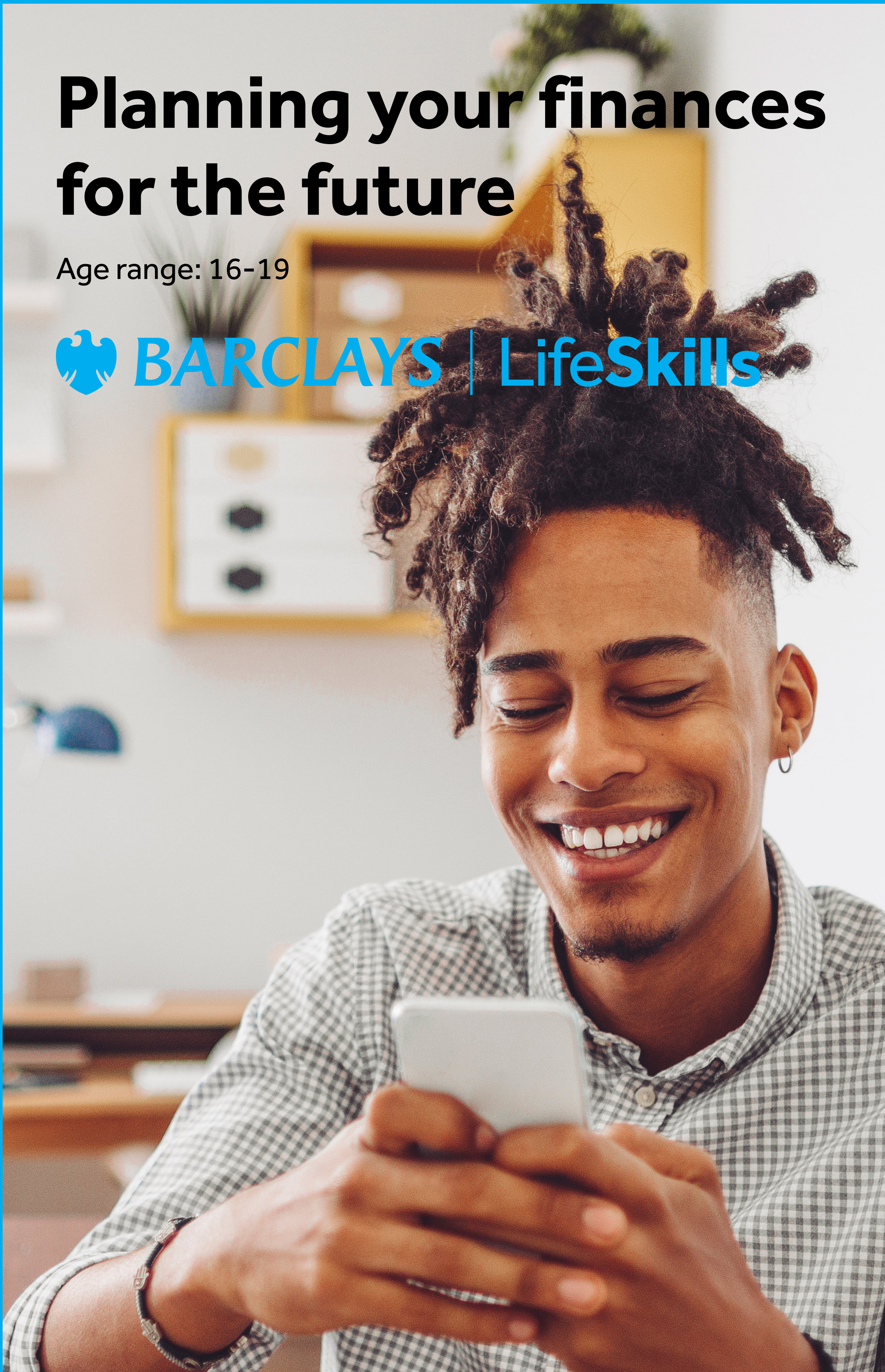
Planning your finances for the future

Age range: 16-19

BARCLAYS | LifeSkills



Session overview

Time	Key learning outcomes	Resources
150 mins	By the end of the activity students will be able to: • Understand needs and wants in the context of living independently • Identify strategies for saving regularly and planning for the future • Understand the difference between being in debt and in financial difficulty • Apply different debt strategies to a range of financial emergencies	• Planning your finances for the future presentation slides

This lesson plan is designed to be used in tandem with a PDF containing interactive activity slides. They are accredited with the Young Money Finance Education Mark, recognising them as recommended financial education resources.

Always start the session by agreeing ground rules with the group. For advice on this and other ways to establish a safe learning environment, download the **content guide**.

Contents

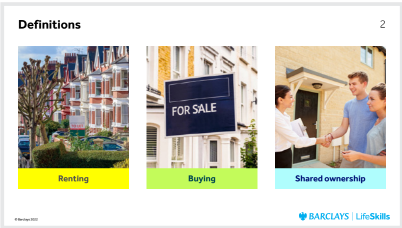
There is Money Skills content to suit a range of ages and abilities – take a look at our 7-11, 11-14, 14-16, and 19+ resources, which focus on topics such as attitudes to money, money management and risk, financial independence and fraud.

Please note that this lesson includes figures used in calculations such as student loan thresholds, NI contributions or similar. These figures were correct at the time of publication but may have changed by the time you use the resource as they are usually updated by the Government on a yearly basis.

Activity one

The cost of living independently

1. Options for living independently



- Students may be familiar with sticking to a budget and saving up for something they want in the short term. This activity focuses on longer term saving and borrowing and the importance of planning for your financial future
- Whatever their next step after leaving education, young people will need to consider the options for where they will live – with parents or family, renting with friends or on their own, or buying a property. Ask students if they can explain the difference between the terms on **slide 2** – renting, buying and shared ownership. Discuss using the definitions below

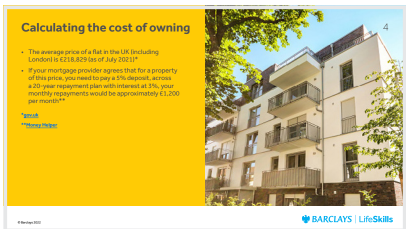
Definitions

Renting: paying for the use of a house or flat. The owner of the property is known at the landlord. Anyone renting a property is known as a tenant.

Buying: purchasing a property. Most people who want to 'own' their own home take out a loan (debt) known as a mortgage.

Shared ownership: an arrangement that allows someone to buy a portion of the property and pay rent on the remainder. This is often through a housing association, independent organisations that manage affordable homes for people on low incomes or with particular needs.

2. Buying or renting?



- Ask the students whether they are considering owning a property of their own one day, and whether they know what they would need if they wanted to apply for a mortgage, the loan that will help them buy a home. Explain that they will need both a deposit and an income that would allow them to repay the loan and cover their living costs
- Show **slide 3** and compare the costs associated with renting and buying a property. Work through the example of mortgage repayments on **slide 4**, which is based on figures from the Money Helper mortgage calculator tool. If you have time, students could adjust the terms on the tool and explore how this affects the repayments at **Money Helper** and research the additional costs to consider such as stamp duty, legal fees and surveys
- Explain that there is help available to 'first time buyers' that can make owning a property a realistic option. Buying a home can be a good long-term investment, so can be seen as a form of saving for the future
- The government's **'Help-to-Buy' scheme** aims to help first-time buyers by:
  - Contributing towards a deposit
  - Lending money at a low interest rate
  - Bridging the house-price gap between the affordable mortgage and the personal deposit

Activity one

The cost of living independently (cont'd)

3. The cost of living independently

- Load the **Needs and Wants interactive tool** and complete the 'Moving into a new home' section, either as a whole group or in pairs if they have access to PCs/tablets. Encourage students to discuss their decisions and use the 'create your own' option to add in other costs they think Alice needs to consider before buying a home, based on what they have covered earlier in the session. Mortgage deposit and home insurance are included already
- Remind students that creating a budget when they are considering living independently or buying home will help them understand their whole financial position – income, current outgoings and future costs
- Ask students to share the additional household bills and living costs they came up with and use the checklist on **slide 5** to make sure the key outgoings have been covered. Discuss which of these costs are unavoidable and which are optional. Encourage debate, and explain that there isn't necessarily a right or a wrong

4. Creating a budget

- Load an online budget sheet, e.g. from **Money Helper** or **Debt Advice Foundation planner** and work through each section to draw out discussion around costs and any tips the group has for each. Ask them how they would find the best deal possible, and what might change depending on the property or area they live in
- Alternatively, encourage the group to do a full budget plan after this session using a free online tool, as well as researching and comparing costs and deals online through websites like **Money Saving Expert**. If they are not earning, encourage them to base the budget planner on the weekly average salary for young people aged 22-29 of £521 (as of November 2021)

  Source:**ONS**

Activity two

Saving for your future

1. Why save?

- Ask students whether they save money, and if they regularly put it into a savings account. Explain that it's good to get into the habit of saving, even just a small amount, on a regular basis, so you have money put aside for unexpected expenses or occasional treats
- As a group generate a quick-fire list of things they may want to save for so that they can become independent, or for further in the future, e.g. housing deposit, holidays, car, wedding, having children, retirement. Remind them that aside from tracking regular income and expenditure, using a budget will enable them to work out how much they are able to save on a regular basis
- Explain that a savings account can help you make the most of your money. Ask students to describe the difference between a savings and a current account, and to define AER and interest. Use the box below to clarify if needed

Activity two

Saving for your future (cont'd)

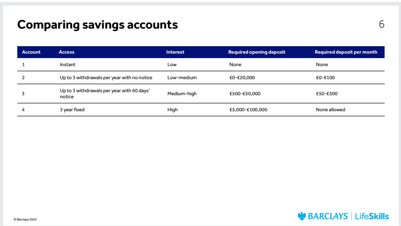
Definitions

Annual Equivalent Rate (AER): interest rates on savings are often expressed using the acronym AER. This is designed to help consumer compare which accounts would earn you the most interest if you intend to keep your money in the account for a full year.

Savings account: used to keep 'savings' separate from money used on a day-to-day basis. Consider the 'terms' of the savings accounts, some accounts will want you to put your money away and not withdraw any for a set period of time, like one to five years or some are instant access. Make sure you compare the interest rates and the terms of different savings accounts before you choose one.

Interest: an amount the bank or building society pays you for keeping your cash in their account. All accounts are different, so go for one with a good interest rate (worked out as a percentage). The higher it is, the better.

2. Saving that suits



Comparing savings accounts 6

Account	Access	Interest	Required opening deposit	Required deposit per month
1	Instant	Low	None	None
2	Up to 3 withdrawals per year with no notice	Low-medium	£0-£20,000	£0-£100
3	Up to 3 withdrawals per year with 60 days' notice	Medium-high	£500-£50,000	£50-£500
4	3 year fixed	High	£5,000-£100,000	None allowed

© Barclays 2022 BARCLAYS | LifeSkills

- Show **slide 6** which shows a selection of savings accounts and talk through the key terms, comparing the access terms, minimum and maximum opening deposits and interest. Demonstrate that the higher interest accounts have more restrictions on access
- In small groups, challenge students to come up with ideas about what they need to save for and discuss the sort of account they would opt for using the examples on **slide 6**
- If the groups need inspiration, share the scenario below and ask them to discuss which account they would choose:
  - Suki needs to save £1,000 for a big holiday. She will be able to save £100 a month and won't need to touch the money until she has to pay for her flights and accommodation this time next year
- Summarise by explaining that saving little and often can help with financial security by providing a back up in times of financial difficulty, not just to help with bigger purchases. Use **slide 7** to recap on the key points

3. What's the point of a pension?

- Ask students to share their thoughts on what a pension is and how important it is to them to think now about planning for when they're older. Explain that, in simple terms, a pension scheme is a long-term savings plan which can provide you with an income for later life. You put money into a plan whilst you are working so you have money available for when you want to work less or retire
- Discuss with them that although it seems a long way off, investing in a pension is a good form of long-term saving. Explain that although they can't access the pension fund until they reach a specified age, it will provide them with a better quality of life when they reach retirement age. To help young people engage with this concept you could ask them to think about the situation of elderly relatives or acquaintances to help set the scene
- Lead a discussion on the current pension landscape. Explain that the government currently provides people who have reached retirement age with a 'state pension'. You usually need to have made national insurance 'contributions' (NICs) before you can claim the state pension. NICs are deducted from your pay

Activity two

Saving for your future (cont'd)

4. Different types of pensions

- Emphasise that the students should not expect to rely on the state pension as their only source of income when they retire. They should consider saving into an additional scheme, often called a 'company', 'personal', or 'workplace' pension
- Employers have a legal duty subject to the governments' terms and conditions to enrol their employees into a pension scheme and make a contribution to your pension fund. This would be deducted directly from your wages
- To demonstrate how this works, show **slides 8** and **9** and ask students to work in pairs to calculate Suki's pension contributions, before clicking to reveal the answers. If you have time, ask students to research more on pensions at **Money Helper**, and try out different options using the **workplace pension calculator**
- Explain that although it may seem like a small amount each month starting to contribute early in your working life can make a big difference in the long run
- Explain that if you are self employed or working freelance you will need to investigate a pension plan

Activity three

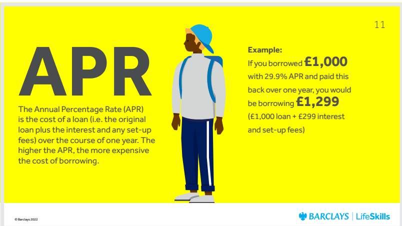
Borrowing for your future

1. Forms of borrowing

- Explain to students that most of us need to borrow money at some time in our lives, e.g. when buying a house, studying at college or buying something big like a car. Discuss the concept that some people don't consider being in debt as a bad thing, provided you understand the risks and manage the repayments sensibly
- Ask for examples of ways someone could borrow money e.g. using an overdraft, a credit card, taking out a bank loan, payday loan, buying goods in instalments (also called hire purchase), taking out a mortgage, from a family member or friend. Gather their ideas on **slide 10** on the board and explain that you will return to them later in the lesson

---

2. Interest on borrowing



- Explain to students what 'interest' means in the context of borrowing. If you borrow money at a 5% interest rate for a year, it will cost you 5% of the amount borrowed to do so. This will need to be repaid along with the original money you borrowed. Interest rates are usually quoted annually, but not always, so make sure you check. Therefore, interest means that you have to pay back not just the amount you borrowed, but an additional sum within an agreed timeframe to avoid penalties. The interest is expressed as a percentage of the total amount you borrow
- Ask if anyone knows what 'APR' is and use **slide 11** to talk through an example

---

3. Dealing with debt

- Show **slide 12** and ask the group to come up with a defintion of the difference between being in debt and being in financial difficulty
- If needed, use the explanation below:
  - Being in debt can mean having borrowed money in a controlled and managed way, and are able to pay it off
  - Being in financial difficulty is a crisis situation with debts you cannot repay
- Discuss how and why someone might get into financial difficulty and explain that sometimes it is a result of an unexpected event, e.g. you take out a loan or mortgage which you are able to repay, but then you become unemployed and suddenly don't have enough money to make the repayments (called 'defaulting'). Any sort of debt can become unmanageable so it is important to have a sensible strategy for coping so the debt doesn't escalate
- Allow a few minutes for groups to suggest some immediate actions that someone could take if their circumstances change and they find themselves less likely to be able to make the repayments. Examples could be to sell some things you don't need, increase your hours at work to increase income, develop a budget to help reduce your spending
- Explain that if you get into difficulty with money then the most important first step is to talk to someone about it. Display **slide 12** and talk through the options that someone might consider if they find themselves in financial difficulties. Ask students to highlight the actions they think are most appropriate, and those that are not. Encourage them to think whether some of the options might depend on the details of the situation e.g. actions might differ if the difficulty relates to mortgage repayments rather than debt with a doorstep lender
- Print **slides 13 – 16** which feature a series of scenarios about financial difficulties. Allocate one of the slides to small groups and ask them to consider which of the options on **slide 17** they would recommend for each scenario. Use the guidance notes below to add explanation of terms and additional detail if needed. Alternatively, focus on a selection of the scenarios and present them along with the supporting information and work through as a whole group

Activity three

Borrowing for your future (cont'd)

Debt scenario	Additional information
1. I recently bought a new phone on a 24 month contract. At the time I thought it was a good idea but now I can't pay the monthly bill. They've cut off the phone and because I still haven't got the money to pay they will cancel the contract.	When you sign up for a mobile phone contract you agree to a contract length, usually 12, 18 or 24 months. The amount you pay will depend on the 'package' you sign up. If you don't pay your contract, your account will go into arrears. The company could cut off your phone so you can't use it, and then cancel the contract. If you don't clear the debt the company could involve a third party debt collection agency or take you to court.
2. I've been paying my mortgage for years, no problem, but then I got made redundant. I'm looking for another job but in the meantime I've no income so I can't make the monthly repayments.	A long term loan where the debt is secured on the property. Most mortgages are repaid over a 25-year period, although this can be longer or shorter in some cases. The loan is repaid in monthly instalments, sometimes at a fixed amount each month or one that varies in line with the Bank of England base interest rate. Some mortgages allow you more quickly than the agreed term if you can afford to, others charge an early repayment fee. You could be taken to court if you don't pay your mortgage and you could lose your home.
3. I took out a 12 month loan with my bank for a new laptop but I can't manage the repayments anymore. Do I contact the bank or the store?	Personal loans are offered by banks, building societies and other lenders like credit unions for individuals to buy things like a car, furniture, decorating a house, etc. The loan is not secured against any asset you own like your home or car but if you default on the payments the lender will pursue you for the repayments and interest and fees will be added to the amount you owe. Personal loans from a bank can range from £1,000 to £25,000, over periods from 12 months to 7 years. Interest rates vary depending on an individual's credit history. The loan repayments will be fixed every month. There are no penalties for early repayment.
4. I got a pay rise at work last month. I was looking forward to the extra cash but it turns out I'll have to start paying my student loan back so I won't be any better off. Do you think I could start the repayments next year instead?	Loans are available for university tuition fees and living costs at a relatively low interest rate. You don't start paying off the loan until you have graduated and your annual income reaches the repayment threshold. You repay 9% of income over this threshold. The repayments are deducted from your pay. For the latest thresholds and interest rates, visit **gov.uk**. You can't negotiate lower payments or to suspend payments.

Activity three

Borrowing for your future (cont'd)

Debt scenario	Additional information
5. Il opened a current account with an £800 overdraft when I was working. Now I'm out of work and I've exceeded by overdraft. I am being charged very high fees which I cannot pay.	An overdraft is a facility on your current account that allows you to spend more money than you have in the account. Any money you pay in goes first to paying off the borrowing. You can ask the bank for an overdraft for a fixed time period at an agreed rate of interest, known as an arranged overdraft. If you go overdrawn without asking the bank in advance, they might refuse to pay your direct debits, payments in shops etc, charge you 'unauthorised overdraft' fees and interest on the money that you owe them.
6. I needed £100 to tide me over until I got paid so I got a payday loan. I was sure I'd be able to pay it back but then my car broke down and it cost a lot to get it fixed. So I had to roll the loan over to the next month and I've been charged loads of interest so I've even less chance of paying it back now.	Payday loans are relatively small, short-term loan intended to cover an individual's expenses until they are next paid. On the repayment date, the lender takes the amount you have borrowed plus the interest charged directly from your bank account. Interest rates vary but they are typically an expensive way to borrow money, sometimes up to 1500% APR. Interest on loans that are 'rolled over' to the next month soon mounts up. Payday loans often appear to provide a 'quick fix' in an emergency but they can often make your situation worse if you can't repay the loan on the due date.
7. I borrowed £200 from a man who came to my house and offered me a loan. I only had to pay back £5 a week, but then I missed a payment and now I owe him an extra £2 interest. I can't afford the payments and Pete keeps coming around and putting pressure on me to pay up.	This sounds like a 'home credit' agreement, sometimes called 'doorstep lending'. These loans are often for small sums – between £50 and £500 – over short periods, with repayments collected weekly or fortnightly at your home. They are typically an expensive way to borrow money. Or, the loan may be from an illegal loan shark. They can seem friendly at first but can harass or threaten you if you miss payments. They are not authorised lenders, will often refuse to tell you the interest is being charged, and may increase the debt by adding charges at any time. They should be reported to the police.
8. My brother lent me £20 when I really needed it. I've paid £10 back but I'm really struggling to find the rest. I'm avoiding him so he can't ask for it back.	Borrowing from friends and family member can be very tempting, especially if you need money in an emergency or if they are willing to lend the money interest free. The stakes are high however as it could harm your relationship if you don't repay. It's only a good option if both parties are certain this won't happen.

Activity three

Borrowing for your future (cont'd)

- For each scenario, J should be a recommended action. It could be argued that E, I and K could also apply to all of the scenarios, so encourage debate but make sure students understand it's important to seek advice from an impartial and trustworthy source, even if it is someone they know. Ask if anyone selected action L, and discuss the consequences of inaction in the context of one or two of the scenarios
- Use **slide 18** to discuss what to think about before you borrow and summarise by highlighting the most important things about seeking help and advice
  - Don't delay
  - Contact your lender
  - Get free, independent debt advice

For more information on where to seek free, independent debt advice, visit:

National Debtline

Citizens Advice

Step Change Debt Charity

Money Helper