Penny Explains | Key Stage 4 · Years 10 and 11 | Debt and getting debt-free | About 45 minutes



Dealing with debt

Debt can happen to anyone. There is always a next step, and free help.

Answers and teaching notes

For the teacher

- **Aim:** Pupils recognise when debt is becoming a problem, know which debts to deal with first, compare two repayment methods and know where free, impartial advice is found.
- **Curriculum links:** Financial Education Planning Framework, ages 14 to 16: managing risks and emotions (manageable and unmanageable debt, sources of advice) and how to manage money. Citizenship: credit and debt. PSHE: economic wellbeing and mental wellbeing. Maths: ordering, totals and simple interest.
- **Watch first:** the Penny Explains video “What to do if you are in debt” at pennyexplains.com.
- **Starter:** Write DEBT on the board and collect the first words that come to mind. Circle the ones that are feelings. Explain that today is about practical next steps, with no blame.
- **Support:** For activity 6, cover the APR column while pupils number the snowball order, then cover the balance column for the avalanche order.
- **Stretch:** Sam also gets a £300 council tax bill. Where does it go in the plan, and why does it come before either method? (It is a priority debt, so it is dealt with first.)
- **Sensitive topic:** some pupils live in homes with money worries. Keep to the made-up characters, never ask about pupils' own families, and point to the school's pastoral support. All four of Sam's debts are non-priority.
- **Total:** 51 points. Suggested answers are shown in red; accept any answer that is well reasoned.

I can...

- [ ] I can spot the warning signs that debt is becoming a problem.
- [ ] I can sort priority debts from non-priority debts and explain the difference.
- [ ] I can describe the snowball and avalanche methods and name sources of free debt advice.

Key words

Creditor: the person or company you owe money to.

Priority debt: a debt with serious results if unpaid, such as losing your home or energy supply.

Non-priority debt: a debt that still has to be dealt with, but with less severe results.

Breathing Space: a 60-day legal pause on interest, charges and creditor contact, arranged by a debt adviser.

1 When debt becomes a worry

6 points

Use the words in the box to finish the sentences. Use each word once.

minimum | winnings | landlord | essentials | owe | adviser | repayments | letters

Debt is money you **owe**. Lots of people borrow, and most debt is manageable. It becomes a problem when you cannot keep up with the **repayments**. Warning signs include using credit to pay for **essentials** such as food, only ever paying the **minimum**, and being afraid to open **letters**. A good first step is to talk to a free debt **adviser**. The sooner you ask, the more options there are.

2 Breathing Space

3 points

Circle one letter for each question.

a) How long does a standard Breathing Space last?

- A 7 days
- B 30 days
- **C 60 days**
- D 1 year

b) During a Breathing Space, what must creditors stop doing?

- **A Adding interest and chasing you**
- B Sending a yearly statement
- C Accepting payments you offer
- D Lending to anyone else

c) Does a Breathing Space cancel the debt?

- A Yes, all of it
- B Only the priority debts
- C Yes, half of it
- **D No. It buys time to make a plan**

3 Sam makes a plan

6 points

Sam, 23, has had hours cut at work and is behind with several payments. Number the steps from 1 to 6 to show a sensible order.

- **4** With the adviser, pick out any priority debts and choose a repayment plan.
- **3** Take the list and the budget to a free debt adviser.
- **6** Keep to the plan, and review it whenever income changes.
- **2** With the list written, work out a budget: money in, essentials out.
- **5** Send each creditor the repayment offer from the agreed plan.
- **1** Open every letter and make a list of each debt.

4 Priority or non-priority?

10 points

Write each one in the right box.



Penny says: "Priority" is not about the size of the debt or its interest rate. It is about what could happen if it is not paid: losing your home, your energy supply, or going to court.

Unpaid rent · Personal loan · Credit card · Council tax · Gas and electricity bills · Court fines · Money owed to a friend · Store card · Missed mortgage payments · Overdraft

Priority debts	Non-priority debts
Unpaid rent	Credit card
Missed mortgage payments	Store card
Council tax	Overdraft
Gas and electricity bills	Personal loan
Court fines	Money owed to a friend

5 Odd one out

4 points

Circle the odd one out in each row. Say why.

StepChange · National Debtline · **A payday lender** · Citizens Advice

Why? A payday lender lends money and charges interest. The others give free debt advice.

Missing payments · Borrowing to repay debts · Hiding unopened letters · **Writing a budget**

Why? Writing a budget is a positive step. The others are warning signs.

6 Snowball or avalanche?

16 points

Sam's list shows four debts. After essentials, Sam can put **£208 a month** towards them. Two well-known methods both say: pay the **minimum on everything**, then put all the spare money on **one** debt at a time. **Snowball:** smallest balance first. **Avalanche:** highest interest rate first.
Number the debts 1 to 4 for each method, and fill in the totals.

Debt	Balance	APR	Minimum a month	Snowball order	Avalanche order
Store card	£270	30%	£10	1	2
Credit card	£1,100	24%	£28	3	3
Personal loan	£2,400	9%	£75	4	4
Catalogue account	£520	35%	£15	2	1
Total	£4,290		£128		

a) After paying all the minimums, how much of Sam's £208 is left for the target debt? 1 mark

£80 (£208 – £128).

b) With the snowball method, the store card gets its £10 minimum plus that spare money. How many months until it is cleared? (Ignore interest.) 2 marks

> 3 months. £10 + £80 = £90 a month, and £270 ÷ £90 = 3.

c) The £90 then "rolls on" to the next snowball debt, on top of its own minimum. How much a month does that debt now get? 1 mark

> £105 (£90 + the catalogue account's £15).

d) Which method usually costs less interest? Which gives the quickest first win? 2 marks

> Avalanche usually costs less interest. Snowball gives the quickest first win, which helps people keep going.

7 What would you do? 6 points

Read the story, then answer the questions.



Your friend Ali, 19, has gone quiet lately. Eventually he tells you he owes **£900** across a store card and a credit card, has missed two payments and has stopped opening his letters. He says: **"I'm so embarrassed. I might get a £300 payday loan to cover this month. Please don't tell anyone."**

a) A payday loan of £300 for 30 days at 0.8% a day (the legal maximum) charges simple interest. How much interest is that? 2 marks

> £72. One day: 0.008 × £300 = £2.40. Thirty days: £2.40 × 30 = £72.

b) What would you say to Ali so that he does not feel ashamed, and what would you suggest he does next? Name at least one place that gives free help. 4 marks

> For example: money trouble is common and can happen to anyone, and telling someone was a brave first step. Next: open the letters, list what he owes, and contact StepChange, National Debtline, Citizens Advice or MoneyHelper. Borrowing more adds more interest (£72 here). Asking early gives more options, such as a repayment plan or a Breathing Space.

8 Before you go

One thing I learned today

_____

_____

One place that gives free debt advice

_____

_____

How sure do I feel?

☹ Not yet 😐 Getting there 🙂 Got it



Take it home

Find the websites of **StepChange**, **National Debtline**, **Citizens Advice** and **MoneyHelper**. Which would you find easiest to use: phone, webchat or an online tool? You never know who it might help one day.

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