

# STUDENT WORKBOOK

## Managing your finances



**nybep**  
BUSINESS and EDUCATION PARTNERSHIP  
for YORK and NORTH YORKSHIRE

 **scarborough**  
building society



# Introduction

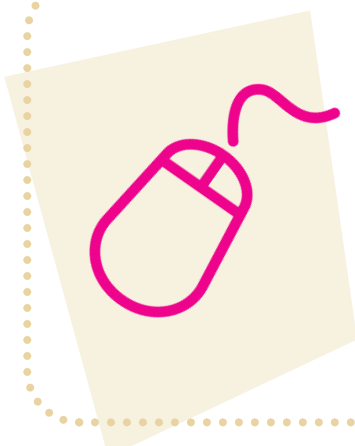


This workbook is designed to be used during lessons on personal finance. It contains information on lots of different subjects around finance, like tax, mortgages, savings, overdrafts and credit cards.

We hope that this workbook will give you more information about terms used about finance on a daily basis and help you to learn to budget, be sensible with your money and not get into debt in the future.

On each page there is a question and answer, followed by words and phrases that you need to research and read around as well as exercise questions to make sure that you have fully understood the topic.

Making sure that you are aware of financial issues is really important for your future. So, take your time and make sure that you understand everything, as getting into debt can have bad consequences for you in the future.



**If you get stuck on any questions, we suggest you take a look at the following websites, which should be able to help you out:**

[www.direct.gov.uk](http://www.direct.gov.uk)

<http://en.wikipedia.com>

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Q1.

## What's the difference between standing orders and direct debits?

A:

A Standing Order is when you pay a company or person a fixed amount on a regular basis direct from your bank account. A Direct Debit gives someone else, usually a company, permission to take funds from your account in agreed amounts and at agreed intervals.

### Explanation

- Each one is more appropriate to different types of payments
- For example, you can direct debit your mobile phone bill so that it is paid off each month, as the amount might vary month in, month out
- Fixed monthly payments like rent can be put on a standing order as you are likely to be paying the same amount every month
- You can choose the payment day – most people will choose the day they get paid or just after so that they don't spend the money first
- Some companies offer discounts if you choose to pay your bills by direct debit or standing order.



# Questions

## Terms to research:

Standing order  
Direct debit

1. When would you use a standing order?



2. What bills would be better paid by direct debit?



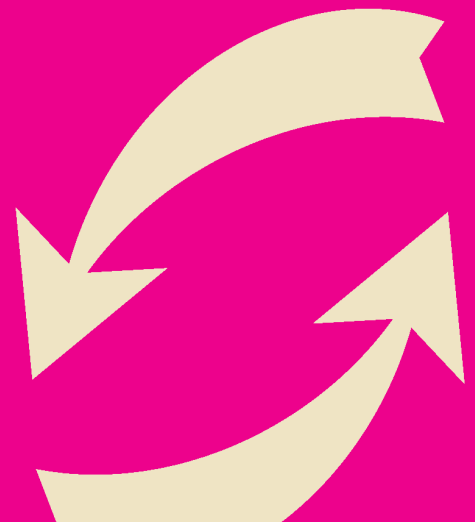
3. What are the advantages of direct debits/standing orders over paying with a cheque each month?



4. Are there any limits as to how much you can transfer by standing order/direct debit?



5. Can you use direct debits/standing orders if you don't have a bank or building society account?



Q2.

## What's an overdraft?

A:

This is a prior agreement with your bank which allows you to draw out more money than your account actually contains, to a pre-arranged limit.

### Explanation

- Sometimes a bank or building society will let you take out more money than you have in your account
- If you require more funds than you have in your account, you will need to speak to your bank manager/adviser to see if an overdraft facility is appropriate and available to you
- If you have arranged for an overdraft facility on your account, you will be charged an authorised overdraft rate
- This is the rate of interest that you will pay on the amount of money you are overdrawn – as long as you remain within the authorised limit
- If you have not arranged an overdraft facility, or you have gone over your authorised limit, you will be charged interest at the unauthorised overdraft rate
- This rate will be much higher than the authorised rate
- You may also be charged a fee for going overdrawn – which may depend on whether the overdraft is authorised or unauthorised and the amount of the overdraft
- Some banks will allow a certain amount of overdraft without charge, for example £100, but for higher amounts you will sometimes be charged for the facility

### Examples of interest rates and charges:

#### Authorised overdraft:

- No Fees or Charges
- No interest up to £250
- £251+ charged at an interest rate of 0.79% per month (9.90% EAR (Equivalent Annual Rate))

#### Unauthorised overdraft:

- 2.05% per month (27.5% EAR) on the excess balance only
- Paid Referral Fee of £30 per account per day (maximum of £90 per month)
- If any cheques, standing orders or direct debits have to be returned as a result of your going into unauthorised overdraft, an Unpaid Fee is charged at a maximum of £35 per day.

credit

debit



## Terms to research:

Overdraft

Bank charges

# Questions

1. What is an overdraft?



2. What are the two types of overdrafts?



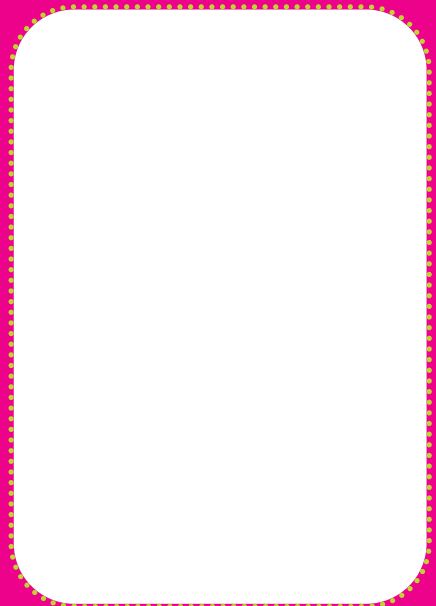
3. Will you be charged for an authorised overdraft?



4. Can you have an overdraft on your savings account?



5. Who decides how much your authorised limit is?



Q3.

If you earned £17,000 per year, what percentage of your wages would go on income tax?

A:

The majority of your tax will be at 20%. You also need to take into account the £5,435 (08/09) of personal allowance (tax free money).

## Explanation

- The Government takes money from people's income in the form of income tax and National Insurance
- Income tax – Income tax is a tax paid on income. It is paid by employees and people who are self-employed and may also be payable if you are not working but you have an income, such as a retirement pension or an occupational pension. There is no minimum age at which a person becomes liable to pay income tax. What matters is your income. If this is below a certain level, no tax is payable
- National Insurance - You pay National Insurance contributions (NICs) to build up your entitlement to certain social security benefits, including the State Pension. The type and level of NIC you pay depends on how much you earn and whether you're employed or self employed. You stop paying NICs when you reach State Pension age
- Tax and NICs are normally taken out of your wages by your employer before you get paid if you are a member of the PAYE (pay as you earn) scheme
- Tax also comes directly off your savings interest at a rate of 20% before you receive it
- However, sometimes individuals are responsible for paying their own tax – for example self-employed people
- The tax does not come off all your wages as everyone has a certain amount of personal allowance – some money that can be earned tax free
- The limit for 2008/09 is £5,435
- £0 - £5,435 of your wages is your personal allowance – this means that you don't pay any tax on the first £5,435 of your earnings. However, you will still pay National Insurance contributions on earnings over £105 per week
- £5,435 - £41,435 is the 20% band – if you earn between this much you will be taxed at 20%
- All income above £41,435 is subject to higher rate of tax at 40%
- In an example, where someone earns £17,000, they would be subject to the following income tax:
  - The first £5,435 at 0% = only National Insurance contributions
  - The next £11,565 at 20% = £2,313
  - In addition there would be National Insurance contributions of £1,269.40 - 11% of any earnings between £105 – £770 per week and 1% of any earnings over £770 per week
  - Leaving a net salary of £13,417.60 per year
- This money goes towards things that are provided by the Government at no direct charge, for example the cost of government itself, the cost of building new roads, running hospitals and the police. All of these are paid for through taxes
- People not only pay tax on what they earn but also on what they buy
  - For example, most purchases that people make from a shop have an additional 17.5% added on for VAT (value added tax); this is also a tax that goes to the Government
- Businesses also pay tax on profits that they make
- Some purchases such as petrol and cigarettes have additional taxes associated with them. The levels of these are decided in the Government's Annual Budget
- Things that harm the environment also have additional taxes, such as cars with larger engines that cause more pollution.

# Questions

## Terms to research:

National Insurance  
Tax codes  
Personal tax allowance  
Higher tax bracket  
Income tax

1. What is the current annual personal tax allowance?



2. How much do you have to earn to move into the higher tax bracket?



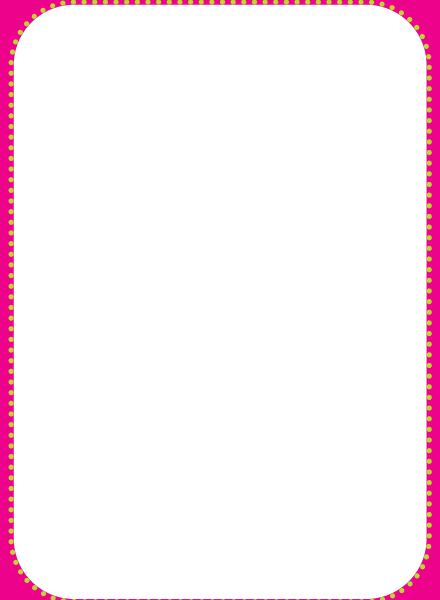
3. What is VAT?



4. Do you have to pay tax if you are under 18?



5. What does the Government use your tax contributions or payments for?



Q4.

## What is inflation?

A:

The rate at which the general level of prices for goods and services is rising, and, subsequently, buying power (the amount of goods people can afford to buy) is falling.

### Explanation

- Inflation is the increase in prices of goods and services over a period of time
  - For example, a can of drink in 1985 was 15p, it is now, 20 years later 60p. This rise is caused by inflation
- People refer to the rate of inflation as the Retail Price Index (RPI)
- This is calculated by measuring the cost of a sample of goods that the typical household buys each month
- This is known as the "basket". Last time, the basket added around an additional 30 items, including MP3 players, flat screen TVs, biscuits, wine and Chicken Kiev!
- The contents of the basket are reviewed every year to make sure they are up-to-date
- Inflation is caused by demand for goods exceeding supply e.g. if there is a bad potato crop one year, the price will rise as the same amount of people will have to share less potatoes. More competition means higher prices
- This means that the people selling the potatoes can put up their prices and still sell because people are prepared to spend more money in order to get what they want
- Inflation is not always a bad thing
- As long as wages rise at the same rate as inflation, the amount that people can buy (buying power) does not decrease
- However, for those on fixed incomes (i.e. their wages do not rise every year), inflation can reduce what they can buy for their money.



# Questions

## Terms to research:

Inflation

What's in the "basket"?

1. What is the 'basket' in terms of inflation?



2. How many items are there in the 'basket'?



3. What is the opposite of inflation?



4. What is the current rate of inflation?



5. What is buying power?



Q5.

## How old do you have to be to get a mortgage?

A:

18

### Explanation

- A mortgage is a loan you can get from a bank or building society in order to buy a property
- To take out any form of loan you must legally be an adult, i.e. aged 18 or over
- The amount of money you can borrow is set by the amount you earn – the average amount borrowed in 2006 was 3.1 times annual income
- Many lenders will allow you to borrow more money based on whether you can repay it, not how much you earn. This is referred to as "affordability"
- You enter into a mortgage with a bank or Building Society for a set number of years, but you can choose to pay it back earlier – on certain types of mortgage, including a fixed rate mortgage, this may be subject to some fees (early repayment charges). Lenders will usually allow you to pay back a certain percentage of the amount borrowed early with no penalty
- You can also change which provider you have your mortgage with, subject to terms and conditions you agree to when you take out the mortgage
- Interest and set up fees are charged on mortgages, like on any loan. You need to shop around to make sure that you get the best deal possible for you
- The loan is secured on the property which can be taken away, or repossessed, if the payments on the loan are not made to the bank/building society
- There are different types of mortgage:
  - **Fixed rate** – A fixed rate means that no matter what happens to national interest rates, your mortgage interest rate stays the same until an agreed date
  - **Trackers** – the interest rate moves with the Bank of England Base Rate\*, so whenever this changes, the rate on the tracker mortgage is guaranteed to go up or down by a similar amount, within an agreed period
  - **Cashback** – You receive a lump sum payment when you take out the mortgage – normally a percentage of the amount borrowed. Interest rates on this type of mortgage are generally higher. These mortgages can be trackers or set at a fixed rate
- You can also choose to pay:
  - **Capital and Interest** – when you pay back payments based on the whole sum borrowed, including interest. These are called repayment mortgages
  - **Interest only** - Your repayments only take into account the interest on the amount that you've borrowed. Although this will be lower than the payments on a repayment mortgage, you will not be paying off any of the total sum you have borrowed and will need to pay the amount borrowed back in full at the end of the agreed mortgage term. You should only choose this option if you have taken advice and are sure it is right for you
- One option to help ensure that you pick the right mortgage for you is to speak to an Independent Financial Adviser who will be able to look at your situation and help you choose
- It is worth starting saving towards your deposit as early as possible, as the higher the deposit you have to put on a house, the less you have to borrow. This means your repayments will be lower and you are more likely to get a better interest rate.

\* The Bank of England Base Rate is a rate of interest set by the Bank of England which is reviewed monthly.

debit

# Questions

## Terms to research:

Independent Financial Adviser  
Fixed rate  
Trackers  
House deposit  
Loan to value  
Early Repayment Charges

1. How old do you have to be to have a mortgage?



2. What interest rate do most Tracker mortgages follow?



3. How much did the average home buyer borrow in 2006?



4. What are early repayment charges?



5. How much, on average, does a first time buyer save towards their deposit, according to 2005 figures?



Q6.

How old do you have to be before you can get a credit card?

A:

18

## Explanation

- You can get a credit card by applying to your bank, building society or a credit company
- You should receive a statement every month, which will outline how much you owe on the card, when your payment day is and your minimum payment
- If you miss your payment date you will be charged a late fee as well as interest on the amount you owe
- Before the company will give you a credit card, you will undergo a credit check – looking at the state of your previous credit history
- This can be good or bad
- You can build up bad credit history for many reasons including:
  - if you haven't paid your bills on time
  - if you are not on the electoral role
  - have been repeatedly turned down for loans
  - if you are a victim of identity fraud
  - if you have been declared bankrupt
  - if you are linked to someone with a bad credit history
  - if you get a County Court Judgement (CCJ) order served against you
- You can even have a bad credit history if you don't have a credit card as the organisation has nothing to compare your credit history against and can therefore assume the worst
- Having a bad credit rating means that you may not be allowed a card
- You can check your credit rating online via credit check agencies' websites
- There are types of credit other than credit cards, which are:
  - hire purchase
  - store cards
  - loans
- **Hire purchase** - The user (hiree) of goods pays regular installments to the hire-purchase company over a period of months. Full ownership passes to the hiree at the end of the period (the hiree is able to use the goods from the outset)
- **Store cards** – These are cards that are issued from specific shops, for example a department store. The cards can only be used to buy items in that store or other stores in the same group. Store cards often have a comparatively high rate of interest and therefore should be used carefully, you should also make sure you clear your outstanding balance each time you receive your bill
- **Loans** – loans are given by many different organisations. The borrower receives a sum of money from the lender. They then pay back the debt in, usually regular, installments. This service is given at a cost, and this cost is charged in the form of interest on the loan. Banks and building societies sometimes offer very good rates on loans, however, it is important to shop around for an organisation which charges competitive rates of interest. The better your credit history, the better the interest rate you should be able to get
- There are several types of credit – short, medium and long term
- Credit cards are short term whereas getting a new car on a finance scheme is medium term and a mortgage is likely to be long term
- You need to remember that everything that you borrow will need to be paid back at some point.

credit

debit



# Questions

## Terms to research:

Credit cards

Minimum card payment

Store cards

Hire purchase

Bad credit history and how to avoid it

1. How old do you need to be to get a credit card?



2. Is a credit card a long, medium or short term debt?



3. What is a store card?



4. How do you find out what your credit rating is?



5. What is the minimum payment you need to make on a credit card each month?



Q7

## What's the difference between a debit and a credit card?

A:

When you use your debit card to make a purchase, it's just like using cash. The account that is attached to your debit card is automatically debited straightaway when you use your debit card. The cost of your purchase is deducted from the funds you have in that account.

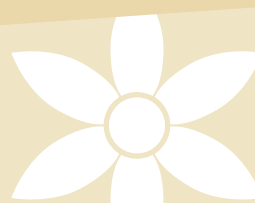
On the other hand, when you use your credit card to make a purchase you are using someone else's money, specifically the issuer of the credit card, usually a banking institution.

### Explanation

- You can use both debit and credit cards to buy things
- With a debit card the money is taken from your account as soon as you buy the item as you are spending your own funds, as opposed to getting credit
- Unlike with a credit card, there are no charges for the transaction (unless you go overdraw – i.e. take out more money than you have in your account) and no interest to pay as the money is taken out immediately, not at the end of the month
- With a credit card, you agree to pay the money that you have borrowed back over time, either at the end of each month, or staggering your payments over a few months
- Credit cards charge interest on the outstanding balance, so it is better to pay off all the money you owe each month
- Credit cards are only available to people over the age of 18, whereas a debit card can be obtained at 16
- Some banks offer cash cards – which only work in cash points and can't be used in stores – from the age of 11
- You can get a Solo card – which allows you to make purchases in selected shops – from the age of 15
- Be careful of credit cards as the interest on any outstanding balance can rack up without you noticing
- 62.9% of credit cards are active (have an outstanding balance)
- Credit cards can be a very good way of accessing short-term credit to help you to manage your finances. You can usually enjoy about five weeks' interest free credit on the things you buy with your card, as long as you pay off the whole amount each time you get your bill.

credit

debit



# Questions

## Terms to research:

Credit cards  
Debit cards  
Solo cards  
Personal debt  
Outstanding balance

1. What's the difference between a credit and debit card?



2. Do you get charged for a debit card purchase?




3. How old do you have to be to get a debit card?



4. How much was the average balance on a credit card in the UK in 2005?



5. How do you know whether you can use a debit / credit card in shops?



Q8.

What type of insurance can you get when you buy a home?

A:

Obtaining buildings insurance will be a requirement of your mortgage. It is also advisable to get contents insurance in case of burglary. However, there are other types of insurance you may be advised to take out.

### Explanation

There are several types of insurance, including:

- **Buildings insurance** – provides financial protection against loss or damage to the property
- **Mortgage Payment Protection Insurance (MPPI)** – provides financial protection in case of redundancy or unexpected serious illness, enabling you to still pay your mortgage
- **Contents insurance** – provides financial protection against loss or damage to personal property or possessions in your home, for example if you were burgled
- **Additional insurances specific to natural disasters** – flood insurance or earthquake insurance (overseas). Normal property insurance tends not to cover natural disasters

#### Why are they necessary?

- **Buildings insurance** – helps home owners to rebuild properties damaged or destroyed as a result of unforeseen events

- **MPPI** – if you do lose your job and are unable to earn any money, you may have problems in paying your mortgage, which can be helped with MPPI
- **Contents insurance** – helps homeowners to replace personal possessions which have been lost, destroyed or stolen
- **Additional insurances** – they may be required if the property is built on flood plains or area subject to earthquakes

#### What does insurance cover you for?

- **Buildings insurance** – property loss/damage cover, e.g. broken windows, damage to the roofing tiles etc
- **MPPI** – loss of income, to ensure mortgage payments are met for a further 12 months
- **Contents insurance** – covers personal possessions such as money, electrical equipment, CDs, money, clothes etc against damage and burglary.



# Questions

## Terms to research:

MPPI

Contents insurance

Natural disasters

1. Does Mortgage Payment Protection Insurance (MPPI) cover you if you leave your job?



2. If you drop your own TV will your contents insurance cover you?



3. What are natural disasters?



4. How long does MPPI cover you for?



5. List two other types of insurance you can get for yourself, your house or your car.



Welcome

Q9.

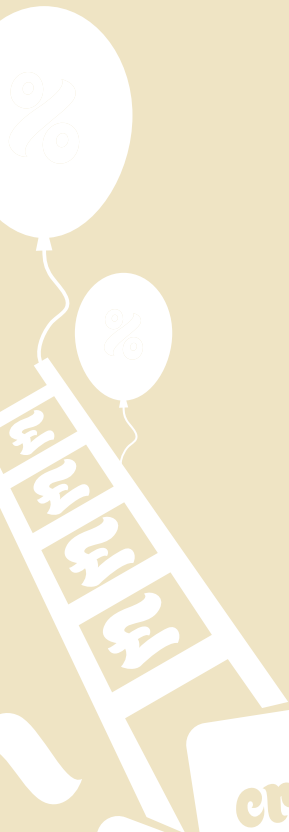
Roughly how much does the average weekly shop for a family of four cost?

A:

Around £100.

### Explanation

- We spent £78bn on food and drink in the UK in 2005 (source: DEFRA)
- The UK population at the time was circa 60 million (National Audit Office) which equates to £1,300 per year for every man woman and child on food and drink
- Therefore our weekly shopping spend is an average of £25 per person, or £100 for a family of four, every week for food and drink alone
- 75% of sales are made in supermarkets and superstores
- In total we spent £246bn in all on retail sales in the UK, so over 30% of all shop (retail) sales were food and drink (source: DEFRA)
- The value of sales in grocery outlets has increased by 3% per year over the last 10 years (this is excluding the effects of inflation)
- This growth reflects the rise in non-grocery sales, e.g. when supermarkets sell higher priced goods like TVs, books and CDs, and a higher average spend on better quality food (e.g. superior ranges) (source: DEFRA)
- General food has, however, been made more affordable with real food prices (excluding inflation) declining by 7.3% in the last 5 years. (source: DEFRA).



credit

debit

# Questions

## Terms to research:

Inflation  
Retail sales  
Grocery outlets  
Non-grocery sales  
Real food prices  
DEFRA

1. If we spend £25 per week per person on food, how much will a family of four spend over half a year?

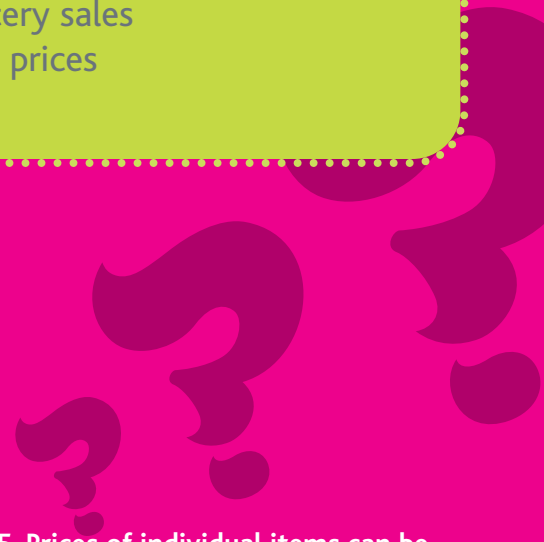
2. What is pushing up the average spend in a supermarket?

3. How much did we spend on food and drink as a nation in 2005?

4. What other goods can you now buy in supermarkets?

5. Prices of individual items can be different depending on which store you shop in and therefore it is worth looking for the best deal. Do a comparison of four types of item from two different shops:

- a. Baked beans – own brand
- b. A loaf of wholemeal bread
- c. A kilo of bananas
- d. A pint of milk



Q10.

If you borrow £1,000 at a rate of 10% interest per year, how much will you owe after the first year?

£1,100.

### Explanation

- This is a very simple way of looking at the subject of interest
- This is the amount of interest you would pay – as long as you did not make payments towards the debt during the year
- This also does not take into account if the interest is added on monthly, which would mean that you end up paying more as interest is also paid on the interest from the previous month – compound interest
- The figure also does not take into account whether the loan interest is paid at a fixed or variable rate
  - **Fixed rate** – this means that the rate of interest charged on the loan stays the same for the term of the loan – whether it be 1 year, 2 years, 5 years or 10 years
  - **Tracker** – this will depend on the Bank of England base rate.\* If this rate rises it means that the rate of the loan will rise as the majority of banks and building societies link to the base rate. This rate also determines the level of inflation in the country
- In most cases loans will only be given to people with good credit history, you can be turned down by a bank for a loan
- There are two types of loan:
  - **Secured loan** – Money is given to the borrower on the understanding that their house, or other high value item, is security for the debt. A mortgage is a type of secured loan. If the borrower doesn't pay the loan, the bank has the legal right to repossess the item in security and sell it
  - **Unsecured loan** – These are available from financial institutions in many different forms:
    - credit card debt
    - personal loans
    - bank overdrafts
    - credit facilities or lines of credit

The interest rates applicable to these different forms may vary depending on the lender and the borrower.

\* The Bank of England Base Rate is a rate of interest set by the Bank of England which is reviewed monthly.

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# Questions

## Terms to research:

Compound interest  
Bank of England Base Rate  
Inflation  
Secured loans  
Unsecured loans  
Overdrafts

1. What are fixed rate loans?



2. What are unsecured loans?



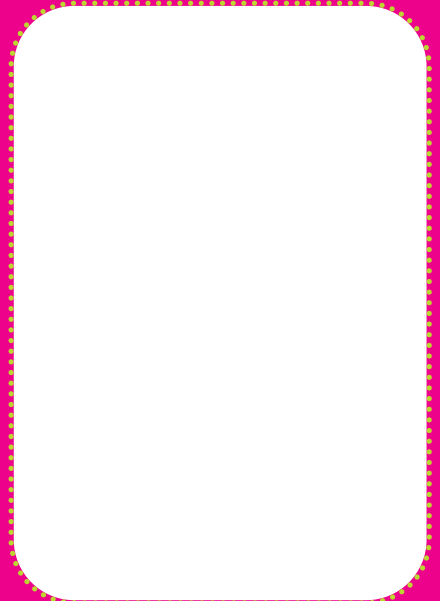
3. What are secured loans "secured" on?



4. What is interest?



5. What is compound interest?



Q11.

If you wanted to go on to further education, what financial support is available to help you pay for this?

A:

Education Maintenance Allowance (EMA) scheme.

### Explanation

- The EMA is a government funded scheme that enables 16-19 year olds to stay in, or get back into, education by providing financial support
- It is available to students who have a household income under a certain threshold
- There are also certain residential criteria
- By showing a commitment to learning, students will receive a weekly payment of £10, £20 or £30 per week
- This money can be used to help with day-to-day costs like travel, books and equipment
- It is paid directly into their bank account
- It is available during term time for any academic or vocational course which involves at least 12 hours guided learning per week
- Bonuses of £100 are also available, depending on their progress
- EMA is only paid to students who have a good attendance record – they can lose payments if they do not display commitment and progression
- EMA does not affect other family benefits and is aimed at helping young people from lower income families
- Young people can apply for EMA through school, colleges or Connexions.

credit

debit



# Questions

## Terms to research:

EMA  
Household income  
Connexions

1. Up to how much can you earn per week with the EMA?



2. What are the bonuses for good performance?



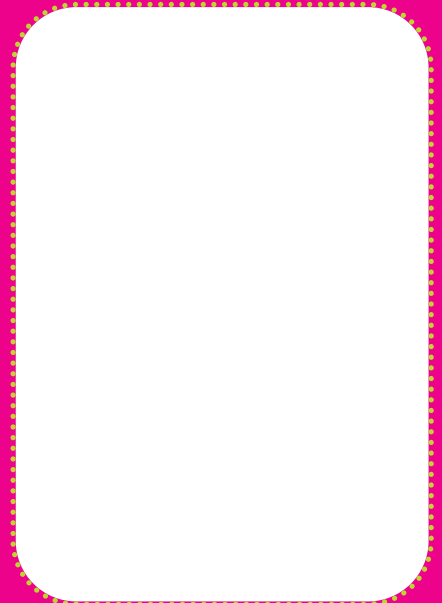
3. Can you lose your EMA payments?



4. How can you apply for the EMA?



5. Do you need to have a bank account to receive the EMA?



Q12.

# What's the average monthly rent for a two-bedroom flat in the UK?

£528 per month (statistics 2006).

## Explanation

- Cost over a year – £6,336
- If you earn £15,000, this is over half your net yearly salary
- This cost does not include the bond/deposit that the landlord will ask for – usually a month's or six weeks' rent
- The landlord will also usually require a month's rent up front
- It is very important to budget properly as rent normally needs to be paid on time and in full
- Be careful about who you rent from – some landlords can be unscrupulous and make unfair charges or perhaps do not maintain their property to adequate safety standards required by law
- Make sure that you read your tenancy agreement properly – especially if you are a student
- A tenancy agreement is a legally-binding document between you and the landlord
- Make sure you get an agreement in writing
- If the landlord does not provide this information within 28 days of your asking, he or she is committing a criminal offence and could be fined
- Also, make sure that you are aware of your rights as a tenant - such as being given 24 hours notice for your landlord to be able to inspect your home
- You will more than likely need references in order to be able to secure a rental property
- Check the inventory\* when you arrive and when you leave to ensure that your landlord is not going to charge you for something which was not in the house to begin with.

\*A list of items already in the property when you move in.



# Questions

## Terms to research:

Bond / Deposit  
Tenancy agreement  
Inventory

1. What is a deposit?



2. What is an inventory?



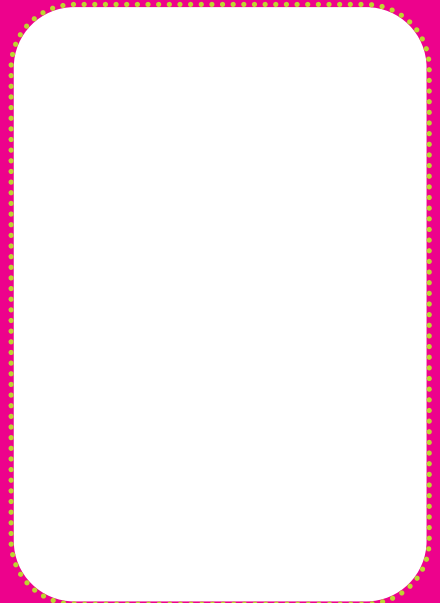
3. Who signs a tenancy agreement?



4. How much notice does a landlord have to give you before he/she can come round to inspect the property?



5. Do you need insurance when you move into a property?











Scarborough Building Society is authorised and regulated by the Financial Services Authority.  
Our FSA register number is 206062 and you can check our registration in the FSA register on the  
FSA's website [www.fsa.gov.uk/register/](http://www.fsa.gov.uk/register/) or by contacting the FSA on 0845 606 1234.  
Scarborough Building Society is a member of the Building Societies Association.  
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