Basic Financial Concepts

https://www.khanacademy.org/college-careers-more/financial-literacy

Intro to Financial Literacy

What is financial literacy?

Simply put, financial literacy means knowing how to handle your money wisely. Many people struggle with financial literacy, even as adults. This is often due to misconceptions or a lack of understanding about what it entails. We're here to help!

Is financial literacy just about knowing how to budget?

No. While budgeting is a key part of financial literacy, it is only one aspect. Financial literacy also involves understanding things like interest rates, credit scores, and investment strategies.

Is it too late for me to become financially literate?

No way! It is never too late to improve your financial literacy. You can start by learning about the basics of budgeting, saving, and spending. From there, you can continue to build your knowledge over time.

Do I need specific math skills to be financially literate?

No. Financial literacy means knowing how to use certain concepts in your everyday life. It's not about being able to perform complex calculations.

Isn't financial literacy only important for people who make a lot of money?

Nope. Financial literacy is important for everyone, regardless of how much they earn. Understanding how to manage your money will help you make the most of what you have and avoid unnecessary debt.

Is it enough to just put my money in a savings account?

While saving money is an important part of financial literacy, it is not the only thing you should be doing. Investing your money can be a great way to grow your wealth over time. Additionally, it is important to be aware of the different types of accounts and products available to you, so you can choose the one that best meets your needs.

Overall, financial literacy is about empowering yourself with the knowledge and skills to make smart decisions with your money. It is a lifelong journey, but one that is well worth taking.

Budgeting

What is a budget?

A budget is a plan that helps you manage your money. It shows you how much money you have, how much money you need to spend on different things, and how much money you can save or use for other goals. A budget can help you make smart decisions with your money and avoid problems like overspending, debt, or running out of money.

Why do I need a budget?

Money is a limited resource, and you probably aren't able to buy everything you want or need with the money you have. It's important to prioritize your expenses and choose what is most important for you and your family. A budget can help!

Track your income and expenses.

Your income is the money you earn or receive from different sources, like your allowance, gifts, or jobs. Your expenses are the money you spend on different things, like food, clothes, bills, or entertainment. A budget can help you see how much money you have and where it goes every month.

Set and achieve your goals.

Your goals are the things you want to do or have with your money, like saving for a bike, a university fund, or a vacation. A budget can help you plan how much money you need and how long it will take to reach your goals. It can also help you adjust your spending habits to save more money for your goals.

Avoid or reduce debt.

Debt is the money you owe to someone else, like a bank, a store, or a friend. Debt can be a problem because it can cost you more money in interest and fees, damage your credit score, or cause stress and conflict with friends and family. A budget can help you avoid or reduce debt by helping you spend less than you earn, pay off your bills on time, and avoid borrowing money you don't have a clear plan for repaying.

Budgeting: How do you start?

Budgeting tools: pen, paper, printable sheet.

Your budget needs to be something that you can look at and refer to frequently. There are multiple ways of building a budget, and you should pick the one you are most comfortable using:

- **Pencil and paper**: You can write down your income and expenses on a piece of paper, and subtract your expenses from your income to see how much money you have left. You can also divide your expenses into categories, such as needs, wants, and savings, and decide how much to spend on each one.

- **Printable sheets on the internet**: You can find many websites that offer free or cheap budget sheets that you can print and fill out. You can even download one here. These sheets may have different formats and features, such as charts, graphs, or tips, to help you organize your money and track your progress.

- **Spreadsheet**: You can use a computer program, such as Excel, Google Sheets, or Numbers, to create a budget spreadsheet. You can enter your income and expenses in different cells and use formulas and functions to calculate and compare your numbers. You can also customize your spreadsheet with colours, fonts, and styles, and make changes easily.

- **Apps**: You can download apps on your phone or tablet that can help you create and manage your budget. Apps like Empower, YNAB, or Mobills can connect to your bank account, credit card, or other financial accounts, and automatically update your income and expenses. Some apps can also give you alerts, reminders, or suggestions, to help you stay on track and reach your goals.

How do you build a budget?

Simply put, you build your budget by comparing your income against your spending. One way to build a budget is to use the 50/30/20 rule.

The 50/30/20 rule divides your money into three categories: needs, wants, and savings.

The 50/30/20 rule suggests that you spend 50% of your income on your needs, 30% on your wants, and 20% on your savings. This way, you can balance your money and plan for your future.

How do you use the 50/30/20 rule to build your budget?

To use the 50/30/20 rule to build your budget, you need to follow these steps:

Step 1: Know your income

Your income is the money you earn or receive every month. It can come from a job, an allowance, a gift, or a scholarship. Add up all your income sources and write down the total amount. If your only income is your job, write down the amount you get paid each month. This is your starting point for your budget.

Step 2: Calculate your needs budget

Your needs are the things you must have to live and be healthy. Examples include:

- Rent
- Utilities
- Food
- Transportation
- Insurance
- Basic clothing

To find out how much you can spend on your needs, multiply your income by .

For example, if your income is , your needs budget is . This means you should try to keep your needs expenses below every month.

Step 3: Calculate your wants budget

Your wants are the things you like to have but don't really need. Examples include:

- Hobbies
- Entertainment
- Eating out
- Shopping
- Travel

To find out how much you can spend on your wants, multiply your income by . For example, if your income is , your wants budget is . This means you can spend up to on your wants every month.

Step 4: Calculate your savings budget

Your savings are the money you put aside for your future goals. Examples include:

- Emergency fund
- Retirement account
- University fund
- Any other big purchase you are saving for

To find out how much you should save, multiply your income by . For example, if your income is , your savings budget is . This means you should save about every month.

Step 5: Write down your actual spending

Now that we have calculated our budget, let's start sorting our *actual* spending. Grab your latest bank statement, or log into your banking app, and start sorting your actual expenses. For example, if you see that you made a payment towards your electric bill, write under the "Needs" budget. If you see a charge for movie tickets, write that amount under "Wants" budget.

Step 6: Compare your expenses to your budget

Subtract your expenses from your budget. This is your budget balance. If your budget balance is zero or positive, that means you are living within your means and have some extra money. If your budget balance is negative, that means you are spending more than you should and may have a budgeting problem.

Step 7: Adjust your budget

If your budget balance is negative in any of the three categories, don't panic! Look at the other categories and see if there is money left in them, and use that extra money to balance or offset the negative balance.

If there is no extra money, you need to find ways to reduce your expenses or increase your income.

If your budget balance is positive, you can decide how to use your extra money. You can spend it on your wants, save it for your goals, or donate it to a cause.

How do I balance a budget?

Having a negative balance in your budget means that the income you brought in was not enough the cover the expenses. To tackle this problem you can either try to increase your income or reduce your expenses. Even better if you can accomplish both.

Increasing your income

Most often people think that the only way to increase an income is to find a better-paying job. That is most certainly the most common way, but other strategies can also help. Here are some ways to increase your income:

- Ask for a raise or more hours at your current job.
- Look for extra jobs or chores that you can do for money, such as babysitting, mowing lawns, or selling crafts.
- Sell things you don't use or need anymore, such as clothes, books, or toys.
- Save your change and cash it in at a bank or a coin machine.
- Ask for money or gift cards as a gift for your birthday or other occasions.

Decreasing expenses

When it comes to expenses, some expenses are easier to decrease than others. Expenses that are the same every month, such as your rent, car payment, insurance, or cell phone bill, are known as **fixed expenses**. These expenses are pre-determined by somebody other than yourself, like a bank or a company. Changing these expenses typically involves certain negotiations with the company or bank itself, and not all negotiations result in expense reduction.

Other expenses, such as some utilities, groceries, or shopping can vary from month-to-month, and are called **variable expenses**. You have a lot more control over these and they are much easier to decrease.

Ways to save

Some ways to save money on expenses are:

- Compare prices and look for discounts or coupons before you buy something.
- Avoid impulse buying, which means buying things you don't need or didn't plan to buy.

- Use less water, electricity, and gas to lower your utility bills.
- Borrow, swap, or reuse items instead of buying new ones.
- Pack your lunch instead of buying it outside.
- Choose free or low-cost activities for fun, such as reading, playing games, or going to the park.

Shifting the funds

A short term fix to a negative budget balance is to simply move funds from the budget balance that was positive into the negative one. For example, if your savings budget balance was negative, but your needs budget balance was positive, you can take the extra money from needs and move it onto savings. Note that this is only a short-term solution, and we should really try and figure out the cause of the negative balance.

Reducing Expenses

how can you spend *less* by paying more? The answer is per unit pricing.

Per unit pricing tells you how much you're paying per ounce, per pound, or per item. Paying attention to per unit pricing can help you figure out which product is the best deal.

For example, if you're shopping for toilet paper, you might see two different brands. One costs £5.99 for 12 rolls, while the other costs £7.99 for 18 rolls. At first glance, it appears that the first option is the best deal. But if you compare per unit pricing, you'll see that the second option is actually cheaper:

the first option costs £0.50 per roll: £5.99 / 12 rolls = £0.50 per roll

The second option costs only £0.44 per roll: £7.99 / 18 rolls = £0.44 per roll

In conclusion, even though we paid *more* for the bigger pack of toilet paper, we actually spent *less* for each roll. In conclusion, even though we paid *more* for the bigger pack of toilet paper, we actually spent *less* for each roll.

How do I lower my expenses?

Negotiating bills

Sometimes it can be tough paying bills, especially when they're for services you rely on, like your phone, internet, or cable. But there's good news: you may be able to negotiate a lower bill with your service providers.

Here are a few tips to help you!

1. Know your options.

Before you call your service provider, research the competition. You'll be in a better bargaining position if you know the rates and plans that other companies offer. If you can mention a cheaper plan from a competitor, your service provider may be more willing to negotiate.

2. Be polite but firm.

When you call customer service, be polite and respectful. Remember, you're asking for a favor, so you want to be as friendly as possible. But at the same time, make it clear that you're serious about wanting a lower bill. Tell them that you're considering switching to a different provider if they can't work with you.

3. Ask for a supervisor.

If the customer service representative says they can't help you, don't be afraid to ask for a supervisor. Sometimes the people higher up have more authority to negotiate.

4. Be persistent

If you don't get the answer you want the first time, call back again in a few days. Sometimes different representatives are more helpful than others. Don't give up!

5. Look for a promotional offer.

If you're not successful negotiating a lower bill, ask if there are any promotional offers available. Sometimes service providers will give you a discount for a certain amount of time if you sign up for a new plan or bundle multiple services together. Remember, it never hurts to ask! You might be surprised at how much you can save just by negotiating with your service providers.

Saving Money

Saving money is very important for a number of reasons. First, it allows you to have a safety net in case of emergencies. For example, if you suddenly lose your job or have an unexpected medical bill, having money saved up can help you avoid falling into debt.

Another reason it's important to save money is so you can reach your goals. If you want to buy a car or a house, save for university, or travel to a new place, it often takes time to save up enough money to do those things. By saving regularly, you're taking steps towards achieving those goals.

How do I save money?

There are many different methods people use to set money aside. Here are a few examples:

- Some people automatically deposit a certain percentage of their paycheck into a savings account, so they don't even have to think about it each time they get paid.
- Others keep a piggy bank or jar at home, where they add their spare change each day or week.
- Another strategy is to create a budget and designate a certain amount each month to put into savings.
- Some people use apps or services that "round up" their purchases to the nearest dollar and put the extra change into a savings account.
- Finally, some people use specific goal-setting strategies. For example, they might save all bills they receive, or try to save every day for a month.

How you choose to save money is up to you, as long as you are saving.

Planned and unplanned expenses

Planned expenses are things you know are coming, like rent, a car payment, or a phone bill. **Unplanned expenses**, on the other hand, are things that pop up unexpectedly—think a medical bill, car repair, or last-minute gift.

Unplanned expenses can have a catastrophic impact on people's finances. For example, if your car is the only way you can get to work, and that car breaks down, you are going to have to miss work or pay for rides to and from work until the car is fixed. If there is no money in savings for this type of expense, you are going to have to borrow money and possibly put yourself in debt. Your income may suffer if you end up missing work, and your budget will now have additional expenses in it. Medical expenses are another type of unplanned expense that can also affect the income portion of your finances. If you are ill, your ability to work will also be affected, as well as your income.

Emergency fund

While it is impossible to predict if any of these events will happen in the future, it is important to be prepared, just in case. Best way to do this is to start an emergency fund. **Emergency fund** is a savings account specifically set aside for unexpected expenses. The goal is to have enough money in the fund to cover costs if something unexpected comes up. Many experts recommend having at least three to six months' worth of expenses saved up in an emergency fund.

Savings are like a guardrail for your financial plans - they ensure that even if something unexpected happens, your plan remains in place and you are still building a better financial future.

Emergency fund

If you are following the 50/30/20 rule for budgeting, you are already setting aside of your income for savings. Now, let's break that down even further. We already know that having an emergency fund is essential to protecting all aspects of our budget. An emergency fund is where most, if not *all your savings* should go until that fund reaches its intended amount.

The recommendation is that your emergency fund has three to six months' worth of living expenses/needs in it. Expenses like dining out and entertainment should not be included in this calculation, as they can easily be eliminated in case of an emergency. So, what does that look like in real life example?

Example

Ella, who works as a store manager, has a monthly salary of . Ella has decided to start building an emergency fund and knows that she should have three to six months' worth of expenses in that fund. Looking at her monthly budget, Ella identified the following as her essential living expenses:

Expense	Amount
Rent	£1,100
Utilities	£220
Car payment	£460
Insurance	£85
Groceries	£600
Phone & internet	£129
TOTAL	**£2,594**

We can say that Ella has about £2600 worth of living expenses per month. If her emergency fund is to have three months' worth of expenses, then her emergency fund should ideally have £7,800 in it. But what if it's six months' worth of expenses? In that case, she should have in emergency savings. Ella has been following the 50/30/20 rule and is saving of her income. If she is going to try and save three months' worth of expenses, it is going to take her about 8 months to do that.

What are planned expenses?

Planned expenses are any type of expenses that are predictable and occur on a repeating basis. They can be as frequent as daily, like buying lunch, or yearly, like car registration. Because you know that these expenses are coming, you can prepare for them in advance, and make their impact on your pocket much less noticeable.

For example, let's take the November-December holiday season. Financially, this is one of the most stressful times for most people, as they tend to spend more than at any other time of the year. Luckily, that stress can be greatly lowered by following these tips:

1. **Figure out what you need to save for:** Whether it's a vacation, a new car, or a university education, set a goal so you know how much you need to save. In this example, let's plan on saving for holiday shopping.

2. **Set an amount and a time frame for your goal:** Let's say the holiday season just ended and you have 11 months left before you need to start shopping for gifts again. This year you spent about £550 on gifts for your immediate family. This means you need to start saving £50 each month, or roughly £11 per week.

3. **Put your money in a separate account:** This will help you avoid spending it on other things. There is no limit on how many accounts you can have, so consider having an account for each planned expense. This helps you keep an eye on each account separately and will give you a better idea how close you are to reaching your goal.

4. **Make saving automatic:** Consider setting up an automatic transfer from your checking account to your savings account each month or week. It is least noticeable if you schedule it on the same day, you are getting paid. This way, you won't have to remember to transfer the money yourself.

5. **Adjust your budget, if needed:** If you're having trouble saving enough each month, take a look at your budget and see where you can cut expenses. For example, if you go out to eat twice a week, you could reduce that to once a week and put the extra money into your savings account.

6. **Be patient:** Saving for a big expense can take time, but it's worth it in the end. Stay focused on your goal and resist the temptation to dip into your savings for other things.

What are different types of savings accounts?

Choosing a savings account

A savings account is a great way to save money, earn interest, and grow your wealth over time. But with so many different types of savings accounts to choose from, it can be tough to decide which one is right for you.

Consider your goals

First and foremost, consider your goals. Are you saving for a specific purchase, like a car or a house, or are you just looking to build up an emergency fund? Knowing what you're working towards will help you choose the right account for your needs.

Think about initial deposit requirements

Some banks have minimum initial deposit requirements for their savings accounts. If you're starting off with a small amount of money, this could be an important factor to consider.

Consider access restrictions

Different banks have different rules about how often you can withdraw or access your money. Some will let you withdraw from your savings account as often as you like, while others have restrictions on how many times per month you can access your funds. Make sure you understand the rules before signing up for a savings account so you don't run into any unpleasant surprises.

Shop around

Finally, don't forget to shop around. Each bank has its own set of features and fees when it comes to savings accounts. Compare them to find the one that best suits your needs.

Traditional savings account

A traditional savings account is the most common type of savings account. Banks will usually offer you a small amount of interest for keeping your money with them. Interest rates are typically low, but these accounts are usually a great place to start, as they are easy to open and come with no fees.

High-yield savings account

A high-yield savings account usually offers a higher interest rate than a traditional savings account. This can be a good option if you want to grow your money faster, but there may be some restrictions, such as a minimum balance requirement or withdrawal limits.

Money market account

A money market account is a type of savings account that usually has a higher interest rate than a traditional savings account. You may be able to write checks from a money market account but these accounts may also have fees.

Certificate of deposit (CD)

A CD is a type of savings account where you agree to keep your money with the bank for a certain amount of time (a couple of months to a couple of years). In return, the bank will give you a higher interest rate. If you withdraw your money before the time is up, you may have to pay a penalty.

What is interest and how does it work?

Introduction

Any time you save money you have different methods of doing it. You can save all loose change in a jar, or you can transfer money into some sort of a saving account. The main difference between these two choices is that the amount of money in the jar will never increase on its own, while money in a savings account will. That increase is called **interest**.

What is interest?

Interest is like a reward the bank gives you for trusting them to look after your money. The more money you have in your account, and the longer you keep it there, the more interest you can earn.

How does interest work?

The bank calculates interest as a percentage of the total amount in a bank account. For example, if the bank pays interest, that means you'll earn for every in your account over the course of a year. If there is in your account, then you will earn in interest over a year.

It may not seem like a lot, but the great thing about interest is that it builds on itself. For example, if you start with in your account and you earn in interest over the course of a year, you now have in your account. The next year, the bank will calculate your interest based on that new, higher amount. The interest you gain each year will continue to grow.

And if you keep adding more money to your account on top of that, your interest will grow even faster. While it's not a get-rich-quick scheme, earning interest is a great way to grow your money over time.

Credit Score

A **credit score** is a *number* that helps lenders, like banks and credit card companies, decide whether to lend you money. It's important because the higher your credit score, the easier it will be for you to get approved for loans and credit cards.

Your credit score is calculated using a few different pieces of information. A credit bureau, like Experian, Equifax, or TransUnion, gathers this information and puts it all together. They look at things like:

- How long you've had credit accounts, like credit cards or student loans
- How much money you owe
- Whether you make your payments on time
- If you've ever filed for bankruptcy

The credit bureau will give you a score between 300 and 850 . Each score, then, represents a credit rating. The higher your score, the better the rating. Here's what the different ranges of scores mean:

- 300-579: *Poor*
  It will be hard to get approved for loans or credit cards, and you may have to pay higher interest rates.
- 580-669: *Fair*.
  You might get approved for some loans and credit cards, but you may not get the best interest rates.
- 670-739: *Good*.
  You should be able to get approved for most loans and credit cards, and you should get good interest rates.
- 740-799: *Very good*.
  You'll have an even easier time getting approved for loans and credit cards, and you'll get some of the best interest rates.
- 800-850: *Excellent*.
  You'll have no problem getting approved for loans and credit cards, and you'll get the best interest rates available.

Why is credit score so important?

Credit score is primarily important when applying for loans or credit cards. It not only determines *if* you qualify for a loan, but it also determines the interest (*how much*) you will be paying for the loan.

In addition to being used by lenders to decide whether to give you a loan or credit card, your credit score can also be used in other ways:

- Landlords may check your credit score to decide whether to rent an apartment to you.
- Employers may check your credit score as part of a background check.
- Utility companies may check your credit score to decide whether to require a deposit from you when you sign up for service.

In summary, your credit score can have a big impact on many aspects of your life. It affects your ability to borrow money, the interest rates you'll be charged, and even where you can live and work. That's why it's so important to make sure you have a good credit score and work to improve it if needed.

How do I find out what my credit score is?

There are a few different ways you can go about finding out your credit score:

- Many credit card companies will provide your credit score to you for free as part of your account benefits. Check your account online or contact your credit card company to see if they offer this service.
- You can use one of the many free credit score websites, or apps like Credit Karma to check your score. Be aware that some of these sites will require you to sign up for an account and may offer additional services for a fee.

- You can purchase your credit score directly from one of the three major credit bureaus (Experian, Equifax, or TransUnion). Each bureau has its own methods for calculating your score, so your score may differ slightly between each bureau.
- Finally, you can request a free copy of your credit report from each of the three credit bureaus once per year. While this report won't contain your credit score, it will contain all the information that is used to calculate your score. You can use this information to get a rough idea of where your credit stands.

How do I raise my credit score?

Raising your credit score

There are several things you can do to raise your credit score:

Pay your bills on time

Late payments can have a negative impact on your credit score, so it's important to pay all your bills on time and in full whenever possible.

Keep your credit utilization low

Your credit utilization is the percentage of your available credit that you're using. For example, if you have a credit card with a limit and you're using of it, your credit utilization is . If you're using more than of your available credit, it can hurt your credit score.

Monitor your credit report

Keep an eye on your credit report to make sure there aren't any errors that could be hurting your score. If you find any inaccuracies, be sure to dispute them right away.

Build a longer credit history.

Your credit score is partly based on how long you've been using credit. So, the longer you have a credit history, the better. Do not close any credit accounts, even if you have not used them in a while.

Avoid applying for too many new credit accounts.

Every time you apply for a new credit account, your credit score takes a small hit. If you apply for multiple new accounts in a short period of time, it can add up and impact your score.

Keep a mix of credit types.

Having different types of credit (like a mortgage, car loan, and credit card) can show that you're able to manage different types of debt, which can boost your credit score.

What factors lower a credit score?

There are a number of things that can hurt your credit score. Here are six common factors:

1. **Missing payments.** If you miss payments on a credit card or loan, it will show up on your credit report and negatively affect your score.
2. **Having too much debt.** If you have a lot of debt compared to your income, this will raise your debt-to-income ratio and make you look riskier to lenders. This can also negatively affect your credit score.
3. **Applying for too many credit cards or loans.** Every time you apply for a new credit card or loan, the lender will check your credit report. This is called a "hard inquiry," and it can lower your credit score by a few points.
4. **Defaulting on a loan.** If you stop making payments on a loan and the lender charges it off as a loss, this will seriously damage your credit score.
5. **Having a short credit history.** If you're just starting to build credit, you may not have enough history for lenders to determine how responsible you are with credit. This can result in a lower credit score.
6. **Bankruptcy.** Filing for bankruptcy will significantly damage your credit score, and the bankruptcy will stay on your credit report for up to ten years.

What is a credit report and why does it matter?

You may have heard the term credit report before, but do you know what it is and why it matters? A **credit report** is a document that shows how you use money and pay your bills. It is like a report card for your financial behavior. It can affect your chances of getting a loan, a credit card, a car, a house, or even a job. Here are some basic facts and tips about credit reports that you should know.

What is in a credit report?

A credit report contains information about your personal and financial history, such as:

- Your name, address, date of birth, and social security number
- Your current and past accounts, such as credit cards, loans, mortgages, and utilities
- Your payment history, such as whether you pay on time, late, or miss payments
- Your credit limit, balance, and available credit
- Your public records, such as bankruptcies, foreclosures, liens, or judgments
- Your inquiries, such as when you apply for new credit or check your own credit

Who creates and updates your credit report?

Your credit report is created and updated by three major credit bureaus: Equifax, Experian, and TransUnion. These are independent companies that collect and verify information from lenders, creditors, landlords, employers, and others who do business with you. They also use a system called FICO to calculate your credit score, which is a number that summarizes your credit risk. Your credit score can range from to , with higher scores being better.

How can you access and review your credit report?

You have the right to access and review your credit report for free once every months from each of the three credit bureaus. You can request your free credit report online at www.annualcreditreport.com, by phone at , or by mail. You should check your credit report regularly to make sure it is accurate and complete. If you find any errors or fraud, you can dispute them with the credit bureau and the source of the information.

What is the difference between a credit report and a credit history?

A credit report is a document that contains detailed information about your credit history. It usually includes information about your current and past loans, credit cards, and other lines of credit. It will also contain information about whether you have made payments on time, defaulted on any loans, or filed for bankruptcy.

A credit history, on the other hand, is a broader term that refers to your overall track record when it comes to borrowing and repaying loans. While a credit report contains specific details about your credit history, the term "credit history" itself can refer to the bigger picture of how you have managed credit over time.

A credit report will contain specific details about each of the loans you have taken out, such as the date the loan was opened or closed, the balance, and payment history. But a credit history is more of a summary, and might describe your borrowing history more generally, such as noting that you started borrowing money ten years ago, have always made payments on time, and have paid off most of your balances.

Why is a credit report important?

Credit reports are important for you to keep an eye on. By reviewing your credit report regularly, you can see if there are any errors or inaccuracies that need to be corrected. This is important because mistakes on your credit report can negatively affect your credit score, which can make it harder for you to get credit in the future. Additionally, reviewing your credit report can help you watch for signs of identity theft, such as accounts you don't recognize being opened in your name.

Credit Cards

What is a credit card?

Credit cards are a type of payment card that lets you borrow money from a bank or credit card company. You can use that borrowed money to buy things at stores, restaurants, and other places that accept credit cards as payment.

When you use a credit card, you're basically making a promise to the bank or credit card company that you'll pay back the money you borrowed. They keep track of how much you owe, and you have to pay at least a little bit back each month.

The bank or credit card company also charges you interest, which is like a fee for borrowing the money. The longer you take to pay back the money, the more interest you'll have to pay.

Why do I need a credit card?

There are a few reasons why people might want or need a credit card. Here are a few:

- It's a convenient way to pay for things without carrying around cash.
- It can help you build credit, which is important if you want to take out a loan or mortgage in the future.
- Some credit cards come with rewards or cash back, which means you can get a little bit of money back for every dollar you spend.

There are also reasons why people might not want or need a credit card:

- It can be easy to overspend and get into debt when you don't have to pay for things right away.
- If you don't pay your bill on time, your credit score can go down, which could make it harder to get a loan or mortgage in the future.
- You'll have to pay interest, which means you'll end up paying more for things than if you just used cash.

Ultimately, it's up to each person to decide if they want or need a credit card. If you do decide to get one, it's important to use it responsibly so you don't get into too much debt.

Different types of credit cards

When it comes to credit cards, there are quite a few different types to choose from. Each type of card comes with its own set of features and benefits, so it's important to think about what's most important to you before selecting one.

Standard credit cards

These are the most basic credit cards. They have a credit limit, which is how much you can spend. You have to pay back what you spend, plus interest, which is a fee for using the credit. You can pay the full amount or a part of it every month. Some standard credit cards have annual fees, which are charges you pay every year to use the card.

Rewards credit cards

These are credit cards that give you some benefits for using them, such as points, cash back, miles, or discounts. You can use the benefits for things like gift cards, merchandise, or travel. Rewards credit cards may have higher interest rates or annual fees than standard credit cards, and they may have rules or limits for the benefits. They are a great choice for people who are disciplined about paying off their balances each month.

Secured credit cards

These are credit cards that need you to deposit some money as a guarantee that you will pay back what you spend. The deposit is usually the same as your credit limit. You can get the deposit back when you stop using the card or switch to a regular credit card. Secured credit cards are for people who have no credit or bad credit, and want to improve their credit score.

Student credit cards

These are credit cards for university or university students. They usually have lower credit limits and interest rates than regular credit cards. Student credit cards can help students build and keep a good credit history, which can help them after graduation. But students also have to be careful not to spend too much or miss payments, as this can hurt their credit score and cause debt problems.

Business credit cards

These are credit cards for business owners or employees who need to pay for business-related expenses, such as travel, supplies, or equipment. They usually have higher credit limits and interest rates than personal credit cards, and they may offer some benefits, such as rewards, cash flow, or tax deductions. Business credit cards can help separate personal and business finances, and track and manage spending.

Store credit cards

These are credit cards that are issued by specific retailers, such as department stores, gas stations, or online shops and they can only be used at those retailers. They usually have lower credit limits and higher interest rates than other credit cards, but they typically offer some benefits, such as discounts, coupons, or loyalty points.

As you can see, there are many different types of credit cards to choose from. Consider your spending habits and your financial goals to help you choose the card that's right for you.

Once you are ready to apply for a credit card, there are things you need to consider when comparing across choices.

APR/Interest Rate: One of the most important things to consider is the interest rate, or APR, of the credit card. This is the amount of interest you'll be charged on any unpaid balance. While it's ideal to pay off your credit card balance in full each month, sometimes that's not possible. If you anticipate carrying a balance, you'll want to choose a card with a low interest rate so you don't end up paying too much in interest charges.

Annual Fee: Many credit cards come with an annual fee. This is a fee you pay each year simply for having the card. If you're on a tight budget, you may want to look for a card with no annual fee. On the other hand, some cards with annual fees offer additional benefits that may be worth the cost.

Rewards and Perks: Some credit cards offer rewards or perks for using the card. For example, you may earn points for every dollar you spend that can be redeemed for travel, gift cards, or other rewards. Some cards offer cash back on purchases. If you're interested in earning rewards, be sure to research the specific rewards program to make sure it aligns with your interests and spending habits.

Credit Limit: Your credit limit is the maximum amount you're allowed to spend on the card. This amount is set by the credit card company and is based on your credit score and income. If you anticipate using your card frequently, you may want to look for a card with a higher credit limit so you don't run into any issues.

Other Fees and Penalties: Lastly, be sure to review any other fees or penalties associated with the card. Some cards may charge a late payment fee, an over-the-limit fee, or a foreign transaction fee. Knowing what fees you could be charged will help you avoid any surprises down the line.

Overall, choosing the right credit card comes down to your specific needs and spending habits. By doing your research and considering the factors above, you can find a card that will work well for you.

Where do I find this information?

A Schumer box is a table or chart that credit card companies are required to include in marketing materials and credit card agreements in the United States. It summarizes key information about the credit card, such as interest rates, fees, and penalty charges, in a way that is meant to be easy for consumers to understand. It is named after U.S. Senator Charles Schumer, who sponsored the legislation that required credit card companies to provide this information.

If you already have a credit card, the Schumer box information was mailed to you.

If you are considering applying for a credit card, you can find the Schumer box by clicking on a link that says "rates", "terms", "info", or something similar. Each bank has a different way of naming it. On the other hand, what is listed in the Schumer box is mandated by law, and each credit card issuer is required to provide the following information:

Section	Explanation
APR	This is the yearly interest rate you have to pay if you don't pay your bill in full each month.
Other APRs	Some credit cards have different APRs for different types of transactions. For example, you might have one APR for purchases, and a higher APR for cash advances.
Variable rate information	Some credit cards have variable APRs, which means the interest rate can change over time. This section will explain how and when that can happen.
Grace period	This is the amount of time you have to pay your bill in full before you're charged interest.
Annual fee	Some credit cards charge a yearly fee. This section will tell you how much it is.
Minimum finance charge	This is the smallest amount of interest you can be charged if you don't pay your bill in full.
Transaction fees	Credit cards might charge fees for different types of transactions, like balance transfers or cash advances. This section will explain what they are.
Penalty fees	If you miss a payment or go over your credit limit, you might be charged a penalty fee. This section will tell you how much it could be.

What are the benefits of having a credit card?

Credit cards can be useful in many scenarios. Here are some of the benefits of using one.

Build credit

This is probably the biggest benefit of using a credit card. Using a credit card responsibly will help you build a strong credit score. A strong credit score will make it easier for you to get approved for loans, and qualify for lower interest rates. This will potentially save you thousands of dollars on big purchases like a car, or a home.

Rewards

Many credit cards offer rewards like cash back, travel points, or discounts on things you buy. These rewards can add up over time, and you can use them to save money or get free stuff. Certain stores also offer interest-free financing if using a store credit card, which means that you can make a purchase at the store, but pay it back over time without any extra costs.

Emergencies

A credit card can be helpful in an emergency. If you have an unexpected bill or a car repair, you can use your credit card to pay for it. Just make sure you pay it off as soon as possible so you don't end up paying a lot of interest.

Convenience

A credit card is convenient for everyday purchases. You don't have to carry around cash, and you can use it in a lot of places and online. If you don't have enough cash on hand to pay for something, you can put it on your credit card and pay it off later.

Purchase protection

Some credit cards offer purchase protection. This means that if you buy something with your credit card and it breaks or doesn't work, the credit card company might help you get your money back. This can give you some peace of mind when you're making a big purchase.

As you can see, there are many benefits to using a credit card. Just remember to use it responsibly and pay off your balance in full each month so you don't end up in debt.

What are some drawbacks of having a credit card?

Many people use credit cards on a regular basis, but they may not realize that there are some potential drawbacks to doing so. Here are a few things to keep in mind when it comes to using credit cards:

Interest

One of the biggest issues with credit cards is that they often come with high interest rates. If you don't pay off your balance in full each month, you could end up paying a lot more than you originally spent due to the interest charges.

Debt

Credit cards can make it easy to get into debt. It's tempting to use them to buy things you can't afford, and if you don't pay your bill on time, your debt can quickly snowball. Owing too much on your credit card, and not making your payments on time are two mistakes that will seriously damage your credit score. If your credit score plummets, it will be harder to get loans or credit in the future, and you will be paying a much higher interest rate.

Fees

Credit cards often come with a variety of fees, such as annual fees, late payment fees, or over-the-limit fees. These fees can add up over time, and they can be costly if you're not careful. Make sure to look over the Schumer box so that these fees do not come out as a surprise.

Overspending

Another problem with credit cards is that they can make it easy to overspend. It's a lot easier to swipe a card than it is to hand over cash, and you may not think twice about buying something you don't really need. Over time, this type of spending can really add up and hurt your budget.

If not used responsibly, credit cards can have catastrophic effect on personal finances. *Image credit: "Credit card" on Flickr, CC BY-SA 2.0.*

Overall, credit cards can be a convenient way to make purchases, but they come with some potential risks. Make sure you use them responsibly to avoid getting into trouble.

Money Personality

What is money personality?

Your money personality is a representation of your attitudes and habits when it comes to dealing with money. Understanding your money personality can help you make better financial decisions and reach your financial goals.

How do I determine my money personality?

Do you tend to save money, or do you spend it as soon as you get it? Your money personality has something to do with how you answered that question. Money personalities can be described in a few different ways. Some people are savers—they put money away and think about long-term goals. Other people are spenders—they love to buy things and might not be as good at saving. There are also investors, and balanced money personalities.

Tips and tricks for dealing with your money personality

In our previous article, we talked about four different ways people handle money. Some people are savers, some are spenders, some like to balance things out, and some like to invest. Each personality has its own strengths and weaknesses. In this article, we're going to give you some tips to help you make the most of your money personality.

Saver

Savers are very careful with their money. They don't like spending more than they have to and they are always looking for ways to cut costs. They are good at budgeting and saving, but they might miss out on opportunities to make their money grow because they are hesitant to take risks.

If you are a saver:

- Remember that it's okay to spend some of your money on things that make you happy. This could include hobbies, health, or education.
- Make sure your budget isn't too strict. Let yourself have some fun sometimes, and make changes to your budget when you need to.
- Think about sharing your money with people who might need it more than you do. You could give it to family, friends, or charities.
- Be proud of what you have and enjoy your money!

Spender

Spenders, on the other hand, love using their money. They often spend impulsively and can have a hard time sticking to a budget. Sometimes they will even go into debt to buy things they want. Spenders might enjoy life in the moment more than savers, but they can end up with a lot of stress if they don't manage their money carefully.

If you are a spender:

- Set aside a portion of your income for savings or investments before you spend anything.
- Use cash or debit cards instead of credit cards to avoid overspending or paying interest.
- Set a limit for how much you can spend on non-essential items each month, and stick to it.
- Review your spending habits and identify areas where you can cut costs or find cheaper alternatives.
- Find other ways to reward yourself or have fun that don't involve spending money.

Balancer

Balancers try to strike a healthy balance between the other three money personalities. They are careful with their money but still enjoy spending on things they love. They also look for ways to invest and grow their money. Balancers often have the best of all worlds, but it can be tough to stick to this middle ground.

If you are a balancer:

- Relax and enjoy your money sometimes, and treat yourself to something you want or need.
- Be ready to learn about new chances to make more money. Make sure to find out all you can before you say "no."
- Talk to people you trust to get help, but don't forget to listen to yourself too.
- Be happy when you do well, and be proud of working hard.

Investor

Investors are all about making their money grow. They are willing to take risks to get a higher return on their investment. This has the potential to make them wealthier, but they also run the risk of losing money if things don't go as planned.

If you are an investor:

- Make sure you don't put all your money into one investment. Save some money for emergencies.
- Think about what you could gain or lose from your investments. Don't just hope everything will work out.
- Remember to think about your own goals too. Don't let making money take over your life.
- Only invest in things you believe in. Don't let money make you do things you don't think are right.

SMART Goals

How to write SMART financial goals

Have you ever dreamed of saving enough money to buy a car, travel, or retire comfortably? These are examples of financial goals. Financial goals can help you plan your budget, track your progress, and stay motivated.

But not all financial goals are created equal. Some goals are vague, unrealistic, or hard to measure, which can make them difficult to reach. For example, saying "I want to save more money" is not a very helpful goal, because it does not explain how much money, why you want to save, or when you need the money to be saved by.

A better way to write financial goals is to use the SMART method. SMART stands for Specific, Measurable, Achievable, Realistic, and Time-bound. These are five criteria that can help you make your goals clear, realistic, and trackable.

Let's look at each one in more detail and turn the basic goal of, "I want to save money" into a SMART goal.

S-Specific

A specific goal tells you exactly what you want to accomplish. This means that when you set a goal for yourself, you should try to make it as detailed as possible. By making your goal specific, you know exactly what you need to do in order to achieve it.

For example, we can make our goal specific by changing it to, "I want to save money **for an emergency fund**".

M-Measurable

A measurable goal tells you how you will know if you are making progress or if you have achieved your goal. It answers the question: How much or How many. A measurable goal helps you monitor your performance and celebrate your success.

For example, we can make our goal measurable by changing it to, "I want to save £1000 for an emergency fund."

A-Achievable

An achievable goal tells you if your goal is realistic and possible, given your current situation, resources, and abilities. It answers the question: How can I do it? For example, the goal of saving £1000 for an emergency fund is achievable, if you have a steady income, a budget, and a savings account. An achievable goal challenges you but does not overwhelm you.

For example, we can make our goal achievable by changing it to, "I want to save £1000 for an emergency fund **by saving £50 per paycheck**."

R-Realistic

A realistic goal is something you believe you can reach or accomplish. It's something that fits into your life, your abilities, and your resources, but it also takes into account your limitations. For instance, if you earn £100 a week, saving £80 a week might not be realistic. But saving £20 could be!

Achievable and realistic may seem similar but they have slight differences. When a goal is achievable, it means you have the skills, resources, and abilities to reach it.

For example, if we look at our previous achievable statement "I want to save £1000 for an emergency fund **by saving £50 per paycheck**. Since you have a job, this goal is achievable. But if you have bills, food and other essentials, and maybe also want to hang out with friends occasionally, saving £50 each pay check might not be realistic. So, you may change the amount to a smaller one, or change the statement to "I want to save £1000 for an emergency fund **by saving £50 *every other* paycheck**.

T-Time-bound

A time-bound goal tells you when you want to achieve your goal or what is your deadline. It answers the question: When will I do it? A time-bound goal helps you create a sense of urgency and accountability.

For example, we can make our goal Time-bound by changing it to, "I want to save £1000 for an emergency fund by saving £50 per paycheck **for 20 weeks**."

How to write your own SMART financial goals:

Now that you know what SMART goals are, you can use them to write your own financial goals. Here are some steps to follow:

1. **Think of a financial goal that you want to achieve.** It can be short-term (within a year), medium-term (within a few years), or long-term (more than five years). It can be related to saving, spending, earning, investing, or giving money. For example, you may want to save for a car, pay off your student loans, start a business, or donate to a charity.

2. **Write down your goal in one sentence, using the SMART criteria.** Use the questions and examples above to help you. For example, you may write, "I want to save £5000 for a used car by saving £200 from each monthly paycheck for 25 months, because I want to have more independence".

3. **Check your goal for clarity, realism, and relevance.** Ask yourself: Is my goal specific enough? Can I measure my progress? Is my goal achievable with my current resources and abilities? Is my goal realistic given all the limitations? Is my goal time-bound with a realistic deadline?

4. **Adjust your goal if needed.** If your goal is too vague, broad, or easy, make it more specific, narrow, or challenging. If your goal is too ambitious, complex, or hard, make it more realistic, simple, or manageable. For example, you may adjust your goal of saving £5000 for a car to £4000 , or to £6000 . You may also adjust your timeline, your savings amount, or your income source, depending on your situation.

5. **Write down the action steps that you need to take to achieve your goal.** These are the tasks, strategies, or habits that will help you move closer to your goal. For example, some action steps for saving £5000 for a car may be opening a separate savings account, creating a budget, cutting down on unnecessary expenses, finding a second job, or setting up monthly automatic transfers.

6. **Review your goal and action steps regularly.** Track your progress, celebrate your achievements, and address any challenges or obstacles that may arise. For example, you may review your goal and action steps every month, and record how much money you have saved, what worked well, and what needs improvement. You may also reward yourself for reaching milestones, such as saving 25%, 50%, or 75% of your goal.

SMART financial goals examples

Here are some examples of common financial goals, and how to make them SMART. You can use them as inspiration or reference for your own goals.

Saving for an emergency fund

- **Vague goal:** *I want to save some money for emergencies.*

- **SMART goal:** I want to save for an emergency fund by putting aside from each biweekly paycheck for weeks, because I want to be prepared for unexpected expenses and avoid going into debt.

Paying off debt

- **Vague goal:** *I want to pay off my credit card debt.*

- **SMART goal:** I want to pay off my credit card debt by paying extra every month for months, because I want to save money on interest and improve my credit score.

Buying a car

- **Vague goal:** *I want to buy a car.*

- **SMART goal:** I want to buy a used car by saving from each monthly paycheck for months, because I want to have more independence.

Saving for retirement

- **Vague goal:** *I want to save for retirement.*

- **SMART goal:** I want to save for retirement by contributing of my income to a 401(k) plan for years, because I want to enjoy a comfortable and secure lifestyle when I stop working.

Short, Medium, Long Term Goals

Financial goals and planning: short, medium, and long term

You have learned how to set SMART goals for your money, but how do you plan for different types of goals? Depending on your needs and wants, you may have short, medium, and long term financial goals. These goals have different time horizons and risk levels, and require different strategies to achieve them.

Short, medium, and long term financial goals

Short term financial goals are goals you want to achieve in *less than a year*, such as buying a new phone, saving for a trip, or paying off a small amount of debt. These goals are usually low risk, meaning you are unlikely to lose money or face unexpected costs. To reach these goals, you need to budget your income and expenses, and save a portion of your money in a safe and accessible place, such as a bank account or a money jar.

Medium term financial goals are the ones you want to achieve in *one to five years*, such as buying a car, saving for university, or starting a business. These goals are usually moderate risk, meaning you may face some uncertainty or fluctuations in your income, expenses, or returns. To reach these goals, you need to plan your income and expenses, and invest a portion of your money in a diversified and flexible way, such as a mutual fund or a certificate of deposit.

Long term financial goals are the ones you want to achieve in *more than five years*, such as buying a house, saving for retirement, or leaving a legacy. These goals are usually high risk, meaning you may face significant changes or challenges in your income, expenses, or returns. To reach these goals, you need to project your income and expenses, and invest a portion of your money in a growth-oriented and long-lasting way, such as a stock or a bond.

Goal Type	Time Frame	Example	Risk Level	Strategy
Short term	Less than a year	Buying a new phone, saving for a trip, paying off a small debt	Low	Budget and save in a bank account or a money jar
Medium term	One to five years	Buying a car, saving for university, starting a business	Moderate	Plan and invest in a mutual fund or a certificate of deposit
Long term	More than five years	Buying a house, saving for retirement, leaving a legacy	High	Project and invest in a stock or a bond

How to create a financial plan

A financial plan is a roadmap that helps you reach your financial goals. It consists of four main components: a budget, a savings plan, a debt repayment plan, and an investment plan.

1. A **budget** is a plan that shows how much money you earn, spend, and save each month. It helps you track your income and expenses, identify your needs and wants, and balance your spending and saving. You can use a spreadsheet, an app, or a website to create and monitor your budget.

2. A **savings plan** is a plan that shows how much money you save each month for your short, medium, and long term goals. It helps you prioritize your goals, allocate your income, and build your savings.

3. A **debt repayment plan** is a plan that shows how much money you pay each month to reduce your debts, such as credit cards, student loans, or car loans. It helps you lower your interest costs, improve your credit score, and free up your cash flow.

4. An **investment plan** is a plan that shows how much money you invest each month to grow your wealth and achieve your long term goals. It helps you diversify your portfolio, balance your risk and return, and take advantage of compound interest.

Tools and resources to help you create and monitor your financial plan

Creating and monitoring your financial plan can be challenging, but there are many tools and resources that can help you. Here are some examples:

- Apps: You can use apps like Mint, YNAB, or Personal Capital to track your budget, savings, debt, and investments, and get personalized advice and alerts.

- Websites: You can use websites like NerdWallet, Investopedia, or Khan Academy to learn more about financial topics, compare products and services, and access calculators and quizzes.

- Calculators: You can use calculators like Bankrate, SmartAsset, or FinAid to estimate your savings, debt, and investment needs and outcomes, and adjust your plan accordingly.

- Advisors: You can use advisors like financial planners, counselors, or coaches to get professional guidance and support, and help you create and implement your plan. Your bank may offer this service for free.

<u>Borrowing Money</u>

Loans and credit

Have you ever wanted to buy something that you couldn't afford with the money you have right now? Maybe you need a new laptop for school, a bike to get around, or a trip to visit your relatives. Or maybe you have an unexpected expense, like a car repair, a medical bill, or a home improvement. How can you pay for these things without waiting for months or years to save up the money?

One option is to borrow money from someone else, such as a family member, a friend, or a financial institution. This is called taking out a loan or using credit. When you borrow money, you agree to pay it back later, usually with some extra money added on top. This extra money is called interest and fees, and it is the cost of using someone else's money.

Why use credit?

People use credit for different reasons, depending on what they need and want. Below are just some of the reasons someone might use a line of credit.

Purchase a car

A car can cost a lot of money, but it can also help you get around. Many people get a car loan from a bank, a credit union, or a car seller to pay for a car over time, instead of paying all the money at once.

Buy a house

A house can cost even more money, but it can also be a good investment and provides you with a place to live. Most people get a mortgage from a bank, a credit union, or a mortgage company to pay for a house over time, instead of paying all the money at once.

Get an education

School can help you learn new things and get ready for a job. But it can also be very expensive, especially for university or university. Many people get student loans from the government or private lenders to pay for school or training, books, and living costs while they study.

Emergencies

Sometimes, bad things happen that we can't control or avoid, like a storm, a sickness, a legal problem, or a family problem. These things can make us spend money that we don't have. In these cases, some people use credit cards, personal loans, or payday loans to get some fast money to deal with the problem.

What is interest?

Interest is the amount of money that you pay to the lender for using their money. It is usually expressed as a percentage of the amount you borrow, and it is charged over a period of time, such as a month, a year, or the entire term of the loan.

For example, if you borrow £100 from a friend and agree to pay him back £110 in one year, you are paying him 10% interest per year.

If you borrow £1000 from a bank and agree to pay them back £1200 in two years, you are paying them 10% interest per year as well.

Interest rates

Not all loans and credit have the same interest rate. Some places charge more or less interest than others, depending on many things, like your credit score, your income, your property, and the kind and reason of the loan.

For example, a mortgage may have a lower interest rate than a credit card, because a mortgage is backed by the house. This makes it safer for the bank, and because a mortgage is for a long time and a good reason, it motivates you to pay it back.

On the other hand, a credit card may have a higher interest rate than a mortgage, because a credit card is not backed by anything. This makes it riskier for the bank, and because a credit card can be used for anything, it may make you spend more or miss payments.

Interest is important because it changes the total price of borrowing money over time. The *higher* the interest rate, the *more* money you have to pay back to the place that lends you money, and the *longer* it may take you to pay off the loan. The lower the interest rate, the less money you have to pay back to the place that lends you money, and the faster you may be able to pay off the loan.

As you can see, the interest rate makes a big difference in how much you end up paying for borrowing money. So, it is important to compare the interest rates of different places that lend money before you choose one.

What are the places that lend money?

There are many places that lend money to people, depending on what they need and want. Here are some of the places that lend money.

Banks

Banks are places that offer many kinds of loans and credit, like mortgages, car loans, personal loans, credit cards, and overdrafts. Banks usually have hard rules, like needing a good credit score, a steady income, and a down payment or property. Banks usually charge medium interest rates, depending on the kind and time of the loan. Banks usually have set payment plans, like monthly payments, and may charge fees for late payments, early payments, or other services. Banks usually have offices, machines, and websites that make it easy and helpful to borrow money from them.

Merchants

Merchants are places that sell things or services, like stores, car sellers, or schools. Merchants lend money to their customers, either by themselves or through a bank or a finance company. They usually have easier rules, like needing a proof of who you are, how much you make, or a down payment. Typically they charge high interest rates, especially if they offer no-interest or low-interest deals that end after a while. Merchants may have flexible payment plans, like monthly payments, delayed payments, or minimum payments. They have limited locations, hours, and options that affect how easy and helpful it is to borrow money from them.

Peer-to-peer

Peer-to-peer is a way of lending and borrowing money that involves people or groups, not places. Peer-to-peer may use online platforms, like websites or apps, that connect lenders and borrowers, and charge a fee for doing that. Peer-to-peer may have different rules, depending on what the lender wants and what the borrower has, like their credit score, their income, their reason, and their friends.

Peer-to-peer may charge low to high interest rates, depending on how many people want to lend or borrow money, and how risky and rewarding the loan is. Peer-to-peer may have flexible payment plans, like monthly payments, one-time payments, or donations. Peer-to-peer may have good and bad things in terms of how easy and helpful it is to borrow money from them, depending on how good and reliable the platform and the people are.

Payday loans

Payday loans are short and expensive loans that are meant to give cash until the next payday. Payday loans are usually offered by special places, like shops, online platforms, or check cashers. Payday loans usually have very easy rules, like needing a proof of who you are, how much you make, and a bank account.

Payday loans usually charge very high interest rates, often as fees that are based on how much and how long you borrow money. Payday loans usually have very short payment plans, like two weeks or one month, and may need you to give the place access to your bank account or a check for later. Payday loans usually have limited ease and help, and may make you face problems like getting stuck in debt, getting harassed, or getting your identity stolen.

Title loans

Title loans are short and expensive loans that are backed by the title of a vehicle, like a car, a truck, or a motorcycle. Title loans are usually offered by special places, like shops, online platforms, or pawn shops. Title loans usually have easy rules, like needing a proof of who you are, how much you make, and a clear title of the vehicle.

Title loans usually charge very high interest rates, often as fees that are based on how much and how long you borrow money. Title loans usually have very short payment plans, like two weeks or one month, and may need you to give the place the vehicle or a set of keys. Title loans usually have limited ease and help, and may make you face problems like losing the vehicle, paying more than the value, or hurting your credit score.

Comparison

The table below shows the main things and costs of different places that lend money:

Place	**Rules**	**Interest rate**	**Payment plan**	**Fees and problems**
Bank	Hard	Medium	Set	Late, early, service fees
Merchant	Easier	High	Flexible	Ended deals, limited options
Peer-to-peer	Different	Low to high	Flexible	Platform, lender, borrower fees and reliability
Payday loan	Very easy	Very high	Very short	Debt traps, harassment, identity theft
Title loan	Easy	Very high	Very short	Losing the vehicle, paying more than the value, hurting the credit score

How to choose the best place to borrow money?

There is no one answer to this question, as different places may work better for different people and situations. But some tips to help you make a smart and careful decision are:

- **Know what you need and want**: Why do you need to borrow money? How much do you need? How long do you need it for? How will you use it? How will you pay it back? These are some of the questions you should ask yourself before you get a loan or credit. This will help you choose the most fitting and cheap place for your reason.

- **Know how much you have and can afford**: How much money do you make? How much money do you spend? How much money do you save? How much money do you owe? These are some of the questions you should ask yourself before you take a loan or credit. This will help you know how much you can borrow and repay, without hurting your money health and happiness. You should always borrow what you can afford and avoid getting more debt than you can handle.

- **Know your choices and other ways**: What are the different places that lend money to you? What are their good and bad things? How do they compare in terms of interest rates, fees, payment plans, ease, and help? These are some of the questions you should ask yourself before you choose a loan or credit. This will help you see the benefits and drawbacks of each place, and find the best deal and value for your money. You should also think about other ways to pay for your needs and wants, like saving, earning, or selling, before you borrow.

Summary

Loans and credit are ways of using money that is not yours. You have to pay it back later, and you also have to pay some extra money. People use credit for different reasons, like buying a car, a house, school, or emergencies.

Interest is the money that you pay to the place that lends you money, and it changes the price of borrowing money over time. The places that lend money are banks, merchants, peer-to-peer, payday loans, and title loans, and they have different rules, interest rates, payment plans, fees, and problems.

To choose the best place to lend money, you should know what you need and want, how much you have and can afford, and your choices. You should also use credit smartly and carefully, and avoid getting into debt trouble.

What is predatory lending?

When people are in dire need for money, they may be tempted to take out a loan from a lender who doesn't have their best interests in mind. This is called **predatory lending**. The lender might make it seem like they are helping someone out in a tough situation, but really they are taking advantage of them.

People may use predatory lending for a variety of reasons. Maybe they lost their job and need money to pay their rent, or they need to fix their car so they can keep getting to work. Sometimes people need money to pay for an emergency medical bill. Whatever the reason, these people are vulnerable, and predatory lenders know it.

Dangers of predatory lending

One of the biggest dangers of predatory lending is that it usually comes with very high interest rates. This means that even if someone is able to pay back the original amount they borrowed, they'll also have to pay a lot more on top of that. In some cases, the interest rates are so high that the person might never be able to pay it all back.

Here are some examples of types of lenders that are often considered predatory, and the interest rates they may charge.

Payday lenders

Payday lenders often charge exorbitant interest rates, with the annual percentage rate (APR) averaging around 400% (and sometimes reaching as high as 1000%).

Car title lenders

Similar to payday lenders, car title lenders often charge extremely high rates of interest. The average APR for a car title loan is 300%.

Subprime mortgage lenders

Subprime mortgages are generally offered to borrowers with poor credit histories, and they often come with high interest rates to compensate for the increased risk to the lender. For example, prior to the financial crisis in 2008, subprime mortgage rates often ranged from 8% to 12% (when "prime" mortgage rates were around 6%).

Other dangers

Overall, it's important to note that predatory lending rates can vary widely, and that even if a rate doesn't seem astronomically high, there may be other aspects of the loan (such as hidden fees or aggressive collection practices) that make it predatory in nature.

Another danger is that the lender might pressure the person to take out more loans to pay off the first one. This can lead to a cycle of debt, where the person is constantly borrowing money just to stay afloat. The more they borrow, the more they owe, and it can be almost impossible to escape.

How to recognize predatory lending

It's important to know how to recognize predatory lending so you can avoid it. Here are some things to watch out for:

Extremely high interest rates

Predatory lenders often charge extremely high interest rates that make it difficult or impossible for borrowers to repay their loans.

Hidden fees and charges

Another common tactic of predatory lenders is to include hidden fees and charges in the loan agreement, which the borrower may not realize until it's too late.

Targeting vulnerable populations

Predatory lenders often target people with low incomes, bad credit, or those who are otherwise in difficult financial situations. They may also target specific communities, such as people of colour or immigrants.

Aggressive marketing tactics

Predatory lenders may use aggressive marketing tactics to lure people into borrowing money. This can include high-pressure sales pitches, excessive phone calls, or misleading advertisements.

Encouraging repeated borrowing

Some predatory lenders may encourage borrowers to repeatedly take out new loans in order to pay off existing ones. This can trap people in a cycle of debt that is difficult to escape.

Little regard for the borrower's ability to repay

Predatory lenders may not take into account whether or not the borrower will actually be able to repay the loan. They typically do not ask to check a credit score.

Conclusion

It's important to be careful when borrowing money. Always make sure you know the terms of the loan, the interest rate, and all the fees. If something doesn't seem right, don't borrow the money. There are other options out there that don't involve predatory lending.

Debt

What is debt, and how does it grow?

Debt is the money that you owe to others. You might borrow money for different reasons, like buying a car, going to university, or paying for a vacation. When you borrow money, you usually have to pay it back with interest.

Over time, your debt can grow because of interest, fees, and penalties. For example, if you take out a loan for £500 with an annual interest rate of 5%, your total debt will grow by £250 each year, even if you don't borrow any more money.

Good debt vs. bad debt: Understanding the difference

When you hear the word "debt," you might think it's always a bad thing, but that's not true! There are actually two types of debt: good debt and bad debt. Good debt is when you borrow money to invest in something valuable, like your future. Bad debt, on the other hand, is when you borrow money for things that lose value or don't help you grow financially.

Good debt: Investing in your future

Good debt is the kind that helps you achieve your dreams, improves your financial prospects, and adds value to your life. Generally, good debt involves borrowing money to invest in assets that will grow in value over time, generate income, or improve your finances.

An example of good debt is educational loans. If you borrow money to go to university or pay for training, you are investing in your education, which can lead to a better job and higher income. That's why people call this type of debt "good" – because it helps improve your financial situation in the long run.

Another example of good debt is borrowing money to buy a house. A home is an investment that can increase in value over time, so taking out a mortgage (a loan to buy a house) can be considered good debt too.

Bad debt: Weakening your financial stability

On the other hand, bad debt is when you borrow money for things that don't help you grow financially or lose value over time.

For example, if you use a credit card to buy a new TV or a trendy outfit, that's bad debt. These items lose value quickly, and you might end up paying interest on them for a long time. If you had to borrow £1000 for a new phone and paid 15% interest on it, you would actually end up paying more than £1000 for the phone, which isn't a smart financial decision.

Ultimately, the difference between good debt and bad debt lies in how the borrowed money is used and its potential to improve your financial future. Good debt can easily turn into bad debt if not managed carefully, and bad debt can be turned into good debt by being strategic about its use.

Paying debt off

Sometimes, you might find yourself with more debt than you can handle. There are several ways to help you pay off the debt, and two of the most popular methods are the snowball method and the high rate method. Let's explore both of these methods to understand how they can help you become debt-free.

The snowball method

Imagine you have a snowball, and as you roll it around in the snow, it gets bigger and bigger. This is similar to how the snowball method works for paying off debt.

In this method, you start by focusing on your *smallest* debt first. You pay as much as you can on this small debt while making the minimum payments on your other debts. Once you've paid off the smallest debt, you move on to the next smallest, and so on, until all your debts are paid off.

Let's say you have three debts:

- A car loan with a balance of £10,000 and a 10% interest rate
- A credit card with a balance of £1000 and a 20% interest rate
- A student loan with a balance of £5000 and a 5% interest rate

If you are following the snowball method, you will arrange your debts from the *smallest balance* to the biggest one, like this:

Balance	Type of loan	Interest rate
↓ £1000	Credit card	20%
↓ £5000	Student loan	5%
£10,000	Car loan	10%

Using the snowball method, you'd start by putting extra money toward the credit card debt. Once that's paid off, you'd move on to the student loan, and finally, the car loan.

This method can make you feel good because you'll see progress quickly as you knock out the smaller debts first.

The high rate method

The high rate method is also known as the "avalanche method" because it focuses on paying off the debts with the highest interest rates first. This can save you more money in the long run because you'll pay less in interest.

To use this method, you list your debts from the highest interest rate to the lowest interest rate. You pay as much as you can on the debt with the highest interest rate while making minimum payments on your other debts. Once the highest interest debt is paid off, you move on to the next highest, and so on.

Using the high interest method, the order ends up like this:

Interest rate	Type of loan	Balance
20% ↓	Credit card	£1000
10% ↓	Car loan	£10,000
5%	Student loan	£5000

Using the same example as before, you would start by paying off the credit card with the 20% interest rate first, then the car loan with the 10% interest rate, and finally, the student loan with the 5% interest rate.

This method might take longer to see progress, but you'll save more money overall by paying less interest.

Which method is best for you?

Choosing between the snowball and high rate methods depends on your personality and what motivates you. If you feel encouraged by seeing quick progress, the snowball method might be best for you. On the other hand, if you're more focused on saving money in the long run, the high rate method might be a better choice.

Remember, the most important thing is to make a plan and stick to it. No matter which method you choose, being committed to paying off your debt will help you achieve financial freedom and enjoy the things you love without the burden of debt.

Managing Risks

What is risk?

Risk is the exposure to danger, harm, or loss. When we talk about *risk* in finance, we are talking about the chance that you could lose assets (like money, home, or car), or lose your earning potential (not make as much as you expected). For example, if you invest your money in a company, there is a chance that the company might not do well and you could lose your money. This would be a **loss of an asset**.

Another example of a risk would be a construction worker who gets hurt on the job. If the injury is bad enough, the worker might not be able to do the same kind of work anymore and might have to find a new job that pays less money. This would be a **loss of earning potential** because the worker will no longer be making as much money as they were able to.

Why is risk inevitable and uncertain?

Individuals face risk in their everyday lives and in their financial decisions. There is no way to completely eliminate risk, and there is always some level of uncertainty involved in financial decisions. This is because there are so many factors that can affect an individual's financial situation, such as changes in the economy, job loss, unexpected expenses, or changes in consumer behavior.

All of these factors are outside of an individual's control, and it is impossible to predict exactly how they will affect their financial decisions. This is why it is important for individuals to be aware of the potential risks and to have a plan for managing them.

Risk and return

There is a relationship between risk and return in the world of finance. In general, the *higher* the risk, the higher the *potential* return. This is because investors are willing to take on more risk in order to potentially earn more money. For example, a stock that is considered risky might have the potential for a higher return than a stock that is considered less risky. However, it is important to remember that there is no guarantee of a higher return, and there is always the chance of loss.

What is risk management?

Risk management is the process of identifying, analyzing, and responding to risk. This involves looking at the potential risks involved in a financial decision, figuring out how likely they are to happen, and deciding how to respond. For example, if you are considering investing in a company, you might look at the potential risks involved, such as changes in the economy or competition from other businesses. You might then decide to invest a smaller amount of money or to invest in a different company with less risk.

I am not an investor, do I still have risk?

Yes. There are many different types of financial risks that individuals and families might face. These include:

- Unemployment: the risk of losing your job and not being able to earn money
- Illness, injury, or disability: the risk of not being able to work and earn money because of a health problem
- Liability: the risk of being sued or held responsible for something that causes financial loss
- Property damage: the risk of damage to your home or other property that causes financial loss
- Theft: the risk of someone stealing your money or other assets
- Fraud: the risk of someone tricking you into giving away your money or other assets
- Identity theft: the risk of someone using your personal information to steal your money or other assets
- Inflation: the risk of the value of money going down, making it harder to buy the things you need
- Market fluctuations: the risk of the value of investments going up and down

Correlated and independent risks

Some risks are correlated, meaning that they are related to each other. For example, if you lose your job, you might also be at risk for not being able to pay your bills or for losing your home. Other risks are independent, meaning that they are not related to each other. For example, the risk of identity theft is not related to the risk of property damage.

Insurable and non-insurable risks

Some risks are **insurable**, meaning that you can buy insurance to protect against the potential financial loss. For example, you can buy homeowners insurance to protect against the risk of damage to your home, or you can buy health insurance to protect against the risk of illness or injury. Other risks are not insurable, meaning that there is no way to protect against potential financial loss. For example, there is no way to insure against the risk of inflation or market fluctuations.

Summary

- Risk is the potential for loss, and financially, it can be loss of assets or loss of potential income.
- Risk is inevitable and uncertain due to the many factors that can affect the value of an investment or the success of a business.
- There is a relationship between risk and return, with higher risk generally offering the potential for higher returns.
- Risk management is the process of identifying, analyzing, and responding to risk in financial decisions.
- There are many different types of financial risks, including unemployment, illness, injury, liability, property damage, theft, fraud, identity theft, inflation, and market fluctuations.
- Some risks are correlated, meaning that they are related to each other, while others are independent.
- Some risks are insurable, meaning that you can buy insurance to protect against the potential financial loss, while others are not.

As you can see, risk plays a large role in our financial lives. Understanding the different types of risks and developing strategies to manage them can help you stay on track to achieving your goals.

What is Risk Management?

Risk management is the process of identifying, assessing, and taking steps to minimize or eliminate the risks that we face in our daily lives. There are four main strategies that we can use to manage risk: avoiding, reducing, retaining, and transferring. Each of these strategies has its own advantages and disadvantages, and the best approach will depend on the specific situation. In this article, we will explore each of these strategies in more detail and provide examples of how they can be applied in different scenarios.

Avoiding Risk

The first strategy for managing risk is to simply avoid it altogether. This can be done by choosing not to engage in activities that are risky, or by taking steps to prevent risky situations from occurring. For example, if you are concerned about the risk of getting into a car accident, you might choose to walk or take public transportation instead of driving.

Advantages

- Avoiding risk is the safest option, as it eliminates the possibility of loss or harm altogether.

Disadvantages

- It may not always be possible or practical to avoid risk. For example, you might not be able to avoid driving if you live in a rural area without access to public transportation.
- Avoiding risk can also limit your opportunities and prevent you from taking advantage of potentially beneficial situations.

Reducing Risk

Another strategy for managing risk is to take steps to reduce the chance or impact of a potential loss. This can be done by implementing safety measures, using protective equipment, or taking other precautions. For example, you might choose to wear a helmet when riding a bike or to install smoke detectors in your home to reduce the risk of injury or fire.

Advantages

- Reducing risk can help to minimize the potential for loss or harm, without completely avoiding the activity or situation.
- This strategy can be more practical and realistic than avoiding risk altogether.

Disadvantages

- It may not be possible to completely eliminate the risk, even with precautions in place.
- Reducing risk can also require an investment of time, money, or effort.

Retaining Risk

The third strategy for managing risk is to retain it, or to accept the possibility of loss or harm and be prepared to deal with the consequences. This can be done by setting aside money in an emergency fund, or by developing a plan for how to handle a potential loss. For example, if you work for yourself, you might save money in case you don't have a lot of work or if a project gets cancelled. This way, you can still pay for things you need even if you don't have a lot of work.

Advantages

- Retaining risk can allow you to take advantage of potentially beneficial situations, without avoiding or reducing the risk.
- This strategy can also be more cost-effective than transferring risk, as it does not require you to pay for insurance or other forms of protection.

Disadvantages

- Retaining risk means that you will be responsible for dealing with the consequences of a potential loss or harm.
- It may also require you to have access to financial resources or other forms of support in order to cope with a potential loss.

Transferring Risk

The final strategy for managing risk is to transfer it to someone else, typically through the use of insurance or other forms of protection. For example, you might choose to purchase car insurance to transfer the risk of an accident to the insurance company.

Advantages

- Transferring risk can provide you with financial protection in the event of a loss or harm.
- This strategy can also help to reduce your overall level of risk, as you will not be solely responsible for dealing with the consequences of a potential loss.

Disadvantages

- Transferring risk can be expensive, as you will need to pay for insurance or other forms of protection.
- It may also not be possible to transfer all of the risk, as insurance policies often have exclusions or limitations.

It's important to remember that not every situation will have all four risk management strategies available. Sometimes, it might not be possible to avoid or reduce a risk. For example, if you live in an area with a lot of earthquakes, you can't avoid the risk of one happening. You can *reduce* the risk by making sure your house is built to withstand earthquakes, but you can't completely get rid of the risk. Also, some strategies might not be practical. For example, quitting your job to avoid a risk might not be something you want to do or can afford to do. It's important to think about what strategies are available and practical for your situation before you make a decision.

Managing Risks

Understanding educational costs

Going to university or a postsecondary program can be expensive. But don't worry, there are ways to make it more affordable. To start, you need to understand the different types of costs you might have. In this article, we'll explain direct and indirect costs, as well as fixed and variable costs. We'll also give examples and discuss how financial aid can help lower the cost of your education.

Direct costs

Direct costs are what you pay to the school for your education. These costs include tuition, fees, books, and supplies. For example, if you go to a four-year university, your *tuition* might be £9,600 a year. You might also have to pay *fees* for things like the student center fee or the school library fee. Books and supplies can add up, too.

These costs can be different depending on the type of postsecondary option you choose. For example, community universitys typically have lower tuition rates than four-year universitys, while technical schools and online programs may have different fee structures. Apprenticeship, on the other hand, may not require tuition, but you might need to purchase tools or equipment for your trade.

Indirect costs

Indirect costs are the expenses you have while going to school, but you don't pay these *to* the school. They include transportation, housing, food, and personal expenses. For example, you might need to buy a bus pass to get to class or pay for gas if you drive. You'll also need a place to live and food to eat. These costs can vary depending on where you go to school and your personal choices.

For example, if you attend a local community university, your transportation costs might be lower than if you go to a four-year university far from home. Similarly, online programs may not require housing costs, while apprenticeships might require you to relocate for work.

Fixed costs

Fixed costs are expenses that you have to pay, and they don't change. Examples of fixed costs are application fees, enrollment deposits, and technology fee. These costs are usually the same for everyone, no matter what type of option you choose or how many classes you are taking. Fixed costs can be one-time charges, like an application fee, or ongoing expenses, like student services fee. It's important to account for these costs when planning for university, as they can add up quickly.

Variable costs

Variable costs are expenses that can change based on your choices and decisions. These include course materials, travel, and entertainment. Variable costs can be managed and adjusted based on your priorities and budget. For example, you could choose to buy used textbooks or rent textbooks, limit your travel expenses, or take advantage of student discounts for entertainment.

Financial aid

After you consider all the costs related to getting your education, you may feel overwhelmed and discouraged. You shouldn't be. These costs represent the *highest possible costs*, and, typically, not many people pay them. There are many ways you can lower your costs through grants, scholarships, loans, work-study, etc. All the things that help lower your educational costs are called **financial aid**.

Grants and scholarships

Grants and **scholarships** are types of financial aid that you don't have to pay back, and they can be awarded based on merit, financial need, or other criteria. These awards can significantly reduce the overall cost of your education.

Loans

Loans are money you have to pay back, but they can help you pay for school now. There are different kinds, like government loans and private loans, and they have different rules about paying them back. It's important to know these rules because it affects your money later.

Work-study

Work-study is another form of financial aid that lets you work a part-time job while going to school to help pay for things. These jobs are usually on-campus or related to what you're studying, and they help you learn job skills.

There are other ways to lower your costs that are not considered financial aid. These are things that you can do yourself, like find part-time or summer jobs, choose a cheaper housing option, buy used or rent textbooks, and take advantage of student discounts and free resources.

<u>True Cost of Education</u>

Figuring out the *true* cost of education

When you're researching the cost of attending a university or training program, you might come across two different terms: **Cost of Attendance (COA)** and **net cost**.

COA is the total estimated cost of attending a program, including all direct and indirect costs, like tuition, fees, room and board, books, and other expenses. But here's the cool part: you may not actually have to pay the full COA!

The **net cost** is the amount you'll *actually* pay after subtracting financial aid, like grants and scholarships, from the COA.

So, think of COA as the *starting* point, but definitely not the end cost. COA is the *highest* possible price for education that you can lower many different ways.

Finding COA and net cost

To find the COA for a specific university or program, you can usually visit the school's website and search for "Cost of Attendance" or "Tuition and Fees." Most schools will provide a breakdown of the costs, including tuition, fees, room and board, and other expenses.

To find the net cost, you'll need to know the amount of financial aid you're eligible for. This can include grants, scholarships, loans, and other forms of assistance. You can use a school's net price calculator, which is usually available on their website, or check your financial aid award letter if you've already applied and been accepted.

Calculating net cost

Now that we've established that net cost is the *true cost* you will pay to the school, let's talk about how you calculate it.

Calculating net cost is pretty simple - just subtract your financial aid from the COA:

Net cost = COA – financial aid

Let's look at an example:

Imagine university X has a COA of £40,000, and you've been awarded £15,000 in financial aid. To find your net cost, subtract the financial aid from the COA:

Net cost = 40,000 – 15,000 = £25,000

So, the true cost of attending university X for you would be £25,000, not £40,000 .

Understanding the true cost of education

By understanding COA and net cost, you can make more informed decisions about which university or postsecondary program is right for you. Always remember to consider the net cost when comparing schools, and use online tools like net price calculators to help estimate your costs. Happy school hunting!

New student loans to cost many 50% more: Martin Lewis' 6 need-to-knows about 'Plan 5' English student finance

https://www.moneysavingexpert.com/students/student-loans-england-plan-5/

September 2023 will see the biggest shift in student finance for a decade, as new 'Plan 5' loans launch for new higher education starters from England. Paradoxically, the changes are both subtle and massive. On the surface it looks like a tweak, in practice it will increase the cost by over 50% for many typical graduates and double it for a few.

Six things everyone should know

There are more myths and misunderstandings about student finance than any other subject I cover (my polite way of saying there's a lot of bull spoken), as explanations are spun to suit the teller's politics. And that's just as true of this new system. Yet I've tried to ignore the politics in this guide and focus on the practical financial reality. There are six big points to understand...

1. The student loan price tag can be £60,000, but that's NOT the cost

Tuition fees are capped at £9,250 a year (£9,000 in Wales) until the 2025/26 academic year and most places charge the maximum. Yet you don't need the cash to pay upfront.

First-time UK undergraduates don't usually pay universities or other higher education institutions directly, fees are paid for you by the Student Loans Company. Though the few lucky enough to have the funds to pay upfront can do it without getting a loan (but don't assume that's always a winner, see my Is it worth taking (all) the Plan 5 loan? guide).

For most though, over a typical three-year course, the combined full loan for your tuition, and living costs, can be £60,000+. But that's not what counts, what matters is what you repay...

- **You only repay when you earn over £25,000 a year – earn less and you don't pay.** So if you never earn over the threshold (hopefully that won't happen), you'd never pay a penny. The £25,000 threshold is frozen until 2027, when it is 'planned' to increase with inflation.

  As most people are paid monthly, technically you pay 9% above the equivalent £2,083/month (or £480/week). So if you have an irregular payment, for example a bonus (of say £1,000), you have to pay more (in this case £90) that month. If your total annual earnings are under £25,000 you may be able to reclaim this, but sadly if they're more you can't reclaim any of it.

- **You repay 9% of everything earned above the (currently £25,000) threshold.** So the more you earn, the more you repay each month...

What you'll repay on a Plan 5 student loan

Salary	What you'll repay each year
£24,000	You don't pay

£26,000	£90/year (9% of £1,000)
£35,000	£900/year (9% of £10,000)
£50,000	£2,250/year (9% of £25,000)
£100,000	£6,750/year (9% of £75,000)

- **You only start needing to repay in the April after you leave university.** Though Plan 5 loan repayments won't start until April 2026 at the earliest, so if you were to drop out early, your repayments wouldn't start until then.
- **The loan is automatically WIPED after 40 years (or if you die).** Unless you've cleared what's owed earlier, you stop paying 40 years after the April you leave university. This means most will be repaying for a good chunk of their working life.

  The debt is also wiped if you die, so it won't be an added burden to your beneficiaries. It's also wiped if you're permanently incapacitated in a way you'll be permanently unfit to work.
- **You repay automatically via the payroll, just like income tax.** Your employer takes the payment via PAYE (pay-as-you-earn) before you get your income, meaning you never need to make payments, therefore you can never miss payments (so no debt collectors).

  If you're self-employed, then just like income tax you pay it through the self-assessment scheme. In which case, do ensure you put enough money aside to cover it (and if you're likely to be self-employed, see my A warning to freelancers and the self-employed blog).
- **It DOESN'T go on your credit file.** Therefore it doesn't impact your ability to access credit for other applications (though it can be taken into account when working out affordability). See Student loans and your credit file and Will student loans impact your ability to get a mortgage?
- **You do still need to repay if you move overseas.** I'm often asked this. The student loan is technically a contract, so the fact that you're no longer in the UK doesn't affect that contract.
- See more on student loan repayments if you move abroad
- **You can volunteer to overpay if you have more cash.** Yet this isn't a no-brainer, in fact for some it can be a big mistake. See my Is it worth taking (all) the Plan 5 loan? guide.

2. There is a, somewhat hidden, official PARENTAL CONTRIBUTION to living costs

All students under 60, both full-time and part-time (minimum 25% of full study), are eligible for a loan to help with living costs – known as the maintenance loan. Some aged 60 and over, who are full-time students, are eligible for partial livings loans.

The living loan amount received is means-tested...

- **Age 25+:** Those aged 25 or over on the first day of the academic year automatically have independent student status, so are assessed on their own (and their co-habiting partner's if they have one) residual income.

- **Under 25:** For most under-25s, even though you are old enough to vote, get married and fight for our country, your living loan is dependent on family residual income, which for most people is a rough proxy for 'parental income'. This assessment often includes the income of your parent's partner or step-parent.

The living loan starts decreasing at (family) income of just £25,000

For 2023 starters, the loan received starts to be gradually reduced the more above £25,000 (family) income you have – less than that, you get the full loan.

For someone who lives away from home to study, it tops out at income of roughly £62,000 (£70,000 in London, £58,000 if you stay at home to study), at which point the student gets the minimum loan – about half the full amount.

'For under-25s, this missing amount is effectively an unsaid, parental contribution – as the only reason you get less is that your family earns more.'

Until recently, no official documents even hinted that parents needed to be aware of this. The lack of clarity caused friction when students arrived at university without enough funds.

I spoke to some whose parents had told them "that's what you're given, it's your job to stand on your own two feet" – not realising their child's loans were half what others got – because they came from a more affluent home.

For years, MSE and I campaigned about this information deficit, until finally in 2022, one universities minister listened. So now the correspondence refers to it a little, but still it's best to use our Parental Contribution Calculator to find out what the gap is.

For 2023/24 starters, the full loan is £8,400 if living at home, £9,978 living away from home, £13,022 away from home in London. The graph below shows how as your income increases the amount of loan received drops, meaning the gap – the parental contribution – between the full loan and what's received grows.

What if parents can't, or won't, contribute?

Of course, some parents won't be able to afford the contribution. There's no rule that forces them to pay. If you are under 25, you can apply to be an estranged student, which means you'll get independent student status – but many find the criteria tough (though it's automatic if you're a parent yourself).

At least knowing there is a gap helps students and parents understand what level of funds are needed. And it's important to have this conversation together, to work out how you are going to plug the hole, or even where you study.

In fact, the biggest practical complaint I hear from students is that the living loan isn't big enough. So when deciding where to study, look at all the costs, transport, accommodation (will you get into halls?). And with living loans not rising in line with (or even close to) current high inflation, sadly things are likely to get worse.

Your step-parent or parent's partner's income counts

The family residual income assessment for under-25s is based on the home you are primarily resident in. If you live with a step-parent or your parent's partner, their income is taken into account too (though siblings who are earning aren't included). I've met someone who had to leave their studies because their parent's partner moved in, so they went from the full loan to the minimum loan and simply couldn't afford it.

Worse, while income is based on the tax year two years before the academic year (so for 2023 starters, it is 2021/22), even if the partner has moved in since then, their income for that year is still assessed. Quite simply, this system is unjust and unfair. I have lobbied on it, to little avail.

3. The amount you borrow isn't the key factor as Plan 5 loans work more like a graduate tax

This bit is really important to understand, as once you get it, it makes lots of personal finance choices about your loan easier to understand. So take your time.

What you repay each month depends SOLELY on what you earn.

For new 2023 starters, it's 9% of everything earned above £25,000. So look at these repayments for a graduate who earns £35,000 (which I'm using for the sake of easy numbers):

So what you owe DOESN'T impact what you repay each year. Instead its main impact is whether you'll clear the borrowing within the 40 years before it wipes or not.

The prediction is under Plan 5 loans, 52% will clear within 40 years (you may want to read my old [If students won't repay – who pays?] blog). Yet the majority of university leavers will be paying well beyond the old 30-year cut-off, and 48% for the full 40 years.

So unless you're likely to be a mid to higher earner, or don't take the full loan, or are lucky enough to have access to large amounts of spare cash, just ignore the amount you 'owe'.

Instead, in practice what happens is you effectively pay an extra 9% tax on your income for most of your working life. At current rates (excluding national insurance) for most people...

This doesn't mean it's cheap

This doesn't mean I'm saying it is cheap, far from it, a 9% extra tax burden for many decades is hefty. I'm just trying to explain that in practice, it feels more like and is best to think of it like a tax than a debt (and indeed when you apply for mortgages, it's assessed more like you have a higher tax burden than outstanding debt).

In fact I've campaigned to rename it a graduate contribution system – which is what other countries call a system similar to ours. (*PS: It shouldn't be called a tax either, as it's hypothecated to an individual and enforced by contract.*)

Overall though, the more you earn, the more you repay each month, the less you earn, the less you repay. So financially at least, to an extent this is a 'no win, no fee' education.

4. Interest is added, but there's no 'real' cost to it, and not everyone pays it!

The one positive change for new 2023 starters is an interest rate cut. For these loans it will be set at the Retail Prices Index (RPI) rate of inflation – in the prior version, it was RPI plus up to 3%.

Student loan interest starts on day one. The rate for each new September academic year is usually fixed each year based on RPI for the prior March. Though in exceptional times (like now), if the RPI rate is higher than the 'prevailing market rate' – which is ill-defined, but roughly equates to typical personal loan rates – the interest will be capped at that (so below inflation).

In theory, there is no **'real cost'** to the interest

Inflation is a measure of how much prices are rising. As the interest rate is set at inflation, in economic terms it is described as having no real cost. So if you borrow an amount of money that would buy 100 shopping trolleys' worth of goods at today's prices, then you only repay enough to buy the same 100 shopping trolleys' worth of goods at future prices.

Therefore your borrowing hasn't really impacted your purchasing power.

This is a neat theory. In practice though, it's not perfect. For example, the Government has chosen to base the interest on the higher RPI rate of inflation (when it's money the state pays out, it choses the lower Consumer Prices Index rate).

Sadly, this year inflation is very high. So the rate for the 2023/24 year could be as high as 13.5%, which was March's RPI inflation rate. Though currently there's a prevailing market rate cap of 7.5% in place until January, which will hopefully continue after.

Yet over the life of repaying the loan, this high rate should balance itself out with low inflation years – but let's be straight, it'll definitely feel crappy to start with.

The interest added ISN'T the same as the interest you actually pay

Student loan statements are sometimes as useful as a chocolate teapot. They risk scaring people into making bad decisions (see MSE's campaign to redesign student loan statements) by focusing on interest.

Yet the interest added isn't always the same as the interest you pay, as this is dictated by your earnings and the fact the loan wipes after 40 years. Some may pay no interest at all. This is crucial to understand as some wrongly try to overpay loans due to misplaced fears of interest they needn't pay. Let me try and explain...

– **Lowest earners** never earn over the repayment threshold, so repay nowt at all.

– **Lower earners** may pay some or most of what they originally borrowed within the 40 years, yet not enough to repay any interest on top. So loans are interest-free.

– **Low to middle earners** will repay all their original borrowing, but only some interest added, so their effective interest rate will be less than inflation.

– **Mid to high earners**: With 52% predicted to clear in full under Plan 5, more people than previously will pay all the interest (though the interest rates are lower than the previous system).

– **Those with very high starting salaries** will pay all the interest added, yet as they repay far quicker, they pay less interest in total. Think of a Mark Zuckerberg example, earn £1 billion in your first year and you'd have cleared the loan in a month, so the interest is negligible.

PS: I know you're thinking 'but what counts as a high earner' or similar? I'm afraid that's impossible to say. This is about 40 years' earnings, so you may start low and end up high or vice-versa, or have lower earnings as you take five years off to be a parent or travel. Yet to try and help, it's predicted 70% of graduates who earn £35,000 by the age of 30 will likely clear the loan in full, so pay all the interest.

Quick note: If you're a Muslim student who avoids interest

It has long been a problem that Muslim students who follow sharia principles and avoid interest have been unable to take student loans. It's a subject I campaigned on back in 2013 – as without the loans, it is purely a question of whether parents can afford it. It looked like it was going to happen, but then fell off the political agenda.

The latest situation is the Government said a sharia-compliant alternative student finance product would not be available by 2025, but it remained committed to delivering a product as soon as possible after. Sadly my comment is: "I've heard that before".

Budgeting Tips For Uni

https://www.moneysavingexpert.com/students/student-guide/

Get student council tax discounts

Local authorities control council tax support. Each one decides what help to offer its residents. Ask your local authority what discounts and benefits are available in your area, but here are the basic rules for wherever you're living:

- **Only live with students?** If you're a full-time student living alone or with other students you don't need to pay council tax, whether there's two, three or even 10 of you living together.

- **Live with a non-student?** The cost of council tax is based on a minimum of two adults living in a home. Some people – like students, people on apprentice schemes and carers (see Gov.uk for a full list) – don't count as adults and are known as 'disregarded people', which means they're entitled to a council tax discount.

So if a student lives with a non-student, the student is disregarded. This means the council tax could be reduced as if only a single person lives there, leading to a potential 25% reduction.

But this poses a moral dilemma. Is it fair for the non-student to pay the entire 75% due, or should the student contribute? Our suggestion is to split the 25% difference, so the non-student pays 62.5% and the student 12.5%.

- **Live with more than one non-student?** Here, while the student again is exempt, because there are two non-students the house has to pay the full 100% charge. So again, it gets complex. The student hasn't added to the council tax bill, but nor has their presence resulted in a discount.

So again, you'll need to decide if and how you want to split it, though the legal stance is that full-time students aren't liable for the bill if non-students can't or don't pay. See Council Tax Discounts.

1. Nab free cash to study

Whether you're studying full or part-time, there may be a grant or a free course to help. They're dependent on your circumstances so it may not be easy to get one, but there's certainly no harm in trying.

Here are the main ones to get you started – see the Education Grants guide for information on more.

- **Educational Grants Advisory Service.** This service offers students, especially disadvantaged ones, guidance and advice to help secure funding for education and training. Its site, part of Family Action, has a searchable database of over 30 educational trusts.

- **Scholarship search.** There are some nifty search tools on the Scholarship Search and Student Cash Point websites, including bursaries, scholarships and award funding. You'll be surprised at what's available - some are very specific, aimed at specific religions, locations, parental occupations and more.

2. Top student bank accounts – get the biggest and longest 0% overdraft to avoid horrid 40% rates

Big banks love tempting students with 0% overdrafts and free stuff, then relying on their custom for decades to come. Here are six key tips to help choose your student account.

- **Aim for the biggest and longest 0% overdraft deal possible.** Most students need an overdraft – where the bank lets you spend more than you've got (at no extra cost) up to a set amount – and the priority is to get the biggest and longest 0% overdraft you can.

  Some banks offer overdrafts that are 'guaranteed' – others offer overdrafts 'up to'. If it's guaranteed, you'll definitely get the stated limit if you've been accepted for the account (and asked for the max limit). If the account says you can get 'up to' an amount, you'll only get that amount if you have a good credit record.

Often, you'll be offered freebies such as a railcard for opening an account, but don't make your decision purely on a freebie, as the overdraft is the main consideration. More, including our top pick accounts, in Best student bank accounts.

- **Never go over your overdraft limit.** This is a lifelong rule. Go beyond your limit and charges shoot up, leaving you in a vicious cycle that's tough to escape.

- **Beware: you will be credit-scored.** When you apply for any debt product, including an account with an overdraft, the lender will credit score you to decide how desirable a customer you are. See the Credit rating guide for more.

- **Don't base your choice on the closest branch or ATM.** You can withdraw cash free of charge from any bank's ATM and almost every bank offers online access. So which branch is nearest has little relevance for most able-bodied students. To compare, just examine what's on offer and go for the best deal.

- **Don't just go for the one with the best freebie (but do weigh them up).** Calculate the value of the freebie, and then compare that account's overdraft with the best on offer. Would the interest charged on the difference be more than the cost of the freebie? It's not as relevant this year as it is in other years, as the freebies aren't worth shouting about as much, but both Santander and HSBC offer decent perks. Santander is our top pick, as its overdraft is guaranteed, whereas HSBC's is an 'up to'.

- **You'll need to apply for any overdraft increases.** Students must apply for overdraft increases on certain accounts, even where the guaranteed maximum rises each term or year.

See the Student accounts guide for the full list of top bank accounts, plus masses of tips to help you choose.

Also arm yourself with knowledge of how interest works with the Interest rates: everything you wanted to know but were afraid to ask guide. It's worth getting your head around the basics now so you aren't stung in future.

1. on't get the 'spend it before it goes' bug

When loan cash arrives, it's all too easy to celebrate with a big blow-out.

But while it may be tempting, don't do it. Instead read the budgeting tips point below, and use the free UCAS budget calculator (it's currently being updated but should be back up and running soon).

2. Don't overpay tax on any jobs you do

If you work during term time or over the summer to keep yourself afloat, make sure you're paying the right amount of income tax.

Students are taxed just like anyone else. If you earn less than £12,570 a year, you shouldn't pay any tax, whether you're 20, 30, 40 or 50.

If students are employed (not self-employed) and taxed via Pay As You Earn (PAYE), they are automatically charged tax on earnings, so may need to reclaim it. Crucially, even if you only do summer or temp work, you'll be taxed as if you'd earn that rate all year.

If you're a student and total earnings for the 2022/23 tax year came to less than £12,570 (the 2022/23 personal allowance), and you paid tax, see the Gov.uk website for how to apply for a refund.

- If you’re working throughout the whole year, but still need to reclaim, you need to wait until the end of the year and reclaim tax then.

- If you know you're only working for a short time, eg, just the summer, then you can fill in a P50 to reclaim tax back at that point. You need to wait four weeks after your last day at the job to make the claim.

Check what tax you should pay. Use our Income Tax Calculator to get the true picture.

3. 30% off Reebok, 15% off River Island, 10% off Boots & more – how to nab the best student discounts

Even if a store offers a discount to students, you often need more than just your university ID card to qualify for it. A number of websites have popped up in recent years (such as Unidays), which are free to sign up to, and offer exclusive discounts when you shop online and in certain stores.

We've the full lowdown on which sites you should join to bag the best discounts on your uni essentials. Plus what you need to do to get money off the big retailers offering discounts direct to students, such as Apple, Boots and Spotify.

4. Legally avoid paying the TV licence fee

Since 2016, anyone that uses BBC iPlayer – even just for watching catch-up TV – needs a TV licence, as well as anyone watching or recording live TV. See Do I need a TV licence? for the full low-down.

However even if you do watch live TV or iPlayer, there's a loophole specifically for students which allows some to avoid this. Crucially, you don't technically need a TV licence if:

- Your parents have a TV licence, and
- You live with them outside term time, and
- When you're at uni you only watch on a device that isn't plugged into an aerial or a mains socket at the time.

Even if you're only watching TV or BBC iPlayer on your laptop, if it's plugged in at the time you WILL need one though – see TV licence student loophole for full info.

If the loophole doesn't apply to you...

If in halls of residence you'll probably be covered for communal areas, but not your room – do check though. If in a shared house and with a joint tenancy agreement, you'll only need one licence for the household. But if you've separate agreements, you'll need one for your room.

If you have paid for a licence, get a refund for the summer

If you bought a TV licence during the academic year, and you're going home over the summer, you may be eligible for a refund when you leave your uni digs, if you've already paid for the period you won't be there. For full details, see Student TV licence refund.

Remember, watching live TV or using iPlayer without being covered by a licence is against the law. Fee dodgers face prosecution and a fine of up to £1,000.

5. There aren't many ways to save on energy right now

Due to the current energy price crisis, there haven't been any options to save on energy bills for some time (other than cutting back on how much you use).

In recent weeks however, a few energy suppliers have started to offer fixed deals. Mainly these are for their existing customers, though a couple of firms have recently launched deals for new customers. If you're a renter, and pay directly for energy bills, see Should I fix my energy or stay on the Price Cap? for full details.

For more help and info, here's a collection of relevant MSE guides:

- See What is the energy price cap? for what it is and how it currently works.
- See What to do if you're struggling to pay your energy bills, which explains extra support available.
- See Energy saving tips for simple ways to cut back on your usage.
- See Heat the human not the home for ways to save energy and stay warm with thermals, electric blankets & more.

6. Find the cheapest broadband deals

Most of us need to be online, whether it's for doing work, streaming Netflix, playing games or keeping up with TikTok trends. Some people pay a hideous £45/month for slow broadband speeds, but most people can halve that, or better.

So rather than agreeing to a pricey contract, check out our Broadband Unbundled tool to find the top deals.

Even if you're renting, you have a right to switch to the best deal. You don't need permission from your landlord unless you need a new line, or if your broadband is included in the rent.

Get FREE Wi-Fi when you're out and about

There are plenty of places offering free internet, if you need to use it on the go:

- **Get it for free at uni.** If your campus has free internet access or Wi-Fi, it's well worth using this if you can. Use the uni's computers (or charge your laptop at uni) and you won't have to pay for the electricity either.

- **Get it for free on the high street.** Free wireless internet's the norm at high street cafes and pubs now, rather than the exception. Wetherspoon and Walkabout pubs offer all customers unlimited Wi-Fi access, as do McDonald's restaurants nationwide, and many more.

7. Don't forget water bills

Again, if you aren't in halls, check with your landlord to see if your water bill is included in your rent. If not, remember to budget for it, using the table in the Water Bills guide for a rough indication of how much to expect.

8. Don't buy new books – rent, borrow or buy second-hand instead

At the start of a new term, it's likely you'll be given a list of books you'll need over the year. Depending on your course, some textbooks can really break the bank and leave you out of pocket.

The uni library is likely to have the texts you need, but in the first few weeks of term there's usually a rush on them, meaning you could be left waiting. So, instead of buying them new, see if the local library has a copy. At the very least you can take time assessing how often you'll need it.

Alternatively, scout around campus, department noticeboards and even Amazon and eBay (see our Amazon tips and eBay buying tips for help) for anyone selling books they no longer need. If no new editions have been released since they bought them last year, you're getting exactly the same book, possibly just with a worn-in look. Charity shops are also good for cheap textbook hunting, especially in your university town.

And thanks to the internet, consider year-long book rentals. Sites like VitalSource will loan you the e-version of textbooks for up to a year, for up to 80% less than buying the text new – though of course, always compare prices before renting.

Students are also often able to get free access to specialist resource websites via their university, although sometimes you will have to be on campus to sign in. The library will be a good place to start to see which are available to you.

9. Ensure parents pay their share

Your parents may decide to give you money to help while you're at uni, if they can afford it. But for most, the amount of maintenance loan you get depends on your parents' income – those who come from wealthier homes get a smaller loan.

This is because your parents are *expected* to contribute. If you don't get the full loan, while there's no way to force them to pay, and they're not legally required to give you money, it's well worth having the conversation with them in advance about whether they'll contribute.

Watch Martin Lewis cover this issue on his live TV show earlier this year.

Show this to your parents. This can be a thorny area, yet their contribution can make a big difference while you're studying. Broach the subject sooner rather than later, and feel free to show them this tip and our How much should parents give kids for uni calculator for full details on how it all works.

10. Bag Microsoft Office for free – plus other software

Most students and those working in education with an academic email address can get Microsoft's entire Office suite of programs, and other freebies, for zilch.

To see if you're eligible (those at 99.9% of universities, 87% of colleges and a "large number" of schools are), enter your academic email address on the Office website. You'll be asked to log in through your institution's online portal and if you're eligible, you'll be redirected to a page where you can download the software.

You can also get 1TB free online storage with OneDrive – for full details see Microsoft Student Freebies.

It's not just Microsoft either - here are some other useful software freebies:

- **For typing, spreadsheets and presentations:** The LibreOffice software suite includes a word processor, spreadsheet, presentation, database and design package. Handily, it's compatible with many Microsoft documents, and is available for PC, Mac and Linux.

- **For image editing:** If you're after something for basic cropping and editing, Paint.net is easy to use and PC-compatible. For a more advanced photoshop equivalent, GIMP is a powerful tool with free add-ons and (PC and Mac), while Inkscape is handy for scalable vector graphics and works on PC, Mac and Linux.

- **For music and videos:** One of the most widely compatible media players available, VLC Player can cope with pretty much any music or video format you throw at it. For recording, Audacity lets you add effects and create soundscapes from scratch. Again, both are available for PC, Mac and Linux.

Always check any software you put on your computer is suitable and compatible with your existing set-up first. For full info and loads more see the Free Office Software and Free Antivirus Software guides.

11. How to nab FREE food and even get paid to drink (yes, really)

Think there's no such thing as a free lunch? From supermarkets and fast-food chains to high-end restaurants, our guide to How to get free (or cheap) food has tips to grab free grub, including how to get paid to dine out.

Get paid to drink

That's right, you can enjoy many students' favourite pastime and get paid to boot – though this one's mainly for freshers. Those aged 18 or 19 can sign up with Serve Legal as a mystery shopper to check whether establishments licensed to sell alcohol ask for ID at the point of sale.

Visits typically take 3-12 minutes and you'll be paid for your time (typically between £6 and £8, but sometimes up to £20 per visit), plus expenses, and get to keep – or drink – anything you buy.

12. Free eBay tool uncovers hidden local bargains

If you're kitting out your student digs with larger items, eg, a sofa for an unfurnished lounge or a TV for your new room, pick-up only items on eBay are often cheaper as there are fewer bids.

To help uncover 'em, we've built a Local eBay Deals Mapper tool. Just pop in your postcode, tell it how far you're willing to schlep, and it instantly trawls eBay* for local hidden gems.

Always double-check the seller's location, and stay safe when collecting. Go with a friend, or if this isn't possible, tell someone where you're going and arrange to contact them afterwards. Take a mobile phone, and stay on the doorstep if you can. See full safety tips.

1. Know your rental rights – including how to protect your deposit

If you're a student the likelihood is you're renting (and relatively new to it too). It's important you know your rights in private digs to make sure unscrupulous landlords don't end up taking advantage.

Here are a few to get you started...

- **Make sure your deposit's protected.** Landlords have 30 days from receiving your deposit to put it into a tenancy deposit protection scheme (where it stays in case of a dispute when you leave). If they fail to do this you could be entitled to up to four times back.

- **Paying your rent on time can boost your credit score.** Private tenants can opt into the free Rental Exchange scheme, which records your rental payments and sends the results to credit reference agency Experian.

- **Use a free app to track and split bills.** The nifty Splitwise app will track your household bills and expenses, work out who owes what to whom and let you and your housemates request payments from each other.

See 50+ Tips for Renters for your full renting rights and other need-to-knows.

2. Do a proper budget

This is where you match up money coming in with what's going out. It's incredibly important to budget – you may have a great first week splashing the cash, but spend the rest of term struggling to survive.

Knowing how much income you'll have is essential as without this your budget will be nonsense. While the rule for working people is that they shouldn't spend more than they earn, no one says what students shouldn't spend more than.

Martin's rule is count your income as your student loan + any grant + any cash from parents + any work income and don't spend more than that. Note this doesn't include your 0% overdraft (that's for emergency cash flow issues only).

No matter where the money comes from, the golden rule is to NEVER spend more than your income.

Don't forget other costs, like a TV licence or toilet roll. They aren't fun to buy, but are even less fun if caught without 'em.

For the full steps on how to run a budget, see our Student budgeting guide.

Treat yourself to a makeover. Nope, we're not talking face packs and cucumber slices. For the biggest savings, give yourself a full Money Makeover. This overhauls your finances, from mobile bills to contact lenses. It'll take time to work through, but it's time well invested.

3. A company's job is to make money from you

As the year goes on, the costs of starting higher education quickly add up. So before you shell out on extras, don't forget: a company's job is to make money from you.

Don't swallow companies' promises and marketing. However well you budget, you will have to spend on tuition fees, books, transport, living expenses and, of course, socialising.

So always remember these companies want your cash and look with a sceptical eye; you'll make better decisions.

4. Don't assume student insurers are cheaper

Home contents insurance for a student house isn't always easy to get. This is often because most policies like to cover the house, not the person, making it tricky if you've flatmates – check our Insurance for renters guide, which will particularly apply to students living together in a house share. Yet if you're still struggling, there are a few tricks to get round it:

- **Check parents' cover.** If your parents have home insurance, it may automatically cover you under the 'temporarily removed from the home' section while you're a student. The cover only applies while in your accommodation and if your parents' home is your main permanent address.

If you need cover for any mobiles or laptops, or items you normally wear or carry away from your home, your parents could also add the 'all-risks' or 'unspecified personal possessions' section to their policy, which specifically covers your stuff while it's out of their home. Many policies allow this, so it's worth checking.

- **Don't assume student policies are cheaper.** Comparison sites can work for you and provide online quotes in rented rooms or shared accommodation but take note of the important warnings before committing to buy. You really need to check, and check again, that the policy that comes out top does meet the cover you need as sometimes specific conditions are likely to be put in place.

Another option is contacting a specialist or local broker such as Home Protect*.

It's worth checking the following comparisons to get an indication of cost to compare against a quotation provided by a specialist: MoneySupermarket*, Confused.com*, Gocompare and Compare The Market. Student contents policies are also available from RBS and NatWest.

As a renter, your landlord is responsible for buildings insurance, so you should only be getting contents cover. As buildings insurance generally covers the building itself (unsurprisingly), this is usually the property owner's responsibility.

Generally, this means you're unlikely to need building insurance if you're renting - but check with your landlord if unsure.

- **Lock your doors.** If you're in shared accommodation, your insurance won't cover you for theft unless there's been a violent or forced entry. So always make sure you lock your room door when you leave, even if you're just popping out briefly.

- **Check if your bike's included.** If you're bringing a bike, your contents insurance may cover it. Always check though, and find out how much extra it is to add if not. See the Bicycle Insurance guide for full tips and info.

5. Slash car insurance costs

Finding affordable car insurance can be a nightmare, especially for younger drivers – the average for an under 25-year-old is almost £1,247/year. Our Young Drivers' Car Insurance guide has a step-by-step system to slice off every spare penny for under 25s, but if you're older and heading to uni, see our normal Car Insurance guide.

- **Do you really need it?** Bringing an unused car to uni can be an expensive and unnecessary hindrance, so consider the alternatives. See how to nab extra travel discounts.

- **Pay when or how you drive.** Specialist 'pay as you drive' or 'black box' policies are well worth checking to see if they undercut comparison site quotes. With these, a GPS or tracking device is fitted to your car, so what you pay depends on your mileage and time or driving style. For more info, see the Young Drivers' Insurance guide.

- **Learner driver insurance.** If you're a learner, it often means being added to parents' or friends' car insurance as an additional driver which can up the cost, and put no-claims bonuses at risk. Yet you can get specific policies just for provisional drivers. Find full info on all these and more in the guide.

- **Don't forget to update your address.** You can usually keep your parents' address for correspondence if you want, but you need to tell your insurer where the vehicle's usually kept.

- **If you have a part-time job, tell 'em.** If you forget to declare it – even if you don't use the car to get to work – it could invalidate future claims.

- **If your car's uninsured while at uni, SORN it.** All cars need to be insured unless you declare it's off road. The only way out's to apply for a SORN (Statutory Off Road Notification) declaring your car won't ever be driven - but you must park it on private land, not on the street. See Gov.uk.

Never get someone, such as one of your parents, to add their name as main driver on your car instead of you. This is called 'fronting' and is fraud, and can lead to prosecution. Don't do it.

6. Battle your mobile bill

If you regularly face a palpitation-inducing mobile phone bill, there's a mass of tips 'n' tricks to help. Our Cheap Mobile Finder can help you compare deals quickly, whether you're after a new handset or just a cheap Sim.

Here are our top tips to cut costs:

- **Pick the right contract.** Use your bills from the last few months to pinpoint your average usage for calls, texts and data. Then use this to find the cheapest tariff for your needs. See Mobile Phone Cost Cutting for the full step-by-step guide.

- **Haggle down contract costs.** If you'd rather not change network, this can still yield big savings. When you're near the end of your contract, call 'em and ask for the best deal possible - not just on your network, but any out there. See the Mobile Phone Haggling guide for tips on how to give your haggle some chutzpah!

- **After an iPhone or Samsung?** Top-of-the-range new smartphones are never MoneySaving, but you can pay less and get a shorter contract if you know where to look. To quickly compare tariffs, use our Cheap iPhone and Cheap Samsung tools.

7. Split your train tickets

This is the big trick everyone should know. Instead of buying tickets for the whole journey, bizarrely, buying separate tickets for its constituent parts can slash the price – even though you're on exactly the same train.

It's perfectly allowed within the National Rail Conditions of Carriage, and has been confirmed by the Association of Train Operating Companies (ATOC). The only rule is that the train must call at the stations you buy tickets for.

Savings can be massive; it depends on how long your journey is, but we've managed to shave over £200 off a return ticket from London to Durham before using this method.

See Split Ticketing tips for a full how-to.

8. Taking a break? Work out what it'll cost

If you're currently studying, but are thinking of taking a year out, make sure you know how much it'll cost you.

If you're working for part of your year out then you need to be aware that you may pay tax. Earn more than £1,048 in a month, and you'll be taxed. However, if you only worked six months of the year, you wouldn't reach the £12,570 tax allowance so you'll likely need to apply to HMRC for a rebate. If you're not sure whether you should have paid or not, use our tax calculator.

If you're going overseas, budget for your trip – and don't forget travel insurance. Many insurers offer backpacker policies which cover you for extended periods out of the UK, whether you're backpacking or living in luxury.

If you have plans to work abroad or take part part in skydiving, shark cage diving or other risky fun, check with the insurer that its policy will cover you.

9. Quickly turn old mobiles into cash

A mass of companies offer to recycle your mobile for money. This is a really quick 'n' easy way to make extra cash if you've old handsets lying around.

Once you agree to sell, you're even sent a freepost bag for it. For how to quickly find the best payer for your make and model, see our Sell old mobiles guide.

This trick also works for other gadgets, including games consoles, iPods and more. Remember to factory wipe your devices and remove personal information before sending them off.