Managing your debts – Part 1

This task has **three** parts to it.

N1/E3.6, N2/E3.4
Skills leading to N2/L1.3

B(g)2, B(g) 3

tutor notes

Part 1

This is where you will find information and activities to build your numeracy skills to help you when you owe money, and when you need to manage your debts in a positive way to minimise the impact of debt on your future.

Part 2

Suggestions of other free resources to help you to practise your skills can be found here.

Part 3

This is where you can try out your skills in some practical activities and check your progress on typical questions at Entry 3 from the National Certificate. Part 3 also contains the answers to all the activities in Parts 1–3.

Thinking about debt

Debts are often part of modern life. We 'borrow' money in the form of mortgages, bank loans, credit card payments, hire-purchase (HP) etc. Sometimes we may get behind with the repayments – especially if we have a sudden change in our lives and we have less money available. It can be easy for debts to get out of hand.

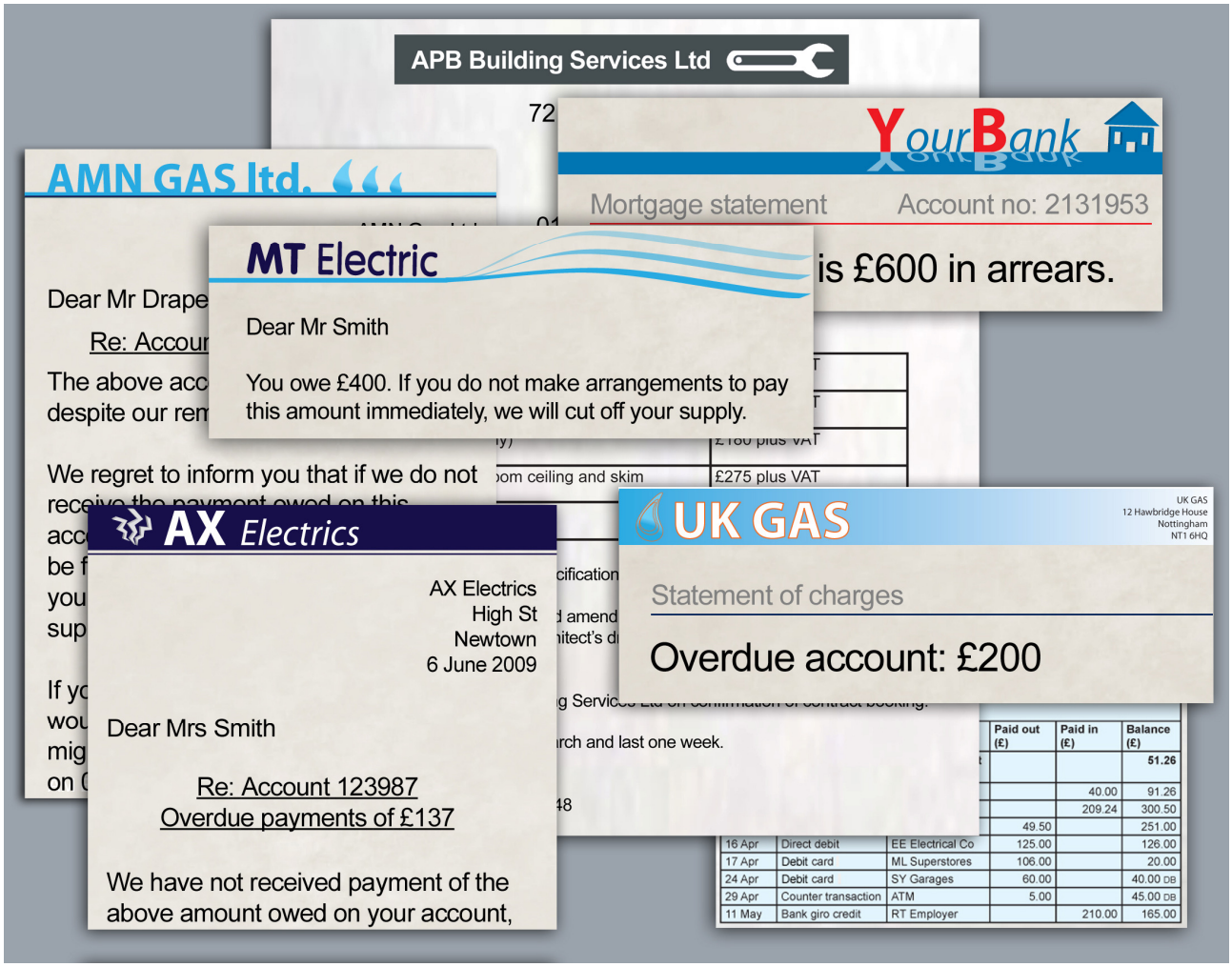
In this task you will find information and activities to help you think about approaches and calculations that might help you to manage your debts in a positive way.

Recognising when 'debt' is becoming a problem

There are many examples of situations when we might spend money we haven't really got. We want to have things now, but pay for them later over a period of time. There are very few of us who don't have these kinds of debts. Debts may become a problem if:

- we borrow more than we can realistically repay
- our circumstances change and we can no longer continue making the payments to pay back the money we've borrowed.

Typical signs showing that there could be a problem are when we receive letters or bills using words such as: 'arrears', 'overdue', 'in debit', 'overdrawn'.



Managing debt positively

Being in debt is worrying. The important thing is not to 'bury our head in the sand' because ignoring the problem and hoping that it will go away won't help. The debts will still be there – and will probably get bigger!

If you're worried about your finances, the Financial Services Authority (FSA) 'Debt Test' could help you decide if debt is (or might become) a problem for you: www.moneymadeclear.fsa.gov.uk/tools.aspx?Tool=debt_test.

If we recognise when things are beginning to become a problem, we can work out what to do about it – and try to act positively to minimise the impact.

There are two key things we can do:

1 Get advice from one of these sources of free advice and support:
   - National Debtline www.nationaldebtline.co.uk
   - Citizens Advice Bureau (CAB) www.adviceguide.org.uk/index/life/debt.htm
   - Consumer Credit Counselling Service www.cccs.co.uk

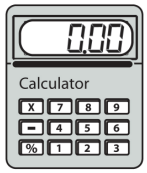
2 Look at our debts and make a plan about how (or if) we might be able to start to pay them off.

Thinking about paying off debts we owe

In the National Certificate you may not be able to use a calculator. However, in real life we frequently do especially when we are working with money. The ability to work out calculations in your head and/or on paper is an important skill to have, but equally important are the abilities to:

- work out what calculations you need to make
- make sense of the answer you get.

This task focuses most on the second of these skills. We suggest that where you see this calculator symbol to the right side of an activity, you use one to help you if you wish.



Activity 1

If we owe money, it is important to try to pay off something, based on what we can afford By doing this we can gradually reduce the total amount of our debt.

Let's think about working out how long it will take to pay off a debt, depending on how much we pay.

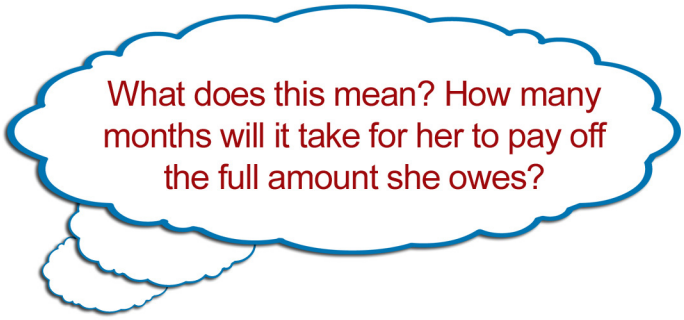
Example

Jana is in arrears with her rent by £250.

If she talks to her landlord and arranges to pay off £20 a month, how long will it take to pay off the £250 debt?

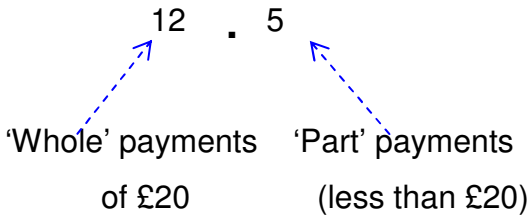
We need to work out how many £20 payments she needs to make to pay off the £250 – this will be a division calculation. She works this out on her calculator and gets the answer:

£ 250 ÷ 20 = 12.5



The answer is telling her that it will take 12 whole payments – and part of a payment.

The 'whole' payments are shown before the decimal point. The 'part' payments are shown after the decimal point.



If we think about what she will be paying each month:

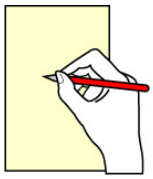
12 payments will be 12 × £20 = £240.

So after she's made 12 whole payments, she will still have a last part payment of £10.

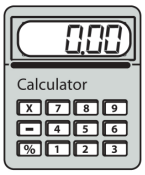
So altogether it will take Jana 13 months to pay the full amount:

12 months paying £20 and the final month paying the 'remainder' of £10.

In this context, you need to 'round up' the answer to make sense of it in the practical situation.



Have a go at working out these examples.



Use the previous example to help you think about how to work them out.

1 Mo is in arrears on his rent by £195. If he pays £10 per month, how many months will it take to pay off the arrears?

2 Sue has an overdue electricity bill of £125. She contacts the electricity company and offers to pay £10 a month. How many months will it take to pay off the amount she owes?

3 Klara has a debt of £365. She arranges to pay £10 per month towards paying this off. How many months will it take to clear the debt?

4 Phillip is behind on his Council Tax payments and owes £420. He talks to the district council and they agree he can pay £30 per month. How many months will it take to pay the full amount?

5 Nicky has an overdue water bill of £225. She arranges to pay off £20 per month. How many months will it take to pay the full amount owed?

Activity 2

If the repayment is over a longer period of time (i.e. more than a year), you might want to work out how long the repayments will take in years and months.

How will you work this out?

There are 12 months in a year.
So I need to work out how many times
12 goes into the total number of months.

Example 1

In the example before Activity 1, Jana will take 13 months to pay off the amount she owes.

This will be:

	12 months	+	1 month
i.e.	1 year	and	1 month

Example 2

Paul is paying off a debt of £195 in monthly payments of £5.

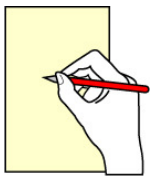
*He works out that it will take him **39 months** to pay off the full debt.*

How long is this in years and months?

Thinking about the 12 × table, 36 months will be three years (3 × 12). This leaves an additional 3 months (39 – 36 = 3).

So, 39 months is:

	12 months + 12 months + 12 months	+	3 months
	36 months	+	3 months
i.e.	**3 years**	**and**	**3 months.**



Fill in the table below to show how long each of these repayment periods is in years and months.

The first one has been done for you.

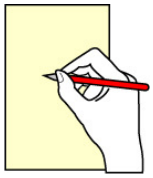
	Payment period in months		Payment period in years and months
1	39 months	*36 months + 3 months*	***3 years and 3 months***
2	27 months		
3	31 months		
4	19 months		
5	22 months		
6	42 months		

Thinking about which debts to pay off first

Owing money to several creditors

We may well owe money to a range of different people or companies. Each of them is known as a 'creditor'. Even if we cannot make the full payment due, it will help if we pay off *at least some of the money we owe*. Creditors are more likely to be sympathetic to our circumstances and work with us to help us find a way to pay off what we owe if we do this.

If you owe money to several different creditors, it may be important to prioritise which debts you pay off first. Different creditors have different powers to make you pay, and the consequences of not paying may vary depending on who the creditor is. It is therefore worth thinking about the risks of not paying for each debt. This will help you decide which of your debts are of the highest priorities.



Activity 3

Think about the possible risks if you do not pay off each of these debts listed below on the left.

Match the type of debt with the possible risk if you don't pay it.

The first one has been done for you as an example: Number 1 matches with B (as shown by the arrow below).

1	**TV licence not paid**	**A**	**Supply cut off**
2	**Rent arrears**	**B**	**You may be taken to court**
3	**Council Tax arrears**	**C**	**Compulsory deduction from income**
4	**Electricity bill unpaid**	**D**	**Possible eviction from your home**
5	**Gas bill overdue**	**E**	**Repossession of goods**
6	**Credit card payments not made**	**F**	**Possible repossession of your home**
7	**Mortgage arrears**	**G**	**Supply cut off**
8	**Hire-purchase (HP) payments overdue**	**H**	**Bailiffs may take some of your possessions**

The answers to this and all other activities are provided in Part 3 of this task. However, for more information and advice about identifying priority debts, visit the 'Money Matters to Me' web site:

www.moneymatterstome.co.uk/9-Implications-of-finance/Sub1/PrioritisingYourDebts.htm

Thinking about working out a repayment schedule

Activity 4

A positive way to manage your debts is to try to pay something towards them. If you owe money to different creditors and want to pay something to several, you can work out a repayment schedule. This will help you to decide how much to pay to each creditor.

The 'Money Matters to Me' web site provides a repayment calculator that could help you to do this (www.moneymatterstome.co.uk/9-Implications-of-finance/Sub1/Activity-PersonalBudgetAndRepayCalc.htm).

This method of working out a repayment schedule involves the following steps.

- *Add up all your debts. This gives the total amount you owe.*

Then, for each creditor:

- *Multiply what you owe that creditor by the money you have available towards paying off your debts.*
- *Divide the result by your total debts.*

The result is the amount that you can repay that creditor.

We will look at this method in more detail later, in Activity 5, and use it to work out a repayment schedule for Sara. Meanwhile, it might be useful to spend a bit of time thinking about the maths skills involved in the process. Understanding this could help you to feel more confident about managing your money – and about taking a positive approach to managing your debts.

Let's think about what we are doing when we work out how much to pay each creditor in this way.

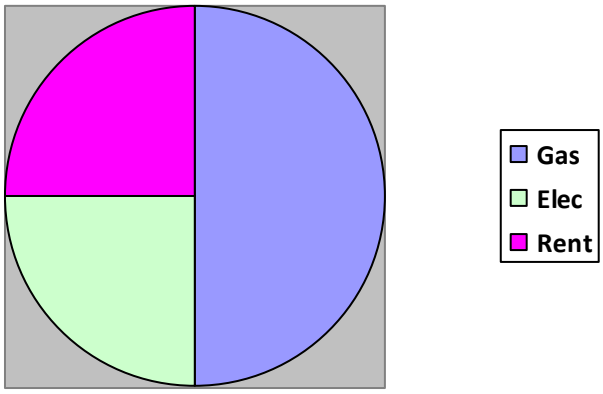
Example

Sara owes money to the creditors shown in the table below.

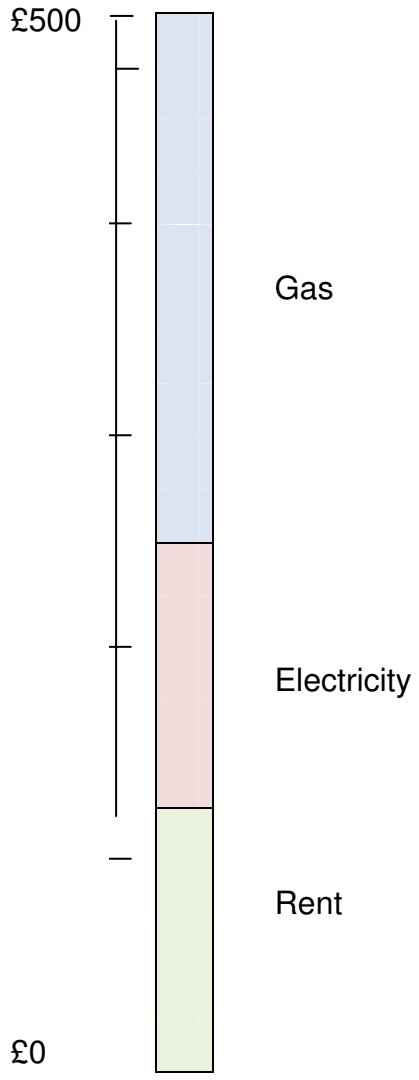
She has worked out that ***she has £100 that she can afford to use towards paying off her debts*** *and wants to work out how much she should pay to each of the creditors.*

Creditor	Amount owed
Gas	£250
Electricity	£125
Rent	£125

Sara's debts are shown in the pie chart below.



Or we could show it like this:

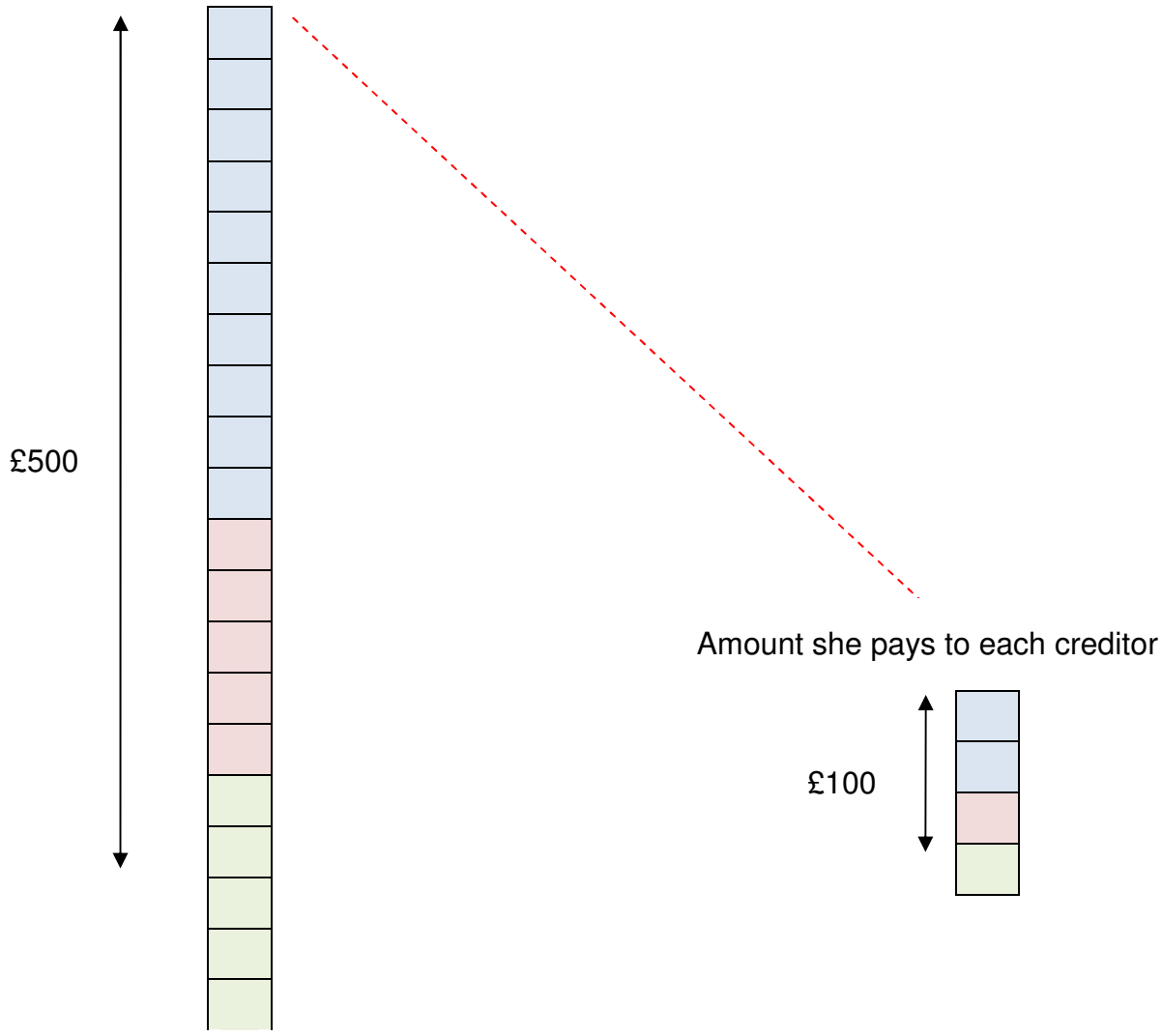


Sara wants to pay something to all her creditors. She works out the amount to pay each creditor in proportion with the amount she owes each of them. We can see from the visual images that the amounts she owes to each of her creditors work out as:

Gas	½	of her total debt
Electricity	¼	of her total debt
Rent	¼	of her total debt

When she works out how much to pay each creditor, she pays each of them the same proportional part (fraction) of what she has available to pay her debts. So, although she can't afford to pay them everything she owes them, she scales the amount she owes them down to fit the amount she has available to pay.

Amounts she owes to different creditors



Note: You will not be asked to answer questions like this in the national certificate.

However, it may help you to understand what is happening when someone works out a repayment schedule for their debts. It also provides a good opportunity to practise skills in dealing with fractions, which will be useful in everyday life and at the Level 1 National Test (if you want to go on to do this when you feel ready).

The next activity offers practice in recognising fractional parts of total debts owed by different people. If you don't want to practise thinking about fractional parts, move straight on to Activity 5.

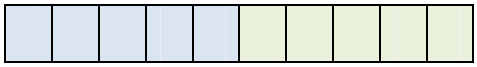
Example

Chris owes the following amounts:

Creditor	Amount owed
Electricity	£500
Mortgage	£500

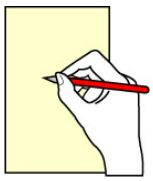
By adding up the amounts owed, we can work out that the total amount he owes is £1000.

If you think of this visually (with each square representing £100), the amount he owes to the different creditors would be:



We can summarise this as:

Creditor	Amount owed	Fraction of total debt
Electricity	£500	½
Mortgage	£500	½



Work out what fractional part of their total debt these people owe to each creditor.

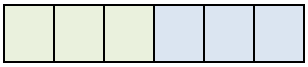
You may find it helps you to think about their debts in some visual way to help you work this out.

The first one has been done for you as an example.

1

Creditor	Amount owed	Fraction of total debt
Electricity	£300	*½*
Mortgage	£300	*½*

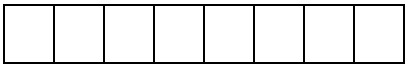
The total debts are £600, so we could draw a visual representation showing 6 × £100 and use this to show the debts to the different creditors:



2

Creditor	Amount owed	Fraction of total debt
Water	£200	
Mortgage	£600	

Tip: The total debts are £800, so draw a visual representation showing 8 × £100:



3

Creditor	Amount owed	Fraction of total debt
Rent	£600	
Gas	£300	

4

Creditor	Amount owed	Fraction of total debt
Electricity	£250	
Gas	£500	
Rent	£250	

5

Creditor	Amount owed	Fraction of total debt
Water	£400	
Mortgage	£200	
Electricity	£200	

Activity 5

Let's now return to the example of Sara from Activity 4 above, and use the 'Money Matters to Me' method outlined to work out a repayment schedule for each of her creditors.

Example

Sara owes money to the creditors shown in the table below.

*She has worked out that **she has £100 that she can afford to use towards paying off her debts** and wants to work out how much she should pay to each of the creditors.*

Creditor	Amount owed
Gas	£250
Electricity	£125
Rent	£125

Method of working out a repayment schedule:

- *Add up all your debts. This gives the total amount you owe.*

Then, for each creditor:

- *Multiply what you owe that creditor by the money you have available towards paying off your debts.*
- *Divide the result by your total debts.*

The result is the amount that you can repay that creditor.

Let's try this using Sara's debts from the example above.

1 Add up all the debts:

Creditor	Amount owed
Gas	£250
Electricity	£125
Rent	£125
	£500

2 For each creditor, multiply the money owed to that creditor by the money she has available to pay off her debts:

Sara has £100 she can use towards paying off her debts, so:

Creditor	Amount owed	
Gas	£250	£250 × £100 = **25 000**
Electricity	£125	£125 × £100 = **12 500**
Rent	£125	£125 × £100 = **12 500**
	£500	

3 Divide this result by the total amount of her debts (total from column 2).

Creditor	Amount owed				
Gas	£250	£250 × £100 = 25 000	25 000 ÷ 500	=	**£50**
Electricity	£125	£125 × £100 = 12 500	12 500 ÷ 500	=	**£25**
Rent	£125	£125 × £100 = 12 500	12 500 ÷ 500	=	**£25**
	£500				

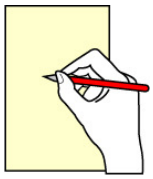
4 The result is the payment for that creditor.

So, the final figure in the table above shows how much she should repay to each creditor.

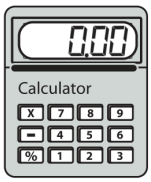
Creditor	Amount owed				Payment
Gas	£250	£250 × £100 = 25 000	25 000 ÷ 500	=	**£50**
Electricity	£125	£125 × £100 = 12 500	12 500 ÷ 500	=	**£25**
Rent	£125	£125 × £100 = 12 500	12 500 ÷ 500	=	**£25**
	£500				**£100**

It is easy to check our calculations, because **the total of the payments** she makes should add up to the amount she has available.

Build your skills for managing your money



Try using this approach to work out the payments to make to the creditors for these people.



1 Max owes money to the creditors shown in the table below, and has £200 available towards paying his debts.

Creditor	Amount owed		Payment
Council Tax	£500		
Rent	£300		
Gas	£200		

2 Ella has the following debts. She has £400 she can use towards paying off these debts.

Creditor	Amount owed		Payment
Mortgage	£750		
Electricity	£250		
Water	£250		

3 Nuri owes money to the creditors shown in the table below, and has £200 available towards paying his debts.

Creditor	Amount owed		Payment
Rent	£280		
Electricity	£400		
TV licence	£120		

Note: Sometimes it isn't easy to see what fractional part is owed to each creditor. The 'Money Matters to Me' method helps you to work out a repayment schedule even when the fractions aren't easily recognisable. You may not yet be confident with the maths skills involved, but you can use the method.

Now print out Part 2 of this task to find suggestions of other free resources you might want to use to practise these skills.