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TEEN ~~cash~~ CLASS

Lesson one:

A company's job
is to make money

Lesson two:

Debt isn't bad,
bad debt is bad

Lesson three:

Loyalty doesn't pay

**Three lessons to turn TEENAGERS into
super-savvy 21st century consumers**

IN ASSOCIATION WITH

NEWS OF
THE
WORLD



department for
children, schools and families

WHERE THIS ALL STARTED

A couple of years ago a TV programme challenged me to take a class of ordinary teenagers for one day and turn them into junior Money Saving Experts. It was a scary concept, and like nothing I'd tried before. Yet the results were way beyond what I expected: after class, the 12 pupils went home and saved their families a whopping **£5,050!**

Two things jump out on the back of this. First, financial education in schools is really needed, and second, maybe some adults could do with it too - after all, if their children can save them so much money, not everything's right. This guide is my sneaky attempt to use the lesson plans from that class to tackle both and a bit more.



A NOTE TO PARENTS

We live in one of the world's most competitive consumer economies, so it's crucial to tool up your children with the skills and knowledge to let them survive and thrive in it.

However, things haven't been easy in recent times – the recession hit, meaning people have lost jobs and income, and the credit crunch has made borrowing tighter. Financial issues are everywhere and, in this world of rapid change with money at its core, even finding the right words to explain to your children what's happening isn't always easy. I hope the Teen Cash Class will help with that and be a tool for parents and guardians to explain and discuss big picture money issues with their children, and provide fun practical ways to work through them (and maybe you'll pick up a thing or two yourself).

Of course there are no absolutes - what's in the class is my view – and you may not agree with everything. That's not a problem. I hope it'll still spark useful talking points, make it fun and teach a trick or two.

Financial education is a comin'...

Within Personal Health and Social Education classes, children of all ages will be taught the basics of how coins and notes work, bills are laid out, financial decisions are made and how taxes work. It's one of the reasons the Department for Children, Schools and Families are involved with this guide, to help ensure children and young people can learn these crucial lessons at home, as well as school – and that parents are able to support them in doing so.

The language of this guide is designed to talk to teens directly – much is based on the reactions from the original Teen Cash Class themselves.

I hope you enjoy it and maybe save a little cash while you're at it.

Martin Lewis
Money Saving Expert



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LESSON ONE:

A COMPANY'S JOB IS TO MAKE MONEY

Let me say this loud and clear at the start, in the biggest font I've got. It is the single most important thing I will say in this whole guide: if you don't understand it, you've lost before even starting.

*A company's job is to make money;
it is NOT there to help you, it is NOT your friend.*

They spend billions on advertising, marketing and teaching their staff to sell – the aim is to boost their profits and that usually involves someone, possibly you, spending money.

Now don't think this means I'm against companies. I'm not. I don't think they do anything wrong. My problem isn't that their job is to make money; my problem is that many people don't understand that and think instead that businesses are there only to help and assist with daily life. Forgetting this can lead you to make bad decisions, thinking that what you're told is for your benefit, not the company's.

Of course, some companies give a great service that we benefit from, but often this is just a part of the profit process. As a business you can attract customers in many ways...using cheap prices, offering the best product, giving great customer service and more.

Sometimes, the fact that they want profit works in your favour; if you're a new customer and they want your business, you're likely to get a great deal. Yet never rest on your laurels and think it's a done deal, the same company may not be the best place to buy next time.

IT'S ALL ABOUT UNDERSTANDING COMPANIES

The aim of this lesson isn't to make you 'avoid' companies, but to make you 'understand them' and remember that when they try and sell you something – whether it's a mobile phone or debt – that doesn't mean it's good or bad for you; it means it'll make them MONEY. Your aim should be to consider how it actually affects you and your pocket.

And don't take just my word for it, though – if you've ever watched the TV programme Dragons' Den, take that as further proof.

They never ask "how much good will it do society?", their key question is "will it make me money" – that's the first priority of any business. There's a reason it's not called Fluffy Bunnies' Den.

DISCUSS WITH PARENTS...

When it comes to money there's no right or wrong answers, what's most important is to think through your actions.

Why not discuss the following with a parent...

- Do they focus on customer service or price?
- Which companies have treated them well and why?
- Which companies do they think treat them badly and why?
- Do they think they ever buy because of the marketing?
- What's their view on a company's profit – which is more important, how much they make or the service they give?



Still unsure about this? Let me give you an example: take those cathedrals of consumerism – supermarkets. A brilliant marketing environment where ever more of families' cash is spent – it's a lesson in marketing, in fact.

Think about a typical supermarket and the journey you go on from when you first get there...

- **The store layout.** Items that you regularly buy – your bread and your milk – tend to be sprinkled around the store, so that you need to pass many other tempting goodies to complete your shopping.
- **Feeling hungry?** Delicious food smells regularly waft through the store. Of course, when you're hungry you buy more food!
- **Eye-level isn't the best level.** The most profitable stock is placed at eye-level (or children's eye-level if it's targeted at them); yet profitable goods for stores tend not to be the best deals for shoppers, so the adage 'look high and low for something' really does apply here.
- **Not all sales are 'super!'** While grapes and other attractive products may be placed near the front of a store to entice you in with a genuine bargain, the same signage and displays will be used elsewhere to promote deals, yet these might not be competitive. Bright colours and the words 'discount' or 'sale' make us feel good, yet the reduction may be pennies with other equivalent products still hidden on the shelf for less.
- **Spot the sweets and magazines by the till.** These are impulse buys, so putting them near the till gives the store one last attempt to grab our cash; kids can nag their parents for goodies too.



So before you spend, ask yourself

"Do I really want to buy it – can I afford it – or am I just reacting to clever marketing?"

A: ARE YOU 'GOOD WITH MONEY'?

When I asked the Cash Class this question, quite a few said “yes”. Their reasons were invariably something like “I try and save, not spend, when I get cash.”

Yet for me, this doesn't make you good with money, it just means you stick within a budget. Being good with cash is just as much about how you spend, as whether or not you spend.

It's about how well you understand the value of money, what it can be used for and whether you're getting the best deal.

Which of these two girls would you say is best with cash?

- **Sally the Saver:** She has £400 for a holiday. She spends £250 on a budget flight to Rome, and stays in a youth hostel managing to save £60 of it.
- **Silvia the Savvyspender:** She also has £400 for a holiday. She manages to find a bargain business class flight to New York, stays in a nice hotel with a pool and gets discount theatre tickets, but spends the whole £400.

The answer depends on your circumstances and what you can use the money for. If Silvia's in debt, and splashing out on a holiday, she's not good with money even though she got the better bargain. Being cash savvy is both about understanding what money you have, and how to use it.

During Lesson One, I hope you'll develop this kind of vision...



B: ONLY YOU CAN HELP YOU

I really don't want to get all touchy-feely on you, but the first thing for me to really knock into you – really, **BANG BANG**, knock into you – is that the only person who's ever going to properly help you is **YOU**.

Here's a very tough truth:

- No one is ever going to teach you what the best way to spend is.
- No one is ever going to write a budget for you, or watch to ensure you stick to it.
- No one is ever going to tell you the best way to borrow money, should you need to do so.

YOU have to learn how to do all these things for yourselves – though there's nothing wrong with asking for guidance from parents and teachers.

YOU have to become as clever as the companies who want your cash.

C: MARTIN'S MONEY MANTRAS

A mantra is something that you repeat to yourself over and over again to help control the way you think. You're about to learn two special, simple 'Martin's money mantras' I developed when I first became the Money Saving Expert. Their job is to slow down the process that makes you spend, so you're correctly questioning what you're doing.

The Mantra If You're Skint

The first mantra is the one to use when you're skint. Picture yourself with some mates, wandering around your local shopping centre. You're eyeing something up – something cool, that feels exciting – and you yell inside your head, "That's awesome! I want it! I need it! I have to have it!"

 **Just stop!**

Ask yourself the following three questions.

REPEAT AFTER ME:

- Do I need it?
- Can I afford it?
- Can I get it cheaper somewhere else?



Ask yourself these questions before you get any closer to the sign that reads 'Please Pay Here'. Then ask them again. And again.

- If you don't need it – don't buy it. If you buy something you don't need, it's obviously a waste of money.
- If you can't afford it – don't buy it. If you buy something you can't afford, you begin a cycle of living beyond your means. Eventually, you'll have to borrow money to do this, and you could end up in debt crisis.

What if, after repeating the mantra a few more times, you realise that you do need 'it' and you can afford it? Check and make sure that the same thing isn't available at a better price somewhere else. Look in other shops, and use the internet to search for the best deal. If you haven't checked, don't buy it (yet).

.....

The Mantra If You're Not Skint

The second mantra is for those of you who aren't totally broke. I know what you're thinking – 'Why do I need a money mantra if I've got enough cash?'

The answer goes back to the basics – shops would love you to part with your cash, and they're clever at targeting our impulses to make things seem attractive. So it's important not just to focus on whether you spend, but whether each specific thing is worth it.

So you've got some money in your wallet, you're feeling good, and you've got your eye on something special. You know what's coming...



Just stop!

Ask yourself the following three questions.

REPEAT AFTER ME:

- Will I use it?
- Is it worth it?
- Can I get it cheaper somewhere else?

Think about the differences between this one and the skint mantra. Here the questions focus on whether it's going to be a good buy, not whether you should buy.

This example from the teens I taught in my actual Teen Cash Class should help...

CHARLOTTE

MARTIN

A good friend bought some shoes once that cost £100.

Did she need them?

Well... She said she needed some new shoes.

Could she afford them?

I think so. She had quite a lot of money, so she could afford to spend that much.

Could she have got them cheaper somewhere else?

Oh no, definitely not. They were one pair of shoes from a certain place, not available anywhere else.

Did she use them?

Well, I think she's worn them about three times...

So. Were they worth it?

Difficult, isn't it? I'm nerdy on these things, so I do it with maths. Is three times, or £33 per use, good enough to justify buying them in the first place? Could she have got more use or more enjoyment by spending £100 on something else? Ultimately, only Charlotte's friend will know that – but it's crucial to consider this before buying anything.

The fancy term that economists use for this dilemma is called “**opportunity cost**”. This is where you have one thing but, as a result, miss out on having another. You don't have to be a genius to assess opportunity cost, though – you can do it yourself, every time you shop, by asking yourself honestly: **‘Is it worth it?’**

As always, everything comes back to you in the end. YOU have to remember these mantras.

YOU have to apply them. If you do and you're honest with yourself, then these mantras should ensure you don't spend what you haven't got; and you always buy well.

D: BREAKING THE IMPULSE CHAIN

OK. Hands up all those who are guilty of impulse shopping. That is, buying something on a whim, without even thinking about it - let alone using either of the money mantras. Shops want you to see something, lose your mind over it and buy it there and then.

If you weren't planning to buy something, never buy it on the day you spot it, or even the next. Go back and repeat all the relevant money mantras all over again. If it's right to buy the thing you want, then go ahead – guilt free. But chances are, with a pause before buying, the impulse to buy will have lessened.

I asked my original Teen Cash Class:

‘If I were able to give you back all the money you've ever spent buying things on impulse, would you take the cash and hand over the stuff?’

No prizes for guessing what their answer was...

'YES!'

Some of them realised they had spent £100's on things they just didn't ever really use. Sadly, in real life, no one will ever make you that offer, so you have to do it in advance by not buying on impulse.

And this works in almost every element of commerce...



Five-second thought on fashion...

If we didn't have changing fashions, you'd be able to have a wardrobe full of clothes that you could wear for your whole adult life; they would only ever need changing if they wore out or you changed shape.

Yet, of course that would lose the clothing and retail industries lots of money – so, they pour cash into marketing fashion and helping ensure trends change regularly, by the season, and that's followed by the media.

DISCUSS WITH PARENTS...

- Do they ever impulse buy?
- What are their worst habits?
- Do they use shopping lists?
- How do they try and keep control of their spending?
- Do they use cash or credit cards – which helps best?

LESSON TWO: DEBT ISN'T BAD, BAD DEBT IS BAD

A: WHAT IS DEBT?

Debt is where you borrow money from someone else, so you now owe them money and have to pay it back. You may have already been in debt at some point – to parents, friends or other relatives.

But when you borrow from a company, it's not like borrowing a fiver from a big sister and giving it back to her next week when you can afford to. A company, such as a bank or credit card firm, will want your fiver back PLUS more on top.

It's their payment for lending you the money AND they'll want the debt repaid in a certain way at a certain time, to suit them. Miss this at your peril because your costs will mount up and it can cause trouble.

And don't forget, just because debt isn't sold in shops, but in banks, that doesn't stop it being part of a business. When you borrow money often the company who lends it to you makes profit on that – so they have an interest in marketing it to you and encouraging it. A bank's primary job is to make money and its advice to you will often be geared towards that as much as to helping you. Whether or not to go into debt, and who to borrow money from, are two of the most important decisions you'll make in adult life.

B: AN INTERESTING PROBLEM

The most important thing to understand about debt is how interest works and just how clever it is. The 'interest' is the cost of borrowing money and often it's displayed in a way that makes it look cheap but can make 'em a fortune. As you're about to discover, it's pure genius; the same number can be both cheap and expensive, and they use it to confuse. If you don't learn to understand it, prepare to stand in the road and empty out your pockets – you could just end up giving them your money anyway.



The interest rate

This is the cost you pay for borrowing money, expressed as a percentage of the amount you borrowed that you will have to pay back. You will have to pay this back on top of the original borrowing. Normally this is the cost per year, but it isn't always – so always check.

Typically, if you borrow money on a credit card, it will charge you around 18% interest a year. The actual way it works is quite complex, but I'm going to keep it simple.

Borrow £1,000 at 18% over a year
the amount you must repay equals
the Original £1,000
plus the interest (18% of £1,000) = £180
Total £1,180

How much you pay isn't just about the interest rate though.

This is one of the big ones, one that many adults get wrong. They only consider the interest rate when deciding how to borrow, yet there's another big factor – how long you borrow for.

Look at this example from the original Teen Cash Class:

Ruari was quick, he understood that you don't just pay interest, you have to pay interest on the interest. This is called 'compound interest' and it makes lenders a fortune.

MARTIN:

I borrow £1,000 from the bank at an interest rate of 20% over 1 year. How much does it cost me?

£200

Get your calculators out now. What about this: the same debt, at the same rate, over two years.

£440

Right. The amount you have to pay back has increased.

RUARI:

This might be the first time that you've heard of it, but no less than Albert Einstein, one of the world's greatest scientists, described compound interest as one of the world's most powerful forces.

Let's briefly look at why...borrowing £1,000 at 20%.

After year 1:

You owe £1,000 for the original debt, plus £200 interest.

After year 2:

You owe £1,200 from last year plus £200 interest on the original borrowing and £40 interest on the interest = £1,440.

After year 3:

You owe £1,440 from last year plus £200 interest on the original borrowing, and £80 interest on the interest and £8 interest on the interest on the interest = £1,728.

As you can see, each year the amount your borrowing costs increases, and it accelerates, so that the longer you borrow for ends up costing much more. So much so that...

After year 20:

If compound interest didn't exist, so you only paid interest on the original borrowing, you'd have to repay £5,000; but because of compound interest you actually need to repay a huge, whopping, gobsmacking...£38,400!

All this means the longer you borrow for, the more it costs you.



TEEN CASH CLASS - CAN YOU WORK IT OUT?

"Should you take a lower rate for longer; or a higher rate for shorter?"

Having taught my Cash Class this, I asked them the following question:

Imagine you have a mortgage, which is a special loan you get to buy a house, and because the lender is secure in the knowledge it can take the house back if you can't repay, it gives you a cheap rate of, say, 6%.

Now, you need an additional loan for a car and the best interest rate you can find is 12%. Suddenly, your mortgage lender says "Hey, why not borrow that extra £10,000 on top of your mortgage: after all, at 6%, it's half-price..."

CAN YOU WORK OUT THE PROBLEM WITH THIS?

I asked my Teen Cash Class which they thought was better, and understandably they all went for the cheaper rate. This would be good... except...a typical loan will be paid back over five years, while most mortgages last for 25 years. And you have to take this into account.

HERE'S THE REAL ANSWER:

- A £10,000 loan at 12% over 5 years costs £3,300 in interest.
- £10,000 added to a mortgage at 6% over 25 years costs £9,200 in interest.

As you can see, the higher interest rate loan is much cheaper. Though, to repay it back that quickly you need to pay much more each month.

Even though 6% interest sounded far lower, as it was over a longer time, in the end it was a **MUCH** more expensive loan.

C: GOOD DEBT, BAD DEBT...AND KNOWING THE DIFFERENCE

Now you understand what debt is. It's important to realise that, as nasty as it can be (and trust me, sometimes it is), you are not going to be able to avoid it. So, what's important is learning when it's right to borrow and to understand the best way to do it.

THE GOOD DEBT, BAD DEBT QUIZ – see if your answers differ to your parents!

Test yourself on which of these you think are good and bad debt and why...

- A** You want to go on holiday because you haven't been away for three months, but you haven't got the money, so the only way to afford it is to put it on a credit card and worry about it when you get home. Good debt or bad debt?
- B** You recently got married and now it's time to get your own house. You saved up enough for a deposit towards it and now need to borrow money by getting a mortgage in order to do so. The mortgage will be roughly the same as your rent. Good debt or bad debt?
- C** You have a store card with a limit of £500, and you're off to a big party tonight. You see some top party clothes that cost £250, and while you've just lost your part time job there's someone you fancy at the party, so you go for it. Good debt or bad debt?
- D** You've just got a new job, moved house and live eight miles from work and your children go to a school that's ten miles away. There's no public transport, so you borrow money for a car, though you can't get a cheap interest rate. Yet without the car, you can't work. Good debt or bad debt?

The Answers are on page 35.

Of course, no debt is truly 'good' as you don't want to borrow anything from anyone, but 'necessary and unnecessary debt' was too long a phrase!

The 'Good Debt, Bad Debt' of Student Borrowing

Going to university and needing to borrow money for your course is something that troubles an awful lot of people, and it's an issue that you may well face in the next few years.

Although I won't go into detail about it here, thinking about university borrowing offers us the chance to look at how you can spot good debt and bad debt in a real life situation (also see the Parents' Guide to Student Finance at www.moneysavingexpert.com/health/student-finance and Students' Guide at www.moneysavingexpert.com/banking/student-money-saving).

When you go to university, there are generally three types of borrowing that will be on offer...

- **The Official Student Loans.** The Government gives you this loan to cover your tuition costs and some living costs, and it's the cheapest form of long term debt possible. Even better, you don't need to start repaying it until you're earning over £15,000.
- **Interest-Free Overdrafts.** Most banks offer these to higher education students. An overdraft is an amount of money that you can withdraw from your account, even if there is no cash in it, that's pre-agreed between you and your bank. Yet many banks like to allow students to borrow for free, because this attracts them as customers.*

This will mean that, while you study, the money you borrow doesn't cost you any cash – but the bank will want you to pay it back in instalments from when your course finishes, and they may begin to charge you interest.

- **Commercial debts.** This is all other types of debt: credit cards, store cards additional loans, hire purchase agreements or other types of commercial debt. On this kind of debt, you will be paying real, expensive interest that will build up and not go away.

** The idea is that they get you as a student and then once you finish, you end up not moving to another bank, sometimes staying with them for life – even though you'll get better rates elsewhere. In fact, it's a very cheap way of them buying your custom! Always remember: once you finish university or college, look again for the best new bank.*

Now, of the three types of debt on offer, it's obvious that the official Student Loan is the best.

This is a great example of good debt. A university degree is something that can be considered an investment in your future – it's not the same as slapping a new pair of shoes on a store card. More importantly, by borrowing from the Government you're getting the best available deal in terms of interest and repayments.

In the middle, there's the interest-free overdraft from your bank. In the short term, this might seem like good debt – perhaps you need the money to survive and, after all, you're not paying interest. However, it can very easily become bad debt if it isn't paid off correctly; your bank can begin charging you interest and, before you know it, what once was free ends up costing you money.

Getting into commercial debt while you're at university is definitely the worst pick from the choices above. In fact, I'd go as far as to say never, ever, ever, ever take this type of borrowing.

SOME PEOPLE MAY SAY ALL BORROWING IS BAD

Some people, especially older generations, may tell you to avoid all borrowing.

My view – and not everyone agrees – is that we have to grow up and understand borrowing is an unwelcome but necessary part of life.

That's why my aim isn't to scare you off ever borrowing, but to show you how scary, if done badly, it can be.

Yet, if you plan it, check it's worthwhile, budget for it, understand it, and ensure it's as cheap and affordable as possible, then it isn't always bad.

My worry is that those who say 'never borrow' lump all types of debt together and this can lead to terrible mistakes. For example, if you go to university thinking all debt is bad but still need to borrow, you may get hideous commercial debt instead of (or as well as) a student loan, and that scares the pants off me.

THE DEBT SPIRAL...WHERE BORROWING GETS UGLY

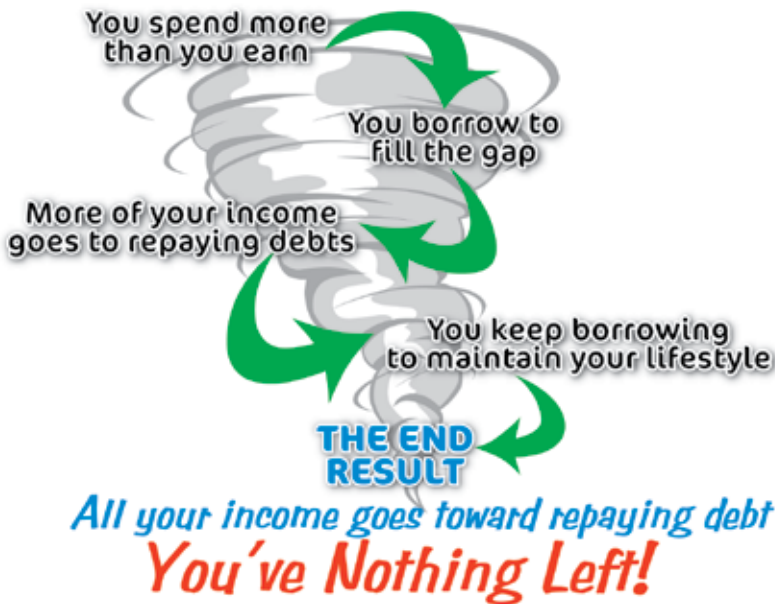
One of the most dangerous things you can do with money is consistently spend more than you earn, and borrow to fill the gap. Unfortunately, many people just spend willy-nilly on credit cards, without ever thinking where the money to repay them will come from.

The risk here is that you enter a debt spiral – and this is where bad debt turns really ugly. It stands to reason that, the more money you borrow, the higher your repayments will be every month. This means that, to carry on living in the same way, you borrow a bit more.

Then a bit more...

When you've nothing left, you're in debt crisis and this is where things get catastrophic.

This type of debt affects more than just your money – it can mean you lose your home, cause divorce and make life very unpleasant. ALL of these things can be the result of a debt spiral – a spiral that might start off very small.



D: CREDIT CARDS

There's no more important single product to learn about than credit cards. In my view we'd all be better off if these were renamed debt cards rather than credit cards, as they're designed to make us borrow money.

Sadly, many teens have a big misunderstanding about credit cards and their cousins, store cards.

So it's time for my big letters again.

Credit cards do NOT give you free money!

*You have to pay back every penny you spend...
AND A WHOLE LOT MORE.*



Interest charges on credit cards can be EXTREME!

A credit card is just a pre-approved loan, so once you've got it you can borrow as much as you like from it, up to a set limit. Yet just like a loan, every penny needs to be paid back...and if not, be prepared for them to chase you for it.

The key difference, though, between borrowing in the form of a loan and using a credit card is that you decide how much (or how little) you pay off per month. In addition, you decide how much you borrow, within a pre-arranged limit.

Already, you should be able to hear alarm bells!

- You can borrow more each month than you repay. There's no pressure on you to pay a lot of money back, so you could easily end up borrowing more cash per month than you are paying off.
- Budgeting is difficult. It's incredibly difficult to budget with a credit card, and your spending can quickly get out of control.

If you want to admire innovative money-making genius, take a look at credit card minimum repayments. It's an outstandingly profitable way of charging for debt but most people don't notice it!

It's all because with credit cards you are in control of the repayments, and all you have to do each month to stop being fined, is meet the minimum amount they've set. This is usually around 2% of the total debt, or £5 (whichever is the greater).

Now prepare to be **SHOCKED** by this example of how minimum payments work, which the Teen Cash Class worked through when I spent the day with them:

MARTIN:

Ok. Imagine that you owe £3000 on a credit card. It's at an interest rate of 17.9%, which is quite typical. The minimum repayment on that card, at 2%, would be...?

£60

CLASS:

Right. So imagine that you're just going to pay the minimum payment every month – starting at £60 – until the debt's paid off. You're not going to be able to do this one on the calculator, it's way too complicated – but someone give me a guess. How long is it?

RICHARD:

A year?

Hmmm. A year. Who thinks between one and three years? Some of you. Who thinks three to five years? Five to seven? Some more of you. Seven to ten years? Ten to fifteen years? Has anyone not put their hand up? What if I told you that, in fact, it would take you **forty** years to pay off that debt? At a cost of £6,300 in interest? Does that shock you?

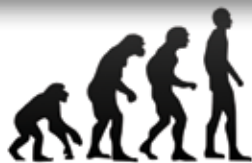
CLASS:

Wow. Yes! I don't believe it

(Mouths were hanging open, including the teacher who was supervising at the back of the class, the two cameramen, sound operators, the producer and assistant producer!)

Yup, you read it right the first time:

IT'D TAKE 40 YEARS TO REPAY!



Why does this happen?

The secret of minimum repayments is it's set as a **percentage** of what you owe, the actual sums you pay back with your monthly minimum repayments naturally fall as what you owe decreases.

So, actually, the amount you repay only just covers the interest on the card, meaning you're hardly repaying back any of the original amount you borrowed. Clever, innit?

To work out different versions of how long it takes use, visit:

www.minimumrepaymentcalculator.com

Imagine you start getting into this debt at the age of around twenty, and you settle for making the minimum payment each month. You're going to be **SIXTY** by the time it's cleared – with grey hair, or a white beard, or granny shoes on your feet!

And, of course, for each year you're in debt, for the credit card company it's another year it gets to earn interest off you. Don't worry, though, there are things you can do – as the Teen Cash Class found out:

MARTIN:

RUAIRI:

Ok. So imagine now that instead of letting the amount you pay each month reduce, you fix the amount you pay at £60 each month. How long is it going to take you now to clear the debt?

A few years?

Seven. Seven years. You will pay £2,300 in interest, saving yourself £4000 – and you clear the debt 33 years earlier.

Think about why this is so effective.

I'm going to pause while you try and work it out. Take your time before reading on.

Ready...?

The amount you repay is fixed. Thus while the debt and interest decrease, your repayments stay firm. The interest drops, but more of your money goes towards repaying the actual debt rather than the interest.

Credit cards aren't all bad

At this point, you probably feel that credit cards are fairly terrible things. I should say in their defence that, used correctly, they can actually be good; using a credit card, for example, is often the cheapest way to spend abroad, and with some cards you can earn cash back every time you buy something.

Like so many things, though, a credit card can turn nasty in the wrong hands. Remember: as always, the responsibility to do the smart thing ultimately lies with **YOU**.

DISCUSS WITH PARENTS

Credit cards are a relatively new thing that have really taken off in the last twenty years or so. So, many people who have them now have had to learn the hard way how they work. If your parents are happy to answer, why not discuss...

- Do they use credit cards?
- If they do, do they repay in full or just pay interest?
- When did they first use a credit card?
- Do they know the interest rate of the card?

THE TEEN CASH CLASS CREDIT CARD CHALLENGE

This was the challenge my Cash Class found the most difficult, but also the most enjoyable. Here's a real life scenario...what's the best deal you can come up with?

Challenge your friends/ parents/ teachers to see what they can come up with – it isn't easy. Even better, you could always ask your parents whether they have any credit cards and, if they do, what they are. If they're willing to tell you, see how much money you can save them (one of my Cash Class saved his mum over **£1,000!**).

Imagine...You have £2,500 on a Barclaycard at 16% interest, and have done for a few years. You also need to borrow £1,000 for stuff for a new home (we'll ignore whether that's good or bad debt for the moment). What's the best credit card solution you can come up with?

Now what? The Teen Cash Class had to go to different banks and find leaflets to compare offers, yet you can do the same on the internet.

This is something many people never bother to do – actually study the differences between different cards – and the class soon started to realise there are vast differences between them.

What's the answer?

Credit card deals change all the time, so it depends on when you do this. Yet the process of comparing credit cards to try and find the winning deal is the best lesson possible. Here are some hints.

- All cards aren't the same. In the same way as all CDs aren't identical, credit cards aren't the same shape and size either, the rates and deals differ. So ensure you read the small print and check exactly what the terms are.
- They're a tool, not an accessory. Don't ever be drawn into picking a credit card for its colour or design, and forget gimmicks or cards linked to football teams or funky stores. These are ways to draw you in. Always compare cards based on which is best financially for you.
- There's more than one interest rate. One card may have a number of different interest rates. The two main ones are for 'purchases' - for new spending on the card - and 'balance transfers' which is a special offer if you move debt from a previous credit card to it.
- It's not about getting 'one card'. Don't assume that you're looking for one credit card. The cash class winners were actually the ones who realised they needed two cards: one for the cheapest purchases debt and one for the cheapest balance transfers. There's no 'one-size-fits-all' deal.

ONE SIMPLE RULE IF YOU GET CONFUSED

My view is debt isn't bad, bad debt is bad. The difficulty is knowing the difference between the two.

Use the money mantras at all times, and the masses of information you've been given during this lesson to make the right decisions about any money you borrow.

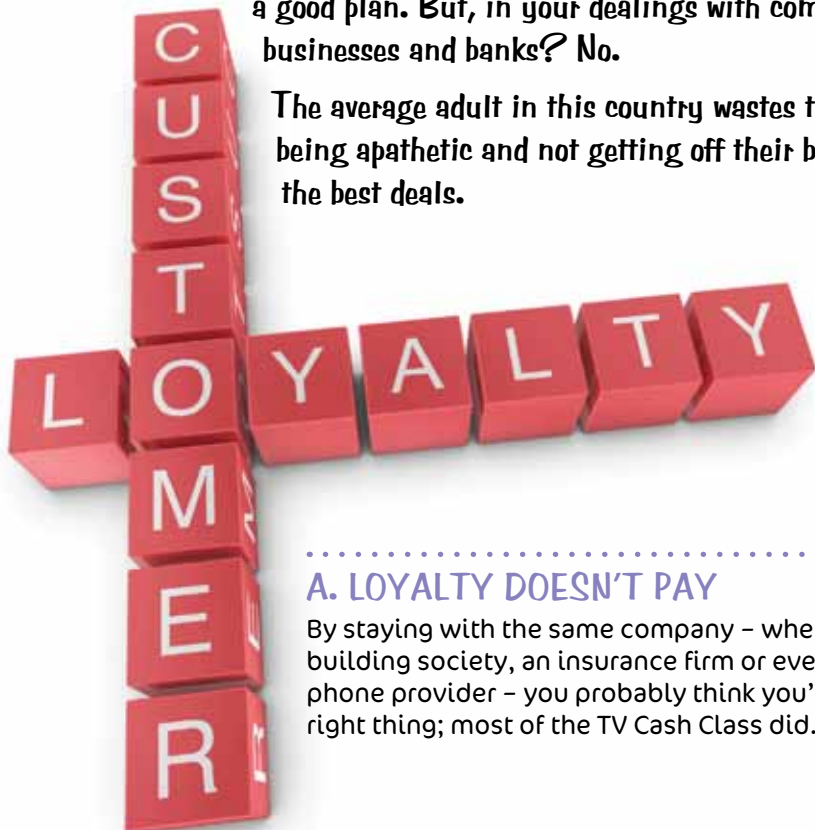
YET AS A FINAL RULE:

If you still don't understand debt, don't get into it – you can't cancel it if you make a mistake.

LESSON THREE: LOYALTY DOESN'T PAY

When it comes to cash, you can forget all the touchy-feely stuff you've ever been told about how important it is to be loyal. With friends, relatives, boyfriends, girlfriends – loyalty is generally a good plan. But, in your dealings with companies, businesses and banks? No.

The average adult in this country wastes thousands by being apathetic and not getting off their backside to find the best deals.



A. LOYALTY DOESN'T PAY

By staying with the same company – whether it's a building society, an insurance firm or even your mobile phone provider – you probably think you're doing the right thing; most of the TV Cash Class did.

MARTIN:

So, imagine you've got a car and you've had insurance with the same firm for years. You've always paid on time, you've never had any problems, but your premium's coming up for renewal. Are you going to get a better deal by sticking with the guys you know, or switching to a different company?

EMILY:

I think you probably stay with the one you've been with, so you get more things like no-claims bonuses.

THOMAS:

I'd stay with them, because if you went to a new company you'd have to start building that up again from scratch... But if you're a loyal customer, you'll get more bonuses.

Who agrees? A few of you. Hmmm... Think from the insurance company's perspective now. Think – who is the easiest customer to get for their business?

As the conversation progressed, we talked through the simple logic of our dilemma.

The answer became obvious:

MARTIN:

RICHARD:

The existing customer. They won't want all the hassle of changing to a different company, and having to make phone calls and send letters out and everything.

Right. And if you're an insurance company, how do you win new customers?

By bringing them good deals.

Good. What else do you have to do to win them over?

Advertise, marketing and all that stuff.

And that costs money, right? How do you think they cover the cost of giving new customers money off and putting adverts on the telly? Who does that cost get passed on to – I mean, who really ends up footing the bill?

The existing customer.

Brilliant.

RUAIRI:

The existing customer doesn't cost you anything, either. You don't have to advertise to get them, or cut their bills.

EXACTLY! So ask yourself the question, do I want to be the customer who has companies fighting for my business, or do I just want to be taken for granted?

B. HAGGLING AND CHUTZPAH

Chutzpah (pronounced hoot'spa) is a Yiddish word that basically means 'nerve'. If you're a person with chutzpah, it means you've got cheek – and while they probably don't like this at school, it's a good characteristic for MoneySaving.

If you've got the brass neck to ask for them, you can get better deals.

Having chutzpah means having the confidence to ask for more than you're being offered, or suggest you should pay less for what you're getting. Every night on the news you'll hear about negotiations – negotiations between countries, businesses, and between groups of people and the Government. Negotiating is, frankly, just a posh word for haggling and, if you want to be an ace MoneySaver, you have to learn to do it.

While it's often used to mean walking into a shop and asking to buy something more cheaply – and that can work – these days where it's really important is in all the things in life we have contracts with. This could be broadband, digital TV, insurance, mobile phones and more.

This is because these providers are notoriously competitive, and always desperate to take customers away from one another.

It's not about being rude or difficult.

It is about understanding that there's no such thing as a fixed price, and that those who don't ask, don't get.

THE TEEN CASH CLASS HAGGLING CHALLENGE

MARTIN:

THOMAS:

Here's what I want you to do.
This is the phone bill of a woman called Lesley Jackson. Call the company and get the very best deal you can for her, by haggling.

So, we talk to them and see if we can get money off? Or extra stuff?

You haggle for a better deal.

(cheekily)
What if they won't give me one?
Am I allowed to tell them I might leave and look somewhere else?

I can't tell you that! This is a challenge!
That's for you to decide.

Sadly, in the challenge itself, unbeknown to them, on the phone was an actor and Tom didn't say he'd consider leaving – a pity as it would have got him top marks. Remember, you're not locked into any company. They want to keep you, but they'll only fight for your custom if you make them.

So, if they don't give you the deal you want, ensure they know (politely) you'll consider leaving and then see what you get. Often, loyalty makes you a loser.

DISCUSS WITH PARENTS

My focus is about saving money – but other people judge their relationship with companies in different ways. Many people prefer to focus on service and how easy it is to work with a company. Why not discuss this with your parents...

- **Do they regularly change provider on things?**
- **Do they prefer to be loyal – if so, what benefit does it give?**
- **If they knew they could save money going elsewhere would they?**
- **How much would they pay for good service?**

There's no such thing as the disconnections department.

When you threaten to leave a provider, they often say "we'll put you through to customer disconnections". Yet actually the internal name for the department they connect you to is "customer retentions". This is because their job is to keep you as a customer and they have a LOT more power than standard customer services departments. If you're going to haggle, they're the best place to do it.

THE FINAL CHALLENGE

That's it. These Money Saving lessons are complete. Yet the lessons don't end there. I've been a professional Money Saver for ten years and a good amateur for a lot longer before, but I continually learn more and hone the techniques.



The lessons I chose here were specifically to give you the raw ideas that'll see you through all aspects of finance. Yet, every specific product has its own catches and you need to learn to understand them carefully.

The Final Challenge: One that pays you to do it

Here's my final challenge. Speak to your parents and see if they'll let you do a Money Makeover on/with them. Look at everything they spend money on (and what you spend money on) and see if you can get the same for less.

Remember your parents may not be as web savvy as you and the web is a powerhouse for Money Saving.

If you're an adult, then there's definitely no excuse. If you've found the time to read this, find the time to sort out your cash.

So give it a go – see whether you can save yourselves oodles of dosh.

HOW THEY DID IT

Before I go, just HOW did my 12 Teen Cash Class pupils make their £5,050 savings?

Let's take a look at the areas where they made the biggest savings for their parents...

Number one, switching credit cards: my pupils saved a staggering £2,440 over a year by moving away from expensive cards to better, cheaper alternatives.

WELL DONE!

In second place for curbing their parents' costs was changing insurance provider – whether car or pet, they saved **£830** over a year.

Next up was getting a cheaper deal for heating their homes. By changing gas or electricity provider, **£450** was lopped off the bills.

Fourth was mobile phone savings: **£120**.

The remaining **£1,210** was spread out across other top tips.

GOOD DEBT OR BAD DEBT QUIZ ANSWERS

- A** The Holiday. Bad debt! The clue is in the question. If you can't afford it and don't need it, don't go into debt for it! A holiday is a luxury that you can live without for a few months while you save enough money to pay for it.
- B** A House. Good debt! Going into debt for some things is unavoidable, and a house is usually one of them. If you need to get a mortgage to get your own place, find the best deal you can and consider it an investment in your future. Always do research to make certain you understand it, ensure you have done a budget, can afford the repayments and you won't be hurting the rest of your finances.
- C** Party Clothes. Bad debt! If you got this one wrong, shame on you! Feeling like you've got nothing to wear is no excuse for impulse shopping or buying something you can't afford. Even worse is putting this crazy purchase on a store card, which usually has stupidly high interest rates.
- D** A Car. Grey debt. It's important to understand sometimes that there are no right and wrong answers – this one is a very difficult decision. If you need a car and can't buy one out of your own pocket, then borrow for one wisely. So, this isn't bad debt because having the car (as long as you get a good deal!) will improve your quality of life and enable you to earn money. Yet it isn't good debt either as the debt is expensive so it could ultimately hurt your finances. It's in the balance and unfortunately, as can sometimes happen in life, that means it's a tough decision.

MORE MONEY RESOURCES

MoneySavingExpert.com

Martin Lewis' website is dedicated to ways to save you money. Some of the most relevant links for this guide include:

Do a complete money makeover:

www.moneysavingexpert.com/protect/money-help

Debt problems? What to do, where to get help:

www.moneysavingexpert.com/debtproblems

The Demotivator. A special tool to help you stop spending:

www.moneysavingexpert.com/stopspending

Developing healthy attitudes towards money

A fun, bright and engaging way for young children to learn about money and savings.

www.funtosave.org

Financial Help for Young People

Whether you go into full-time education or work-based learning, you can get financial help with the cost of your studies.

www.direct.gov.uk/en/YoungPeople/Money

The Personal Finance Education Group

A website dedicated to education and teaching resources about personal finance.

www.pfeg.org

Play the Fortunity Money Game

An online game to help learn about understanding cash.

www.mymoneyonline.org/fortunity

FSA's guide to finances for young people

From driving lessons to going to university, the future will bring a whole range of new challenges. You can find helpful advice and support here.

www.whataboutmoney.info

Money Made Clear from the FSA

Use the online jargon buster to learn more about everyday financial terms.

www.moneymadeclear.fsa.gov.uk

