Overview: Saving and borrowing for what you want

This section aims to help your students plan for any significant money goals and to consider savings as an option to pay for them. Students should be able to come to the conclusion that sometimes borrowing can be avoided by making adjustments to their budget.

This section also looks at different loan types and the various institutions who offer them. Your students will learn how to get the most suitable loan that offers the best value.

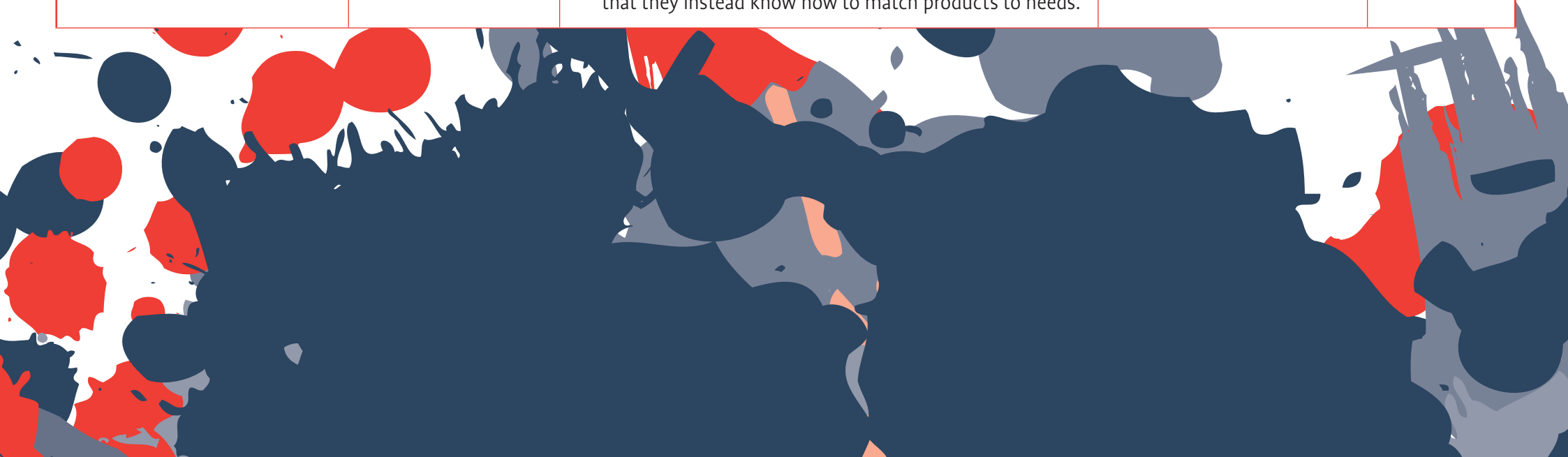You can see a glossary of commonly used terms on our jargon buster at **www.ccpc.ie/consumers/money/jargon-buster**

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Section 3
Saving and borrowing for what you want

Student activities	Description	Lesson plan	Support Material/ References	Learning Outcomes
WS 3.1 A: Planning for your goals	This exercise will help your students identify goals and figure out how much they cost.	1 Your students should review their case study's goals (their goals are available on the teachers case study sheets). 2 Your students should then do some research into what items will constitute their goals and how much those items cost (e.g. Michael and Rachel's wedding will have a wide range of items to consider). 3 Help your students to establish a timeline for saving and how much each month's savings will cost. 4 Help eliminate any shortfalls in their budget calculations.	Budgeting section on ccpc.ie	Unit 4, LO 1,2,3
WS 3.1 B: Choosing a deposit account to save your money	This exercise will help your students compare the differences between current and deposit accounts	1 Ask your students to consider how deposit accounts differ from current accounts. 2 Your students can go online to **www.ccpc.ie** and look up the features of both types of accounts. 3 Ask your students to complete the chart and use this information to discuss the differences with your class.		

Section 3
Saving and borrowing for what you want

Student activities	Description	Lesson plan	Support Material/ References	Learning Outcomes
WS 3.2 Comparing savings products	This section highlights the savings products offered by different institutions.	1. Your students should research (online if possible) at least two different savings accounts. If they don't have answers you may want to prompt using the information on **www.ccpc.ie** 2. It may be helpful to discuss the results in class as well as recording the results on the worksheets. 3. Depending on the savings goals identified and the savings products found, your students will need to help their case study decide which product to use. 4. Discuss with your class whether interest rates are important when it comes to savings accounts, and how to compare accounts with different AERs. 5. Ensure your students are aware that their decision should not be considered a recommendation to themselves but that they instead know how to match products to needs.	Banking Regular savings account cost comparison Lump sum deposit cost comparison	Unit 4, LO 1,2

Section 3
Saving and borrowing for what you want

WS 3.3
Borrowing to pay for your goals
	This section looks at credit options instead of using savings.	1 Your students should consider whether their case studies can meet their goals by borrowing rather than saving.
		
		2 In class, discuss whether there are pros and cons to borrowing from different sources.
		
		3 Ask students to complete the table using the loan calculator on **www.ccpc.ie**
		
		4 Use the information collected as a basis for class discussion around costs of credit for different lending sources.
		
		5 In groups, your students should try to decide:
		  a the best loan option for them.
		  b compare it to saving.
		
		6 Help your students come to the conclusion that each case study ought to save more. Not all of the case studies should get loans but all of them should save even if that means waiting a bit longer if they can.
			Loan calculator
			
			Personal loans cost comparison
			
			Credit card cost comparison
			
			How much can you borrow?
			
			Car finance options
			
			Comparing investment products
			
			Ways to save
				Unit 4, LO 4

WS 3.4 The cost of borrowing	Following this section your students will be able to understand the cost of borrowing and total cost of credit.	1 Your students should fill in the blanks as to the correct answer in the multiple choice quiz. 2 Complete the blanks as to whether each of the statements provided are true or false. 3 Direct students to the loan calculator on our website to help them with this exercise.		Unit 4, LO 1-5

Teachers notes – worksheet solutions
Saving and borrowing for what you want

Planning for your goals – worksheet 3.1

Exercise A

This worksheet must be worked through by your students. Start by asking them to read through their case studies again and identify their goals. The goals are included in the teacher's version of the case studies. Use the table we have produced to assist your students if needed.

You must ensure that, bearing in mind these costs, your students can balance their case study's finances over time so that they can save for these costs.

Using the table:

- Your students should review their case study's goals (their goals are available on your case study).
- Your students should then do some research into what items will constitute their goals and how much those items cost (e.g. Michael and Rachel's wedding will have a wide range of items to consider).
- Help your students to establish a timeline for saving and how much each month's savings will cost.
- Help eliminate any shortfalls in their budget calculations.

While the answers that follow are the basic answers your students should come up with, you can allow your students to add in more details, for example, your students might like to add in more detail about Michael and Rachel's wedding. However, once they do this, they will need to increase the 'Goal cost', extend the 'months' and rethink the 'Amount' and 'Shortfall'.

Encourage your students to think about:

- How much is reasonable to save.
- How long is reasonable (or should they give their case study more time if possible).
- How to cut back on non-essentials with overdoing it.

SEAN'S SOLUTIONS					
Savings goal	**Goal will cost**	**Months until need the money**	**Amount they need to save each month (B)**	**Spare cash they have every month (A)**	**Shortfall/extra money they need to save each month**
– Going to his Debs – Starting college	Students should carefully estimate all expenses associated with their debs and can research college costs using www.dit.ie/campuslife/studentsupport/costoflivingguide/	– Sean has 9 weeks of work until his Debs. – Sean has 3 months until he finishes work and starts college in Dublin.	Students will divide the goal cost by the number of months they have to save.	Students can get this information from their budgeting sheets from Section 1.	Students will get this figure by subtracting figure (A) from figure (B).

MARY'S SOLUTIONS					
Savings goal	**Goal will cost**	**Months until need the money**	**Amount they need to save each month (B)**	**Spare cash they have every month (A)**	**Shortfall/extra money they need to save each month**
– Jack's school costs – Training costs to become a taxi driver	– Students can estimate Jack's school costs **with the back to school budget planner** – Students will need to research training costs and can find out information at www.rsa.ie and **http://www.nationaltransport.ie**	– Assume that Jack will be in school in 2 years. This means that Mary has <u>24 months</u> to save for his school costs. – 24 months until Mary can start training.	Students will divide the goal cost by the number of months they have to save.	Students can get this information from their budgeting sheets from Section 1.	Students will get this figure by subtracting figure (A) from figure (B).

JOHN'S SOLUTIONS					
Savings goal	**Goal will cost**	**Months until need the money**	**Amount they need to save each month (B)**	**Spare cash they have every month (A)**	**Shortfall/extra money they need to save each month**
– Travel to Australia – Pay car insurance	– John's flights and set up costs in Australia will cost €4,500. – Students can assume that John's motor insurance will cost at least €900 again *if he does not trade down*.	– John has 12 months to reach his goal.	Students will divide the goal cost by the number of months they have to save.	Students can get this information from their budgeting sheets from Section 1.	Students will get this figure by subtracting figure (A) from figure (B).

SARAH'S SOLUTIONS					
Savings goal	**Goal will cost**	**Months until need the money**	**Amount they need to save each month (B)**	**Spare cash they have every month (A)**	**Shortfall/extra money they need to save each month**
– Repay her student loan	– Sarah's loan is for €3,900.	Sarah is only paying interest on her loan, these payments will increase as she draws down more of her loan. **Year 1:** Sarah will draw down €1,300 a year. This is a interest repayment of €5.70 a month. **Year 2:** Sarah will drawdown a further €1,300. She will have to pay interest on €2,600, which will be €11.40 a month. **Year 3:** Sarah will drawdown a further €1,300. She will have to pay back on the full amount €3,900, which will be €17.10 a month. When Sarah finishes college she has two years to pay off the full loan which will include more interest. She should consider paying off the principal amount now as her interest payments are small and she can afford to increase her repayments.	Students will divide the goal cost by the number of months they have to save.	Students can get this information from their budgeting sheets from Section 1.	Students will get this figure by subtracting figure (A) from figure (B).

MICHAEL AND RACHEL'S SOLUTIONS					
Savings goal	**Goal will cost**	**Months until need the money**	**Amount they need to save each month (B)**	**Spare cash they have every month (A)**	**Shortfall/extra money they need to save each month**
– Get married – Buy a house	– Michael and Rachel are guessing that their wedding costs will come to €20,000 but with €10,000 help but your students can amend this figure by using the wedding budget planner. Your students can do some research into how much the average deposit on a home costs, however, we recommend they estimate at least €20,000.	How long depends on how much Michael & Rachel can save each month. Students can use their judgement to make the dates realistic. If the case study cannot make up the shortfall then they may need more time to save or they could decide you spend less where they have choices.	Students will divide the goal cost by the number of months they have to save.	Students can get this information from their budgeting sheets from Section 1.	Students will get this figure by subtracting figure (A) from figure (B).

Teachers notes – worksheet solutions
Saving and borrowing for what you want

Planning for your goals – worksheet 3.1 (continued)

Exercise B

In section 2, we learned how to use current accounts to manage your money effectively and make payments. We are now going to introduce students to deposit accounts and how they may be used to help meet their saving goals.

Use the information in the chart to discuss the differences between current accounts and savings accounts with your class.

Features of a deposit account	Features of a current account
Earn a return (interest) on your money – you can choose between fixed interest rate or a variable interest rate.	Usually little or no interest on the money in your account.
If you want to save regularly, they are designed to help you put money away for short-medium amounts of time.	Not designed for regular savings but do have the following additional features: – receive payments such as your salary; social welfare or pension income; – pay bills in your branch or by direct debit or standing order; – transferring money to another account; – internet/phone banking; – overdraft facility; – paying for things abroad; – direct debit/standing order facilities.
They give you security – with Government guarantee for most providers which will protect your money up to certain limits and timelines.	They give you security – with Government guarantee for most providers which will protect your money up to certain limits and timelines.
You can have access to your money reasonably quickly (either immediately or by giving notice of withdrawal). You can choose between short, medium and long-term accounts.	Convenience – you can have access to your money immediately (get cash using ATM card or pay for things at the till using your debit card).
There are many options available – you can choose from a bank or building society account, a credit union account, or a state savings scheme through An Post.	Main providers of current accounts and similar types of accounts are banks and building societies*.

* building societies provide accounts that provide similar features as a current account but they don't include a cheque book

Teachers notes – worksheet solutions
Saving and borrowing for what you want

Comparing savings products – worksheet 3.2

In this worksheet there are no right or wrong answers but make sure your students have thoroughly researched their answers for the first table. Students should compare saving products using annual rates – Annual Equivalent Rate (AER) or Equivalent Annual Rate (EAR). This helps them to compare like with like. You can get more definitions on our jargon buster at www.ccpc.ie/consumers/money/jargon-buster

– Your students should research (online if possible) at least two different savings accounts, including those available from banks, credit union, An Post and building society.

– If they don't have answers you may want to prompt using the information available at **www.ccpc.ie**

– It may be helpful to discuss the results in class as well as recording the results on the worksheets.

– Depending on the savings goals identified and the savings products found, your students will need to help their case study decide which product to use.

– Discuss with your class whether interest rates are important when it comes to savings accounts, and how to compare accounts with different Annual rates (AER or EAR).

– Ensure your students are aware that their decision should not be considered a recommendation to themselves but that they instead know how to match products to needs.

– Once this is done, a class discussion should result in a decision as to which institution can offer the best savings product to their case study.

Borrowing to pay for your goals – worksheet 3.3

Your students should consider whether their case study can meet their goals by borrowing rather than saving. In class, discuss whether there are pros and cons to borrowing from different sources. Ask students to complete the table using the loan calculator on www.ccpc.ie. Use the information collected as a basis for class discussion around costs of credit for different lending sources.

In groups, your students should try to:

– decide the best loan option for them.

– compare it to saving.

Help your students come to the conclusion that each case study ought to save more or give themselves more time if they can.

Role Play
In addition to the exercise above, you can organise role-plays for your class. Divide the class into pairs, one takes the role of bank staff member, one the role of their case study. Ask your students to act out the conversation between the bank staff member and case study, including the questions the bank staff member would ask the case study.

> **Note on Credit history (discussed in detail in Section 4)**
> If you miss repayments, fail to clear a loan or credit card or settle a loan for less than you owe, it will show up on your credit record for five years after the loan is closed. This may affect your ability to get a loan in the future and/or force you to borrow from lenders who charge higher interest rates.

Borrowing option	Pros	Cons	Interest Rate (APRs) on a loan of €500 over 1 year *Following are approx guidelines, get students to prepare up to date figures	Total cost of credit *(initial sum borrowed + cost of credit)*
Borrow the money from parents or friends	You can get the money without filling out application forms. You might get the money straight away. You might not have to pay back your parents. You probably wouldn't be charged interest. May give unlimited time to pay back – or be more flexible at least!	You will not build up a credit record. If you keep borrowing from your parents, you may never pay off all the debt and get into good money habits. You might not feel committed to paying it back quickly. You parents might not be too happy and it could cause arguments!	0%	€500
Take out a finance agreement to pay for the item in monthly instalments (hire purchase)	Convenience – the agreement is usually available at the point of sale. You have to keep up monthly repayments or run the risk of losing the item.	Not all goods can be bought this way. It is usually used for cars and furniture. You do not own the item until you have made all the repayments – the finance company owns the item. You can not sell the item unless you have the premission of the owner – the finance company.	9.9%	€526.04

Borrowing option	Pros	Cons	Interest Rate on a loan of €500 over 2 years *Following are approx guidelines, get students to prepare up to date figures*	Total cost of credit *(initial sum borrowed + cost of credit)*
Get a personal loan from your bank	You can build up a good credit rating, if you can show you are able to make regular loan repayments. Depending on why you are borrowing money, you may be able to negotiate a good interest rate. The bank may offer you a flexible loan term (allowing you to pay back your loan over time.) If you get a personal loan from a bank, you own any items you spend the money on straight away.	If you have a bad credit record the bank may not loan you any money. If you fall behind in your payments and do not ask for help, your credit history will be affected. Borrowing money over a long period is quite a big financial commitment, and your needs and circumstances may change.	12.85%	€533.51
Authorised overdraft A loan you arrange through your bank current account. It allows you to spend more money than you have in your current account up to an agreed limit, known as the 'overdraft limit'.	This can be a convenient way of securing short-term credit through your current account.	It can be expensive, and will drain your finances if you use it regularly. Overdrafts can be difficult to control, because you do not have monthly repayments.	14.8%	€538.39
Unauthorised overdraft When you take out more money than you have in your account without the permission of your bank. You will be charged a refer-ral fee for doing this.	Not a viable option at all.	Going over your overdraft limit will be recorded on your credit history and you will be charged additional interest and fees.	Up to 9% on top of the normal rate of 14.8% 23.8%	€560.24

Borrowing option	Pros	Cons	Interest Rate on a loan of €500 over 2 years *Following are approx guidelines, get students to prepare up to date figures	Total cost of credit *(initial sum borrowed + cost of credit)*
Moneylender Moneylenders typically lend small amounts of money that are repaid at a high level of interest over a short period of time. Please note that licenced moneylenders are different to unauthorised 'loan sharks'.	Moneylenders can loan you small amounts of money for short periods of time. They will come to your home to offer loans and will visit to collect repayments.	Moneylender loans are usually extremely expensive. Note to teacher: Moneylenders usually lend for a shorter period than a year but it is important for students to know their interest rates.	27%	€567.77
Use a credit card	Convenience – once you receive your credit card, the credit is instant and you do not need to clear your spending with your provider so long as you keep it below a maximum amount. % free for up to 58 days – but only if you can pay it all back in time You can use a credit card to withdraw cash from an ATM as well as make payments but this is very expensive. Most retailers accept credit cards and you can also pay for items online. If you make sure you pay off all of your balance or as much as you can afford each month, this can be a suitable option.	Credit card bills can build up very quickly if you don't use them carefully. Interest is charged on purchases, fees, penalties and money withdrawals. If you only make minimum repayments, this ends up being very expensive option. Using a credit card to withdraw cash is very expensive. **Note to teacher: use the example in the box below to illustrate on the**	13.3%	€534.64

Teachers notes – worksheet solutions
Saving and borrowing for what you want

Borrowing to pay for your goals – worksheet 3.3 (continued)

> **Credit Cards – Minimum Repayments Illustration**
>
> If you are only making the minimum repayment each month it's going to take you a long time to repay that balance.
>
> How long does it take to repay a credit card balance of 1,000 (with an APR of 19%) if you were only to pay €30 each month – 4 years to clear the balance and cost you about €440 in interest.
>
> If you were able to move your balance to a credit card with 0% interest for a period of time then every penny you pay each month would come off the balance.
>
> This only works if you do your best to repay the balance during the interest free period and if you stop using the card so no more debt builds up.

Exercise B

What do you think your case study should do? Give reasons for your answer.

Sean's solution:

Sean will meet his goals which allows him to afford his holiday with his family, his girlfriend's birthday and the money he will want for the first few weeks of college at present. If he makes cuts to his planned summer expenditure, he will be able to save more money towards college. In order to save up more money Sean could consider A) getting more hours in work and earning more money or getting a second job to increase his income; B) deciding not to meet one of his goals, for example, his holiday, his girlfriend's birthday or an expensive Debs; or C) take out a loan for college expenses.

Sean has not stated that he is going to open a savings account which is probably something he should do. Once Sean has decided what expenses he can take on, he can then see how much it will cost and how much he needs to save. He also needs to consider the implications of getting a student loan for college very carefully and he needs to know exactly what he will spend the student loan on; or C) take out a loan for college expenses.

Mary's solution:

Mary should consider selling her car and save money by not needing to pay for insurance, motor tax or petrol. She should put aside some of the money that she gets for selling the car for Jack's school expenses. She can supplement that with the Back to School allowance from the Government. Part of the money that usually goes on the car (insurance, tax and petrol) should go, to her parents' household bills. The rest should go into a training fund so that she can train to become a taxi driver. When Jack goes to school she can then train and start to work. When she sets up as a taxi driver, she should use her savings to buy a car and if it's not enough, she could consider a loan to supplement her savings.

In section 1 we also identified areas Mary could cutback, she could potentially use this money towards savings here.

Mary needs a loan in the future but does need to make cutbacks and she needs to save from now on.

John's solution:

John should consider selling his car and trade down to a less sporty model. This will save him hundreds on his car insurance and other car related costs. He should also take the job he was offered to supplement his income. Once he saves up for a year or so, he will have put aside enough money to travel to Australia and set himself up to start working there.

In section 1 we also identified areas John could cutback, he could potentially use this money towards savings here.

John does not need a loan but does need to make cutbacks and needs to save from now on.

Sarah's solution:

Sarah should consider selling her car. It is costing her a lot of money and she doesn't need it. If she sells, she will have money from the sale, will save on car insurance and will not need to pay for any potential damages in the future. Her travel costs to Kilkenny by coach will not use up her savings. She should also take the summer job she has been offered. If she sells the car and takes the job (assuming she is offered it every year) she will make enough savings to make a big dent in her student loan when she finishes college. Or she may have enough money to live on without drawing down the remainder of her loan, then she will have less to repay when she leaves college. She needs to remember that having a student loan costs her every month. Each year her interest payments increase as she draws down more of her loan. If she could save this will help to clear her loan in time. She can do this within her budget.

In section 1 we also identified areas Sarah could cutback, she could potentially use this money towards savings here.

Sarah will be able to clear her loan but does need to make cutbacks and should start saving now.

Michael and Rachel's solution:

Michael and Rachel need to look closely at their expenses and see if they can cut back. They have a lot of extra cash and should save for their wedding and put as much as possible towards buying a house.

They need to work out:

- Cost of a wedding (use the wedding budget planner on www.ccpc.ie/consumers/tools-and-calculators/budgeting-calculators/wedding-budget-planner

- Cost of buying a home (using the information on www.ccpc.ie/consumers/housing/mortgages) and based on the amount of regular savings they can make per month, they need to work out how long it will take them to save for a house deposit and costs for their wedding.

In section 1 we also identified areas they could cutback, they could potentially use this money towards savings here.

Rachel does not own the car until the final payment. She needs to check her Hire Purchase agreement to see if she can hand back the car to the HP company (1/2 rule). If so she will not make any money on the car but will save on car costs.

Teachers notes – worksheet solutions
Saving and borrowing for what you want

The cost of borrowing – worksheet 3.4

Direct students to the loan calculator on our website to help them with this exercise.

Exercise A

Multiple choice quiz

Have your students fill in the blanks as to the correct answer in the multiple choice quiz.

1   B (The higher the APR the more expensive the loan - if the term is the same)
2   B
3   A
4   B
5   C (Cost of credit: A = €207.49, B = €208.58, C = €185.19)

Exercise B

True or false quiz

Get students to complete the blanks as to whether each of the statements provided are true or false.

1   TRUE
2   FALSE
3   TRUE
4   TRUE
5   FALSE