



ABINGDON

*Money Matters
Seminar Series*

Debt & Insurance

6th Form Career Guidance Programme 2019/20

In association with
Timms Wealth Management
a St James's Place Practice



ST. JAMES'S PLACE
WEALTH MANAGEMENT

Agenda

Debt

- Common Types of Debt
- Focus on Credit/Store Cards
- Your Credit Score

Insurance

- Insurance Basics & Policies for Students
- Dissecting an Insurance Policy

Common Types of Debt

Personal Loans	Student Loan, Property Loan (= Mortgage)
Credit Loans	Credit Card, Store Card, Hire Purchase Contract
Overdrafts	Current Account Overspend
Peer-to-Peer Loans	From Parents, Relatives, Friends, Strangers
Guarantors	From Parents, Relatives
Crisis Loans (Legal)	Payday Loans, Doorstep Loans
Crisis Loans (Illegal)	Loan Sharks

Focus on Credit/Store Cards

Why have one?

- Buy things if you don't have enough 'cash'
- Might be a cheaper form of debt than other debt options
- Free way to borrow money (if you pay off each month)
- Get rewards, cash back, air miles, vouchers, etc.
- Establish credit history for applying for a loan in future
- Protects you if you purchase from an unethical supplier
- Access to cash (though very costly: fee + daily interest)
- Store cards: earn you discounts on purchases in store

Features of Credit/Store Cards

Credit Limit:

Max debt at any point in time:

Credit Limit: £5,000

Current Debt: £1,000

Available Credit: £4,000

Annual Fee:

Annual charge to get credit card.

Usually applies to cards which offer perks (like air miles) or prestige (American Express)



Minimum Payment:

Smallest amount you can pay each month. Usually £5 or X% of outstanding debt, whichever is larger. Never miss a payment!

Interest Charged (APR):

APR = Annual Percentage Rate, or rate charged on debt. Cards usually charge between 18% and 30% APR (1.5% to 2.5% per month).

Impact of Interest

Example:



24% APR
(2% per month)



£1,000 purchase

Payment Elected	Months to Pay off £1,000 Debt	Total Interest Paid	Real Cost of Headphones
Minimum Req.	137	£925	£1,925
10% of Balance	64	£250	£1250
25% of Balance	21	£87	£1087
50% of Balance	9	£42	£1042
75% of Balance	5	£27	£1027
100% of Balance	1	£0	£1,000

Your Credit Score

What is it?

A rating of how worthy you are to receive credit (risk) and how likely you are to pay it back with interest (profitability)

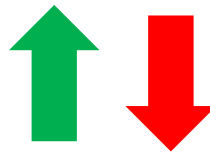


How is it used?

To determine if you get a loan, how much, and at what interest rate. *No credit history, no loan. Rolling 7 years.*



Credit Score



Loan Amount



Interest Rate

Building Your Credit Score

How?

- Get credit card, use it, pay it off (or at least min due)
- Open a bank account and use it regularly
- Register to vote so you're on electoral roll
- Get a job, stay employed, don't hop around employers
- Pay council tax, if/when due
- Commit no crimes
- Avoid going to court

Insurance Basics

What is insurance?

Payment (from you) in exchange for compensation (from insurer) should something get lost, stolen, damaged or should someone be injured.

How do you pay for insurance?

Premium (price of insurance) + Excess (only if insurance claim is made)

How do insurance companies compensate?

Replacement

Repair

Payment in Advance (or Reimbursement with receipt)

Insurance Policies for Students

Car



Tenants (Contents)



Travel



Gadget, Bike
Laptop, Instrument



“To Insure or Not to Insure”

2-Factor Assessment of Risk

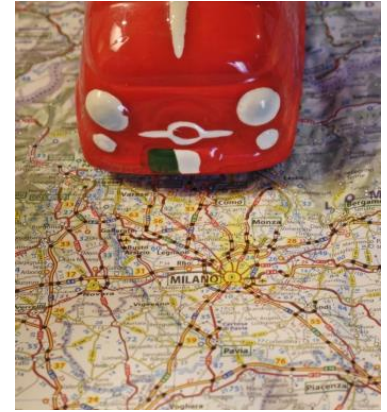
1. What is the likelihood that something will go wrong?
2. How severe will the consequence be if it does?

		Consequence				
		Insignificant	Minor	Moderate	Major	Severe
Likelihood	Almost certain	Medium	High	High	Extreme	Extreme
	Likely	Medium	Medium	High	Extreme	Extreme
	Possible	Low	Medium	Medium	High	Extreme
	Unlikely	Low	Low	Medium	High	High
	Rare	Low	Low	Low	Medium	High

Rate the Risk

Consequence

Likelihood		Insignificant	Minor	Moderate	Major	Severe
	Almost certain	Medium	High	High	Extreme	Extreme
	Likely	Medium	Medium	High	Extreme	Extreme
	Possible	Low	Medium	Medium	High	Extreme
	Unlikely	Low	Low	Medium	High	High
	Rare	Low	Low	Low	Medium	High



Rental car in Italy.
Insure or pay to repair?



Damaged baggage.
Insure or pay to replace?



Flight cancellation
Insure or pay hotel bill?

Cat surgery.
Insure or pay vet's bill?

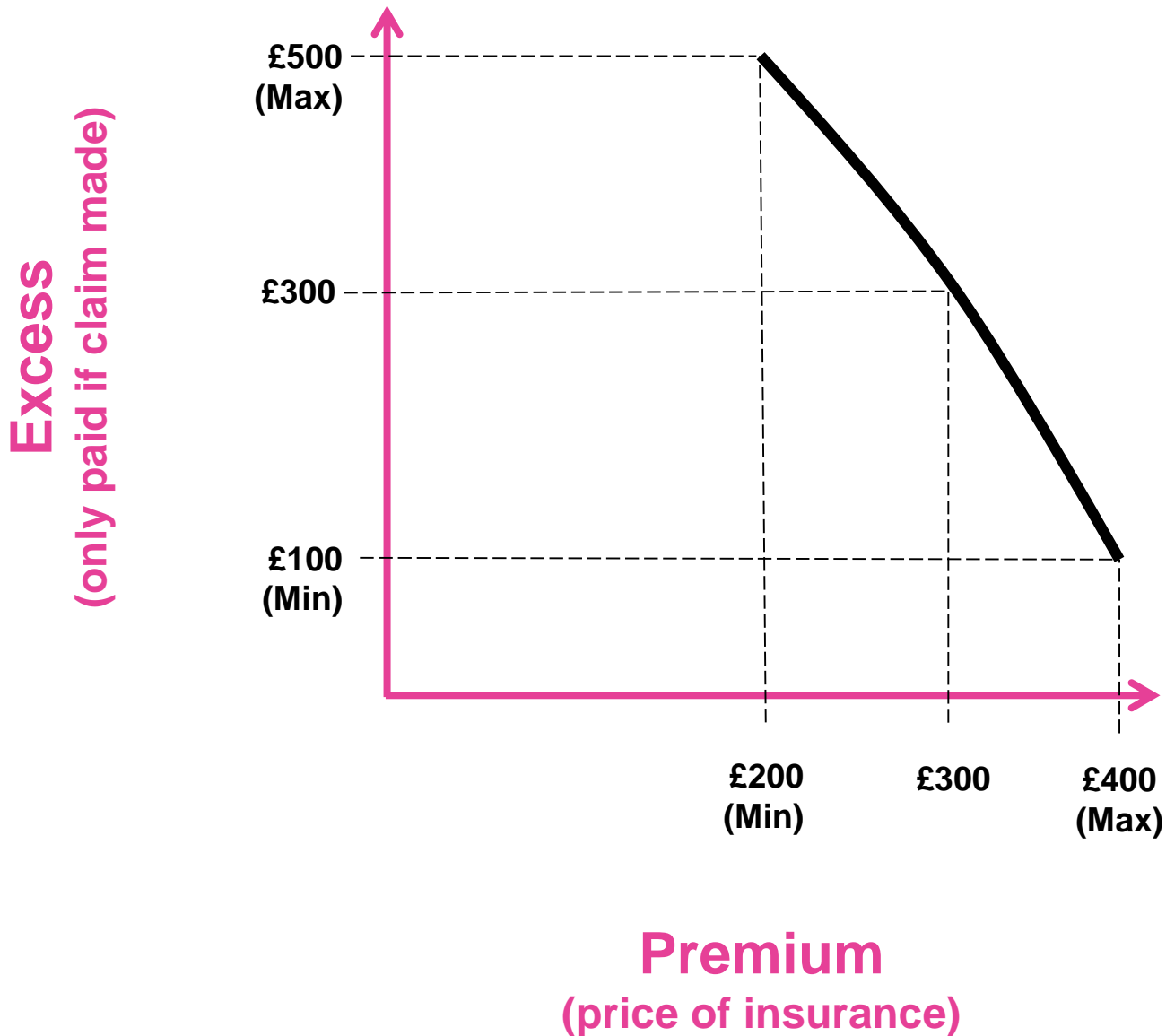


Dissecting an Insurance Policy



- Coverages (included vs. optional) vs. Exclusions
- Coverage limits – per incident, in aggregate, single item
- Who is covered? You, others...
- Replacement value: used value vs. 'if new' value
- Premium / Excess relationship

Premium / Excess Relationship



Dissecting an Insurance Policy



- Negotiate premium, or shop around, at renewal time
- You may already be covered under your parents' policy
- 14-45 day 'cooling off period', if you change your mind
- Member of the Association of British Insurers (ABI)?
- Regulated by the Financial Conduct Authority (FCA)?