Financial Education

for Year 6 Students

Me, my life and my money

Ver 2020.1

Savings, spending and need vs. want

Saving Money

What do we mean when we say we're saving money? What are we saving it from?

And why is it so important?

Saving Money

- Saving money is when we put some money to one side to spend later. We keep it safe in some way so that we don't spend it.
- We can save money by keeping it in a piggy bank, somewhere else safe at home, or in a bank.
- Sometimes we might save our money for something in particular, like a new game or a car. Other times, we might not know what we're saving for. Some people save "for a rainy day"- just in case they need that money one day.
- Some things might take weeks to save up for; others might take years!
- The earlier you start saving, the more money you will be able to save!
- A recent study found that if you had deposited £1 into a bank account 200 years ago, it would be worth about £1000 today!

- How much someone can save depends on how much money they earn and how much they have to spend (on things like food and bills).

- When people save money in a bank, they can expect to get their money back plus interest. We'll look at this a little more next lesson.
- Different banks offer different deals to encourage people to save with them. It's always a good idea to compare the different deals they are offering to see which is best.
- Banks want you to save your money with them, as this means they can lend more money to other people and make more profit.

What could you get if you start saving early?

Start saving at:

What can you buy when you are 40?

35 years old

30 years old

25 years old

10 years old

The longer you save for, the more you will save.

Your Task

1. James gets £3 a week pocket money. If he saves all of it, how much would he have after:
   a. one month? b. one year?

c. He also receives £50 for his birthday and £20 from each of his three uncles at Christmas. How much does he now have?

2. If you saved £1 a week from the age of 10, how much would you have in savings at age:

a. 20? b. 30? c. 40? d. 50? e. 60?

3. Phil would like to buy a new PS4 game. It costs £21.99. He receives £4 pocket money each week. How long will it take Phil to save up for the game?

4. Richard wants to buy a new car. He's chosen a new Ford Focus which costs £25,000. He has a good job and earns £2500 a month, but has to pay his rent (£600 a month), bills (£250 per month) and buy food (£200 each month). What is the shortest amount of time it will take him to save up for the car?

5. What would you like to save up for? Think about 5 things you could do to help you earn money so that you can save up more quickly.

Answers

1. a. £12 b. £156 c. £266

2. a. £520 b. £1040 c. £1560 d. £2080 e. £2600

3. 6 weeks

4. 18 months

5. Answers will vary

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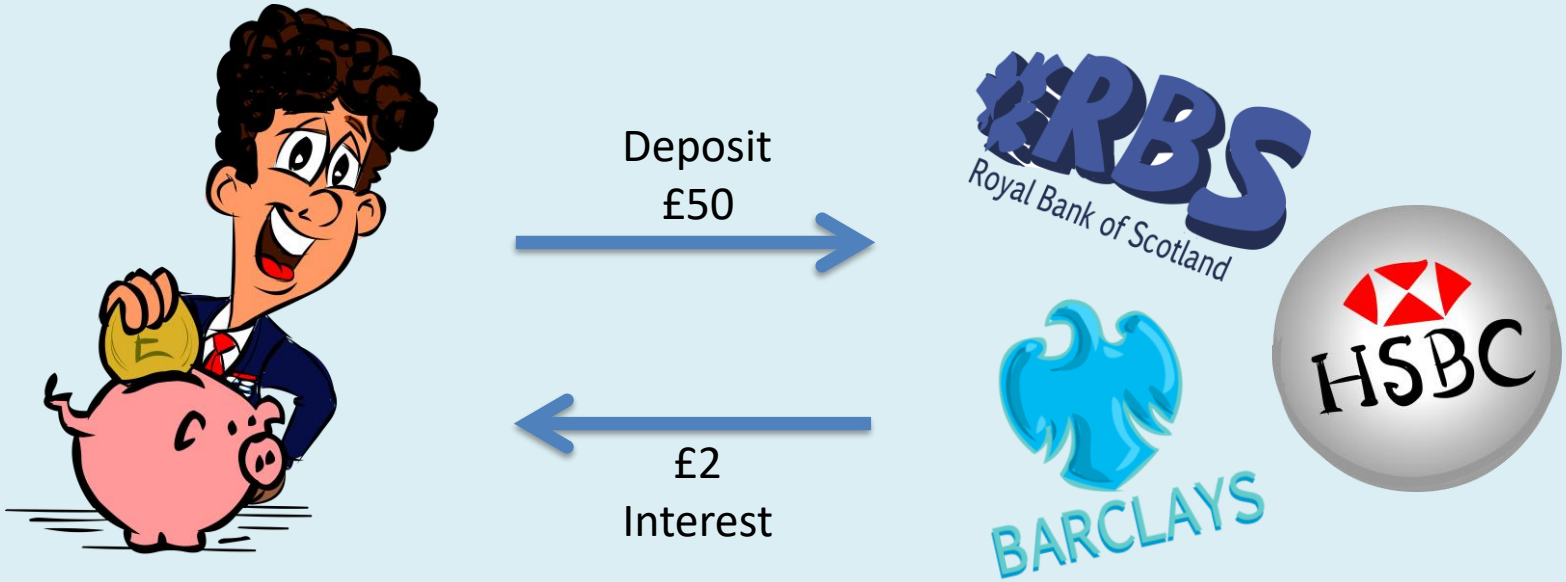
Interest

- Last lesson we said that by saving money in a bank, people get their money back plus interest…
- Interest is "The amount a bank pays <u>you</u> for depositing money into a savings account".
- How much someone will earn in interest is linked to (a) how much they put into their bank account, (b) how long they keep it there, and (c) how high the interest rate is.
- If you borrow money from the bank, they will also charge you interest. This means you have to pay back what you borrowed PLUS extra charges. This is how banks make money.



- Banks compete and battle for new savers!
- They do this because the more deposits a bank can attract, the more it can lend to other customers which ultimately means the greater the bank's profit.

- Interest rates are given as percentages. The money you earn in interest will be a certain percentage of the amount you deposited.
- Banks will try to offer savers higher rates of interest to encourage people to save with them.
- A high interest rate is good for savers, but bad for borrowers- a high interest rate means you have to pay back more!
- Interest rates can change lots!
  - Some bank accounts have a "fixed" interest rate, which means it won't change.
  - Some offer deals with higher interest for the first year.
  - The Bank of England sets some interest rates and changes these to encourage people to either spend or save more. Banks will then change their interest rates with this.
- There are two types of interest: simple and compound.

Simple Interest

Homer has 10% simple interest on his £200.

Each year he will get 10% of his £200, which is £20.

Here's how the first 5 years look:

Start (Year 0)=	£200	
Year 1=	£220	+ £20
Year 2=	£240	+ £20
Year 3=	£260	+ £20
Year 4=	£280	+ £20
Year 5=	£300	+ £20

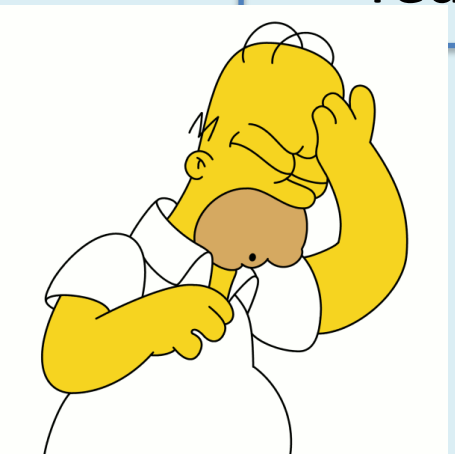
Compound Interest

Professor Frink has 10% compound interest on his £200.
Each year the money in his account will increase by 10%
Here's how the first 5 years look:

Start (Year 0)=	£200	
		+ 10%
Year 1=	£220	
		+ 10%
Year 2=	£242	
		+ 10%
Year 3=	£266.20	
		+ 10%
Year 4=	£292.82	
		+ 10%
Year 5=	£322.10	

Let's compare the two:

	Homer (simple)	Frink (compound)
Start (Year 0)=	£200	£200
Year 1=	£220	£220
Year 2=	£240	£242
Year 3=	£260	£266.20
Year 4=	£280	£292.82
Year 5=	£300	£322.10

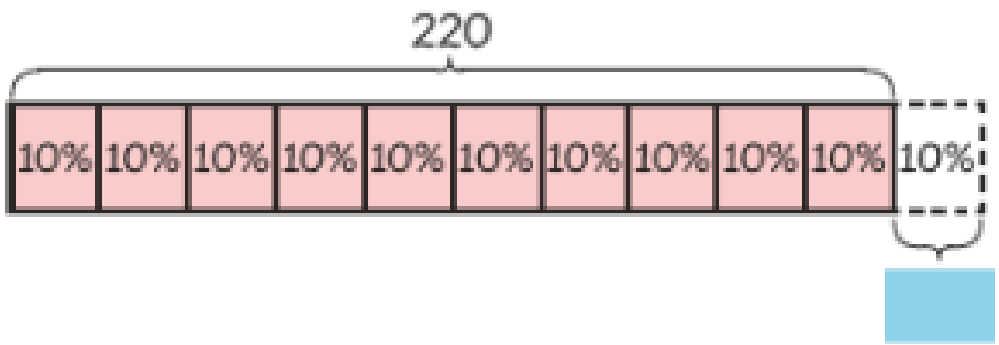


Finding percentage change

In Focus

The number of pupils in a school has been increasing by about 10% each year since 2010. In 2011, the number of pupils was 220.

10% of 220 =



220 ÷ 10 = 22

In 2012, the number of pupils was 220 + 22 or 242.

In this question, 220 is the whole. The bar model shows it being split into 10 pieces. Each one is 10% of the whole.
220 ÷ 10 = 22 so 22 is 10% of 220.

To find the new total, we then have to add 10% (22) onto the original amount.

Remember when finding a percentage, we break it down into chunks to make it easier…

Simple interest

Interest rate: 3%

Amount at start: £50

1. **Find 10% of £50**
   50 ÷ 10 = 5

2. **Find 1% of £50**
   50 ÷ 100 OR 5 ÷ 10 = 0.5 (50p!)

3. **Find 3% of £50**
   3 x 1% = 3 x 0.5 = 1.5 or £1.50

4. **Add 3% onto £50**
   £50 + £1.50 = £51.50

For each extra year, add another £1.50 on, so:

5. Year 2: £51.50 + £1.50 = £53

Compound interest

Interest rate: 3%

Amount at start: £50

1. **Follow steps 1-4 for simple interest**.
   Then…

5. **At the end of Year 1, we have £51.50.**
   Find 3% of £51.50 = £1.55 (rounded to the nearest penny)

6. **Add 3% onto £51.50**
   £51.50 + £1.55 = £53.05

7. **For the end of Year 3, find 3% of £53.05** (£1.59) and add this on...
   £53.05 + £1.59 = £53.64

Your Task

Complete the sheet to compare the different bank accounts. They are all offering compound interest. Look carefully at the interest rates for each bank.
Decide which bank is offering the best deal and explain why. Is it the bank you expected?

*** Extension activity ***
Complete the activity and work out how best to invest your lottery winnings! This will help you see other ways of saving that are not just putting money in the bank.

- If you do not have a dice, write the numbers 1-6 on small pieces of paper and leave them mixed-up, face-down on your table. Instead of rolling a dice, pick a piece of paper at random. Remember to mix them up again each time.
- If you do not have a coin, right “Heads” and “Tails” on 2 pieces of paper. Again, leave them face down on the table and only pick one each time, then mix them up.

Answers

	Saving Bank	Instant Bank	Steady Bank
Starting amount	£500	£500	£500
Amount at end of year 1	£525	£530	£515
Amount at end of year 2	£535.50	£535.30	£530.45
Amount at end of year 3	£546.21	£540.65	£546.36
Interest earned over 3 years (i.e. amount at end of year 3 minus starting amount)	£46.21	£40.65	£46.36

Financial Literacy Lesson 8: Interest

These three banks are all offering different deals and compound interest rates on their savings accounts. Work out how much interest you could earn at each of the banks over a 3-year period, on savings of £500. Complete the table below for the amounts listed. Then decide which one is best to save your money with and explain why. Is it the bank you expected?

	Saving Bank	Instant Bank	Steady Bank
Starting amount	£500	£500	£500
Amount at end of year 1			
Amount at end of year 2			
Amount at end of year 3			
Interest earned over 3 years (i.e. amount at end of year 3 minus starting amount)			

Which bank is actually offering the best deal? Which of these banks should you save your money with and why? Was this what you expected?

_____

_____

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Interesting Earnings

Since the year 2000 Lego sets have been a better investment than either stocks or shares or gold, with the value of sets increasing on average 12%. The best performing set – The Ultimate Collector's Millennium Falcon – has increased in value from £342.49 to £2712. Sometimes, people invest their savings in places other than banks because they might get more money. This is however risky, and sometimes people don't make as much money as they would have done in interest from the bank. Some investments actually end up losing money!

You have won **£1,000,000** in the Lottery! Choose one of the six investment schemes below and see how your money will grow over **ten years**. Was the one you chose the best investment? How can you check?

Property Investment	**High Risk Investment**	**Savings Account**
Your money doubles every 2 and a half years.	Toss a coin for the end of each of the 10 years – if it is heads double your money. If it is tails, lose half of it.	Earn 5% each year in compound interest.
Start a Business	**Stock Market Investment**	**Hide Your Money Under Your Mattress**
Choose how much to invest and then roll a dice. 1 = double your investment 2 = lose it all 3 = triple your investment 4 = get your money back 5 = get half your money back 6 = get your money back plus 50%	For 5 years earn nothing, for the other 5 years earn 10%. This can happen in any order you like!	Amount doesn't change!