Personal Finance Award

GA1Y 44

Support Materials

Money Management (FC63 04)

Contents

Introduction

The Personal Finance Award (GA1Y) is jointly certificated by both SQA and The London Institute of Banking and Finance, and is credit rated at SCQF level 4. The Award consists of two Units, The Principles of Money (FC64 04) and Money Management (FC63 04). The support materials have been separated out by Task in the component Units. This pack is for the Money Management, an additional Pack is available for The Principles of Money.

Links to the Curriculum for Excellence experiences and outcomes are included. An appendix benchmarking Skills for Learning, Skills for Life and Skills for Work are available in the Personal Finance Award Arrangements document.

Summative and formative e-assessments for the Personal Finance Award are available on SOLAR www.sqasolar.org.uk

Centres should update material to reflect current National Minimum Wage (NMW), Personal Allowances, etc. Centres should also take cognisance of Scotland's Fiscal Framework and the ability of the Scottish Government to introduce changes to tax rates, bands, etc from 2017/2018 onwards.

The March 2016 Budget Statement contained a statement that the Money Advice Service would be axed, however, a member of the Money Advice Service staff informed SQA that the organisation is being down-sized and the links to the Money Advice Service will remain live. Centres are advised to check the web link prior to delivery of this Unit.

Task 1: Investigate costs and calculate bills

What I need to be able to do	**CfE E and O**	**Learning Outcomes**	**Resources**	**Performance Criteria**
1.1 Calculate, complete and check utility bills	MNU4 09a	**I can...** Calculate the cost of using different amounts of gas or electricity, given amount per unit and any standing charge Check the accuracy of bills for gas or electricity	SQA support materials https://www.moneyadviceservice.org.uk/en www.pfeg.co.uk www.uSwitch.com www.moneysupermarket.com Commercial material covering calculation of bills	**I can...** Calculate a utility bill given charges Check if a utility bill is correct
1.2 Compare deals on utility bills	MNU3 09a	Compare deals on utility bills, eg by using comparison sites		Make comparisons between utility suppliers and make recommendations based on the data
1.3 Calculate and compare mobile phone costs and packages	MNU3 09b	Calculate the real costs of mobile phones, taking into account, eg term/monthly cost, 'free' minutes/texts, replacement phone, contract etc. Compare mobile phone packages using, eg comparison sites		Calculate how much a mobile phone will actually cost over, eg a 2 year period Make comparisons between mobile phone packages and make recommendations
1.4 List some of the costs involved in motoring and travel	MNU2 09a	List some of the costs involved in motoring or travel, eg fuel, insurance, fares, etc.		List at least three costs which should be considered when deciding on type of transport, eg fuel, fares, insurance, depreciation, etc.

Task 1: Investigate costs and calculate bills

1.1 Calculate, complete and check utility bill

What are ‘utilities’?

The term ‘utilities’ covers a variety of items including gas, electricity and water supplies. Utility companies (except water suppliers) can cut off your supply if a bill goes unpaid. In Scotland the charge for water and sewage is normally included in the council tax charge for each property.

Gas and electricity can be supplied by a number of utility companies, eg Scottish Gas, Scottish Power, E-on, nPower, and Scottish and Southern Energy.

Some examples of utility bills are given on the following pages. Make yourself familiar with the different elements of these.

Most companies encourage their customers to access their bills on line and may charge for a ‘paper bill.’

Alpha Gas

Customer Name
Address line 1
TOWN
Postcode

Your electricity statement — estimated

Contact us

Make your future bills more accurate by providing regular meter readings.

With your meter reading handy, go online.

alphagas.co.uk/mread

If you would like to speak to one of our team call:

0800 000 0000

Mon - Fri, 8am - 8pm, Sat, 8am - 6pm.

Customer reference number

9731 0000 0000

Statement date:
31 March 2012
Statement period:
22 Dec 11 - 21 Mar 12

You're on Promise Pricing tariff which ends 31 March 2013

Before this statement

Balance of your last statement	**£80.60** in credit

Call our free automated line on 0800 000 0000 with your meter reading for a more accurate bill.

This statement

Balance brought forward	**£80.60** in credit
What you paid	**£16.80**
Electricity you've used this period	**£46.81**
Your discounts	**£0.07** credit
VAT at 5%	**£2.33**
Your new account balance	**£48.33** in credit

Alpha Gas

Customer Name
Address line 1
TOWN
Postcode

Your gas statement — actual

Contact us

Make your future bills more accurate by providing regular meter readings.

With your meter reading handy, go online.

alphagas.co.uk/mread

If you would like to speak to one of our team call:

0800 000 0000

Mon - Fri, 8am - 8pm, Sat, 8am - 6pm.

Customer reference number

9731 0000 0000

Statement date:
17 November 2010
Statement period:
10 Aug 10 - 16 Nov 10

You're on Fixed Pricing tariff which ends 30 September 2011

Before this statement

Balance of your last statement	£161.18 in debit

This statement

Balance brought forward	£161.18 in debit
What you paid	£284.00
Gas you've used this period	£166.48
Your discounts	£8.23 credit
VAT at 5%	£7.91
Your new account balance	**£43.34 in credit**

What you paid - thank you

Direct Debit	23 Aug 2010	£71.00
Direct Debit	22 Sep 2010	£71.00
Direct Debit	22 Oct 2010	£71.00
Direct Debit	22 Nov 2010	£71.00
	Total payments	**£284.00**

Gas you've used this period

Meter number 0000 0000 0000

10 Aug 10 — actual	08324	We read your meter
16 Nov 10 — actual	08671	We read your meter

= 347 metric units used over 99 days (actual)

Gas units are converted = 3927.50 kWh used over 99 days

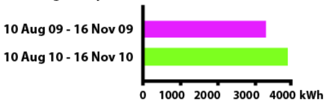
First 727.00 kWh x 7.149p	£51.97
First 727.00 kWh x 7.149p	£114.51
Total cost of gas used	**£166.48**

Gas units are converted to Kilowatt hours using the following formula:

metric units used	calorific value units used	volume correction	to convert to kWh	gas used in kWh
347	x 39.8444	x 1.0226400	+ 3.6	= 3927.50

Your Consumption

Gas usage comparison



From 18 Nov 2009 to 17 Nov 2010, you used 21794.93 kWh of gas. If you continue to use energy at the same rate over thenext 12 months, we estimate your total cost will be £859.32.

(Based on the following tarrif breakdown).

Period	Your tariff	Projected cost
18 Nov - 30 Sep 11	Fixed Price 2011	£794.83
18 Nov - 17 Nov 11	Direct Debit Discount	£50.24 cr
01 Oct - 17 Nov 11	standard	£114.73
		£859.32

For FAQ's please go to alphagas.co.uk/Help

Contact us

Make your future bills more accurate by providing regular meter readings.

With your meter reading handy, go online.

alphagas.co.uk/mread

If you would like to speak to one of our team call:

0800 000 0000

Mon - Fri, 8am - 8pm, Sat, 8am - 6pm.

Customer reference number

9731 0000 0000

Activity 1

Use www.moneysupermarket.com/gas-and-electricity/bills/ or similar site, to see how a utility bill is broken down. Each section of the bill is explained so you can see how much energy has been used, the amount of VAT, etc.

www.first-utility.com also shows a utility bill under home-energy/understanding-your-bill.

Activity 2

Yasmin receives her gas bill. The first 540 units are charged at 8.5p each and the remainder are charged at 4.5p each. Calculate the amount of her gas bill using the following readings:

Present reading	21822
Previous reading	20978

Activity 3

David receives his electricity bill. The first 180 units are charged at 25.8p and the remainder at 12.6p. Calculate the amount of his electricity bill using the following readings:

Present reading	35849
Previous reading	36032

1.2 Compare deals on utility bills

Activity 4

Use a comparison web site such as www.moneysupermarket.com/gas-and-electricity/bills/ or www.uSwitch.com to compare deals on utility bills.

1.3 Calculate and compare mobile phone costs and packages

A variety of costs have to be considered when comparing the cost of mobile phone packages. These include term/monthly cost, 'free' minutes/texts, replacement phone, contract, etc.

Activity 5

Collect some leaflets from supermarkets or mobile phone shops to compare the costs of mobile phones and packages. If possible put this information into a spreadsheet and create a graph to compare the different costs.

Activity 6

Use the website www.mobiles.co.uk or similar website to compare mobile phone packages — both contract and 'pay as you go'.

Activity 7

Maria has a new mobile and is thinking about taking out a contract with one of the companies given in the table below. She makes about 700 minutes of calls in a month. Calculate the charge each company would make and state the most competitive contract.

Mobile Phone Contracts		
Company	**Basic monthly cost**	**Charge for additional minutes**
Purple	£30 for 400 minutes	10p per min
Five	£12 for 100 minutes	12p per min
Pear	£35 for 600 minutes	8p per min
Contact	£15 for 300 minutes	7p per min

1.4 List some of the costs involved in motoring and travel

Travelling involves costs, whether you motor to your destination or use public transport. Air travel is normally used for longer distances.

A variety of costs are associated with motoring such as fuel (petrol/diesel), road fund licence, insurance, MOT (if required), servicing and depreciation.

Cost	Description
Fuel	Most vehicles run on petrol or diesel. However, hybrid cars are also popular and in some cities electric cars are used.
Road fund licence (car tax)	Every vehicle registered in the UK must be taxed if used or kept on a public road.
Ministry of Transport (MOT) test	Everyone who uses a vehicle on the road must keep it in a roadworthy condition. The MOT test checks that vehicles meet road safety and environmental standards. The first MOT test for a vehicle is required when it is three years old.
Insurance	It is a legal requirement to have basic motor insurance if you own or drive a motor vehicle.
Servicing	For vehicles to run efficiently and economically, manufacturers recommend that vehicles are serviced either annually or after certain mileage, eg 10,000 miles. Labour costs can be charged at £75 per hour or upwards for the servicing of a car.
Depreciation	This is the decrease in value of the car over time. For example, if you buy a brand new car for £15,000, it will be worth quite a lot less in 2 years' time. Its value will then depend on the model of the car, how well it has been looked after, the mileage and what else is on the market at the time you come to sell it.

Consideration must be given to type of fare when travelling by plane, train, bus or ferry. For rail travel a variety of ticket types may be available:

- anytime
- off-peak
- super off-peak
- advance
- season — weekly, monthly or any period up to one year

Railcards are also available for different groups of people, eg Young Person's Railcard and Senior Railcard.

Activity 8

Use the P&O Ferries website — www.poferries.com — to search for a price for two adults and two children with car crossing from Cairnryan to Larne on 14 October and returning on 18 October.

Use the Caledonian MacBrayne website — www.**calmac**.co.uk — to calculate the cost of:

- two foot passengers going from Ardrossan to Arran — day return.
- driver with vehicle crossing from Oban to Mull — outward journey 30 October returning on 1 November.

Activity 9

Investigate the cost of travelling from Glasgow or Edinburgh to London (any airport) using a budget airline such as Ryanair or Easyjet. Identify any hidden costs, such as surcharge for luggage.

Activity 10

Diesel costs £1.35 per litre. How many litres of diesel would Liam put in his van if he spends £80?

Petrol costs £1.30 per litre. How many litres of petrol would Sophie put in her car if she spends £50? *(Fuel costs have dropped significantly since 2014. Check the current cost of diesel and petrol for these calculations).*

Activity 11

Investigate the cost of a car service using one of the large car retailers' web sites.

Does the web site give information about what is covered in the service?

Task 2: Identify, describe and calculate different forms of borrowing

What I need to be able to do	**CfE E and O**	**Learning Outcomes**	**Resources**	**Performance Criteria**
2.1 Identify potential sources of borrowing money	MNU4 09c	**I can...** List sources of borrowing to include overdraft, credit card, loans, store cards, banks, building society, credit unions, Post Office, loan sharks	SQA support materials https://www.moneyadviceservice.org.uk/en www.pfeg.co.uk www.moneysavingexpert.org.uk	**I can...** List at least three sources of borrowing money
2.2 Describe how providers promote their products		List some examples of how products are promoted, eg TV adverts, newspapers, sponsorship, cold calls	www.moneyfacts.co.uk Episodes of ‘Bank of Mum and Dad’	Describe one example of how a product is promoted
2.3 Calculate how much would be repaid with different loan amounts, terms and rates of interest	MNU4 09a	Interpret a loan table to identify total cost of a loan over a period of time		Correctly interpret a table of loan repayments
2.4 Compare the costs associated with credit cards and store cards		Compare actual costs of using credit/store cards taking into account interest rates, period of payment, default fees, etc.		Compare the cost of buying a particular item by credit card or store card

Task 2: Identify, describe and calculate different forms of borrowing

2.1 Identify potential sources of borrowing money

Borrowing

At some point in their lives most people will ‘borrow’ money to pay for something they want straight away. The most common examples are a car or an item of furniture but can include holidays.

The biggest item that people borrow for is a house and money is borrowed in the form of a mortgage.

People normally have to be aged 18 years or over to be eligible to borrow.

Interest is paid on money that is borrowed which means that you pay back more than you actually borrowed.

Money can be borrowed in a number of ways:

- a personal loan from a bank or building society
- an overdraft from a bank or building society
- use of a credit card
- use of a store card
- through a finance arrangement, such as hire purchase
- loan from other lenders

Personal loan

This is a way of borrowing a sum of money over an agreed period of time, for example £5,000 over three years. There is a fixed interest rate and the same repayment is made every month. This enables the borrower to budget.

Overdraft

This is a way of borrowing money using a current account. The bank will agree an amount of money customers can borrow (called the overdraft limit). Spending within this limit is called an arranged or authorised overdraft. A fee may be charged for arranging the overdraft and interest will be paid on the money borrowed. Interest may be charged on a daily or monthly basis. A flat fee is normally charged for each transaction that is made over the agreed limit, for example, £20 to process a direct debit. Banks will regularly update customers on overdraft charges that apply.

Overdrafts are suitable for people wishing to borrow small amounts of money for short periods of time.

Credit Card

A credit card is a plastic card used to buy goods and/or services in person or over the internet or telephone. The cardholder borrows the money from the credit card company to make the payments. Credit card companies include most banks and building societies along with major retailers such as Marks and Spencer and Tesco.

The cardholder is given a ‘credit limit’ by the company — this is the maximum the credit cardholder can borrow.

When purchasing goods in a shop using a credit card the card is swiped and the cardholder will enter his/her pin number. When a purchase is made over the telephone or via the internet the purchaser will be asked to quote the 16 digit card number along with the three digit security number given on the back of the credit card.

A monthly statement, detailing all transactions, is sent to the cardholder. Cardholders can repay all the amount owing or only some of it. If cardholders repay the total amount borrowed they do not pay interest. Cardholders who repay only some of the money they have used, will be charged interest on the amount of debt continuing to the next month.

An example of a credit card statement is given on the following page.

CREDIT CARD STATEMENT

Universal

Universal Credit Card Services
08000 00 00 00 www.universal.co.uk

Special Card 1234 1234 1234 1234
Name Customer Name

Minimum payments
If you only make the minimum payment each month, it will take you longer and cost you more to clear your balance.

Summary as at 02 June, 2012

Credit Limit	**£3,750**
Available Credit	**£3,721**
Cash Limit	**£1,875**
Available Cash	**£1,875**
Balance from previous statement	**£14.95**
New Transactions	**£28.75**
Payments and credits to your Account	**£14.95**
Fees	**£0.00**
Interest	**£0.00**
New Total Balance	**£28.75**
Minimum Payment Due	**£25.00**
Payment Due Date	**27 June 2012**

Estimated Interest Amount £0.38
(Please see overleaf for explanation)

Cash Reward

Cash Reward Earned this month	£0.15
Current Cash Reward Value	£4.49

If you do not pay off the full amount outstanding, we will allocate your payments to the outstanding balance in a specific order, which is set out overleaf. The way in which payments are allocated can make a significant difference to the amount of interest you will pay until the balance is cleared completely.

Transaction Details

DATE	REF NO	DESCRIPTION	AMOUNT £
		Balance from previous statement	£14.95
08/05/12	000001		£28.75
11/05/12	000002	Payment received — Thank You	£14.95 CR
TOTAL BALANCE			£28.75

Interest Summary

DESCRIPTION	APR	AMOUNT £
Purchase Interest	9.9%	£0.00
Balance Transfer	9.9%	£0.00
Cash Interest	27.9%	£0.00

Store card

Large stores offer finance deals or store cards, eg Debenhams and Marks and Spencer. Store cards are like credit cards. An application form requires to be completed and a spending limit will be given which is based on the individual's credit score.

Store cards can usually only be used in a particular store or group of stores.

A higher rate of interest is usually charged on store cards than on credit cards.

In-store credit (similar to hire purchase)

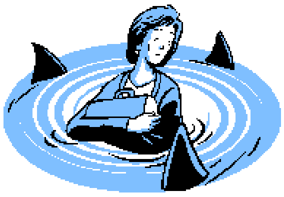
Many stores offer in-store credit — this is mainly in the furniture or electrical goods sector. They attract customers by using statements like:

Buy June 2016 – start paying in June 2017

After the ‘payment holiday’, repayment has to be made along with interest payments. The interest is normally backdated to when the loan was taken out and not when repayment starts. The Annual Percentage Rate (APR) may be high on this type of credit.

Loans from other lenders

These ‘licensed lenders’ are willing to give loans to people who are unable to get credit from other lenders and include:



- money lenders
- loan sharks
- pawn shops
- payday loans

The rate of interest paid on these loans can be excessive. These loans are normally targeted at vulnerable groups.

A recent report prepared for the Unite union stated that workers are increasingly turning to payday loans firms because their wages run out before the end of the month.

This research revealed that as many as one in eight workers regularly turn to loan companies such as Money Shop or Wonga for payday loans. Unite said workers faced horrendous levels of interest up to 4,200% as they take out loans averaging £200 a month. At this level of interest it takes people three working days a month to pay back a loan of £200!

Activity 12

Give examples of ‘other lenders’ from advertisements on the television, magazines or internet.

Activity 13

Research sources of borrowing using:

www.rbsmoneysense.com
www.moneymadeclear.org.uk
www.pfeg.co.uk

Features of overdrafts, credit cards, loans and in-store credit

APR (Annual Percentage Rate) — this is the standard measure for the cost of a loan. For example, a bank might state 15.5% APR. It is calculated from the interest rate, how long you want the loan for and fees. A fixed APR is a rate that stays the same over the life of the loan. A variable APR is a rate that changes over the life of the loan — it can go up and down. The variable APR is often given in small print at the bottom of advertisements.

Limits on borrowing — most banks and credit card companies set limits on borrowing. This is normally based on income and on a credit check.

Minimum repayments — banks and building societies offering overdrafts, loans and credit cards, along with stores offering credit cards, usually require a minimum monthly repayment to be made.

Activity 14

Compare the advantages and disadvantages of the different types of borrowing.

Type of credit	Advantages	Disadvantages
Overdrafts		
Personal loans		
Credit cards		
Store cards		

Type of Credit	Advantages	Disadvantages
In-store credit		
Payday loans		

Activity 15

Craig wishes to buy a new television. State **two** payment methods which could cost more than the cash price.

2.2 Describe how providers promote their products

Credit providers promote their products through brochures, television advertisements, newspapers and magazines and via the Internet.

It is important to note all the information contained in the small print and the interest payable on the amount borrowed.

Activity 16

Give examples of credit providers you have come across through internet advertisements or magazines/newspapers.

2.3 Calculate how much would be repaid with different loan amounts, terms and rates of interest

Activity 17

Complete the following table by working out the total amount to be repaid and the monthly repayment for each loan.

Amount of Loan	Interest Rate	Term	Total amount to be repaid	Monthly repayment
£1,000	5%	1 year	(£1,000+5%)/12 =£1,050	1050/12 =£87.50
£3,000	7%	3 years		
£7,000	8%	5 years		
£12,000	6%	6 years		
£15,000	5.5%	5 years		

2.4 Compare the costs associated with credit cards and store cards

Activity 18

Use a comparison web site such as www.moneysupermarket.com to research the best **three** credit cards currently available and complete the following table.

Product name	Balance transfer	Purchases	Rewards	Representative APR (Variable)

Using the same web site compare **three** providers of Payday Loans and complete the table below.

Lender	Loan amount	Total charge for credit	Total repayable	Term	Representative APR (Fixed)

Use the internet to find out the representative APR (Variable) offered by **two** high street stores such as Debenhams.

Store	**Representative APR (variable)**

Task 3: Identify features and calculate costs of insurance and long term financial planning

What I need to be able to do	**CfE E and O**	**Learning Outcomes**	**Resources**	**Performance Criteria**
3.1 Identify different types of insurance		**I can...** List the main types of insurance which should be considered to include: life, contents, home	SQA support materials www.moneymadeclear.org.uk www.pfeg.co.uk	**I can...** List at least three types of insurance List which types of insurance are compulsory
3.2 Identify costs and monthly repayments for home, contents and life insurance		Identify costs from tables of various insurance policies on a monthly basis and the total costs if applicable	www.gov.uk/ www.moneysaving.exper.com www.moneysupermarket.com	Calculate, from tables, monthly or annual costs of insurance
3.3 Identify State Pension rates		Identify the current amount(s) for State Pension including age of receipt	'Social arithmetic' resources www.gov.uk http://www.thepensionsregulator.gov.uk/	State the current amount of State Pension for a single person or a couple State the age(s) at which the pension is received
3.4 Identify private pension scheme costs and returns		Identify what a private pension scheme is, the costs which are associated and the likely benefits of return		List at least two features of a private pension

Task 3: Identify features and calculate costs of insurance and long term financial planning

3.1 Identify different types of insurance

What is insurance?

'Insurance' means that someone (the policy holder) has paid a 'premium' to a financial services company to take on the risk of something happening, for example a car accident, the car being stolen or a house being flooded. If the actual risk happens, for example the car is involved in an accident, the insurance company will pay an agreed amount of money to the policyholder or third party. If the car is stolen the policyholder will need the money to replace the car. If a home is flooded the policyholder will need money to pay for new carpets, white goods and furniture as well as tradesmen involved in the repair work.

You can insure almost anything as long as the insurance company can calculate the risk. Insurance is a way of sharing risks. When individuals insure their possessions they pay their premiums, which go into a pool out of which those who are unfortunate to suffer a loss to an asset/person/income are paid compensation when something goes wrong.

Some insurance policies are compulsory, for example third party cover for a car. Car owners are required to have this type of insurance by law so that car drivers can pay 'third parties' (other people) if they hurt them, their car or their property.

How insurance works

When you apply for insurance, you are trying to protect yourself against risk by asking the insurance company to pay you if an event happens. You will give the company the information that it requests. The information requested will depend on the type of insurance for which you are asking. For example, if you insure your house you will be asked.

- When was the house built?
- How many rooms does the house have?
- What type of house is it — detached, semi-detached, bungalow, terraced, etc.

Normally, the contents of the house are insured along with the property and relevant questions will be asked. For example:

- Do you want to insure any specific items in and away from home? This could include sports equipment.
- Are there any specific items of high value, which should be listed separately? This could include high value jewellery items.
- Have you made any claims in the past 5 years?

For car insurance, relevant questions could be:

- Your age
- Where is the vehicle parked?
- Is the vehicle to be insured for driver and spouse only?
- Have you been involved in an accident(s)?
- Experience of drivers.

The insurance company uses this information to calculate the chances of the relevant event happening and works out a price for the insurance based on how much it would cost the company if the event were to happen. The insurance company is said to be ‘underwriting’ the risk and an insurance company can be referred to as an ‘underwriter’.

When seeking insurance you should ask for quotations from a number of insurance companies. The quotations should include a summary of the terms of the insurance along with the price. The price is known as the ‘premium’.

When you have decided which quotation to accept and paid the premium, the insurance company will issue a ‘policy’. The policy states the type of insurance, the items covered and the circumstances under which the insurers will pay a claim.

Key words and phrases associated with insurance

Certificate of insurance	A document providing evidence that you are insured. It states your name, address, the amount of the cover, the premium, and the dates on which the insurance starts and ends.
Claim	In the event of something happening, you make a ‘claim’ to the insurance company, which will then pay out as long as the claims meets the criteria laid out in the policy.
Cooling off period	Normally a 2-week period after insurance has been taken out when policyholder can change their mind and get the premium returned less an administration charge.
Cover	The amount that the insurance company agrees to pay out to the policyholder if the event insured happened. For example, if a car was involved in an accident and was classified as a ‘write off’, the insurance company will pay out the value of the car at the time. So if the car had cost £10,000 but was now 2 years old the company would only pay out, for example, £7,000 — the value of a 2-year old car.
Cover note	A certificate issued by an insurance company stating that a policy is operative. This is used as a temporary measure between the commencement of the cover and the issue of the policy. Used most often for car insurance, as you must always have evidence that your insurance meets the legal requirements for driving a car.
Excess	This is the amount of any claim that the customer will pay themselves. It is usually paid on car insurance policies but also applies to other types of insurance. An ‘excess’ of £100 normally applies to car insurance — this means that the policyholder will pay the first £100 to have, for example, the car repaired. The insurance company will pay the remainder. The higher the excess, the cheaper the premium will be, as the insurance company has to pay out less if the event happens.
No-claims bonus	This is often a feature of car insurance. The no-claims bonus is a reduction in the premium that the insurance company gives the policyholder because they have not made a claim in a certain period. The no-claims bonus can lower the premium significantly. For an additional fee, policyholders can pay for their no-claims bonus to be protected.
Policy	This is the name of the insurance that you buy.
Premium	This is the price quoted by the insurance company for the insurance. The premium can be paid as one lump sum (usually the cheaper option), or it may be paid in instalments, eg monthly by direct debit.

Schedule	This is a list of items that are insured and for what they are insured. For example, if your house contents are insured and specific items are included it might state that the maximum of £1,500 may be paid out if a named item of jewellery is stolen.
Sum assured	This is the amount of cover when referring to a life assurance policy.
Sum insured	This means the amount of 'cover'.

Here is a list of the main types of insurance:

- car insurance
- house and contents insurance
- travel insurance
- health insurance
- pet insurance
- miscellaneous insurance

Activity 19

Use comparison websites to investigate the different types of insurance and what each offers.

www.moneysavingexpert.com
www.moneysupermarket.com
www.tesco.com
and/or bank web sites

Make a list of compulsory and optional insurance products.

Make a list of what is covered under each type of insurance. For example, travel insurance — winter sports cover, participating in dangerous sports, etc.

Type of insurance	What is covered
Car	
House and contents	
Travel	
Health	
Pet	
Miscellaneous	

Life assurance — this is a special type of insurance. Note that this is ***assurance***. Everyone will die one day but no one knows when. There are different types of life assurance; in each case, you pay premiums — the company invests these to make an income. Money is then paid to you or your heirs from the profits, depending on the type of policy taken out.

The terms 'life assurance' and 'life insurance' are now used interchangeably by many people including the insurance industry — the terms generally mean the same thing, although they originally had quite different meanings.

A 'life insurance' policy pays out a sum of money *if* you die within the term of the cover. '*If*' is the relevant word here. Premiums are paid every month, and the insurance company pays only in the event of death. A 'life assurance' policy pays out when you die, ie the policy has investment value and your beneficiaries receive a payout derived from the investments underlying the policy.

As the terms 'life insurance' and 'life assurance' are generally used to imply the same thing it is important that you take advice from a professional to ensure you take out the right policy for your circumstances.

Premium — this is the periodic payment made on an **insurance** policy. Most insurance companies offer policy-holders the option to pay monthly or annually and a discount may be offered for those paying by direct debit.

Insurance can be obtained through a variety of companies. Some of these are allied to banks, building societies and supermarkets. Some companies target special groups, for example SAGA and RIAS for the over 50s. Organisations like the AA and RAC also offer a range of insurance products.

Activity 20

State which type of insurance would be used to pay for the damage/loss of the following:

- Irn Bru spilled on the sitting room carpet
- loss of luggage while on holiday
- storm damage to house
- car accident
- operation on broken leg of pet dog

3.2 Identify costs and monthly payments for home, content and life insurance

Activity 21

Emma is 45 and a smoker. She requires £350,000 life insurance cover. Calculate her monthly premium from the table below.

Monthly premium for £100,000 life insurance		
Age	**Smoker**	**Non-smoker**
40	£12.30	£7.02
45	£20.07	£11.70
50	£39.53	£16.38
55	£50.81	£25.72

Jason is 50 and a non-smoker. Using the same table, calculate his monthly premium for life insurance cover of £300,000.

Activity 22

Steffi has received a quote for house insurance.

House Insurance	
Annual premium	£560
Buildings excess	£200
Contents excess	£250
Monthly premium	1 x £50 11 x £48.50

How much more expensive is it, per year, if Steffi chooses to pay the insurance monthly?

3.3 Identify state pension rates

The **State Pension** is paid to people who are over the State Pension age. For men and women the State Pension age will increase from 65 to 68 between 2010 and 2046. State Pension age has become a very much debated subject over recent years and may increase further due to the increase in life expectancy.

There are **three** types of State Pension:

1 Basic State Pension — those who have paid *National Insurance* contributions for enough years are entitled to some basic State Pension.
2 Additional State Pension — this can give you additional money on top of the basic State Pension. It is more generous for low and moderate earners, certain carers and people with a long-term illness or disability. [This is only applicable to those already receiving a state pension prior to April 2016]
3 Pension Credit — people from the age of 65 whose income is below a certain level can be entitled to this benefit, which has two components: Guarantee Credit and Savings Credit.

Activity 23

Find out the current State Pension rates by visiting www.gov.uk

Use the ***State Pension age calculator*** to find out what age you will be when you will be entitled to a state pension. *Note your 'pension age' may change over your life time.*

https://www.gov.uk/state-pension-age

Activity 24

How many qualifying years do individuals require to get the full State Pension? How do you build up qualifying years?

3.4 Identify private pension scheme costs and returns

Personal pensions

These are available from banks, building societies and life insurance companies who invest your savings on your behalf. You can save as much as you want, but will only get tax relief on up to £40,000 a year.

Company pensions

These are set up by employers to provide pensions for their employees on retirement. The pension fund is usually made up of money from both the employee's salary and the employer. The employer's contribution is usually at least as much as that paid by the employee. Employees will have tax relief on the amount they save. There are many different types of employers' schemes, depending on the individual company's circumstances and policies.

The Scottish Public Pensions Agency (SPPA) administers the pension schemes for the police service, teachers and NHS employees.

The Local Government Pension Scheme (LGPS) covers a number of other public sector employees.

Many schemes offer a lump sum when employees retire along with a monthly pension. For example, a lump sum may be three times the annual pension.

Activity 25

Visit the websites of these organisations and highlight some of the benefits available to members.

www.lgps.org.uk
www.sppa.gov.uk

Automatic Enrolment into a Workplace Pension – 2012

In 2012 the law relating to workplace pensions changed with all employers eventually offering a workplace pension scheme and automatically enrolling eligible work in it. The requirement applied to larger employers since October 2012 and will apply to all employers by 2018.

Workers are still able to opt out of the pension scheme. However, they would lose both the employer's contribution to the pension as well as the government's contribution in the form of tax relief.

Workers (full time and part time) will automatically be enrolled into a workplace pension if they meet certain criteria, ie:

- are not already in a suitable workplace pension scheme
- are aged between 22 and State Pension Age
- earn more than £10,000
- work in the UK

Employees will pay into the pension along with the employer and the government will also contribute in the form of tax relief.

Employers will write to all employees to explain how the changes will affect them.

Further information is available from the Department for Work and Pensions – www.dwp.gov.uk and www. gov.uk

The Pensions Regulator announced that more than 6 million workers had enrolled on workplace pension schemes as at February 2016 as a result of automatic enrolment.

http://www.thepensionsregulator.gov.uk/

Stakeholder pensions

Stakeholder pensions are another type of private pension plan. Unlike a State Pension, the amount an individual receives is not based on their National Insurance contributions. Individuals do not need to be working to have a personal or stakeholder pension. The amount each individual receives is based on the amount they pay in, how long they pay in for before retiring, and how well the funds invested have performed. Tax relief is given on payments made into the fund. Employers can also contribute to these pensions if they choose.

Since the introduction of automatic enrolment duties for employers they no longer need to provide access to a stakeholder pension scheme for staff. However, it does not affect an employer's obligation to its staff who are already members of a stakeholder scheme. Employers must continue to deduct and pay contributions for existing stakeholder schemes to the pension provider.

Additional Voluntary Contributions (AVCs)

Employees can make additional contributions to their pension through Additional Voluntary Contributions (AVCs). Insurance companies such as Prudential often give talks/information to employees of large organisations. Log on to www. gov.uk to find out more information about AVCs.

Lifetime ISA (LISA)

In the March 2016 Budget the introduction of LISAs was announced. These will be available from April 2017 and may be used to save for a first home or for retirement. Further information is available on the Lifetime ISA Factsheet.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508117/Lifetime_ISA_explained.pdf

Task 4: Prepare for buying and selling

What I need to be able to do	**CfE E and O**	**Learning Outcomes**	**Resources**	**Performance Criteria**
4.1 Describe the features and costs of hire purchase		**I can...** Describe the features of hire purchase using vocabulary to include deposit, payments weekly/monthly, percentage, total, extra/surplus	SQA support materials www.moneymadeclear.org.uk www.pfeg.co.uk	**I can...** List at least two features of hire purchase schemes
4.2 Compare the costs of using hire purchase, credit and cash	MNU4 09a	Use a table to compare total cost of buying an item by hire purchase, credit or cash		Calculate the total cost of buying goods on hire purchase; calculate the extra paid when buying by hire purchase Put in order costs when buying goods by hire purchase, credit or cash
4.3 Compare and describe discount schemes		List some of the common discount schemes such as BOGOF, 2 for 1, 3 for 2, buy one get one half price, 5% off when buying six, money off next purchase, etc, compare the above for best deal		List as least **two** common discount schemes
4.4 Describe the buying and selling process at auctions		Describe what to consider when buying/selling at an auction, eg commission, reserve price, postage costs sight seen/unseen etc.		List at least **two** things that have to be considered when buying/selling at an auction

What I need to be able to do	**CfE E and O**	**Learning Outcomes**	**Resources**	**Performance Criteria**
4.5 Calculate profit and loss for a given financial transactions	MNU2 09c	Calculate the total profit or loss made in any given transaction, taking into account cost price/selling price and any ‘overheads’		Calculate the profit or loss for any given situation

Task 4: Prepare for buying and selling

4.1 Describe the features and costs of hire purchase

Hire purchase is normally used when buying high value items such as cars or furniture. A deposit is usually paid, for example 20% of the value of the item, with the balance being paid in monthly instalments with some interest included. With a hire purchase (HP) agreement you are hiring the goods with an option to buy once all the instalments have been paid. Until, then, the goods belong to the person you bought them from (the creditor). You cannot modify or sell them without the lender's permission.

You are responsible for any damage to the goods during the contract period. The lender can take the goods back if you fail to keep up the repayments. Depending on how much you have paid, the lender may need a court order to reclaim the goods.

Activity 26

Use the www.adviceguide.org.uk web site to find out:

- if, and how, hire purchase agreements are regulated
- who the hire purchase agreement is with
- what happens if something goes wrong with the goods you purchased

4.2 Compare the costs of using hire purchase, credit and cash

Hire purchase instalments are usually paid monthly by direct debit or standing order. It is therefore important to ensure you have enough money in your account to meet these payments or else you will be charged by your own bank and by the seller. In some cases the seller of the item may employ a debt collector to take the hire purchase item from your home or items of equivalent value if you fail to pay the regular instalments. Many shops that sell using hire purchase will insist that the buyer also buys insurance. This insurance covers them, not the buyer, where the buyer cannot pay the agreed amount of money each month.

Credit cards are designed to pay for goods or services in retail outlets, over the telephone or on-line. They can be expensive if used to withdraw cash from ATMs.

Credit cards holders will get a statement from the credit card company each month. If the total amount owing is paid within the agreed time then interest is not charged. If you do not pay the whole bill within the stated time scale, you will be charged interest. Interest rates can vary and you should always make sure you know how much your bank intends to charge you just in case you do not manage to pay the bill in full.

Activity 27

A retail outlet offers a king size bed for sale for £700. It can also be bought, on credit, by paying a credit charge of 5%. What would the total price be if a customer bought the bed using the in-store credit scheme?

Activity 28

Fiona is purchasing a fridge freezer using a hire purchase scheme.

The cash price is £450. Fiona has to pay a 10% deposit then 24 monthly instalments of £20. What is the total cost of the item using the hire purchase scheme?

4.3 Compare and describe discount schemes

Many retailers offer a variety of discount schemes to encourage consumers to spend money in their shops. Discount schemes may include the following:

BOGOF – buy one get one free

'Buy one get one free' offers really mean that the item is half-price. For example, a jar of pasta sauce might be £2.08. If you are able to buy one and get one free, this means that you get 2 jars for £2.08, with each jar costing:

£2.08 ÷ 2 + £1.04

Three for the price of two

Some stores will offer 'three for the price of two'; you will pay only for two of the items and get the cheapest 'free'. Supermarkets may offer breakfast cereals, hair care products or toiletries this way.

If a store is offering 'three for the price of two' on hair care products, what would you pay for the following items?

Shampoo	£3.75
Styling Mouse	£3.45
Hair Spray	£3.25

Money off next purchase

Some retailers will offer money off a future purchase. For example, Boots will give vouchers off perfume or make-up; Tesco may give £5 voucher off next shop of £40+.

5% off for six

Some stores offer a bulk-buy discount. For example, if you buy six tins of soup or pet food you will get 5% off.

If a tin of soup cost £0.90, what would you pay for six?

Activity 29

Research as many discount schemes as possible and compare their features.

Activity 30

Visit your local supermarket/department store and see how many discount schemes are on offer.

4.4 Describe the buying and selling process of auctions

An auction is a process of buying or selling goods or services by offering them up for bid, taking bids, and then selling the item to the highest bidder. Some specific words or terminology are used in auctions, such as:

- Valuation — the amount that the auction house expert thinks an item will make at auction
- Reserve price — sellers can set a reserve price for an item. This is the minimum price that the item will be sold for at the auction. If no one offers as much as the reserve price, the auctioneer will not sell the item.
- Catalogue — this is the printed list of all items that are being offered for sale at an auction. Normally the catalogue will also include photographs of the items/lots.
- Lot — this is the name given to a specific item being sold in the auction. Every item is given a lot number. A group of smaller items may be grouped together into a lot. The auctioneer tells people which lot number he is selling.
- Commission — the auction house will take a certain amount of commission for selling items at auction. This is usually expressed as a percentage.

Activity 31

- Research ‘silent auctions’ and ‘Dutch auctions’.
- What does the term ‘sight seen/unseen’ mean in relation to auctions?
- Investigate auction houses in your area or within a city near to you?
- How does the on-line auction site eBay work?
- How much did Edvard Munch’s ‘The Scream’ sell for at auction in May 2012?

Activity 32

List at least **two** things that you would have to consider if you decide to buy/sell at an auction.

4.5 Calculate profit and loss for a given financial transaction.

Profit is the excess of the selling price of goods over their cost. In a manufacturing company profit would be the difference between the production cost and selling price. In a retail firm this would be the difference between the wholesale price and retail price.

Loss is the opposite of profit. Loss happens when a business spends more money than it earns.

Activity 33

Mr Singh has bought 500 Olympic mugs to sell in his shop. He pays a total of £1,500 for the mugs and plans to sell each one for a profit of 40%. He only manages to sell 420 mugs. What is his overall profit/loss?

Jane buys 20 8 GB memory cards, for cameras, at £8 each, then sells them for a total of £145. How much profit/loss did she make?