young adults, you might find this additional guidance for teachers useful.

Where next?

If you've enjoyed this course you can find more free resources on [OpenLearn](#).

New to University study? You may be interested in our [access courses](#).

Making the decision to study can be a big step and The Open University has over 40 years of experience supporting its students through their chosen learning paths. You can find out more about studying with us by [visiting our online prospectus](#).

Tell us what you think

How you have completed the course, we would again appreciate a few minutes of your time to tell us a bit about your experience of studying it and what you plan to do next. We will use this information to provide better online experiences for our learners and to share our findings with others. If you would like to help, please fill in this [optional survey](#).

Glossary

ATM

Automated Teller Machine typically referred to as a 'cashpoint'. Also informally known as a 'hole-in-the-wall'.

bank account

An account held at a bank or building society into which money can be deposited and from which cash can be withdrawn and bills paid. Bank accounts can be either current accounts or deposit accounts.

bonds

These are issued by financial and non-financial companies to raise funds to support their business activities. Bonds normally pay interest annually to those investing in them and have a maturity date at which point the investor receives back the money originally invested.

building society

A mutual organisation whose main function is the offering of savings accounts and the provision of mortgages to finance the purchase of property or land.

cash card

A card that has been credited with an amount of cash and that can then be used to settle bills like a debit or credit card.

cheque book

A book of cheques that can be used to withdraw cash at banks or settle bills.

credit rating

The measure or 'score' given to you by credit rating agencies based on their assessment of your creditworthiness.

debit card

A card that enables the withdrawal of cash from an ATM (Automated Teller Machine) and the settlement of transactions either physically or online.

goHenry

An example of an app that enables parents or guardians to pay pocket money to their children via a cash card. The card can be used to make purchases or access cash up to the total amount that has been credited to it. The app can be used to apply conditions to its use – for example where the card can be used or for what items. The app can also be used to set tasks and chores for which extra pocket money can be earned. The app allows parents to monitor how the money credited to the card is used.

interest

The rate paid on bank account balances and savings balances or the rate charged on overdrafts and loans. Interest is expressed as a percentage (%) of the balance, for example 6% per annum (p.a.). per annum means 'per year'.

overdraft

A position where the account holder has drawn on their account in excess of the amount of money that has been placed into the account. The account therefore has a negative balance.

PayPal

An online money transfer and payments system. Note that paying for items on PayPal using a credit card loses your Section 75 protection.

Premium Bonds

These are issued on behalf of the government by National Savings & Investments (NS&I). The bonds pay no interest but are entered into a prize draw each month with prizes of up to £1 million.

Section 75

The section of the Consumer Credit Act 1974 that gives rights for reimbursement for faulty goods etc. which have been purchased with a credit card.

shares

These are issued by companies to raise long-term finance to support their business activities. They normally have no maturity date although investors can sell them, at their prevailing market price, if they require their cash back. Those holding shares may receive dividend payments from the company – typically twice a year. These dividend payments are not guaranteed though. Note that shares are also termed 'equities'.

Child Benefit

A cash benefit paid in respect of dependent children.

excise duties

A tax on the production or sale of particular goods (e.g. beer and wine).

Her Majesty's Revenue & Customs (HMRC)

The government body responsible for collecting taxes.

Housing Benefit

A payment to cover rent costs for those living on low incomes and state benefits.

Income Tax

A tax paid on all forms of earnings (including pensions). This tax is normally deducted from earnings by the employer or pension provider.

Income Tax codes

Codes provided to employers and pension providers to inform them how much Income Tax needs to be deducted from the gross salaries on their employees and pensioners.

Inheritance Tax

A tax on the money left (also known as the 'estate') of someone who has died.

Jobseeker's Allowance

A cash benefit paid when unemployed and looking for employment.

gross income

Incomes (or earnings) before any deductions for tax and other items.

National Insurance contributions (NICs)

A deduction from earnings from employment. As with Income Tax, NICs are normally deducted directly from earnings by employers.

net income

Incomes after deductions for tax and other items.

'progressive' taxation

A tax structure where the proportion of a person's income paid as tax increases as their income increases.

Stamp Duty Land Tax (SDLT)

A tax on the purchase of property and certain other assets including company shares (securities issued by companies to raise money).

Value Added Tax (VAT)

A tax on goods and services (known also as a consumption tax).

Universal Credit

A cash benefit that is in the process of replacing other state benefits for those on low incomes or who are unemployed.

'zero-hours' contracts

An employment contract where there is no commitment from the employer to the employee in terms of hours of employment each week or month

heuristics

Approaches to problem solving or decision making that are based on discovery by small steps, where learning (or assumptions) are built up by trial and error.

URL

Universal resource locator (the technical term for a website address).

OFGEM

Office of Gas and Electricity Markets

CO2

Carbon-dioxide.

Legionella

The bacterium that causes legionnaires' disease. The bacterium flourishes in air conditioning and central heating systems (including the related piping).

Bank of England

The UK's 'central bank'. It issues bank notes, is the government's banker and is the banker to the banks. The Bank sets 'official' interest rates for the UK and has a general responsibility for the financial stability in the economy.

broker

A person who organises a financial transaction (like a mortgage) on your behalf. Brokers are also referred to as 'intermediaries' as they operate between (and bring together) the public and financial institutions. Brokers charge a fee for their services.

Financial Conduct Authority (FCA)

The organisation that regulates the financial services industry and the sale of financial products to the public.

monetary policy

The use of interest rates and controls on the supply of money to help achieve the key objectives for the management of the economy – principally the control of inflation and the level of economic activity.

price inflation

A general rise in price levels within an economy.

secured debt

Borrowing that is contractually linked to the asset you buy with the money like a house or car. If you fail keep up with repayments you risk the asset being repossessed (taken to cover your debt) by the lender.

trillion

A thousand billion (a billion is a thousand million).

unsecured debt

Borrowing that is not contractually linked to the assets you buy with the money. If you fail to keep up with your repayments the lender will still have the right to take legal action against you to try to get back the money owing to them.

county court judgments (CCJs)

A court order in England, Wales and Northern Ireland that can be issued against you if you fail to repay money that you owe. In Scotland the process is termed 'enforcing a debt by diligence'. The equivalent to a CCJ in Scotland is a decree.

annuity

An annual pension income for the whole of your remaining life. The size of the annuity depends on the size of your pension pot when you retire. However, the annuity provider (usually the fund management company used to build up the pension pot during working life) will take a slice of the pension pot in charges before what remains is turned into income.

growing longevity

An increase in the average lifespan of a population.

pension

An income for later life and when in retirement.

'pension pot'

A colloquial term for a pension fund or pension savings.

Stamp Duty Land Tax (SDLT)

A tax on the purchase of property or land. In Scotland the equivalent is Land and Buildings Transaction Tax.

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