

Lesson 1: Credit & Debt Facilitator Guide

Overview

This lesson is designed to increase students' proficiency in financial literacy. This hour-long session plan, along with your expert knowledge and real-life examples, should enable the next generation of leaders to make sound financial decisions about credit and debt levels. At the end of the session students will reflect on the skills and knowledge they have developed and their potential next steps.

Purpose

In January 2019 household debt levels were at their highest ever at an average of £15,400 per household, not including mortgage debt. The challenging economic climate in the UK and increasing debt levels highlights the need for young people to develop skills in financial planning, but this is largely not taught in general education. This session should help to fill that gap in their formal education through an interactive session relating to credit and debt.

Objectives

Students will be able to:

- ☐ Look at types of bank accounts and how to obtain credit
- ☐ Understand different types of debt
- ☐ Discuss consequences of excessive debt
- ☐ Understand how student loans work and dispel common myths

Agenda

Getting Started (5 min)

- What's the difference between credit and debt?
- Can you think of different types of each?

Credit & Debt (50 min)

- Choosing a bank account
- What is credit?
- What is debt? Types of debt
- Consequences of Debt
- Student Debt, University Costs & Gap Years

Wrap-up & Reflection (5 mins)

Preparation / Materials Needed

- ☐ Chart Paper
- ☐ Marker pens
- ☐ Class Handouts - print 1 copy per student
- ☐ Download the session PowerPoint

Vocabulary

Credit: the providing of money or goods with the expectation of payment in the future

Credit Report: a record of your credit history that includes information about your identity, existing credit, public record, and inquiries about you

Creditworthiness: trustworthiness with money based on prior history; a general qualification for borrowing

Debt: An amount of money that is owed to another person or company

Teaching Guide

This guide includes a suggested script for the session (in orange). However, please feel free to tailor and adapt this accordingly when delivering.

Section 1: Getting Started (5 minutes)

Good morning/afternoon everyone. My name is _____. Thank you for having me in your class today. Today we are going to talk about bank accounts, credit and debt.

Share the objectives of the session on the screen (slide 2)

Each table will have a big piece of paper. Ask each group to spend **1 minute** doing a very quick brainstorm of what they think credit and debt are, as well as any other words that they associate with credit and debt and what they mean.

Debrief the whole class back together for **3 minutes** asking each table in turn their thoughts. This is simply an introduction to the topic - the session will go into each of them in more detail later.

Section 2: Credit & Debt (50 minutes)

Activity 1 - Choosing a bank account

Ask the class to raise hands if they have a bank account. Out of those, ask students to keep their hands raised if their parents chose the bank for them.

It is worth considering what services you would need from your bank and shopping around, that your current bank will swap your account to a new bank within 7 days and some banks pay to you move to them.

Talk through slides 3 and 4, which reinforce the above point (**3 minutes**).

Hand out the worksheet and allow students **5 minutes** to work through in pairs. Then go through each account explaining terminology (**2 minutes** and questions).

- **Bank interest** - how much money the bank gives you for the amount you have deposited. Supermarket gives best interest rate but it has conditions.
- **Overdraft** - how much you can borrow from the bank and the fee is how much they will charge you for borrowing.
- **Extras** - consider what benefits are important to you. Some banks may charge you to sign up for those extra benefits with your account or have a minimum amount you should deposit in your account each month.

Activity 2 - What is credit?

Talk through slides 5 and 6, which introduce the idea of 'credit'. (**3 minutes**)

Hand out the worksheet and allow students **3 minutes** to work through in pairs. Then go through each item and why this is true or false (**5 minutes** and questions). See 'Activity 2 Answers' document and additional information below.

- **Spendable income** is money that you have available to spend. Your **credit limit** is someone else's (the lender's) money, which you would need to pay back on time and in full or any amount would be subject to interest.
- If you don't pay off your credit card balance in full each month, you will be charged **interest** on the amount you owe. The longer it takes to pay the balance off, the more interest you will be charged and therefore the more you will end up paying.
- With a credit card, you get a credit limit, which is the amount upto which a lender (e.g. a credit card provider) is willing to lend. It is **not** your money to spend, similar to if you took out a loan; however, instead of being repayable for a fixed period, it's a form of "revolving" credit which you pay back monthly.
- Credit card companies make more money (in interest on the amount of credit used) the longer it takes you to pay off your debt to them.
- You should always aim to borrow **as little as possible**. Credit should never be used to "top up" your income; instead, if you need to use credit, you should budget for what you can afford to pay back. If you continually use credit for "spur of the moment" purchase, you may end up in a spiral of debt where you cannot afford to pay back what you have borrowed.

Activity 3 - What is debt?

So, we've looked at our bank account, and touched upon credit and things that could affect our credit rating. Now we're going to think more closely about debt: the types of debt, consequences of having debt and how we can avoid or manage our debt. As we all now know, debt is an amount of money that is owed to another person or a company.

(Slide 7) There are four different types of debt to cover which were touched upon earlier: credit cards, loans, payday loans and overdrafts. Ask each table to take one topic and spend **3 minutes** discussing their type of debt, before reporting back to the class. Ask them to try and think about the pros and cons of their type of debt.

Allow 3 minutes for discussion followed by 5 minutes for a debrief. See supporting information below.

Credit cards

Pros:

- If you get a deal (e.g. 0% on purchases for 12 months), they can be cheaper than loans
- On individual purchases over £100 and up to £30,000, credit cards offer protection in the event of some disputes with the company you are buying from or if they go bust or do not deliver the goods or services you purchased. This isn't available on debit card spending.
- Flexible repayments can help spread the cost of an item into manageable chunks

Cons:

- Very easy to spend on them without feeling the pain of spending in the short term
- If you default on credit card payments, you may be charged late fees and interest, increasing the debt owed
- Interest can quickly add up if you do not clear the balance off

Loans

Pros:

- Access to funding for a big project
- Sometimes can be available quickly

Cons:

- Not very flexible - you could be paying interest on funds you're not using
- Watch out for fees: application fees, fees for repaying before the agreed date, charges usually apply for other changes (e.g. an extension)
- There is a minimum age requirement (usually 18 and over)
- Typically require a credit history

Payday loans

Pros:

- Easier to qualify because they have less stringent credit checks
- Quick and straightforward application process so you will be able to access the money quickly
- You'll be able to borrow small amounts of money (usually up to £1,000) so may be useful when you need a small and quick amount of credit

Cons:

- Whilst convenient, payday loans are generally expensive with high equivalent interest rates
- Watch out for fees for late or missed payments - lenders often immediately charge late fees if you cannot pay the debt off by the repayment date
- If you cannot afford to pay off your debt, you may end up taking out another loan to pay it off. This can quickly spiral out of control and is likely to harm your credit score, affecting your ability to get a loan in future.
- Short term only - payday loans aren't suitable for long term financial goals

Overdrafts

Pros:

- Flexible borrowing and repayment options - you may be able to decide how much you repay each month
- You may be able to get an interest-free overdraft - this makes it a cheaper option for the short term

Cons:

- The amount you can borrow may be lower with an overdraft than other forms of borrowing
- It is an expensive way to borrow as fees and interest can be high – especially if you go over your agreed overdraft

Activity 4 - Consequences of Debt

Hand out the worksheet and allow students **3 minutes** to work through in pairs. Then go through each item on the left and the consequences, explaining why this is the case (5 minutes and questions). See answer sheet.

Activity 5 - Costs after school

You may have older siblings or friends who have talked about taking a 'Gap Year' between school and university. A gap year is any period of time between 3 and 24 months where an individual takes 'time out' of formal education, training or the workplace, with the intention of returning to their career path.

Ask students to raise their hand up if they are thinking about going to university or taking a gap year.

Both of these are great opportunities and you will learn a lot from these experiences, not just the academic side. But what do you think could cause you problems financially in these cases? There are many costs involved, often ones you wouldn't think of straight away. What common problems do you think you could face financially as a university student or on a gap year?

Wait for a few hands to answer with suggestions. There is further information on gap years on the next page. "Student loans" or "tuition fees" will most likely come up, which leads into the final activity of the session. If this doesn't come up, bring it into discussion.

Tuition fees are typically the biggest cost of going to university, along with your living costs. However, you can apply for loans from the government. Before we go into more detail, have a go at these 'true or false' statements about university costs.

Hand out the worksheet and allow students **3 minutes** to work through in pairs or table groups. Then debrief each true or false question and use discussion points below to generate further discussion (**5 minutes**).

Through the discussion, it is key to highlight that a student loan is not a true form of "debt", and is instead should be viewed as a tax, especially for students who are concerned about being able to afford a student loan.

- Government student loans are paid to you in once-a-month instalments. *False, they are paid towards the beginning of each term. Discuss how this could affect debt levels eg. Student loan not arriving until 2 weeks into term, having to budget over a whole term instead of dividing up into months. Ask the students: how could they budget that better themselves?*
- Student loan amounts vary according to where your university is based. *True, if you are in London you will have a slightly higher student loan than in other cities. Discuss whether this is fair – do all other cities have the same living costs?*
- Your student loan will always cover your accommodation costs plus reasonable living costs. *False, the student loan is a set amount and often it will not cover all of your accommodation costs and living costs. How do you think you could try to make ends meet? Discuss saving beforehand over summer, getting a part-time job at university, picking cheaper accommodation options.*
- You will have to pay off your student loan as soon as you leave university. *False, your student loan does not have to be paid for the first year after leaving university, and only begins to be paid off once you have a job.*
- Your monthly payback amount on the student loan will vary according to how much you earn after university. *True, your student loan amount being paid off varies significantly. When you are on a lower salary you will only pay back say £20 a month, and when your salary increases the payback amount will also increase. Discuss whether the students understand how this is different from a normal loan, as the student loan acts like a tax.*

Section 3: Wrap Up & Reflection (5 minutes)

Time for students to reflect on what they have learnt from this session and what employability skills they have developed (use slide 12 as a reference or discussion starter).

Ask students to share a key learning with a partner. If time allows, ask for volunteers to share with the wider group.

Gap years and travelling

Travelling gap year

- It's *often less expensive to buy certain travel gear abroad* rather than in the UK. Research your options before you buy.
- *Visas are needed for many countries outside of the EU*, and range in price from a token amount to hundreds of pounds, so do your research when planning your trip. Beware: it is typically more expensive to buy through a website or other companies that offer visa services. *Often you get the best price if you go direct to the embassy*, however, make sure you are on the official Embassy Website - it is not always that easy to tell! And make sure you include all the documents you require so your application is not delayed.
- *Many countries have taxes on goods that you take into the country* as well as fines for certain items. Australia and New Zealand are particularly strict on prohibited items such as foods coming through the airports. One fine could blow your whole budget!
- *Accommodation* ranges greatly in price, so it is worth doing your research before you go. Something to beware of is that the *cost quoted doesn't always cover everything* and in hostels you will often have to pay extra for certain facilities such as cutlery, bedding and so on.
- Insurance is key to anyone travelling, and like everything else, prices vary. You need to *make sure that all the countries you are travelling to and through (and everything you might do) is covered in your insurance*, especially adventurous activities such as scuba diving and bungee jumping. If you're not covered and get injured it's often very expensive for medical treatment abroad.

Flights

- Flights are often one of the most expensive parts of travelling and prices for the same flight can fluctuate a lot.
- *You often get the best deals if you book well in advance*. Look out for flight packages with flexible terms that are aimed at student travellers.
- Avoid peak times such as school holidays to minimise costs. Costs will also vary on different days depending on your destination. Travelling at unusual hours and including stopovers in countries rather than taking a direct flight can also lower the cost.

Gap year hints and tips

- When abroad, you can get stung by your bank when making transactions using your bank card. Look out for the deals with the lowest fees before you leave. Think about getting a credit card - some charge lower fees on foreign transactions than debit cards.
- Exchange rates are important especially if you are transferring large amounts of money. Make sure you search around to get the best rates as even a small difference in rate can make a big difference in the actual money you end up having in your pocket.
- Switch off data roaming on your mobile! Take advantage of Wi-Fi in shopping centres/internet cafes/hotels etc. Mobile data costs can be very high.
- If you're staying in one place for a long time, consider getting a PAYG SIM card for better rates.

Gap years and travelling

Working Gap (UK or overseas)

Many working gap year schemes might need you to work for free, or pay to join a project abroad. Make sure you have done your research so that you get the best deal. It is also important to plan and save so that you can afford to work for the period necessary without earning.

Make sure, if you intend to work overseas and need a visa, that you get a working visa and not just a tourist visa. The wrong type can lead to fines or being deported from the country you have travelled to.

Even if a scheme involves you being paid, it is often not great money so make sure you have planned, saved and budgeted so you can survive on what you earn.

Also watch out for...

Hidden costs You may need work clothes or tools, suits or ties. All of these add up in cost quickly so make sure you understand what will be required for when you start and make sure you have budgeted for these.

Travel costs If you are travelling to your place of work, it might be further than usual, which will add expense. However there are lots of ways to make a saving such as railcards and travelling at off peak times can make a difference. Alternatives like cycling may also be worth considering.

Accommodation If you have to move to start work, do you have enough money for rent? You will also need to make sure you have enough money for a deposit, typically 1 or 2 months' rent in advance.

Think... Use every opportunity and start building a strong network of contacts. Whether you are working or travelling, keeping in touch with the people you meet will be an investment in your future.

Gap year hints and tips

- Consider having an account with your bank and using it specifically for your gap year money so you can monitor how you are doing.
- Make sure you're aware of the costs involved in a gap year. Budget to make sure you can afford to do everything you're aiming to.
- If working in your gap year, use it as a flavour of what is to come in the future. Try and find a project that really interests you and will give you experience in an area you think may be relevant to your career.
- Plan, Plan and Plan. There is lots of information on the cost of travelling abroad and you can find out what it will cost in your chosen locations.



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