FACTFILE:
GCSE ECONOMICS

UNIT 3.3

FINANCIAL CAPABILITY – MANAGING PERSONAL FINANCES

Rewarding Learning

Savings/Borrowing & Personal Life Cycle

Learning Outcomes

Students should be able to:

- demonstrate understanding of why people choose to save and borrow; and
- demonstrate understanding of the concept of a personal life cycle and the different stages in the cycle.

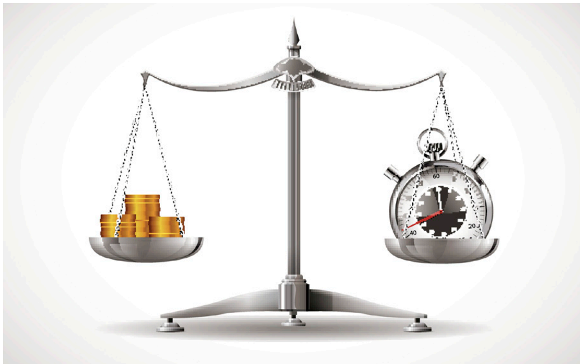
Savings/Borrowing:

Saving is important to an individual for the following reasons:

- Provides financial security and covers emergency situations which need a financial solution, e.g. lost debit card, loss of car due to an accident.
- Enables goods/services to be purchased at a later date, living expenses to be paid and meet basic survival needs, or luxury items, e.g. purchase of a new car.
- To ensure a reasonable standard of living during retirement or provide for dependants.

Borrowing is important to an individual for the following reasons:

- Provides immediate funding to an individual in an emergency situation, e.g. access to funds to pay for a new car in the event of an accident.
- Provides an individual with the ability to acquire high-cost items for use in everyday life, i.e. property to live in, vehicles to commute to/from work and undertake family responsibilities.
- Enables an individual to meet short term financial needs until a more appropriate financial solution can be implemented, e.g. booking a holiday, completing a purchase online or paying bills/living expenses.



Personal Life Cycle:

Definition:

A personal life cycle attempts to summarise the key phases which all individuals go through during their lifetime matched with their changing financial needs.

Phases of the Personal Life Cycle:

The key phases of the Personal Life Cycle may be summarised as follows:

Birth & Early Age 0-16 years

Young Adult 16-30

Middle Age 30-65

Old Age & Death 65+

- **Birth/Early Age:**
  Children and young teenagers are more likely to be supported by their parents/guardians. Their financial needs will be met through the provision of basic items such as living expenses, food, clothing and accessories. During this phase of the life cycle, financial needs are likely to be addressed from pocket money and/or gifts and savings likely to be held in a savings/deposit account.
- **Young Adult:**
  A young adult may continue to be supported by parents/guardians with continued financial support provided in respect of living expenses, food, clothing and accessories – particularly if continuing with education/training/studies and/or early stages of employment. Typically, a young adult would have gained employment by about their mid-twenties, when it is anticipated that a stable income will be obtained, therefore parental support is likely to diminish. Financial products typically in use to support key life choices in this phase include bank account, insurance products, savings/deposit account, credit card and possibly a mortgage.
- **Middle Age:**
  An adult in this phase of the life cycle would typically be employed and have access to a regular source of income. Financial needs may vary, however it is likely that an individual will have a mortgage and perhaps developed a habit of saving, although some credit card debt will also be likely. Contributions towards a pension scheme in addition to normal living expenses are usually incurred; it is also likely that a life insurance policy may be in existence, to ensure that the financial needs of spouses/partners/dependents are met in the event of death.
- **Old Age:**
  An adult in this phase of the life cycle would typically be nearing the end of a period of full time employment and expected to enter retirement. Financial needs will vary as it is likely that the pension received will represent a smaller proportion of earned income. This is likely to be supplemented with income from other sources, and a reduction in living expenses, since at this phase, it would be expected that any outstanding mortgage and credit card debt would be paid off. It is also possible that a pensioner may resort to state benefits in order to meet their financial needs. An end-of-life insurance policy could meet any outstanding debts upon the death of an individual.

Review Questions:

1. Explain the various stages of the personal life cycle that you are likely to experience and summarise likely financial needs at each stage of the life cycle.

2. Explain two reasons why a young person (aged 20) would want to save £20,000 over their lifetime.

3. (a) Explain one reason why a person (aged 30) may need to borrow money using a mortgage (totalling £40,000).

   (b) Discuss the possible implications that taking on a mortgage would have on a person's future financial wealth.