

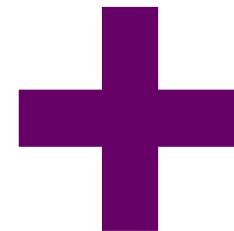
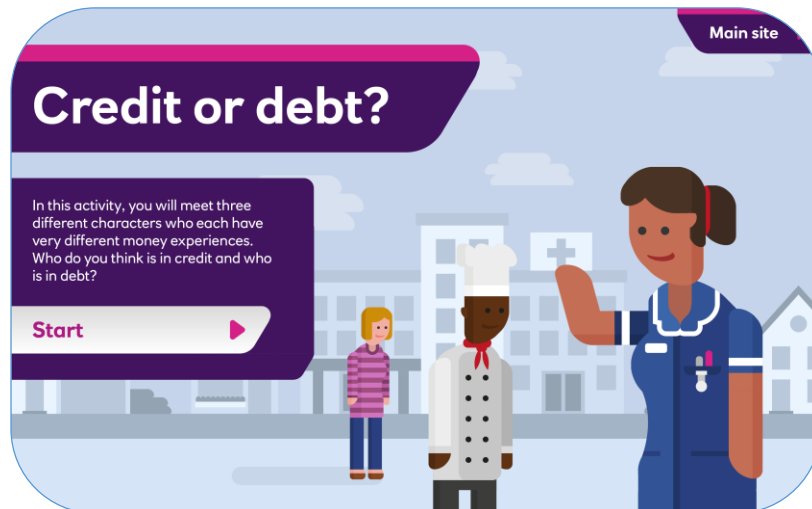
How can I understand credit and debt?



Presentation

Complete the game as a class

<https://ulsterbankroi.mymoneysense.com/challenge/credit-or-debt/>



Learning objectives/intentions:

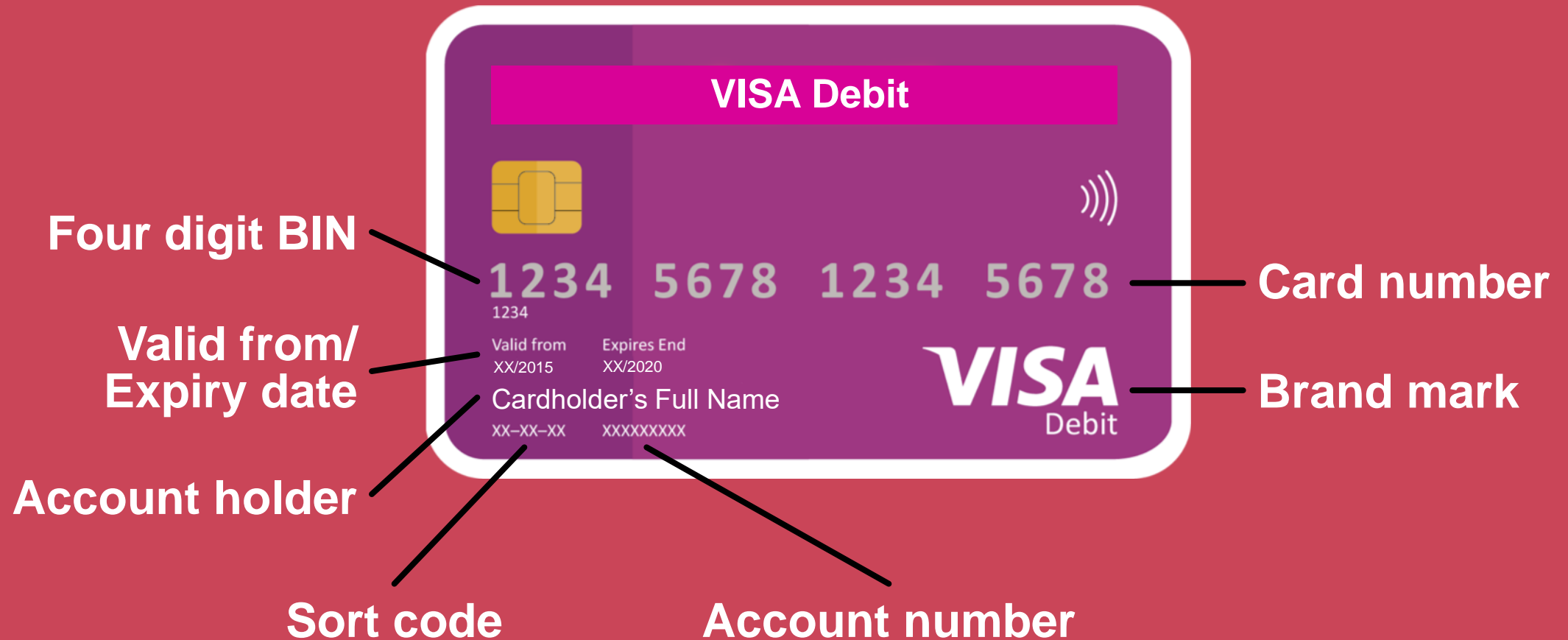
- Understand the meaning of credit and debt
- Understand the difference between planned and unplanned borrowing
- Understand the important role budgeting plays in managing money well

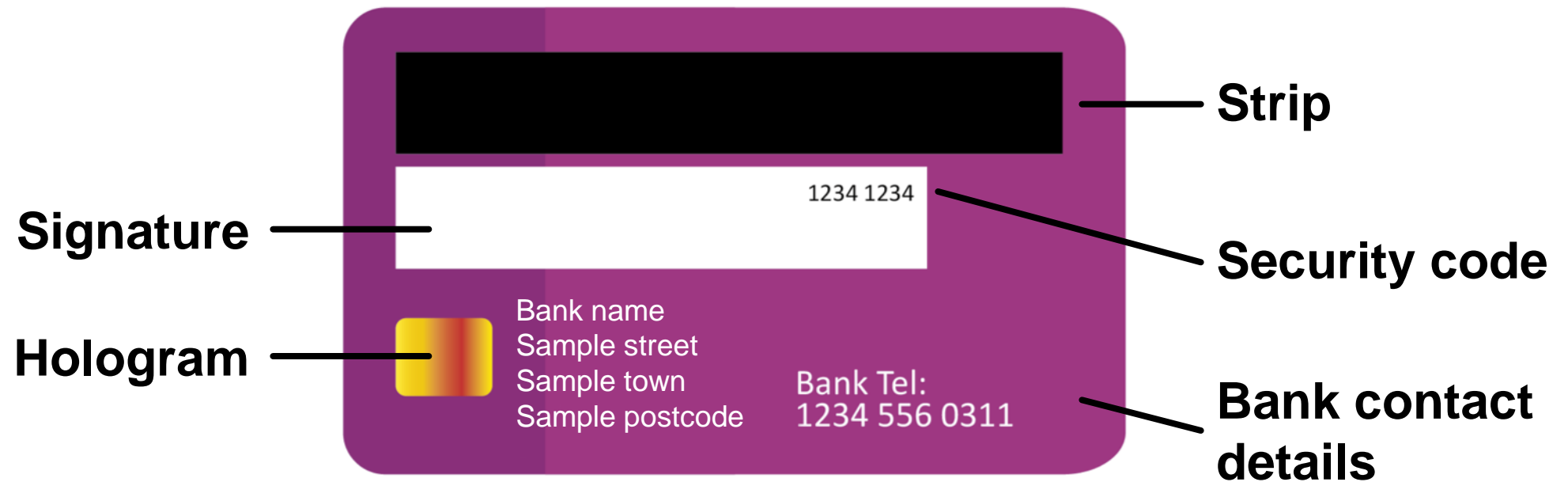


Getting started



**Can you name 6
things on a bank
card from
memory.?**





Credit or debt?

<https://ulsterbankroi.mymoneysense.com/challenge/credit-or-debt/>

Is Cassie
in credit
or debt?

About Cassie



Name: Cassie

Age: 28

Occupation: Nurse

Income: £1,850 a month

Husband's income: £2,100 a month

Dependents: 2 children

- Cassie and her husband pay all of their bills by direct debit.
- They try not to spend money on luxuries.
- They have £130,000 left to pay on their mortgage over 25 years.

Look at Cassie's family outgoings.
Do you think she is in control of her money?

Outgoings	Cost
Mortgage	£1030 per month
Childcare	£150 per week
Groceries	£200 per week
Utility bills (gas, electricity, water, council tax)	£450 per month
Car (loan repayment and petrol)	£180 per month
Savings	£250 per month
Pension	£120 each per month
Holidays	£100 per month
Going out	£75 per week

<https://www.youtube.com/watch?v=fz5beYb88us>

Continue

Credit or debt?

Is Andrew
in credit
or debt?

About Andrew



Name: Andrew

Age: 18

Occupation: Apprentice Chef

Income: £95 a week

No dependents

- Andrew lives with his parents and contributes to bills.
- His parents gave him their old car.
- He borrowed £500 from them to cover insurance and tax. He pays them back £50 each month.
- Andrew uses a credit card when he needs extra cash.

**Think carefully about Andrew's situation.
Is he living within his means?**

Outgoings	Cost
Household bills	£15 per week
Mobile phone	£32 per month
Cable TV	£28 per month
Gym membership	£16 per month
Car repayment and petrol	£45 per week
Clothes and going out	£25 per week
Loan from parents	£50 per month

Credit or debt?



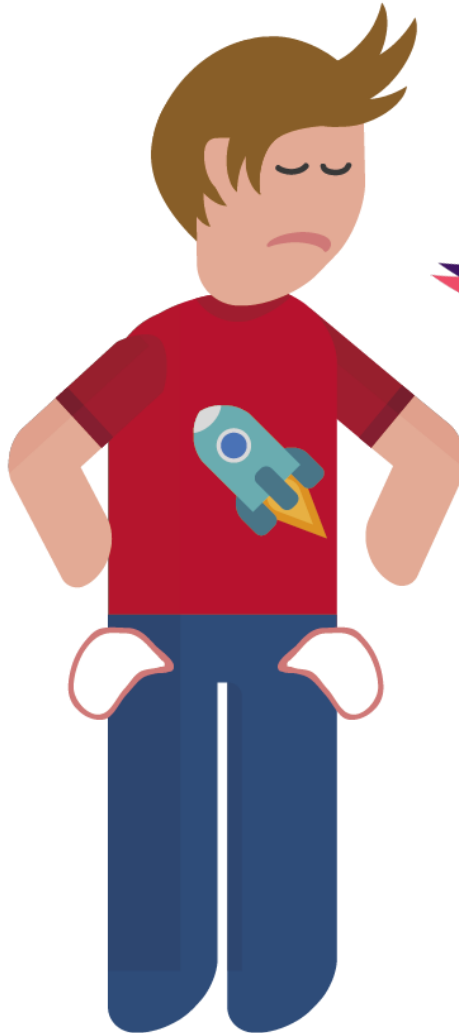
**Can you think
of ways in which
someone could
manage their
debt effectively?**

Pay now or later?



Debit card	Credit card	Pre-paid card
Debit card draws from your bank account.		A pre-paid card might help you to plan your spending.

Why do you
think it's important
to manage your
money with care?





Debit cards

Use

To withdraw money from your account or pay for goods and services.

Where

At cash withdrawal machines (ATMs), in shops, or for online shopping.

Who

These can be used if you're at least 11 years old.

Features

- Allow you to withdraw money from your bank account
- Some shops allow you to get cashback. This means you can withdraw cash at the same time as buying items (you can only spend as much as you have in your account)

- Allow you to withdraw currency from an ATM when you are abroad
- From the age of 18 you can apply for an overdraft, which allows you to withdraw money even if you don't have enough in your account. Banks will check your credit history first and you may be charged interest or get bank charges if you go over the agreed limit
- Some debit cards are contactless, so you can pay for goods up to £30 by touching the card on a card reader



Credit cards

Use

To pay for goods or services even if there's not enough money in your account.

Where

Shops, online or ATMs (you can withdraw cash).

Who

You have to be at least 18 years old to apply for this type of card and must pass credit scoring.

Features

- You can spend money that you don't have, but you'll pay interest if you don't pay it all back within an agreed time
- If you withdraw cash you'll be charged interest and a handling fee
- Interest rates can be high, so manage your credit card use carefully
- Allow you to withdraw currency from an ATM when you are abroad
- Late or missed payments can affect your credit rating

Understanding payslips

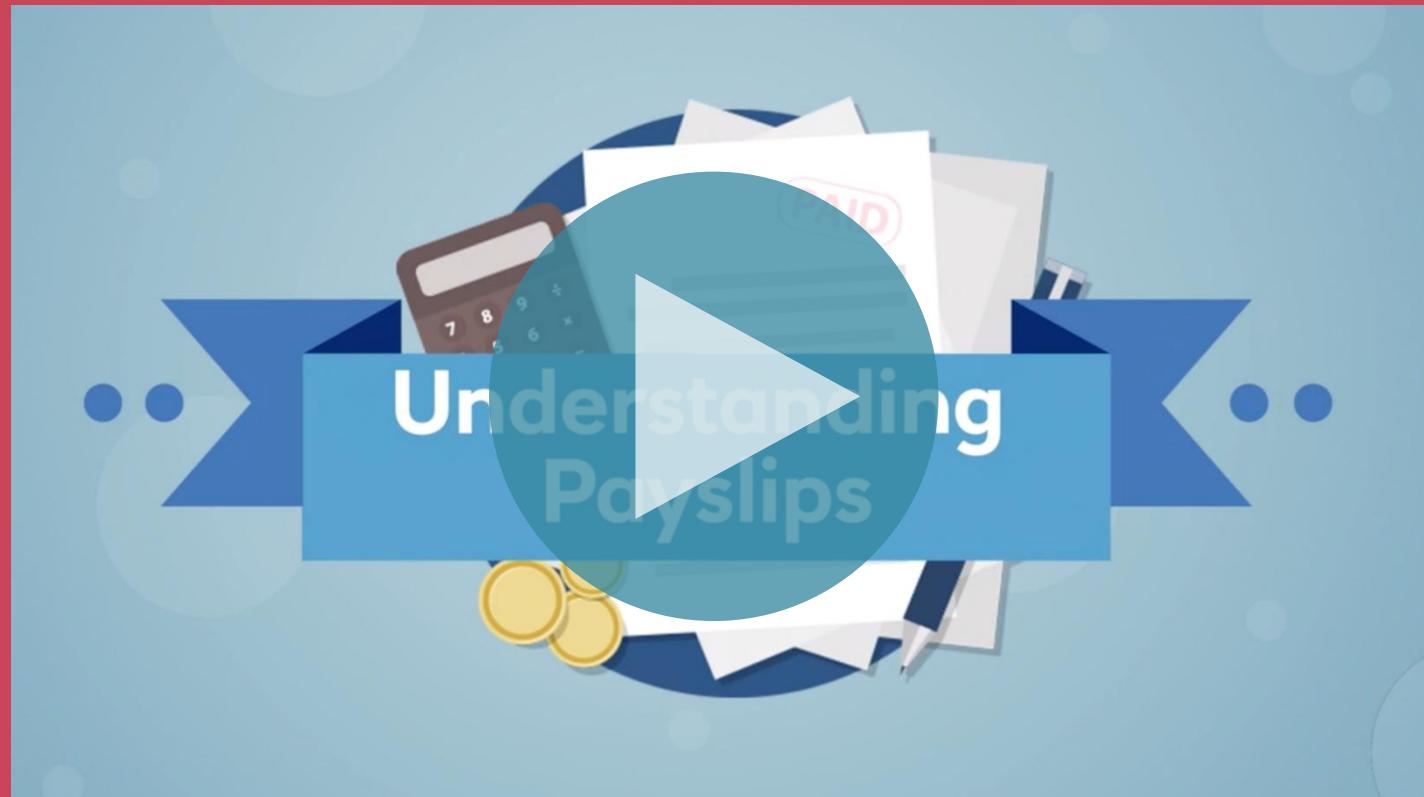
Spend a minute discussing the following:

- Have you ever earned money? Was it from a regular job?
- Have you seen a payslip?
- Can you list information in a payslip?



Understanding payslips video

- Watch this video which talks you through what's on a payslip



Understanding payslips

Payslips are very important and, as you just saw, they include information that you need to understand and check.

Deductions

Employer's Name: Selling Is Us		Employee Number: 31		Employee Name: Ollie	
Pay Method: Electronic		Account no: 876543210		Sort Code: 110011	
Tax Period: 6		Tax Code: 1060L		NI Number: BB001122E	
				From: 09.2016	
THIS PERIOD					
Gross Monthly Pay:				£1920.00	
THIS PERIOD					
National Insurance:				£149.80	
Income Tax:				£200.67	
Student Loan:				£15.30	
Total Deductions:				£365.77	
YEAR TO DATE					
Total Pay:				£11520.00	
Deductions to Date:				£	
				NET PAY	
				£	

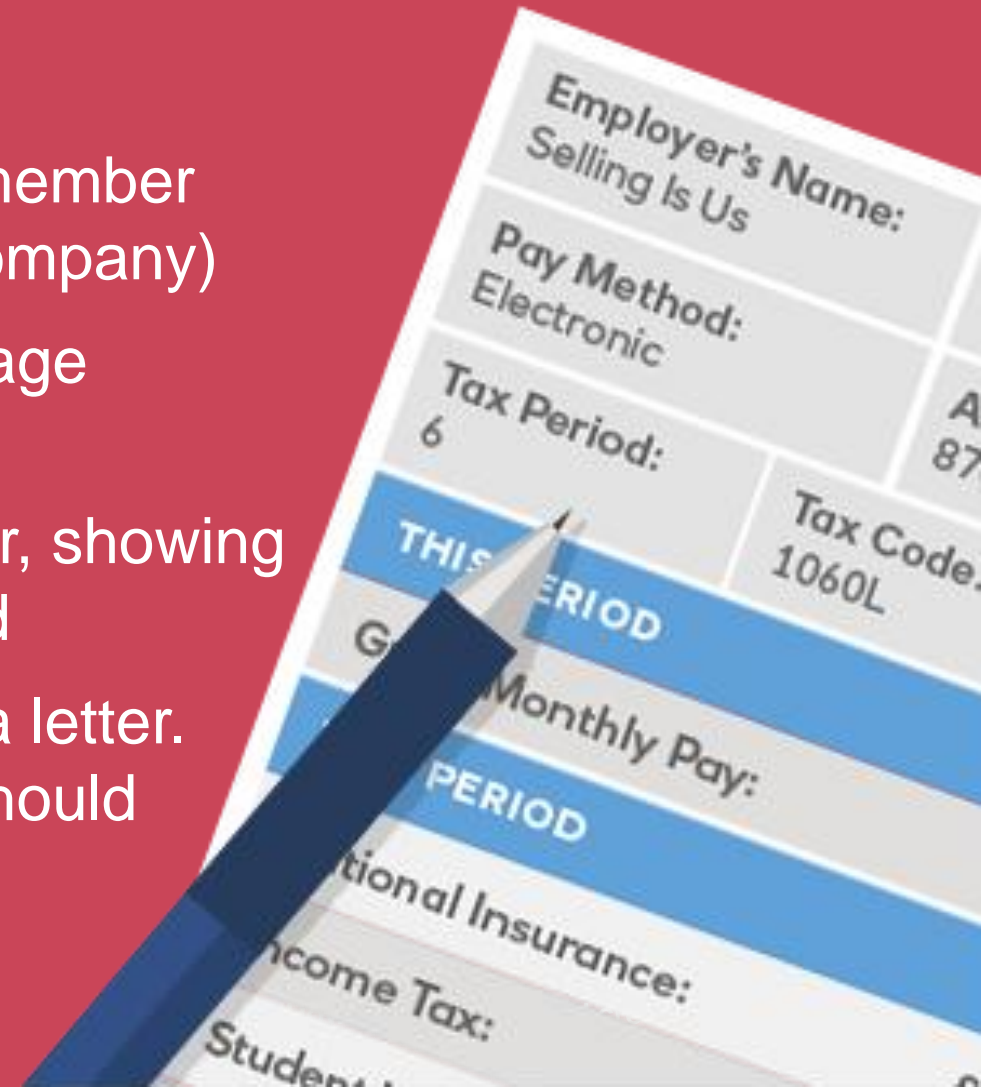
Your personal details

Gross pay

Net pay

Understanding payslips – personal details

- **Employee name** – your name
- **Employee number** – your payroll number (every member of staff is given one when they start working at a company)
- **National Insurance number** – everyone over the age of 16 is given a personal NI number
- **Your bank details** – sort code and account number, showing the bank account into which your salary will be paid
- **Tax code** – this consists of a number, followed by a letter. Normally, when you multiply the number by 10, it should give you your tax-free personal allowance



Understanding payslips – the money

- **Gross pay** – this shows how much you will earn before any deductions
- **Deductions** – this is all the money taken from your salary before it is paid to you, e.g. income tax, NI contributions (which help you to qualify for social welfare payments such as Illness Benefit and State Pension), pension, student loan repayments
- **Net pay** – this is often known as take-home pay – it's your gross pay minus the deductions



Understanding payslips

- **Employer's name** – the name of the company that you work for
- **Tax period** – each month is allocated a number in the tax year, which starts in April (April = 1, May = 2, etc.)
- **Payments and deductions, tax year to date** – this shows how much you have been paid by your company before tax, and all the deductions that have been taken from your earnings since the start of the tax year
- **Pay method** – this explains how the money will actually be paid to you. It's usually paid directly into a bank account by electronic transfer



Estimate your take-home pay

1. Know your gross pay

2. Calculate your deductions

- **Tax** – start by deducting the tax-free personal allowance of £12,500. Then earnings between £12,501 to £50,000 are taxed at 20%. The tax rate for earnings between £50,001 and £150,000 is 40%. The rate increases to 45% for earnings over £150,000

(Please note these are example figures, based on 2020 rates)



Estimate your take-home pay

- NI contributions are 12% on earnings over £8,060, but only up to £42,385, above which the rate is 2%
- Student loan repayments are 9% of anything you earn over £21,000
- For pensions, you can choose your percentage contribution; many choose 5%

3. Gross pay minus deductions = Net pay



Example with gross pay £22,000

Calculate your deductions (as it's an estimate we can round)

- Tax: £1,900 a year ($22,000 - 12,500 = 9,500$, then $9,500 \times 0.2$)
- NI contributions are **12%** on earnings over £8,060
£1,672.80 a year ($22,000 - 8,060 = 13,940$, then $13,940 \times 0.12 = 1,672.80$)
- Student loan repayments are **9%** of anything you earn over £21,000
£90 a year ($1,000 \times 0.09$)
- For pensions, you can choose your percentage contribution;
many choose **5%**, which is £1,100 a year ($22,000 \times 0.05$)

Total: $1,900 + 1,672.8 + 90 + 1,100 = 4,762.80$





2) Pria earns £28,700. She is paying off a student loan and contributes 3% to her pension plan. Estimate Pria's take-home pay.

3) Gemma earns £47,500. She is paying off a student loan and contributes 7% to her pension plan. Estimate Gemma's take-home pay.

Remember

- **Income tax**
 - Deduct the tax-free personal allowance of £12,500. Then earnings between £12,501 and £50,000 are taxed at 20%
 - The tax rate for earning between £50,001 and £150,000 is 40%
 - The rate increases to 45% for earnings over £150,000
- **NI contributions are 12% on earnings over £8,060 but only up to £42,385, above which the rate is 2%**
- **Student loan repayments are 9% of anything you earn over £21,000**
- **For pensions, you can choose your percentage contribution; many choose 5%**



2) **Pria earns £28,700.**
She is paying off a student loan and contributes 3% to her pension plan. Estimate Pria's take-home pay.

2) **Tax:** $28,700 - 12,500 = 16,200$
 then $16,200 \times 0.2 = 3,240$
NI: $28,700 - 8,060 = 20,640$
 then $20,640 \times 0.12 = 2,476.80$
Student loan: $28,700 - 21,000 = 7,700$
 then $7,700 \times 0.09 = 693$
Pension: $28,700 \times 0.03 = 861$
Total deductions:
 $3,240 + 2,476.80 + 693 + 861 = 7,270.80$
NET PAY: $28,700 - 7,270.80 = \text{£}21,429.20$
 (If students have rounded to simplify, the number may be slightly different)

3) **Tax:** $47,500 - 12,500 = 35,000$
 $35,000 \times 0.2 = 7,000$
NI: $42,385 - 8,060 = 34,325$
 then $34,325 \times 0.12 = 4,119$
 $47,500 - 42,385 = 5,115$
 then $5,115 \times 0.02 = 102.30$
 $4,119 + 102.30 = 4,221.30$
Student loan: $47,500 - 21,000 = 26,500$
 then $26,500 \times 0.09 = 2,385$
Pension: $47,500 \times 0.07 = 3,325$
Total deductions: $7,000 + 4,221.30 + 2,385 + 3,325 = 16,931.30$
NET PAY: $47,500 - 16,931.30 = \text{£}30,568.70$
 (If students have rounded to simplify, the number may be slightly different)



3) Gemma earns £47,500. She is paying off a student loan and contributes 7% to her pension plan. Estimate Gemma's take-home pay.