



GRINDS360°

HOME ECONOMICS

FINANCE NOTES

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FINANCE - 2.1.3

CREDIT BUYING

“BUY NOW – PAY LATER”

- Credit buying can be very useful if used wisely. However, most forms of credit include high rates of interest.

FORMS OF CREDIT BUYING

- Credit cards (eg) : Visa/Mastercard.
- Charge cards (eg) : American Express (AMEX).
- Hire Purchase (HP).
- Bank overdraft (Current A/C).
- Personal/Term loan.

ADVANTAGES OF CREDIT

- **1)** Payments can be spread out over a period of time therefore a lump sum does not have to be saved (eg) : car, furniture.
- **2)** Security (ie) : no need to carry cash with plastic cards.
- **3)** You can use a product immediately even though it might not be yours until the last payment (HP) (eg) : car, furniture, electrical appliances.
- **4)** Allowing people access to credit encourages spending which is good for the Irish Economy.

DISADVANTAGES OF CREDIT

- **1)** Encourages impulse buying.
- **2)** Stress (ie) : worrying about owing large sums of money.
- **3)** Buying goods on credit can cost a lot more (high interest rates).
- **4)** People can get into serious debt and may have goods repossessed (eg) : car, if they cannot keep up with repayments.

FACTORS TO CONSIDER WHEN CHOOSING CREDIT



- Can you afford the repayments?
- Do you really need the credit?
- Consider the term (ie) : the length of time the payments have to be made (eg) : 3yrs, 5yrs.
- What is the Annual Percentage Rate (APR) ?
- Are there any hidden charges (eg) : “balloon payment”.



NB : THE CONSUMER CREDIT ACT 1995

- This act is enforced by the Competition and Consumer Protection Commission (CCPC).
- This act consolidates consumer legislation into one act/law.
- Consumers have rights under this act (ie) :
 - **1)** The right to a 10 day cooling off period → the right to change your mind about credit (not applicable to credit cards).
 - **2)** Lenders cannot visit consumers at their workplace.
 - **3)** Bank charges/fees are controlled by the central bank (eg) : Interest rate on loan, interest rate on credit card.
- Under this act, all credit advertisements (eg) : bus shelter, TV, poster in bank window, must show :
 - **1)** The APR.
 - **2)** Details of extra charges (eg) : balloon payment.
 - **3)** Any security required (eg) : deposit.
 - **4)** Restrictions relating to availability.
 - **5)** Original cash price, total cost of credit, installment details (ie) : how much you pay every month.
- Any complaints regarding the Consumer Credit Act 1995 → contact the Financial Ombudsman.

FORMS OF CREDIT / PLASTIC CARDS

<p style="text-align: center;">Credit Cards</p> 	<ul style="list-style-type: none"> • Example : Visa, Mastercard. • No application fee. • Annual government stamp duty €30 (paid in January). • A credit limit is given (not to be exceeded, chip/pin). • Versatile – can be used to purchase goods, book tickets, shop online, withdraw cash at ATM's worldwide. • Monthly statements with details of purchases. • Uses 'chip and pin' technology. • Minimum monthly payment of 5% total allowed.
<p style="text-align: center;">Charge Cards</p> 	<ul style="list-style-type: none"> • Example : American Express 'Amex'. • Very high credit limit. • Annual government stamp duty €30 (paid in January). • Can be used in the same way as credit cards but "extra perks" (eg) : special lounges, serving foods /refreshments in airports, insurance cover on purchases. • The full amount owed must be cleared in full at the end of the month.
<p style="text-align: center;">Advantages of Plastic Cards</p>	<ul style="list-style-type: none"> • Accepted worldwide so less need to pay commission on foreign currency when abroad. • Internet (online shopping) • Security – no need to carry cash • Can make cash withdrawals worldwide
<p style="text-align: center;">Disadvantages of Plastic Cards</p>	<ul style="list-style-type: none"> • Risk of impulse buying • Increased risk of credit card fraud in recent years (eg) : 'skimming' • High interest rates if bill not cleared in full • Risk of getting into debt

HIRE PURCHASE (HP)

- The Hire Purchase Act was originally an Act on its own. Today, the Hire Purchase is covered under the Consumer Credit Act 1995.
- All HP agreements must be in writing, signed by all parties involved and a copy of the HP agreement must be received by the hirer within 10 days of signing the agreement.
- Under the Consumer Credit Act 1995, the HP agreement must include the following :
 - Name and address of all the parties to the agreement (Hirer + Company).
 - A clear description of goods.
 - The HP price (€35,000), original cash price (€30,000), penalty clause (missed/late payment).
 - Details of repayment instalments (numbers amount, timing), frequency.
 - Information on the customers consumer rights to terminate the agreement and on the restrictions of the owner's rights to recover the goods.
 - NB : A statement concerning the customer's right to a 10 day cooling-off period.
- The buyer does not own the goods until the last payment / instalment is made.
- Used to buy cars, furniture, electrical appliances
 - Use of goods before you actually own them.
- Goods are paid for in instalments
 - No lump sum has to be saved.

WAYS OF PAYING FOR GOODS/SERVICES

CASH – “CASH IS KING!”

- Goods are paid for immediately.
- Consumers know exactly how much they have spent.
- May be dangerous to carry large sums of money (robbery).
- Some retailers give discounts for cash payments.

CREDIT CARDS

- (See earlier – go back 2 pages)

BILLPAY

- Billpay is a scheme operated by An Post.
- No charge :
 - Unlike banks and other financial institutions, An Post do not charge you a handling fee for payment of your bills.
- A detailed receipt is provided :
 - Every time you pay a bill at the computerised ServicePlus Post Offices, you receive a detailed receipt. This helps to keep track of payments especially if you are paying only part of a bill amount.
 - At all non-computerised Post Offices, your bill will be endorsed to confirm payment.
- Payment of bills :
 - An Post accept payments for over 158 different organisations including Eir, Electric Ireland, Bord Gais, Oxendales, Vodafone etc.
- Cheques :
 - If you are paying by cheque and paying more than one bill, simply total the amount to be paid and write one cheque to An Post. This cuts down on cheque costs.
- Convenience :
 - You can avail of our BillPay service at over 1400 Post Offices nationwide.

DIRECT DEBIT

- An arrangement is made in writing between the customer and their bank manager.
- To have variable sums of money deducted from the customers current account on an agreed date every week/month.
- **Example** : Telephone bill, Electricity bill, Gas bill.

STANDING ORDER

- An arrangement is made in writing between the customer and their bank manager.
- To have a fixed sum of money deducted from the customers current account on an agreed date every week/month.
- **Example** : Car repayment, Rent.

DEBIT CARD

- (eg) : Visa Debit Card.
- The card has a 'chip and pin', the card is swiped through a machine when purchasing goods, a PIN number is typed in, a receipt is printed, and the amount paid to the retailer is debited from the person's current account (money you actually have).
- Cash can be obtained using a debit card, during the transaction you may be asked if you want 'cash back'
- A small fee is charged every time you used a debit card.
- Visa Debit cards can be used online.
- Transactions can be paid for using the contactless function whereby the card is tapped and no 'chip and pin' is required.

HP

- (See earlier).

NB: SUPPLEMENTARY WELFARE ALLOWANCE (SWA)

- _____
_____.
- _____
_____.
- _____
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- _____
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- _____
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- _____
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- _____
_____.

MONEY ADVICE AND BUDGETING SERVICE (MABS)

- MABS provides a free financial service to people who are in financial difficulty.
- They have trained money advisors to discuss how people can manage their finances who may be concerned about arrears on loans, debts, mortgages etc (particularly after lockdown/level 5 COVID-19)
- They have a phone helpline and there are numerous local offices around the country.
- People are asked to complete a financial statement and submit it to MABS when making an appointment (must be honest).
- **NB** : In many cases MABS will contact the persons creditors and renegotiate loan repayments on the consumers behalf.
- Totally confidential service.



COSTS INVOLVED IN HOUSE PURCHASE

STAMP DUTY

- This is a government tax on the conveyance document (conveyance is the legal process of transferring property from one owner to another).
- There is 1% stamp duty on all houses up to the value of €1 million.
- 2% stamp duty on houses €1 million to €1.5 million
- 6% stamp duty on all houses above €1.5 million (January 2025)
- Stamp duty applies to first time buyers also.

SOLICITORS FEES

- Solicitors usually charge 1–2% of the total house purchase price plus VAT.
- This fee includes all of the work done by the solicitor legally transferring ownership from one person to another (conveyancing) and also searches on the title i.e. checking if the person selling the property is the legal owner.
- Solicitors will also have to be paid extra money for land registry fees to register the property in the new owner's name.

DEPOSIT

- All lending institutions in Ireland insist on a deposit towards a mortgage application. 10% of the total house purchase price is required for a deposit if the mortgage applicant is a first-time buyer.
20% deposit for people who are not first-time buyers.
- The government have a Help to Buy (HTB) scheme which has been extended to December 2029.
It can help borrowers with their deposit, if you qualify there is a maximum payment of €30,000 which is paid directly to your qualifying building contractor.

NOTE: The house cannot cost more than €500,000 to qualify for the HTB scheme



SURVEYORS FEE

- A surveyor carries out a structural survey of the house.
At present the average cost is €445 - €500 to survey a 2 bedroom apartment or a 3 bedroom semi-detached home in Cork / Dublin city.
- The surveyor must highlight things like rising damp, mould, faulty roof etc. so the buyer knows there are extra costs involved in addition to the purchase price of the house.
- Not required to get a surveyors report on new houses.

VALUATION FEE

- In order to ensure that the property being purchased has been correctly valued, lending institutions will insist on an independent valuation being carried out by one of their panel of valuers (approximately €150).
- Some lending institutions waive this cost by paying for it for their first-time buyers.

Criteria for Borrowing Money for a Mortgage in Ireland:

(Note: A mortgage is a loan specific to house purchase.)

1. **Employment Detail Summary (formerly P60):** Applicants must produce a copy of their current Employment Detail Summary, which provides details of their gross earnings in the previous tax year (issued by the Revenue Commissioner).
2. **Age Requirement:** Applicants must be 18 years old or over.
3. **Marriage Certificate:** If the applicants are married, a marriage certificate must be produced (MRF).
4. **Certificate of Income:** A Certificate of Income projecting next year's salary is required from the employer.
5. **Deposit Requirement:**
 - 10% deposit for first-time buyers.
 - 20% deposit for non-first-time buyers.
6. **Employment Status:** Applicants must have a permanent job or a permanent renewable contract.
7. **Credit History:** Applicants must have a good credit history.
8. **Borrowing Limit:**
 - First-time buyers can typically borrow up to 4 times their gross annual income.
 - Non-first-time buyers are usually limited to borrowing up to 3.5 times their gross annual income.

These borrowing limits are part of the Central Bank of Ireland's macroprudential mortgage measures designed to ensure prudent lending.

- **NOTE:** Some lending agencies will want to see proof of ability to pay mortgage therefore applicants have to save the mortgage amount every month for a number of months before approval of a loan. Lending institution may also look at records of rent monthly payments.
- All lending agencies insist on a mortgage protection policy being taken out.
- House insurance on the structure of the building must be taken out also.
- The property must be of a certain quality and standard so that it is a good investment (not likely to get a mortgage for a run-down property)
- Mortgage terms vary from 10 years to 35 years.
- Mortgage can be a maximum of 3.5 times of gross income.

NOTE: The P60 was replaced by the **Employment Detail Summary** starting in 2019. This document, available online through the Revenue myAccount portal, provides a summary of your annual income and tax details, similar to what the P60 used to offer.

TYPES OF MORTGAGES AVAILABLE

ANNUITY MORTGAGE

- Most common type of mortgage.
- Monthly repayments cover interest owed and the loan itself.
- The mortgage is cleared in full at the end of the term (eg) : 20 years.
- This is the cheapest type of mortgage available
- Interest rates :
 - Variable Rate - ____% APR (AIB)
 - Fixed Rate (5 years) - ____% APR (AIB)

ENDOWMENT MORTGAGE

- More expensive than the annuity mortgage as it incorporates some form of savings.
- Monthly repayments cover :
 - The interest owed every month.
 - The remainder of the payment goes into a life assurance (endowment) policy.
- At the end of the term (eg) : 20 years, this endowment policy is cashed in and should cover the original amount borrowed and extra (savings).
- However, there is no guarantee that the policy will cover the full amount borrowed. In the past, people have been left with a deficit.

PENSION MORTGAGE

- Usually taken out by self-employed people.
- Most expensive mortgage as it incorporates a pension scheme as well as a mortgage.
- Monthly repayments are split into :
 - Part of the payment clears the interest owed on the money borrowed.
 - The second part of the payment goes into a pension plan.
- At the end of the term (usually retirement age) the borrower can take 25% of the pension as a tax free lump sum to pay off the mortgage borrowed.

VARIABLE INTEREST RATE

- The mortgage goes with inflation.
- If interest rates go up, repayments increase.
- If interest rates go down, repayments are reduced.
- ____% APR (AIB)

FIXED INTEREST RATE

- The interest rate is fixed for a period of time, usually up to 5 years maximum, therefore interest rates stay the same during this fixed period (peace of mind). This is ideal for first-time buyers who may have limited income and could not afford an increase.
- ____% APR, Fixed 5 years (AIB)

MORTGAGE REPAYMENT COVER PAYMENT

- Optional cover.
- An extra %/sum is added on to the mortgage repayment.
- In the event of sickness, redundancy or an accident, part or all of the mortgage repayments are paid for up to 12 months.
- May be of interest to those who provide the main source of income for the household or those who are self-employed.

MORTGAGE PROTECTION POLICY (LIFE ASSURANCE POLICY)

- Compulsory cover.
- The annual payment (premium) is usually divided into 12 monthly payments and added on to each mortgage payment.
- In the event of the assured person(s) dying during the mortgage term, the amount owed is then cleared.

WHAT DO LENDERS BASE THEIR DECISION ON?

- **Income** : lenders will look at your annual income and some may take bonuses and overtime into account. Some may factor in rental income if you plan to rent out a room.
- **Age** : what age you are now, what age you will be when you retire and/or when the mortgage ends.
- **Outstanding Loans** : if you have other loans or a high credit card balance this may reduce the amount you can borrow or may affect your ability to get a mortgage.
- **Employment Status** : a lender will look at whether you are in permanent employment or on probation. If you work on contract they may require you to be employed for at least 12 months with the same employer or be on a second contract with the same employer.
- **Residential Status** : are you a resident in Ireland or a returning emigrant.

- **Outgoings** : lenders will take your other financial commitments, such as childcare, into consideration.
- **Money Management** : lenders will look at your bank statements and assess things like ability to meet direct debits and standing orders, if you are using an overdraft facility on a regular basis, if there is evidence of excessive use of online gambling etc.
- **Savings** : this shows that you have saved enough for your deposit and have the ability to save a set amount of money on a regular basis.
- **Credit History** : this shows your track record of paying other loans in the past. A poor credit history can prevent you from getting a mortgage.
- **Property Value** : the purchase price of the home you want to buy (if you have one in mind) and the value of your current home, if you plan to sell and buy a new home.
- **Amount You Wish To Borrow** : this is the amount you apply for and is the difference between the purchase price of the property and the deposit you have saved.
- **Guarantor** : someone acting as guarantor and agreeing to repay the loan if you can't.
- **Number Of Applicants** : are you borrowing by yourself or with someone else.



Reference : <https://www.ccpc.ie/consumers/housing/mortgages/applying-for-a-mortgage/>

TYPES OF INSURANCE

1) CAR INSURANCE

- Car insurance premiums vary depending on :
 - Age of driver.
 - Gender.
 - Size of engine.
 - Age of car.
 - No claims bonus (If no previous accidents).
- Third party insurance :
 - Basic type of insurance.
 - Compulsory.
 - Cheapest car insurance policy.
 - Covers damage to other car and of it's occupants.
- Comprehensive Insurance
 - Most expensive policy.
 - Covers damage to both cars and their occupants.

2) HOME INSURANCE

- This type of insurance is compulsory on the house structure when you take out a mortgage
- House insurance pays out money if the building is damaged.
- It also covers the cost of rebuilding the house in the event of a fire.
- Most insurance companies offer discounts on the premium if you are a non-smoker, have smoke alarms in the house, live in a neighbourhood watch area. All risks policy insures items outside the house (eg) : jewelry, expensive camera, expensive bicycle

3) HEALTH INSURANCE

- VHI and Aviva are two of the main providers of health insurance in Ireland.
- Some companies provide their own health insurance (eg) : the Gardai have St Paul's medical society – medical provident fund.
- Premiums depend on the type of cover (ie) : health insurance plan a person has. The most expensive plan covers expenses in a private room in a private hospital (eg) : The Beacon Hospital (Dublin).
- Money can be claimed back from VHI etc. for GP visits, consultants fees etc.

4) CAR INSURANCE

- Travel agents insist on passenger taking out travel insurance when going abroad.
- This type of insurance covers lost luggage, flight delays, loss of money, emergency return flights etc.

- It covers expenses that may arise as a result of an accident abroad (eg) : breaking a leg on a ski trip.
- The cover lasts for the duration of the trip.
- Annual travel insurance.



LIFE ASSURANCE

Assurance = Definite

- A **sum of money** will **definitely** be paid out
- No family should be without some form of **life assurance**. The **early death of husband or wife or partner** can impose **severe financial burdens** on the **surviving spouse / partner**.
- For a **relative small sum**, **life assurance** can **provide** some protection and a certain amount of **peace of mind**.

Three types of Life Assurance

- Term assurance
- Whole of Life
- Endowment
- There are **two aspects** to **life assurance** policies:

(A) PROTECTION – for **dependants** after the assured person's **death**

(B) SAVING – This is where the assured person cashes in the policy **while they are still alive**.

Three Types of Life Assurance

(1) Term Assurance	(2) Whole of Life Assurance	(3) Endowment
<p>(a) Decreasing Term</p> <ul style="list-style-type: none"> • also called '<u>mortgage protection policy</u>' • obligatory to take out this policy with a mortgage • Premium for this policy is usually ÷ 12 and added on to each monthly mortgage payment. • <u>In the event of the assured dying during the term of the mortgage, the amount owed is cleared.</u> <p>(b) Family Income Benefits – Instead of dependants receiving a lump sum, regular income is paid to family (annually)</p> <p>(c) Level Term – cheap, no money paid out if you survive the term of the policy, low cover</p>	<ul style="list-style-type: none"> • More expensive than term assurance • This policy is taken out for <u>dependants after the death of assured person.</u> • Premiums are paid for a certain term eg. 30 years (<i>many people elect to stop paying premiums before they retire</i>) • Even if the premiums are fully paid, NO MONEY IS PAID OUT until after the death of the insured person. • There is an option to take out a 'With Profits Policy'. By paying extra on to the premium, the policy holder shares in profits of insurance company 	<p><u>Most expensive type of life assurance policy.</u></p> <ul style="list-style-type: none"> • It incorporates an element of saving. • A policy is taken out for a specific term eg. 10 years • The premiums are invested eg. in global markets by the insurance company. • A <u>lump sum is definitely paid out at the end of the term,</u> can be linked to a mortgage. • Risk attached if stock market prices drop.

BUDGETING

What is a Budget?

A spending plan that sets out the amount of income a person has compared to the amount of expenses during a specific period of time (e.g. weekly, monthly or annual budget). In order for the plan to work, never allow expenditure to exceed income.

Advantages of a Budget:

Advantages = Merits = Functions = Importance

- **Reduce Stress** – Less anxiety knowing all the essential bills are paid e.g. housing, food, clothing and utility bills
- **Sets a good example** – for children growing up, they learn the value of money and the importance of mindful spending
- **Allows for seasonal spending** – money is set to one side for Christmas and holidays so no need to use credit.
- **Controls Spending** – helps prevent overspending and impulse buying avoiding serious debt. Budgets show where money is being overspent.

Suggested ways to Reduce Spending for Families

- Draw up shopping lists and stick to them, shop in large supermarkets that sell low cost items e.g. Aldi, Lidl.
- Shop around for the best price for utility bills, change providers of electricity or gas if better value is available.
- Visit charity shops, many items are new or barely used and at a discount price.
- Use electricity wisely, use "full loads" in washing machines, dishwashers, do not leave electrical items on standby.
- Include more plant based protein foods in the diet instead of meat (beans, lentils, etc), nutritionally good but also less expensive.
- Avoid using credit cards, only spend money you actually have. If using a credit card, clear in full every month to avoid paying high interest rates.

How to Plan a Budget

- Before money can be allocated for spending, we must look at where income comes from

Sources of Income

→ wages / salary

→ child benefit (€140 month / one child)

→ social welfare payments

→ interest earned on savings / investments.

- If asked to plan a budget on an exam question (2004 Q4. B, 2015 Q4. B), structure your answer as follows.

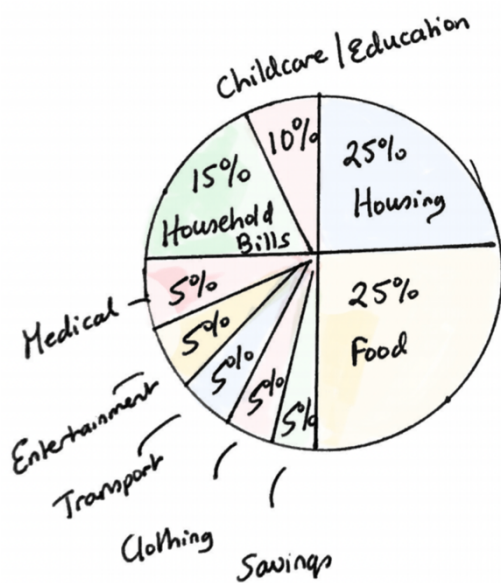
(A) DRAW UP A TABLE listing (i) **Income**

(ii) **List of Expenses**

(A)

INCOME	EXPENSES
<ul style="list-style-type: none">- Wages/ Salary- Child Benefit	<ul style="list-style-type: none">- Housing (Mortgage/ Rent)- Food- Household Bills- Clothing- Transport- Entertainment- Medecine

NOTE - DO NOT include any figures/ numbers at this point

(B) INDICATE THE BREAKDOWN ON A PIE CHART

- 25% Housing
- 25% Food
- 15% Household Bills
- 10% Childcare / Education
- 5% Clothing
- 5% Transport
- 5% Entertainment
- 5% Savings
- 5% Medical
-

Note

The above breakdown is based on

M.S. 2015 Q4. B.

READ QUESTION carefully.

(C) LINK (A) and (B) together and state the actual amount for each expense and a reason for allocating this money to that expense

Expense	%	Amount	Use of Money
Housing	25%		To pay mortgage, rent, household repairs/ house insurance.
Food	25%		Covers meals for the family at home, school lunches and eating out
Household Expenses	15%		Utility Bills e.g. Electricity
Transport	5%		School Bus, DART/ LUAS, petrol
Entertainment	5%		Nights out with friends, day trips
Clothing	5%		for work, school and leisure.

(D) Make a list of points that can be relevant to the situation in the question to stretch the budget!

NB

Do **NOT** ADD EXTRA MONEY to the figures given in the exam question!!

Example

A student on a budget could "stretch" their money if

→ cycle to college

→ share a rented house with others

→ have a weekly "kilty" for household bills / food.

(a) Suggest some strategies that should be followed when planning family budgets

(20) 5@4mk.

In order to ensure the household income is distributed proportionally, all essential bills paid, the following strategies should be applied.

- All sources of income must be listed
eg. salary / wages, child benefit, interest on savings, annual bonus etc.
- All sources of expenditure must be listed
Fixed expenses eg. rent / mortgage, H.P. on car etc.
Irregular expenses eg. electricity / gas, school expenses etc.
Discretionary expenses eg. social outings, holidays etc.
- Allow money for "emergencies"
ie. "rainy day fund" eg. replace a boiler if central heating breaks down, replace an electrical appliance eg. washing machine.
- Keep copies of bills, receipts for the household in an organised manner eg. in a folder "Bills 2025", file etc. so there is easy access. Keep in a safe place.

- Incorporate long and short term savings in the budget, long term savings for children’s education, short term savings for family holidays and seasonal spending at Christmas.
- Allocate the income as follows

Housing 25%	5% for Entertainment
Food 25%	5% for Clothing
Household Expenses 15%	5% for Savings
Education / Childcare 10%	5% for Transport.
5% for Medical	

Note this is from Marking Scheme (M.S.) 2015 Q4. B, it may need to be modified. READ question carefully!

a) Analyse the factors that affect household income 2019 Q4: B (20) 5 @ 4mks.

- **Age** – Usually a person’s income increases as they age. This is because they are more experienced at their job and have worked their way up the “pay scale”. They may also be entitled to large annual bonuses.
– However, there are reductions in income when people retire. Those who do not have adequate PRSI payments made are totally dependent on the OAP which is means tested and a max of €288 (60yrs – 80yrs) weekly.
- **Socio-Economic group** – Many young people in lower socio-economic groups tend to leave secondary school before completing their Leaving Cert exams, they do not have any qualifications so end up in lower paid jobs (shop assistants, cleaners etc. and are on minimum wage which is only €13.50 per hour (January 2025)

- **Number of Family Members in Employment** –

Families where there are **both** parents / guardians in paid employment will have a larger income than the family household where there is only one income coming in to the home. Many adult children are still living at home due to the high cost of rent so may also be contributing to the household income.

- **Working Hours** – People in full time employment ie. have permanent jobs (work 38 hours a week and get paid 52 weeks of the year will have a larger income for the running of the family household compared to a person on part time hours or work in seasonal employment eg: tourism industry.

- **Disabilities / Sickness** –

If a person in the household is on long term illness benefit which is not means tested and is only €244 per week. Disability allowance is means tested and the maximum rate is €244 per week. Both payments are much lower than if the persons were in full time employment.

Savings Budget (2015)

2015 Q4(B)

(c) Recommend **one** type of savings scheme suitable for a family (14)

Refer to: **BANK SAVINGS**

- I have chosen an online savings plan because
 - they have higher rates of interest
 - little or no fees
 - save time as the family do not have to physically call to the bank to access savings.

- The savings scheme is called ONLINE REGULAR SAVER A/c

* Name of Institution (2mk)

Allied Irish Banks (AIB)

* Type of savings scheme (3mk)

- ONLINE REGULAR SAVER A/c

- There is flexibility of payments,

the minimum deposit is €10 / month

the maximum deposit is €1000 / month

* Interest Paid (3mk)

3% Interest rate (APR)

compared to 0.25% in a standard deposit demand A/c

* Ease of Access to Funds (3mk)

No notification is necessary to withdraw savings and money can be moved to another account via online banking very quickly.

* TAX payable (3mk)

Interest earned is subject to DIRT (Deposit Interest Retention Tax) @ rate of 33%.

(c) Recommend one type of savings scheme suitable for a family (14)

POST OFFICE SAVINGS

Refer to:

I have chosen *An Post Instalment Savings* because

- they have higher rates of interest compared to regular savings schemes
- Savings are state guaranteed (i.e. protected by the government up to €100,000).
- there are no charges or commission.
- Any interest earned is free of DIRT.
- ideal for long term savings for a family eg: 3rd level education.

* Name of Institution (2mk.)

An Post

* Type of Savings Scheme (3mk)

- *An Post Instalment Savings*
- There is flexibility of payments
- minimum deposit €25 per month

- Up to a maximum of €1,000 per month
(this may suit a family to have flexible payment amounts as there are extra household expenses in December for Christmas and also in September for school expenses).
- The 12 monthly payments are then invested for a further 5 years.
- Payments do not have to be made on a fixed date every month, they can be made at any time during the month.

* Interest Paid (3mk)

10% total return (eg. €1,000 invested, €1,100 return ie: interest worth €100).

if the investment is left to maturity.

* Ease of Access to Funds. (3mk)

7 business days / working days' notice are required to withdraw money earlier than the maturity date.

* TAX Payable (3mk)

Any interest earned on the savings is tax free (DIRT @ 33% does NOT apply)

4. (a) Outline the role of the household/ family as a financial unit within the economy. (10)

- **Working members of the family pay taxes/ spend money**
 - Members of a family who are part of the workforce pay taxes on the income they earn e.g. PAYE (personal income tax at the rate of 20% or 40%), PRSI (Pay related social insurance), USC (Universal Social Charge) . The income from PAYE workers is used to build roads, hospitals, schools, pay civil servants etc.

 - Also, these working family members spend money on food, clothes, furniture, household/ garden items. This circulates money in the Irish economy and keeps people in jobs.

- **Families produce children**
 - Most families will have children, these children grow up, are educated and join the workforce when qualified. Therefore families provide children to work in the Irish economy.

 - While children are reared within the family unit, they learn to manage (or should learn) money from an early age, e.g.. babysitting, job at the weekends. These money management skills learned within the home are essential in later life to manage money when they are adults running a future household of their own.

(b) Discuss the impact of the following social factors on household income.

- Age
- Gender
- Social class
- Culture

Age:

→ *Income tends to increase as people get older due to getting paid more for their “years of experience”. Also, they may be in “incremental jobs” e.g. each year a person works they get a little extra on their salary every year e.g. (teachers in the public sector)*

→ Income tends to decrease once a person retires from their job, usually around the age of 65 years old. In pensionable jobs, a certain % of the working salary is paid during retirement but the amount falls well short of the original “working salary”. Those people who do not have adequate PRSI contributions paid on retirement are solely dependent on the OAP which is not a lot and is means tested (Maximum rate 66yr - 80yrs €278 weekly).

Gender:

→ The Employment Equality Acts 1998 – 2015 prohibit discrimination in employment including discrimination against gender i.e.. Women and men are equally entitled to the same pay for the same work. e.g. Ms. Verona Murphy will receive €255K salary as the new Ceann Comhairle the same as her predecessor Mr. Seán Ó Feargháil.

→ For many years, men mainly held senior positions in companies e.g. CEO, Managing Director etc. However, in recent years, more and more women now hold senior positions eg. Anne O’ Leary, CEO Vodafone Ireland.

Social Class:

→ Many people from lower socio-economic backgrounds leave school early ie: before they complete a Leaving Cert. As a result they lack qualifications and end up in lower paid jobs.

The minimum hourly rate (ie: Minimum wage) is €13.50 for workers aged 20 and over.

→ People from middle class backgrounds tend to have better opportunities in education, they may go to University / third level College and gain qualifications that will lead to better paid jobs.

Culture:

→ Different cultures value income differently e.g. developing countries, income is usually spent on basic needs only (i.e.. food, shelter, clothing) whereas in more affluent countries disposable income is spent on basic needs but also spent on luxuries (holidays, nights out, designer items etc.).

→ Some cultures still do not allow married women to work in paid employment outside the home, they need to get their husband's permission to do so e.g. Bahrain, Jordan, Syria, UAE unlike the Western World where there are equal job opportunities.

A dual income household will very often bring in more income than a single income.

(c) **FACTORS THAT CONTRIBUTE TO VARYING patterns of Household Expenditure** (16) 4 @ 4m.

- **Low Level Income** – Families on low paid wages eg. those on the minimum wage €13.50/ hour for people aged 20 years old or over, most of their income is spent on “essentials” eg. housing, food, household bills and much less is spent on “luxuries”.
- **Location of Home** – can influence the amount of income spent on rent or a mortgage. In rent pressure zones (RPZ), the cost of housing can take up a huge portion of disposable income eg. the average cost of rent in Ireland (September 2024 €1,612 per month) however if renting in South Co. Dublin (D4, D6) €2,128 per month (Sept 2024).
- **Family Size / Stage in the Family Life cycle** – Larger families will spend a lot more money on food, clothing and education costs compared to smaller families. Teenagers cost a lot more money than young children, shoes, clothing, socialising third level education costs are all very expensive at this stage of the family life cycle.
- **Urban v Rural Homes** - Urban homes very often spend more money than rural homes as there are a lot more outlets / venues to spend money on (cinemas, shops etc).

SAVINGS - 2010 Q4. B.

(b) Explain why each of the following are important considerations when selecting a savings scheme: (20)

- (i) security of savings
- (ii) interest payable
- (iii) access to funds
- (iv) tax payable

i) Security of savings

→ Some savings schemes are more safe / secure than others e.g. An Post Savings schemes e.g. Instalment savings, savings bonds, savings certificates are state guaranteed, in simpler terms savings are protected by the Government. They guarantee the interest rate quoted on the day of purchase of these savings schemes will be honoured on maturity of these savings schemes. Security of savings are also guaranteed.

→ Both Banks, post offices and lending agencies / institutions e.g. EBS Building Society are **all** guaranteed by the State up to €100,000 in individual savings accounts.

In other words, if there was a deep recession and banks “folded”, the government would guarantee each consumer at least €100,000 in each of their savings accounts in different lending institutions. Therefore, if a person has a lot of savings e.g. €500,000, they would be advised to divide it up into 5 different / separate accounts.

Note

Some investments are very high risk, money may be invested in the stock markets which are not always stable especially when war breaks out in countries or there is a change in leadership (new President etc).

Therefore, only invest in these savings schemes if the money can afford to be lost!

(ii) Interest payable

→ If a person wants to earn an income from a savings scheme they need to invest in high interest schemes (eg. An Post savings schemes – Instalment Savings 10% interest after 6 years) in comparison to standard savings accounts where the interest payable is extremely

→ low eg: AIB 6 term deposit account 1-1.5%, 1 year term deposit account 2.5%.

The average interest rate on an instant access savings / deposit account is only 0.11%.

Current accounts are totally unsuitable for savings (no interest paid)

(iii) Access to Funds.

→ If money is possibly needed in an emergency, avoid post office savings schemes where a 7 day (working days) notice must be given for notice of withdrawal (Instalment Savings, Savings Bonds).

→ Ideally have long term savings for third level education etc. and choose accounts like AIB regular Online Saver A/c that allows instant access to

(iv) Tax payable

→ If a person saving money wants to avoid paying **DIRT** (*Deposit Interest Retention Tax*) which is where the government takes 33% of any interest earned on savings, then An Post savings schemes (Instalment Savings, Savings Bonds etc. should be chosen).

→ Most high interest savings accounts are subject to DIRT @ 33% therefore a person might be better off investing in property rather than having to pay high amounts of tax on their savings.

(c) MABS (10) 2 @ 5mk.

2010 / 2019 Q4. B.

(c) MABS(Money advice and Budgeting Service) (10) 2 @ 5mk.

- MABS provide free financial ① service to people who are in financial difficulty. They have trained Money Advisors ② to discuss how people can manage their finances who may be concerned about ARREARS ② on loans, debts, mortgage etc.
- People who contact MABS are asked to complete a financial statement ① and submit it to MABS when making an appointment ②. In most cases, MABS will contact ② the person's creditors and renegotiate loan repayments on the consumers behalf.

SOCIAL WELFARE PAYMENTS/ SUPPORT FOR PEOPLE ON A LOW INCOME

1. Supplementary Welfare Allowance : SWA

⇒ This is a WEEKLY ALLOWANCE paid by the Government to people who do not have enough income to meet their needs or the needs of their family.

⇒ If you applied for a Social Welfare payment or pension but it has not yet been paid and you have NO OTHER INCOME, you may get SWA while you are waiting, but it will be deducted from the arrears of the social welfare payment.

⇒ If you are living in Ireland, have passed the 'Means test' and have registered for work with your local employment centre, you can apply for a SWA.

2. Working Family Payment (WFP). (Formerly called FIS = Family Income Supplement)

⇒ This is a WEEKLY, TAX FREE payment for employees with children on low pay.

⇒ You must have at least one child, who normally lives with you or who you support financially, you must also work 38 hours or more per fortnight (in any combination of hours).

⇒ Your average weekly income must be under a certain threshold for your family size, the WFP is 60% of the difference between your average weekly income and the WFP limit for your family size.

NOTE: EXAMPLE – As of January 2025

⇒ The WFP threshold for a family with **one child** = **€705**

⇒ eg. A family with one child has a weekly income of = **€505**

WFP = **60% of the difference**

= **€200**

Therefore, this family get = €120/week WFP.

ONE-Parent Family Payment = OFP

⇒ This is a weekly, tax free payment for people under 66 years old who are bringing children up without the support of a partner.

⇒ To get the OFP, you must have at least one child under the age of 7 years old (one exception here is if a spouse is dead).

⇒ **Maximum** personal rate / weekly in 2025 is

€244 weekly

(+ plus €50 extra for each child under 12 years

€62 extra for each child over 12 years)

EXAMPLE: ONE Parent, 7 year old, 10 year old will receive €356 per week (OFP)

€244

€50

+ €62

€356

FINANCE TERMS

UNIVERSAL PAYMENT

- Not dependent on PRSI contributions.
- All citizens are entitled to these payments regardless of income.
 - **Example:** Child Benefit (€140/month, up to 18 years of age or in full time education)
 - **Example:** Free Travel on public transport for Old Age Pensioners (OAP's), 66 years of age and older.

GROSS EARNINGS

- Earnings/wages before any deductions have been taken away. Deductions are taken at source.
- Deductions include PAYE, PRSI, health insurance, insurance policies, payment to a trade union.

NET EARNINGS

- The actual amount you receive into your hands after deductions have been taken away (eg) : PAYE, PRSI, health insurance etc.
- Also known as 'disposable income'.

PAY AS YOU EARN (PAYE)

- Income tax deducted at source (taken by government) from wages of employees.
- This money provides the government with an even flow of revenue throughout the year to build schools, build schools, build roads, run hospitals, pay civil servants etc.
- A single person pays tax at a rate of 20% on the first €35'300 of taxable income, 40% tax applies to the balance.

PAY RELATED SOCIAL INSURANCE (PRSI)

- All employees in Ireland over the age of 16 years are obliged to pay PRSI.
- Any person earning less than €_____ gross per week pays no PRSI, those earning above this amount pay 4% of all gross earnings in PRSI.
- PRSI payments/contributions are paid weekly therefore 52 PRSI contributions per year.
- Most employees pay A1 PRSI contributions which help them to qualify for the Old Age Contributory Pension (OACP) at the age of 66 years old/help people to qualify for unemployment benefit.
- Dental benefits (ie) : dental check, cleaning once per year – paid for using PRSI contributions.

DEPOSIT INTEREST RETENTION TAX (DIRT)

- A government tax on any interest earned on savings/deposit accounts.
- Standard rate of DIRT is ____%.
- Post office saving bonds, Saving certificates and Instalment savings are exempt from DIRT.

STATE GUARANTEED

- Both security and interest rate on savings are secured.
- Whatever interest rate you are quoted when you open the account, the government guarantees this interest rate will not change.
- Post office instalment savings, saving bonds and saving certificates are state guaranteed.

SOCIAL ASSISTANCE PAYMENT

- Payable if the applicant does not have an adequate number of PRSI contributions/payments.
- The applicant receives the “flat rate” of the payment.
- This payment is means tested (the more cash, property etc. you have the less money paid out).
- The taxpayer pays for this payment.
 - Job Seekers Allowance (age 26+), €_____ per week maximum.
 - Old Age Pension, €_____ per week maximum.

CONTRIBUTORY SOCIAL WELFARE PAYMENT

- Otherwise known as, Social Insurance Payment.
- Payable if the applicant has an adequate number of PRSI payments/contribution made in the previous tax year (A1).
- Not means tested.
- The applicant is claiming back what they have paid in previous PRSI payments.
 - Job Seeker’s Benefit, €_____ per week maximum.
 - Old Age Contributory Pension, €_____ per week maximum.

WHAT IS MEANT BY TAX CREDIT?

- Tax credits are used to reduce the amount of tax you pay (ie) : you are entitled to earn a certain amount of money “tax free”.
- Every resident in Ireland is entitled to a personal tax credit which depends on whether you are single, married, widowed, separated, divorced etc.
- People are also entitled to additional tax credits (eg) : if 65 years or older, a PAYE worker
→ Employee Tax Credit is €_____ per year.
 - Paying bin collection, health insurance etc.

UNIVERSAL SOCIAL CHARGE (USC)

- Deducted at source.
- It is a tax on income, since January 2011. You pay USC if your gross income is more than €13'000.
- Once your income is more than €13'000, you pay USC on all of your income.
- The rates of USC vary between 0.5% → 8%.
- Example : First €12'012 gross income rate of USC = 0.5%, the next €8'472 (USC 2%) then rate 4.5% on the next €49'560 and rate 8% on balance.
- 'Bail out' money.

WORKING FAMILY PAYMENT

- Formerly known as the Family Income Supplement.
- A "top up" payment for people on low incomes, paid weekly from the Department of Social Protection.
- The payment is 60% of the difference between the claimants net income and the income threshold set down by the Department of Social Protection.
- **Conditions** : Must have one dependent child at least and net income must be below a certain threshold.

WHAT TO CONSIDER WHEN CHOOSING A SAVINGS SCHEME

ACCESS TO MONEY

- Can you get access immediately to your money in an emergency or do you have to give notice? Some accounts require 30 days or even 90 days notice.

ANNUAL PERCENTAGE RATE (APR)

- How much interest will your savings earn?

DIRT

- Will interest earned on savings be subject to DIRT?

HOW MUCH MONEY CAN YOU AFFORD TO SAVE?

- In order to not be placed under financial pressure.

RISK

- Is there any risk attached? Are you depending on the stock markets to earn interest on your savings?

SAVINGS

1) POST OFFICE SAVINGS

SAVINGS CERTIFICATE

- Your investment will earn ___% tax free over 5 years.
- Interest is calculated on a six monthly basis.
- Minimum investment _____.
- Maximum investment _____.
- State guaranteed (no DIRT payable).
- Anyone over 16 years can invest.
- 7 working days notice must be given before withdrawals.

DEPOSIT ACCOUNT PLUS

- Your investment will earn _____%
- Interest earned is subject to DIRT.
- 30 days notice must be given before withdrawals.
- Minimum deposit is €_____.
- No maximum savings limit.
- No fees, charges or commission.

2) BANK SAVINGS

ONLINE SAVINGS PLAN (AIB)

- .This plan has higher rates of interest, little or no fees and can save time as the family do not have to physically call to the bank to access savings.
- The savings scheme is called **ONLINE REGULAR SAVER ACCOUNT**.

NAME OF INSTITUTION

- Allied Irish Banks (AIB)

TYPE OF SAVINGS SCHEME

- Online regular saver account
- There is flexibility of payments, the minimum deposit is €__ per month.
- The maximum deposit €_____ per month.

INTEREST PAID