New Model Business Academy

A Young Person's Guide to money

The importance of saving

The effect of time on saving and investing

What is debt?

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Pension plans

How soon is too soon to get started?

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Money

Money means different things to all of us. You might find it fascinating, or maybe you'd rather watch paint dry than have a conversation about your personal finances.

Are you a natural born saver, or are you all spent up before the cash even hits your bank account? Have you identified the most sensible place to keep your money, or do you think the back of the sofa will do as well as anywhere?!

Whatever your attitude to money, it is important. Like it or not, money impacts upon the majority of areas in our life and it's vital to understand how it works. As well as making decisions which will affect you on a day-to-day basis now, it's also important that you understand how the decisions you make over the next few years can make a difference to you long into the future; to retirement and beyond!

We hope you find the information covered in this guide interesting and useful.

THE NMBA TEAM

Contents

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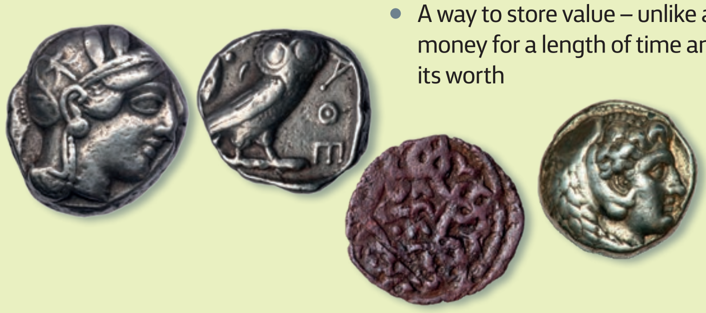
What is money?

The first mass-produced coins were made in Turkey over 2,600 years ago. In the UK, bank notes have been around for over 300 years, credit cards for over 60 and **contactless payment cards** were first introduced in 2008. Cryptocurrency, such as **Bitcoin**, and mobile payments, such as **Apple Pay** are more recent innovations in money. So, why do we need money and is there a downside to the move towards a '**cashless society**'?

What did we do before money?

Before money was invented, people would **barter** to get what they needed. For example, if a farmer had a leaky barn roof, they might have been prepared to exchange a prize plough horse for a builder's time, especially if it meant their harvest would then be protected. However, bartering had a number of limitations:

- It wasn't easy to find someone who needed what you had and had what you needed;
- There was no common measure of value. This meant there was no way of knowing, for example, whether a horse was worth the equivalent of a builder's time;
- A horse is not something that can be divided into smaller units, so if a builder's time was only worth half a horse, then the farmer would lose out; and finally,
- A horse would not maintain its value for long, over time it would grow old and no one would want to barter for it



Why was money invented?

Money was invented to overcome the limitations of bartering. It fulfils three key roles by acting as:

- A means of paying someone else for something you need
- A way for you to understand how much something is worth
- A way to store value – unlike a horse, you can keep money for a length of time and it will generally hold its worth

What are the key features of money?

To be effective in fulfilling its key roles money must be:

- Acceptable and consistent in value – in the UK, we know that the money produced by the Bank of England will be accepted, we also know – broadly speaking – what we can buy for £1, £5, £10 and so on
- Portable – coins and notes need to be a manageable size and weight so we can carry them around
- Limited in supply – if we could just print our own money then it would have no value, there needs to be a limit for it to be worth something
- Divisible – notes, for example, need to be divisible into coins so we can receive change
- Durable – both coins and notes need to last so that they are tangible, therefore we feel we can trust them

Money in other countries

While the £ is perfectly acceptable in the UK, if we were to pop across the Channel to France we would find our £s to be of little use. To spend overseas, we first need to exchange our money into the currency of the country we're visiting.

Jack is on an exchange trip to France.

He takes £50 to his local **Bureau de Change** – a place where people go to change money from one currency to another – and exchanges it for euros. The current exchange rate is £1 to €1.14. He therefore receives 50 x 1.14 = €57 to take with him.

On his last day, Jack spots a souvenir he'd like to buy for his Mum. It's €10. Jack wonders whether this is a good price. To work out how much the souvenir is in £s, Jack divides the €10 by 1.14 to give a UK price of £8.77.

Let's say Jack has €7.50 left when he gets home.

How much will he receive back in £s from the Bureau de Change?

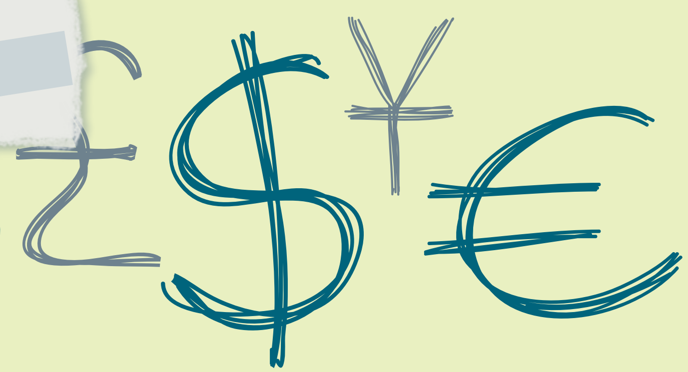
Answer:

Where to next?

Chances are, Jack may well not have used cash. **Cashless payments** – which include traditional debit and credit cards as well as electronic devices such as smartphones and wristbands – are accepted worldwide. In fact, in 2015 cashless payments overtook cash payments for the first time.

While advances in technology are usually viewed as a positive thing, the move to a cashless society may not be good for our bank balances. Studies have shown that when we spend physical cash our brains register a small amount of pain as we hand over the money and watch it disappear into the till. This pain acts as a brake on our spending. The brain does not react in the same way to cashless or, indeed, online spending, suggesting that it is much easier for us to spend – and spend more – this way.

Only time will tell the impact cashless payments will have on our finances long-term, but already experts are recommending that anyone needing to cut back on their spending switches back to cash for greater control over their money.



Earnings and taxation

What is taxation?

Taxation – tax for short – is the way the Government raises much of the money the country needs to pay for the things that we all benefit from, such as schools, the NHS and roads.

Who pays tax?

There are many forms of tax, but the one we're going to look at in detail is **income tax**.

As soon as we start to earn over a certain amount of money each year, a proportion of that money is paid to the Government via their tax collection agency Her Majesty's Revenue and Customs (**HMRC**). The amount paid to the Government is known as income tax.

If we work for an employer, the employer deducts income tax from our earnings and sends it to HMRC. If we're self-employed (i.e. we work for ourselves), we are responsible for paying the income tax we owe directly to HMRC.

The personal allowance

Each year, nearly everyone is allowed to earn up to a certain amount of money free from income tax. This is known as the **personal allowance**. In tax year 2020/2021 – which runs from 6 April 2020 to 5 April 2021 – the personal allowance is £12,500. The personal allowance generally (but not always) goes up each tax year and its existence means that those on relatively low incomes, including most of those who work part time while in full time education, do not typically pay any income tax.

For example, if Edie works part time and earns £10,000 a year, she will not pay any income tax because her income is below the personal allowance of £12,500. The personal allowance will reduce, partially or completely, for those earning over £100,000.

The tax bands

UK income tax is a progressive tax. This means that the Government takes more money from those who earn more, than from those who earn less. Most people feel this is fair.

Income in excess of the personal allowance is known as **taxable income**. It is taxed as follows

Taxable income (income in excess of £12,500)	Tax band	Tax rate
Up to £37,500	Basic rate	20%
£37,500 to £150,000	Higher rate	40%
Over £150,000	Additional rate	45%

Again, these figures are for the 2020/21 tax year. (Different bands and rates apply if you live in Scotland.)

The tax bands in practice

Let's say Edie gets a full time job and now earns £20,000 a year. She'll pay income tax as follows:

- First £12,500, no tax as this falls within her personal allowance
- Next £7,500, taxed at 20% as this falls within the basic rate tax band

Edie's tax bill is therefore:
£7,500 x 20% = £1,500

Why do you think Edie still benefits from a personal allowance?

Even when you start to earn more than the personal allowance you generally get to keep it, so you'll not usually pay tax on the first £12,500 of your earned income.

The one exception to this rule is if you earn over £100,000. Once your earnings reach this level, the Government starts to gradually withdraw the personal allowance. Once you get to £125,000, you receive no personal allowance at all.

Let's take a look at another example:

Kazia joined the graduate scheme of a top London investment bank. Her starting salary was £35,000, but she's also managed to earn herself a bonus of £20,000.

Here's how much income tax Kazia will have to pay:

- First £12,500, no tax as this falls within her personal allowance
- Next £37,500, taxed at 20% as this falls within the basic rate tax band
- Remaining £5,000, taxed at 40% as this falls within higher rate tax band

Kazia's tax bill is therefore:
(£37,500 x 20%) + (£5,000 x 40%) = £9,500

Kazia's boss Tariq has total earnings of £170,000. He will have to pay:

- £37,500 taxed at 20%, as this falls within the basic rate tax band
- £112,500 taxed at 40%, as this falls within higher rate tax band
- £20,000 taxed at 45%, as this falls within the additional rate tax band

Tariq's total tax bill is therefore:
£7,500 + £45,000 + 9,000 = £61,500

Remember, that due to his high earnings, Tariq does not get a personal allowance.

Progressive tax can be a little tricky to get your head around so see if you can complete the table below to check your understanding. Place a tick or a cross in the appropriate cell:

	Benefits from personal allowance	Pays some tax at 20%	Pays some tax at 40%	Pays some tax at 45%
Jo earns £8,500				
Lou earns £23,000				
Karl earns £90,000				
Gemma earns £165,000				

Budgeting

What is budgeting about?

Budgeting is a key life skill. It involves being very aware of the money you have coming in (**income**) and the money you have going out (**expenditure**). Very few people are in the position of having enough money to buy everything they would wish to buy and so knowing how to budget and how to distinguish between the things that we **need** to buy and the things that we **want** to buy is essential to our financial well-being.

As with many life skills, the younger you are when you learn how to budget, the easier you'll find it. This is because you won't have had the time to get into any really bad habits.

Budgeting is key to taking responsibility for your money and, so long as you have an income of some kind, whether it be pocket money, an allowance or a part-time job, you're ready to learn how to do it.

What is a budget?

A budget is a way of managing your money. It is a tool to help you see:

- how much money you have coming in;
- how much money you have going out; and
- the difference between the two

If you have more money coming in than going out, your budget will be '**in surplus**'. This is good news. It means you have money to spare and can save for your future goals, whatever they may be.

If you have more money going out than coming in, your budget will be '**in deficit**'. This isn't so great because it means you have a shortfall and are getting into debt. If you carry on this way, it could lead to you facing financial hardship. The good news is that once you've completed your budget, you are then in a position to see what changes you can make to your spending habits to improve your financial situation.

Example:

Emma earns £70 a month from her part-time job and receives an allowance of £20 a month from her parents.

She's frustrated that her money seems to disappear very quickly. Emma would like to know where her money is going and whether it would be possible for her to save £15 each month so that she can treat her friends and family now and then.

Emma uses a budget template, as shown below, to work out her budget:

Monthly income from all sources	£90
Less monthly expenditure:	
Mobile phone contract	-£15
Travel	-£20
Going out	-£25
Day-to-day spending (coffees, treats)	-£20
Clothes	-£15
Equals a deficit of	-£5

So, Emma is spending more than her income, leaving her with a deficit of £5 per month. She may have a credit card that is allowing her to do this, or she may be borrowing from friends or family.

Everyone's budget will look different so why not have a go and draw up your own. Here's a blank budget template for you to use:

Monthly income from all sources e.g. part-time job, allowance, pocket money	£
Less monthly expenditure:	
	-£
	-£
	-£
	-£
	-£
	-£
Equals a surplus (or deficit) of	

How can a budget help Emma?

The first thing Emma needs to do is to examine her expenditure.

There are two main types of expenditure:

1. **Essential** expenditure is the money that Emma **needs** to spend in order to go about her daily life.

- Emma might feel that this includes her mobile phone contract and travel expenses
- While essential expenditure cannot be gotten rid of, Emma might be able to reduce the amount she spends here by, for example, shopping around and saving £5 on a cheaper mobile phone contract

2. **Discretionary** expenditure relates to the things we **want** to buy, but aren't essential.

- Emma might say that going out and day to day spending on coffee and treats are examples of discretionary expenditure
- If Emma did not want to cut these things out altogether she could perhaps challenge herself to halve the amount she spends on coffee and treats, and reduce her going out spends by £5

Let's take a look at how Emma's budget looks now:

Monthly income from all sources	£90
Less monthly expenditure:	
Mobile phone contract	-£10
Travel	-£20
Going out	-£20
Day-to day-spending (coffees, treats)	-£10
Clothes	-£15
Equals a surplus of	£15

By going through her expenditure, Emma has identified where she can make savings, freeing up £15 a month which she can now put into a savings account.

Go back to your own budget. Are there areas where you could cut down, freeing up income to save for your future?

"ARE THERE AREAS WHERE YOU COULD CUT DOWN, FREEING UP INCOME TO SAVE FOR YOUR FUTURE?"

Why is budgeting important?

As we move from school to university or school to work our income rises, but so, typically, do our expenses. Budgeting can stop people falling into debt, but if debt becomes a problem, the StepChange Debt Charity and Citizens Advice are two organisations who offer free help. Their details are easily found online.

Saving money

What do we mean by saving?

Saving means setting aside small sums of money either on a regular basis or every now and then.

Think for a moment. What have you saved up for in the past? Are you saving up for anything now? Why do you think people save?

People save for all sorts of reasons, here are some examples:

Hi, I'm Ed, 16

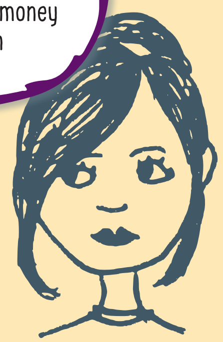
I want to be able to drive as soon as I turn 17 in 9 months' time. I have a part-time job and have previously spent most of my earnings on music.

Hi, I'm Naomi, 18

I inherited £2,000 from my Nan. My Nan wanted me to have the money to help me get started in a career when I leave university in three years' time.

Hi, I'm Lou, 21

I'm working full-time, living in rented accommodation and I'm in the fortunate position of earning more than I need to get by. Yet, I never seem to have any money left at the end of the month and have no savings.



"...NOT ONLY DOES YOUR MONEY EARN INTEREST, BUT AS SOON AS YOU RECEIVE INTEREST INTO YOUR ACCOUNT, THE INTEREST STARTS TO EARN INTEREST TOO."

How easy is it to save?

Saving comes more naturally to some people than to others. You'll know from experience that some of your family and friends squirrel away their money 'just in case', whereas others spend it like there's no tomorrow. The latter, like Lou, might need help in forming good savings habits. The good news is there are products out there that can help.

Where do people save?

Most people choose to save in bank or building society accounts. Money is safer here than in your home (it can't be stolen, for example, or lost). Most UK banks and building societies are covered by a compensation scheme. This means that if the one you are saving with does go out of business, your money is protected, up to a certain limit (£85,000 at present).

On top of this security, savings accounts usually pay interest. Interest is the money given to you by the bank or building society as a reward for saving with them. So, not only is your money in a safe place, but it is also earning its own money. The longer you leave your money in your savings account, the more interest you will earn. This is because not only does your money earn interest, but as soon as you receive interest into your account, the interest starts to earn interest too. This is known as compound interest.

What types of savings accounts are there?

Most banks and building societies offer three main types of savings accounts:

- **Notice accounts** – these pay interest, but you lose some of that interest if you withdraw money without giving the bank enough notice. The required notice could be anywhere between 30 and 90 days. A 30-day notice account might suit Ed, as he could notify the bank of his wish to withdraw the money he needs for his driving lessons 30 days before his 17th birthday.
- **Fixed-term accounts** – these pay interest, but you are not allowed to withdraw your money within the fixed-term which could be anywhere between 1 and 5 years. A 3 year fixed-term account might suit Naomi.
- **Regular saver accounts** – these often pay the lowest interest. The customer usually sets up a regular payment to the regular saver account from the account their earnings are paid into. This type of account might suit someone like Lou who might not get around to actively transferring the money across herself each month. Lou can forget all about the payment as it will leave automatically and, over time, she will find that she has savings.

Is there an alternative to saving?

Not everyone wants to save. Nor is everyone fortunate enough to be in the position of being able to. Some people feel comfortable not saving, preferring to borrow money if they need anything they cannot afford in the future. For others, borrowing is their only option.

Borrowing can be expensive. Whereas banks and building societies reward their savers with interest, lenders charge interest on money borrowed. The amount of interest charged will vary depending on how likely the lender feels the borrower is to repay the loan on time. Those that the lender feels are most likely to get into financial difficulty are charged the highest rates.

Is there anything I should be looking out for?

The old adage 'If it looks too good to be true, it probably is,' applies to savings account. If, when comparing the interest rates payable from different banks and building societies, one seems to pay a much higher rate than the others, then you need to look into the account carefully. It could be that the account is offered by a non-UK bank. If this is the case, your money would not be covered by the UK compensation scheme, meaning that if the bank went out of business you might not get your money back.

Borrowing money

What is borrowing?

Borrowing means using someone else's money to pay for something that you want or need. Some people are reluctant to borrow, preferring to save. Some feel more comfortable with the idea of **debt** (owing money to someone else), and are happy to borrow if needs be. Others might not feel they have a choice.

Is borrowing a bad thing?

Not necessarily. Borrowing can be divided into two categories:

1. **Good debt** has the following characteristics:

- It is an investment in your long term future
- It has a positive effect on your overall financial position
- You have a sensible reason for taking on the debt
- You can afford to pay it back
- You have shopped around for the best deal for your needs

Examples of good debt might include student loans (an investment in your future), mortgages (a roof over your head and a long term investment) and car loans (if you need a car to get to work to earn money).

Some people use their **credit card** to pay their monthly outgoings and then pay the credit card bill off in full before any interest becomes payable. This is an example of using a credit card in a good way.

2. **Bad debt** has the following characteristics:

- It is not an investment in your long term future
- It has a negative effect on your overall financial position
- You use it to buy something you don't really need
- You cannot afford to pay it back
- You have not shopped around and are therefore paying more interest than you need to

Examples of bad debt might include a holiday you can't afford, the latest electronic gadgets that you don't really need and borrowing to pay your monthly bills.

Some people use their credit cards to pay their monthly outgoings and then only make the minimum repayment each month. The money left on the card is then subject to interest at quite a high rate. If you only ever pay off the minimum amount on a credit card, you will never pay off the debt and the amount you owe will keep increasing. At some point, the credit card provider is likely to cancel your card and demand the debt be repaid. This is an example of using a credit card in a bad way.

"IF YOU ONLY EVER PAY OFF THE MINIMUM AMOUNT ON A CREDIT CARD, YOU WILL NEVER PAY OFF THE DEBT AND THE AMOUNT YOU OWE WILL KEEP INCREASING."

Credit score

Every time you apply to borrow money, the lender will check your **credit file** (a file held by a credit reference agency detailing previous borrowings) to help it decide whether or not to lend to you, how much to let you borrow and how much interest to charge you.

This means that if you have borrowed before and have either been late with or missed a repayment or two (or more!) then the lender will find out about this and may charge you more interest than they would for someone who has made all their previous repayments on time. Ultimately, they may decline your application.

Ways to borrow

If, after thinking things through, you identify that the money you'd like to borrow represents a good debt, then the following methods of borrowing might be available to you.

Credit cards

- Take out a credit card
- Use it to buy what you need
- Ideally, pay off the full amount before interest becomes payable

Personal loans

- Borrow what you need
- Buy what you need
- Repay a fixed (usually) amount each month
- Interest rates on personal loans are generally lower than on credit cards

Overdraft

- Your current account may allow you to borrow a relatively small amount interest-free, say up to £250
- If you go above the limit, you will be charged interest
- Your credit score may also be affected

Credit union

- If you're unable to borrow from other sources due to a poor credit rating, your local credit union (an organisation run for and by its members on a not for profit basis) may be able to help

Payday loan company

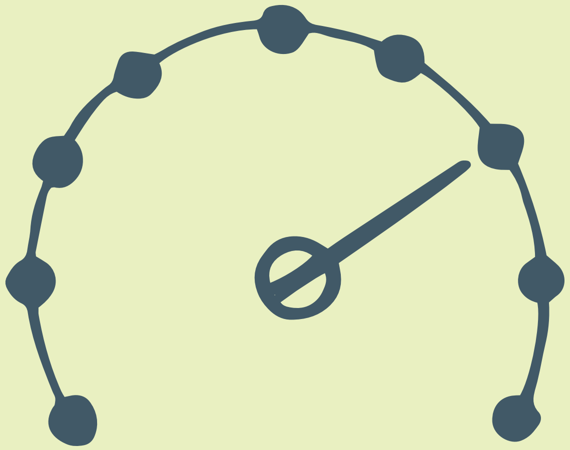
- If you are unable to access a credit union, a payday loan company may be your lender of last resort
- These companies charge very high rates for short term loans and are **best avoided where at all possible**
- Unlike a credit union, they are not run on a 'not for profit' basis. In other words, they are there to make money from you

Getting help

Many people find it hard to ask for help with managing their money. But if the only option available to you is a payday loan company, then it may well be time to contact an organisation such as the StepChange Debt Charity or Citizens Advice who have experienced debt advisers who can help you make the most of the money you do have and help you get yourself out of debt.

"MANY PEOPLE FIND IT HARD TO ASK FOR HELP WITH MANAGING THEIR MONEY."

Credit scores



What is a credit score?

A credit score is a tool used by companies that lend money (lenders) to help them determine how likely an individual is to repay them on time and in full. It helps lenders decide:

- Whether to lend to you or not
- How much they are prepared to lend to you
- How much interest to charge you

Generally, the higher your score, the lower the risk you pose to lenders, making it more likely that they will accept your application for credit at a reasonable rate of interest.

While each lender has their own scoring system, the one thing they have in common is that when you apply to borrow money from them, they will ask permission to obtain your credit report through a credit reference agency (CRA) to help determine the score they will give you.

> "...THE ONE THING THEY HAVE IN COMMON IS THAT WHEN YOU APPLY TO BORROW MONEY FROM THEM, THEY WILL ASK PERMISSION TO OBTAIN YOUR CREDIT REPORT THROUGH A CREDIT REFERENCE AGENCY (CRA) TO HELP DETERMINE THE SCORE THEY WILL GIVE YOU."

What does a credit reference agency do?

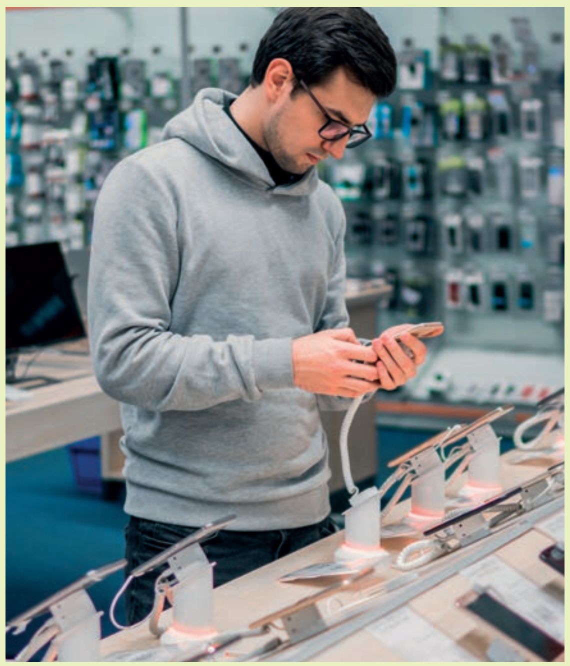
A CRA compiles credit reports. The UK's three main CRAs are Experian, Equifax and TransUnion.

Your credit report enables a lender to:

- Check you are who you say you are
- See how you've managed credit in the past
- See how you're managing credit at the moment

You should be aware that missed or late payments stay on your report for a whole six years.

CRAs can provide you with a credit score for a fee. This score is based purely on the information they hold. Their criteria may not be the same as the lender you're hoping to use and so this may not be as useful a service as it first appears.



Why does my credit report matter?

You can't take out credit until you're 18. Chances are, your first credit check will be in connection with having a mobile phone contract in your own name.

Once you have that contract, it's really important that you make your monthly repayments on time as they'll be recorded in your credit report. Even if you have no plans to borrow money in the immediate future, both letting agencies and private landlords use credit reports to assess your suitability as a potential tenant. So, if you're thinking of leaving home and renting, be sure to keep your payments up-to-date.

What affects my credit score?

There are a number of factors that can reduce your score including:

- The amount of debt you already have
- Missed or late payments
- A high number of previous credit searches
- Not being on the electoral roll (a list of names and addresses of those who are registered to vote) or moving around a lot
- Living at an address where other people have a bad credit history
- Being a victim of fraud

> "ONLY TAKE OUT THE SMALLEST AMOUNT OF CREDIT YOU NEED WHEN YOU CAN AFFORD TO, SO THAT YOU CAN MAKE YOUR REPAYMENTS ON TIME."

How can I get (and keep) a good credit score?

1. Make sure you're registered on the electoral roll. This will enable the lender to confirm you live where you say you live.
2. Before applying for credit, go online and check your credit report. All CRAs must provide you with a copy of your report for free on request. If you come across any mistakes in your reports, contact the relevant agency and ask for it to be corrected.
3. Only take out the smallest amount of credit you need when you can afford to, so that you can make your repayments on time. If you do find that you're struggling to repay, get in touch with your lender as soon as possible to see if they can help.

And finally, avoid credit repair companies. These are companies that attempt to persuade people that there are secret strategies and little-known tricks to help increase their credit score. These firms charge an upfront fee for their services, but you can easily do the three steps above.

Investing money

What do we mean by investing?

Investing means taking a lump sum of money (**capital**) and placing it into an **investment vehicle** (a financial product designed to achieve a particular **investment goal**).

The right investment vehicle for a specific **investor** (the person investing) depends on:

- the amount of **investment risk** they are willing to take; and
- their investment goals

Investment risk

Investment risk refers to the possibility of the value of the investor's capital falling. The amount of investment risk an investor is prepared to take with their capital mainly depends on:

- how comfortable (or uncomfortable) they feel about the value of their investment going down as well as up; and
- their previous experience of investments

In addition, an investor needs to think about how long they wish to invest for and whether they'll need to **access** (withdraw) their capital during that time.

Investment goals

There are three main reasons people have for investing:

1. **To protect their capital**

For example, Jenny's parents have saved £10,000 to help her out when she starts university in 5 years' time. They don't want to invest anywhere that may lead to them losing some or all of the £10,000. They need a secure home for the money.

2. **To use their capital to create an income**

Jenny's Nan has £30,000 that she wants to invest to increase her pension income. She doesn't mind taking a little bit of risk with this money if it means she can earn a better interest rate than the one available from her local building society.

3. **To grow their capital, i.e. to increase its value and make a profit**

Jenny's brother received £10,000 on his 21st birthday. He doesn't need access to this money and is prepared to take a risk with it if it means he has a greater chance of making a profit.

Types of investment

Once an investor is clear on how much risk they are prepared to take with their capital and what their investment goals are, they can generally choose between three main types of investments – these are often referred to as the asset classes:

Cash

By cash we mean savings accounts such as the notice, fixed-term and regular saver accounts we examined earlier. As you know, these pay interest. UK savings accounts are secure because they are protected by a compensation scheme.

Bonds

One of the ways governments and companies raise money is by issuing bonds. The investor effectively lends their capital to the **bond issuer** (the government or company behind the bond). In return, the bond issuer promises to pay a six-monthly interest payment and, at a set date in the future, to repay the investor's capital.

The compensation scheme that applies to cash does not apply to bonds. If the bond issuer goes out of business, the investor will no longer receive interest payments and may not get their capital back. This makes investing in bonds riskier than investing in cash. Bond issuers therefore have to pay a higher rate of interest than banks and building societies to tempt investors. Issuers with the lowest **credit ratings** (a credit rating indicates how likely an issuer is to go out of business) pay out the highest rates of interest and vice-versa.

Shares

An alternative way for a company to raise money is by issuing shares. When you buy a share in a company you become a part owner of that company (a **shareholder**). The more shares you buy, the more of the company you own. Investors buy shares in the hope that they will receive an income payment every six months – known as a **dividend** – and that the share price will rise over time.

If a company makes a profit, chances are they will be able to pay a dividend and their share price will rise. However, if they make a loss, they will have no money with which to pay a dividend and the share price will fall.

Shares generally make more money than cash and bonds over the long term. But, there are no guarantees.

Summary

Thinking about Jenny's parents, her nan and her brother, which of the three investments do you think might suit their needs? What are your reasons?

	Possible investment	Reasons
Parents		
Nan		
Brother		

Retirement planning

What do we mean by retirement?

Historically, retirement has happened at a set age (typically 60 for women and 65 for men). Most people gave up work for good and lived off a **pension**.

'Pension' is the term given to the income a person receives in retirement in place of earnings:

- Most people receive a pension from the Government **(State pension)**
- Many receive a pension from their former employer **(workplace pension)**
- Some receive income from a pension they have built up themselves **(personal pension)**

So, what's changed?

Pensions have become very expensive to provide. One of the reasons for this is that, broadly speaking, we are living much longer and so retirement lasts much longer. More people than ever before are working into their 60s and 70s, either by choice or necessity.

Life expectancy

Take a look at the life expectancy table below. The first figure in the 2nd and 3rd columns represent a baby's average life expectancy at birth in the year that they were born. For example, if Joseph was born in the year 2000, he was then expected to live, on average until, the age of 76.

The figure next to it (in brackets), is the average life expectancy of Joseph now. Due to improvements in medical science and the healthier lifestyles that we all lead, the average life expectancy for Joseph now is 89!

To check you understand this table, can you identify the difference in years between Lizzie's life expectancy when she was born in the year 2000, and her life expectancy now?

Year of birth	Male life expectancy at birth (life expectancy now)	Female life expectancy at birth (life expectancy now)
1960	68 (85)	74 (87)
1980	71 (85)	77 (87)
2000	76 (86)	80 (89)

Source: ONS

Answer:

"PENSIONS HAVE BECOME VERY EXPENSIVE TO PROVIDE... WE ARE LIVING MUCH LONGER AND SO RETIREMENT LASTS THAT MUCH LONGER."

Government intervention

Recently, the Government has done two things aimed at reducing the cost of providing pensions:

1. Increasing the **State Pension Age (SPA)**
   - It's unlikely that Joseph, or anyone else born in the year 2000 or later will have a SPA of under 70
2. **Auto-enrolment**
   - The Government has now made it compulsory for employers to provide a workplace pension for most employees
   - Employees over a certain age and earning over a certain amount must be automatically enrolled into a workplace pension
   - Auto-enrolment means that on joining a new employer, most employees will automatically become a member of their employer's pension scheme whether they want to or not
   - If they do not wish to remain a member, they must complete a form to opt out
   - The employer must make a contribution to the scheme
   - The employee must also make a contribution to the scheme
   - The basic premise behind auto-enrolment is that we all know that saving for a pension is a good idea, but that many of us don't get around to doing it. By making it easier to be in a pension scheme than out of one, the Government hopes we'll all make bigger in-roads into saving for our futures

Why do we need to be encouraged to save for our retirement?

Two of the main reasons that young people give for not saving for their retirement are that it is too far in the future for them to worry about and that they don't have any spare cash to save.

But, by starting young, you drastically reduce the amount you need to save.

Legal & General, a financial services provider, share the following table on their website which illustrates the monthly amount that needs to be saved to achieve a pension income of £5,000 a year depending on how old you are:

Age	25	35	45	55
Monthly cost	£269	£349	£501	£947

Source: Legal & General

The table illustrates the cost of delay. The longer you put off saving for retirement, the more expensive it gets.

The counter-argument to 'I don't have any spare cash now' is 'When will you have?'.

If you don't think you can afford to save for a pension when you're earning, how will you afford to live once you retire and have no earnings? The State pension may well be around, but some people feel that it may not be, and if it is, it may not be as generous as it is today (about £9,110 a year if you're entitled to the full amount). A recent study showed that the average retired household spend was just under £22,000 a year (bbc.co.uk), so you can probably imagine just how difficult it would be to live a comfortable lifestyle on just the State pension.

"THE BEST TIME TO START SAVING FOR YOUR RETIREMENT IS AS SOON AS YOU'RE IN FULL TIME EMPLOYMENT."

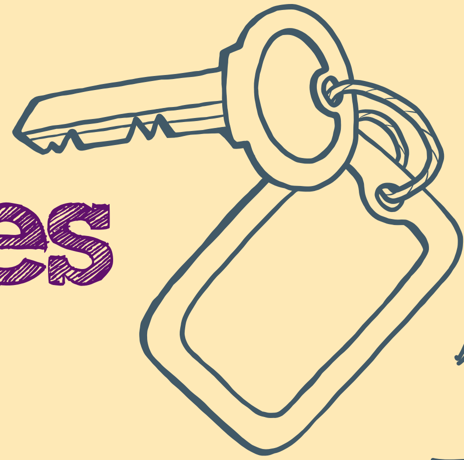
What should I do?

The best time to start saving for your retirement is as soon as you're in full time employment.

If you're eligible for a workplace pension, both your employer and the government will add money to your pension pot.

If you work for yourself or if you don't qualify for a workplace pension, you can save into a personal pension. The government will add money into your pension pot. Many personal pensions have a minimum contribution of £20 a month, making them affordable for most people.

Mortgages



What is a mortgage?

The most expensive thing that most people will ever buy is their home.

With the average price of a first home in the UK being around £210,000, the majority of people wishing to buy a property will need to borrow a significant amount of money.

A **mortgage** is the name given to a loan taken out to buy a property.

What's involved in taking out a mortgage?

Before an institution that offers mortgages (the **mortgage lender**) will do anything else, they first need to check that the person taking out the mortgage (the **mortgage borrower**) can afford the monthly mortgage repayments that the lender will require.

For example, if you were to borrow £175,000 over 25 years (a typical timescale for a mortgage), your monthly repayments might be £915. The lender would look at the amount of money you have coming in (**income**) and the amount that is going out (**expenditure**). The difference between the two gives the lender an idea of whether you can comfortably afford £915 a month or whether you might struggle. If you might struggle, chances are the lender won't lend to you.

Also, most lenders won't lend the whole amount needed to buy a house. For example, if a property is valued at £200,000, the lender might agree to lend 90% of that, i.e. £180,000. The borrower must save up the remaining amount – £20,000. This is called their **deposit**.

Once the lender has confirmed how much can be borrowed, it will then state the interest rate at which they are prepared to lend the money. Interest is what it costs the borrower to use the lender's money. The amount of interest charged will vary depending on how likely the lender feels the borrower is to repay the loan. Those that the lender feels are most likely to get into financial difficulty are charged the highest rates as they are a greater risk to the lender. Those who can pay a larger deposit, will benefit from lower rates.

What other costs are involved?

The deposit isn't the only amount of money a borrower will need before buying their first home. Can you think of any other expenses that might be involved in buying a house?

A solicitor will be involved in the house-buying process. Their fees will need to be paid. In addition, there is a special type of tax, known as **Stamp Duty Land Tax** (Land and Buildings Transaction Tax in Scotland, Land Transaction Tax in Wales), that is payable to the Government when a house is bought.

How is a mortgage paid back?

There are two main ways in which a mortgage can be repaid:

1. A **repayment mortgage**

- The monthly mortgage repayment to the lender is made up of two parts – capital (the amount that has been borrowed) and interest
- The lender deducts the capital part from the amount the borrower owes
- The lender takes the interest part to cover its own costs and, in some cases, to make a profit
- Providing the borrower makes all repayments they will pay off their debt in full by the end of the mortgage term

2. An **interest only mortgage**

- The monthly mortgage repayment only consists of interest
- The borrower must make a separate arrangement to save up the money needed to pay off the original loan at the end of the mortgage term
- This type of mortgage is riskier because if the borrower fails to save the full amount owed, they will not be able to repay the lender and the lender may then sell their house to get back the amount they are owed

"...LENDERS HAVE THE RIGHT TO SELL A PROPERTY TO GET BACK THE AMOUNT THEY ARE OWED IF A SIGNIFICANT NUMBER OF MORTGAGE REPAYMENTS ARE NOT MADE..."

Protecting a mortgage

Generally a mortgage should have financial protection so that if an **unexpected life event** occurs (like illness or death), the **financial consequences** are taken care of.

Let's take a look at what those financial consequences might be:

- Jenna has taken out a repayment mortgage over 25 years for £175,000
- Her monthly repayments are £915

If Jenna dies, the mortgage will have to be repaid (such loans are repayable on death). A life assurance policy providing cover of £175,000 over 25 years would ensure that the money was available on her death to repay the mortgage.

If Jenna becomes so ill that she is unable to work, she may no longer receive an income. With no income she'd be unable to make her monthly repayments. An income protection plan will pay out a monthly income in these circumstances, meaning that Jenna would not have to worry about keeping a roof over her head and could focus on her recovery instead.

A word of caution

A mortgage is a big commitment. At the first sign of financial difficulty it's important to contact the lender as they may be able to help. Ultimately, lenders have the right to sell a property to get back the amount they are owed if a significant number of mortgage repayments are not made, but this is not a step that they like to take if it can be avoided.

Financial protection

What is meant by financial protection?

Financial protection means taking out an insurance policy so that if an **unexpected life event occurs** (like illness or death), the financial consequences are taken care of. The financial consequences of illness or death vary from person to person:

Liz

Liz is 19 and works at a gym. She earns £1,500 a month. Her monthly expenses, which include rent, are £900. If Liz were unable to work due to illness, **financial protection insurance** could cover her monthly expenses, meaning Liz could focus on getting better rather than worrying about money.

Sam and Jo

Sam and Jo are a couple in their mid-twenties. Sam works and earns £30,000 a year. Jo stays at home looking after their new baby. The couple have a **mortgage** of £175,000. Their monthly expenses are £1,800. £800 of this is mortgage repayments. If Sam were to die, financial protection insurance could provide Jo with the money she would need to pay off the mortgage and enough money to live off. While the policy cannot bring Sam back, it can make Jo's life a little easier at what would be a difficult time.

Some people may have family and friends who can help them out. Others may have savings. The Government provides some help for some people and an individual's employer may also provide assistance.

However, none of these are reliable, long-term solutions to the financial problems that Liz and Jo might face. This is where financial protection insurance comes in.

How does financial protection insurance work?

Insurance works a bit like the National Lottery. With the National Lottery, lots of people pay in a small amount of money each week. The money is pooled together into a prize fund. If your number comes up, you receive a share of the prize fund.

Insurance operates on the same principle. Lots of people pay a small amount of money each month. The insurance company pools the money together into a fund. If a customer experiences an unexpected life event, they or their loved ones tell the insurer who then pays them a share of the fund.

What types of financial protection insurance are there?

You may have heard of **life assurance**. This type of insurance policy pays out a lump sum if someone dies. This could be useful for Jo in the event of Sam's death. Part of the lump sum could be used to pay off the mortgage, the rest could be put into a savings account and Jo could use the money to pay the household bills.

A less well known type of protection product is **income protection**. This is what Liz might need. An income protection plan will pay out a monthly income if someone becomes ill and is unable to go to work.

There are other types of insurance too. Most people have home insurance, which protects their home, and car insurance, which covers the cost of damage to their vehicle – or someone else's – if it is involved in a collision. When you go on holiday, it's a good idea to have travel insurance, to cover any medical treatment or lost luggage. There is also insurance available to cover your possessions, like your mobile or your bike. Schools and companies also need insurance for their people, property and activities.

How much financial protection insurance is needed?

As we said earlier, the financial consequences of illness or death vary from person to person. Therefore the amount of financial protection insurance needed varies too.

Cast your mind back to Liz, how much income protection insurance do you think she needs?

- Liz earns £1,500 a month, but her total monthly expenditure is only £900
- This suggests she might need a plan that pays out £900 a month

Life assurance is a bit more complex.
For example:

- Jo might want a lump sum of £175,000 to pay off the mortgage so that she no longer has to make a mortgage repayment each month
- Jo's monthly expenses would then fall to £1,000, i.e. £12,000 a year
- She might decide that she would want these expenses covered until the baby was 18
- She would therefore need expenses cover of £12,000 x 18 years = £216,000
- Jo might therefore need total life cover of £175,000 + £216,000 = £391,000

How much does financial protection insurance cost?

£391,000 sounds like it would cost a great deal, but financial protection insurance is generally a lot cheaper than people think. Jo could buy this level of cover for around £11 a month.

How do I know if I need financial protection insurance?

Generally speaking, the need for financial protection insurance arises when someone starts to rely on the money they earn from employment to pay their own bills or the bills of others.

You might sail through life without major illness and live to a ripe old age. You might face prolonged periods of illness or an earlier than anticipated death. Unexpected life events are a bit like the lottery too – you never know whether your number will come up.

Financial protection insurance, therefore, is all about providing people with the peace of mind that should an unexpected life event happen to them, the one thing they won't have to worry about is finding the money to pay their monthly bills and to look after their loved ones.

Glossary

Apple Pay
A mobile payment and digital wallet service enabling you to add your debit and credit cards to an Apple device and then pay for goods and services with your Apple iPhone, Watch or Mac.

Auto-enrolment
The obligation placed on an employer by the Government to automatically enrol the majority of their employees into a workplace pension.

Bad debt
Debt that you cannot afford, that is not an investment in your long term future, that has a negative effect on your overall financial position, that has been used to buy something you do not really need and has not been shopped around for.

Bartering
The exchange of goods or services without using money.

Bond
A way in which governments and companies can raise money. The investor effectively lends their money and in return receives an interest payment and repayment of their capital at a later date.

Bond issuer
The government or company that an investor is lending to.

Borrowing
Using someone else's money to pay for something that you want.

Bitcoin
A form of cryptocurrency, created and held electronically.

Budget deficit
The figure arrived at when more money is going out than is coming in.

Budget surplus
The figure arrived at when more money is coming in than going out.

Bureau de Change
A place where people go to change money from one currency into another.

Capital
A lump sum of money that someone has (in the context of investments). A lump sum of money that someone owes (in the context of mortgages).

Car insurance
Pays out if your car is stolen, vandalised, catches on fire or if you are involved in an accident.

Cashless society
An economy where financial transactions take place electronically rather than with coins and notes.

Contactless payment
Cards and electronic devices that can be held over a reader which then processes the payment securely.

Credit rating
For a government or company, a credit rating indicates how likely they are to run out of money and not be able to repay their debts.

Credit reference agency
A company that compiles and holds credit reports.

Credit score
The rating given to you by a lender or credit reference agency-based mainly on your past borrowing habits.

Credit union
An organisation run for and by its members on a non-profit basis.

Discretionary expenditure
The money we spend on goods and services that are nice to have, but that are not essential to our way of life.

Dividend
An income payment from a share.

Essential expenditure
The money we need to spend on goods and services that we feel are essential to our way of life.

Expenditure
The money we spend.

Fixed-term account
Savings account that pays interest for a fixed period of time, e.g. 1 year, 2 years and so on.

Financial protection insurance
An insurance policy that pays out in the event of an unexpected life event such as illness or death.

HMRC
Her Majesty's Revenue and Customs. The Government's tax collection agency.

Home insurance
If your home is damaged or burgled, a home insurance policy covers the cost or repairs or replacements.

Income
The money we receive, usually earnings.

Income protection insurance
An insurance policy that pays out a monthly income if you are unable to work due to illness.

Income tax
The tax paid on your earnings from employment or self-employment. Paid to the Government to pay for things that we all need such as schools, hospitals and roads.

Interest only mortgage
Monthly repayments consist of just interest. Borrower must make a separate arrangement to save up money to pay off the original loan at the end of the mortgage term.

Investment goal
What a person hopes to achieve by investing.

Investment risk
The amount of risk an investment is exposed to, generally thought of as the possibility of it falling in value.

Investment vehicle
A product into which a lump sum of money can be invested.

Land and Buildings Transaction Tax
Tax payable to the Scottish Government when land or property is bought in Scotland.

Land Transaction Tax
Tax payable to the Welsh Government when land or property is bought in Wales.

Life assurance
An insurance policy that pays out a lump sum on death.

Life expectancy
The average age a person is expected to live to depending on when they were born.

Mortgage
A loan taken out to buy a property.

Mortgage borrower
The person taking out a loan to buy a property.

Mortgage lender
The institution that provides the money for the loan to buy a property.

Mortgage deposit
The initial amount a mortgage borrower must hand over to the lender when buying a property – usually a set percentage of the property's value e.g. 5% or 10%.

Need
Something that we need to have in order to go about our daily life – an essential item.

Notice account
Savings account that pays interest but charges a penalty if you make a withdrawal without giving sufficient notice, e.g. 30 days, 90 days.

Payday loan company
A commercial (for profit) organisation offering short-term borrowing of small amounts at very high rates.

Personal allowance
The amount of money we are allowed to earn tax free each tax year.

Personal pension
A pension an individual takes out and saves into themselves in order to provide an income in retirement.

Regular saver account
Savings account that pays interest when you make a regular payment (usually monthly) into it.

Repayment mortgage
Monthly repayments consist of both capital (the amount borrowed) and interest. Providing payments are maintained, the mortgage will be paid off in full at the end of the term.

Retirement
The period of time between a person leaving the workforce (usually because of age) and death.

Shareholder
Someone who owns a share in a company.

Shares
Part ownership of a company.

State pension
The pension income provided by the Government in retirement.

State pension age
The age at which an individual becomes entitled to the State pension.

Stamp Duty Land Tax
Tax payable to the Government when property is bought in England and Northern Ireland.

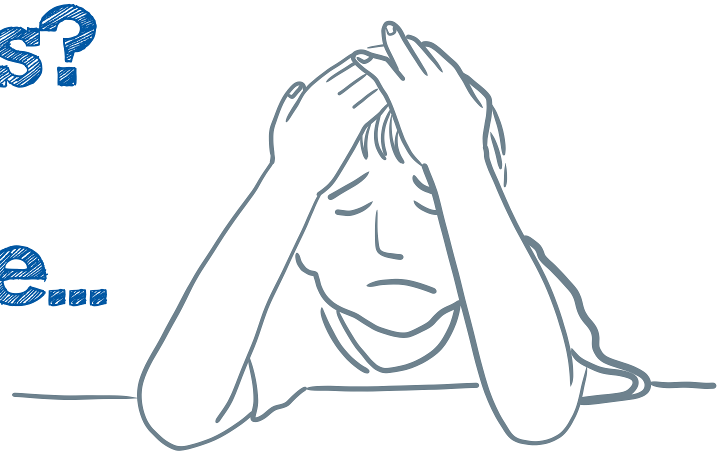
Travel insurance
Covers the cost of cancellation, lost luggage, stolen property, illness and injury while you're on holiday.

Unexpected life event
A life event that could happen to anyone e.g. illness or dying young.

Want
Something that we'd like to have, but don't necessarily need – a non-essential item.

Workplace pension
A pension income provided by a (former) employer in retirement.

Confused about pensions? You're not alone...



ALISTAIR McQUEEN
Head of Savings and Retirement
Aviva

Many can feel confused about pensions. But the truth is that they have never been more popular. More of us are saving more in pensions than ever before. This article outlines the current popularity of pension; outlines their history; outlines how they work; and outlines how much we should be saving. Investing time understanding pensions today could be one of the best investments you make all year.

Pensions rarely dominate conversations in pubs or at parties. So, if you've heard of a pension but are not really sure what one is, don't worry. You're not alone. Indeed, you are like most people. According to the government's own figures, only a minority of us feel we really understand pensions. Across the population as a whole, about four-in-ten feel we understand pensions. Among those under the age of 25, it's less than two-in-ten[1].

Despite this confusion, pensions matter. To millions of us. And more than ever.

Pensions: More popular than Netflix and richer than Jeff Bezos

Today, more people are saving in a pension than ever before. In fact, more than twenty million of us are doing just this. That's millions more than those of us who have Netflix or Amazon Prime.

In addition to the record numbers of people saving, pensions are holding a record amount of money. In fact, there is so much money being saved in pensions that they now represent the biggest home of private wealth in the UK.

In total, the UK holds about £15 trillion of private wealth. That is fifteen followed by twelve zeros. Of this, about £6 trillion – six followed by twelve zeroes – sits in pensions. That is more than the amount we have invested in property (£5 trillion), and more than the amount we have in banks, other investments or elsewhere (£4 trillion)[2].

Amazon founder, Jeff Bezos, is reported to be the richest man on the planet, with a personal fortune of about £100m[3]. Our £6 trillion in pensions is 60,000 times more than the money sitting in Jeff's bank account. Poor Jeff!

Pensions: A quick history lesson

Most of us understand that pensions are designed to provide us with an income in retirement, once we stop working. 100 years ago, the sad reality was that our time in retirement was typically quite limited. So, our need to save was also quite limited too. Indeed, when the UK government first provided a state pension, in 1908, you had to be aged 70 to get it. This was at a time when our life expectancy at birth was below 60. 100 years ago, a long retirement was a rarity.

Today, the situation is quite different. Today, our average life expectancy is edging towards 85, and one-in-three of us can expect to live to 100. Today, a long retirement is increasingly the norm, and has to be saved for. This is where pensions come in.

Pensions: From the state and from our own savings

Most of us will benefit from two types of pensions when we reach retirement – one from the state, and one based on how much of our own money we have saved during our working life.

First, let's look at the state pension. This is the money we get from the government when we reach a set age. Today, we get this money when we reach the age of 65, but this is set to rise to at least 68 over the coming twenty years. And the amount we get from the government is currently set at about £175 every week, or about £9,000 every year. (For some it may be more or less than this, but this is a fair estimate for most). So, if we choose not to save anything else during our working lives, we will have about £9,000 every year to live off when we reach retirement. With the average salary in the UK being about £28,000, dropping to just £9,000 would be a big shock for many. That's why millions of us choose to save more on top.

Next, let's look at private pensions. These are the pensions people choose to save in during their working life, to boost their money in retirement. Private pensions can seem complicated but, in truth, they could simply be described as a 'magic piggy bank'.

Why magic? Well, whatever we save in our pension, the government will add money on top. And, if we are in work, our employer will probably add money on top too. If we don't save our own money in the private pension, we won't get this extra money from the government or our employer. If we do, we will. Magic!

There is one catch. Any money we save in a private pension can't be accessed until we reach the age of 55. The fear is that, without this restriction, we'd all be tempted to spend it too soon. That's one reason why the government gives us money on top – as an incentive to save, and a reward for being patient.

So how much should we save in your pension?

The answer to this question depends upon how much money we want when we reach retirement. The more we save, the more we will have when we reach retirement.

But Aviva suggests three guidelines to direct our saving.

1. Begin saving at least 40 years before our target retirement date. So, if we want to retire when we are 40, we should begin saving when we are one!
2. Save at least 12% of our earnings each month. And remember this includes our own money, plus any money from the government and any money from our employer
3. Aim to have saved at least ten times our annual earnings in our pension by the time we reach retirement

It's not a guarantee, but by following these three guidelines we should be better placed to achieve our retirement goals.

Hopefully this gives you an idea of what a pension is, why they matter, and why millions of people are taking advantage of the 'magic piggy bank'. You can read much more about pensions on Aviva's website – www.aviva.co.uk/retirement/pensions/.

Finally, when we ask people in retirement about pensions, they typically tell us two things: I wish I had begun saving earlier, and I wish I had saved more. While we have time on our side, let's listen to these words of wisdom.

Sources 1. www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/earlyindicatorestimatesfromthewealthandassetssurvey/attitudestowardssavingforretirementautomaticenrolmentintoworkplacepensionscreditcommitmentsanddebtburdenjuly2016todecember2017#attitudes-to-saving-and-retirement

2. www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

3. www.theweek.co.uk/people/57553/top-billionaires-who-richest-person-world

AVIVA

What I wish I had known about money...

HELEN MORRISSEY
Pension Specialist
Royal London

If I were to talk to my younger self about how to deal with money, the first thing I would say is, don't let anyone tell you that money is boring, complicated or something not to talk about. Learning how to manage your money is one of the most important life skills you will ever learn.

Many of you will be planning on going to university or moving out of home soon – this is such an exciting time and you will learn so much, especially about how to manage your money and make it last. My first top tip to you would be start looking at how you can budget.

Budgeting

Before I went to university I had saved some money from my part time job, but I hadn't really thought about how much I had or how long it was likely to last me. After a couple of weeks in my student flat, I started to lie awake at night and worry if I had saved enough. Some of my friends overspent madly in the first few weeks of term and left themselves struggling and really stressed. I didn't want that to happen to me so I made a plan. Making a note of how much money I had versus what I needed to spend on books, food and bills and giving myself a weekly amount to spend took away all of that stress. Of course there were occasions when I overspent, but keeping a regular eye on things helped me keep things under control.

Don't be scared to ask for help

This one is vitally important, not just for your financial health but also your physical and emotional wellbeing. Even with the best budgeting, there will be times when money is short. In such cases the worst thing you can do is ignore it as it will only get worse – sticking your head in the sand when it comes to money is a recipe for disaster.

"EVEN WITH THE BEST BUDGETING, THERE WILL BE TIMES WHEN MONEY IS SHORT. IN SUCH CASES THE WORST THING YOU CAN DO IS IGNORE IT AS IT WILL ONLY GET WORSE – STICKING YOUR HEAD IN THE SAND WHEN IT COMES TO MONEY IS A RECIPE FOR DISASTER"

If it's a short term thing, then the likelihood is that with a bit of planning, you can get back on track quite quickly, but if you start to worry then it is time to ask for help. There are many people you can speak to. Of course your family will probably be the first port of call for many of you, but there are other places you can go. Speak to your bank if you are struggling with overdrafts, your credit card company if it's cards, or else charities such as Citizen's Advice have a team of volunteers who can give you helpful information.

Get into the savings habit

Whether you are saving for something specific, or just for a rainy day, it is always a good idea to have a savings pot. Having some money in the bank, or an ISA, means you can pay for that holiday, or deal with an unexpected bill without having to worry about where to find the money. Even putting aside small amounts can make a real difference over time. While finding money at the end of the month can be challenging, making sure you put money into a savings account as soon as you get paid can make things easier.

It's never too early to start

Looking after your money gives you the freedom to do what you want and it is never too early to start. When you look into the future what would you like to have – a car, a nice flat or nice holidays? These may all seem out of reach now, but the sooner you start saving the closer you will be to your goal.

Invest in your future self

Pensions have a reputation for being boring and for old people, but they aren't. While retirement feels like a lifetime away it's worth making an early start on investing into a pension. When you start work you will be able to join your employers' pension scheme. While you may not like the idea of parting with your hard-earned cash, its worth saying that on top of what you put in, your employer also puts some money in and you will get a top-up from the government – it is free money! The money comes straight out of your wages so you won't miss it, and it is then invested in the stock market where over time it will grow to give you a fund to spend in retirement. The earlier you can start the better, and over time the amount will really grow. Don't think of it as being boring – this is your future financial freedom fund!

"LOOKING AFTER YOUR MONEY GIVES YOU THE FREEDOM TO DO WHAT YOU WANT AND IT IS NEVER TOO EARLY TO START"

I tracked every penny I spent for a year
Here's what I learned

My two key takeaways from a year of keeping tabs on my spending...

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A year ago I decided to try to better understand where my money was going. The reason for this – and you will all experience this at some point or another – is that I honestly wasn't sure.

The starting point for feeling confident about your finances is to have a decent (though not necessarily forensic!) understanding of your spending habits.

This is why Zurich is delighted to be working with the New Model Business Academy to participate in its efforts to increase financial education in schools, and to give young people confidence about money.

To overcome my anxieties about my spending, I decided I would record all my spending (no matter how small), group everything into a few categories, and see what I could learn. And even though I'm (basically) a millennial and there's an app for this sort of thing, I did it all in a spreadsheet.

Anyway, here are two things I learned in the last 12 months...

1. The little extras cost more than you think

It has probably dawned on many of you that life is expensive. No news there.

The mistake I made was assuming I had a rough idea how expensive it was! For example, rather than figure out how much I was really spending, I was guessing, which led to some significant miscalculations!

It all added up: a Saturday afternoon swim, new shoes, extra bread and milk, a birthday present for my sister, an MOT, car parking...

And while these examples might not be typical expenses for you, if you are estimating at all, there is a decent chance you're wide of the mark.

For me, my guess at about a £400 monthly spend on 'extras' (all the stuff outside food and bills) turned out to be closer to £700. Oops.

So the lesson was a simple one: try to keep tabs on your spending. Now I could see in black and white where my money was going. A pressure lifted. And it meant if I needed to cut back on anything, I knew the difference it would make.

2. I discovered where we were overspending and did something about it

You may not currently have any subscriptions or memberships (to a gym, for example). If you do, there is a possibility you are either paying for something you don't use, or overpaying for something available more cheaply elsewhere.

For a long time, I hadn't bothered checking whether my TV and internet deal was still the right one. I'd been lured in with a great introductory offer which had run its course and was now paying full whack.

So I looked at what else was on the market, tweaked my package, haggled a bit, and saved about £35 a month or, a better way to think of it, £420 a year.

I wondered what else I should check. Was I overpaying for gas or electricity, car breakdown cover, or my mobile phone? After a bit of research, I thought I probably was, so I changed those too.

All of this is fairly straightforward, I know, but it's been worthwhile, and I now feel like I'm getting a bit more value for money.

Dealing with debt – and beginning to save

Money is there to be spent, of course, on food and clothes and education, and enjoying yourself. But if you spend more than you earn you will fall into debt. This isn't meant to scare you; after all, debt is hardly unusual today (a mortgage is a debt). But understanding how it is possible to fall into debt is important and, if I were teaching financial education in your school, it would be lesson number one.

What about saving money? How do you get started? Is it a good idea? Well, yes, absolutely it is, if you find you have a bit of spare cash to do it. Ultimately, it may mean you won't have to turn to credit when you wish to buy, say, your first car. And if you don't have anything spare, hey, you can wait until you do.

If you can, how soon should you start saving? The truth is: the sooner the better. Here is an example I like from a popular book called The Teenager's Guide to Money...

Suppose you want to have savings of £10,000 on your 30th birthday:
You could save 78p a day from the age of 13
You could save £4.47 a day from the age of 25
You could save £27 a day from the age of 29

So it is never too early to begin.

It is straightforward pointers like these (there are many, many others) which illustrate why financial education can be so powerful and why it should be taught in our schools.

Until then, there are resources such as Young Persons Guide to Money to give you a head start. Happy reading.

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Fancy a career in money?

Whether student or parent, perhaps reading this Young Person's Guide to Money has sparked an interest in money. Have you ever considered a career in financial services?

There are many opportunities available either straight from school – including apprenticeships – or after gaining a degree at university. Whichever path you take, there is a wide range of professional financial services qualification options available.

If you're interested in finding out what qualifications you can study for, then do visit Brand Financial training at www.brandft.co.uk. They cover all qualifications offered by the major financial services examining board, the Chartered Insurance Institute (CII).

Entry and introductory-level qualifications are available covering Financial Protection (often referred to as 'life'), Retirement Planning ('Pensions') and Investments – all areas covered in this Young Person's Guide to Money.

The Award in Life and Pensions Foundations is a great place to start. It is a solid entry-level qualification providing a grounding in the key areas of life and pensions. This can be ideal for those wishing to dip their toes in exam waters.

For qualifications with a little more content, it may be worth simply diving into the Award in Financial Administration which offers two routes – Life office administration or Pensions administration. If you would like to work in support and administration in financial services this is a great option.

If you're more interested in Investments, the Certificate in Investment Operations is another option covering a wide range of exam choices including collective investment scheme administration, individual savings account administration or investment client servicing.

Alternatively the Certificate in Financial Services which also offers a wide range of exam options.

Are you interested in being a financial adviser?

For this career option, you will need to gain what is called a 'Level 4' qualification. The CII provides the Diploma in Regulated Financial Planning. This includes 6 exams covering regulation, investments, taxation, retirement planning and protection. It's a tough qualification but you will come out with a qualification that will enable you to work as a financial adviser.

For more information, do visit us at www.brandft.co.uk or email us at enquiries@brandft.co.uk

Working with financial services exam candidates for over ten years, Brand Financial Training provide a variety of immediately accessible free and paid learning resources to help candidates pass their CII exams. Our resource range ensures there is something that suits every style of learning including mock papers, calculation workbooks, videos, audio masterclasses, study notes and more. Do visit us to find out all you need to know for CII financial services exams and qualifications.

We look forward to helping you on your journey.

Answers

Money – Money in other countries

Pages 4/5

How much will he receive back in £s from the Bureau de Change?

Answer: €7.50 ÷ 1.14 = £6.58

Retirement Planning – Life expectancy

Pages 18/19

...can you identify the difference in years between Lizzie's life expectancy when she was born in the year 2000, and her life expectancy now?

Answer: 89 years – 80 years = 9 years

Earnings and taxation – The tax bands in practice

Pages 6/7 – suggested answer

	Benefits from personal allowance	Pays some tax at 20%	Pays some tax at 40%	Pays some tax at 45%
Jo earns £8,500	✓	✗	✗	✗
Lou earns £23,000	✓	✓	✗	✗
Karl earns £90,000	✓	✓	✓	✗
Gemma earns £165,000	✗	✓	✓	✓

Investing in money – Summary

Pages 16/17

	Possible investment	Reasons
Parents	**Cash**	The £10,000 is needed in 5 years' time. They don't want to lose any of the money. They want it in a secure place.
Nan	**Bonds**	A bond from an issuer with a high credit rating (e.g. a relatively safe issuer such as the UK Government), would provide relative certainty of income and repayment of capital, as well as a slightly higher rate of interest.
Brother	**Shares**	Does not need access to money. Prepared to take risk. Wants to make a profit. Could invest in the shares of a particular company he likes the look of (although this would be high risk) or in a product that invests in the shares of lots of companies known as a collective investment product (slightly lower risk).

Notes

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