

Topic 4: Understand the benefits of paying in advance

After completing this topic, you will be able to:

- explain the methods of prepaying and their advantages;
- understand different types of payment in advance, including:
 - mobile phone top-up cards;
 - phone line rentals;
 - season tickets;
 - bonuses for paying in advance (for example, magazine subscriptions);
 - rent bonds; and
 - insurance;
- explain how choices about when to pay and the ability to pay in advance will help when budgeting.

Different ways of paying

When we buy something, we have to pay for it. In terms of time, there are three different ways of paying for what we buy:

- paying now – that is, *at the same time* as we receive the goods;
- paying on credit – that is, *after* we have received the goods; and
- paying in advance – that is, *before* we receive the goods.

We have looked in previous topics at the ways in which we can pay on credit, and at some of the advantages and disadvantages of doing so.

We have also considered methods of paying now, using debit cards or cheques.

Paying in advance

‘Paying in advance’ means exactly what it says: there are products and services that we buy for which the seller insists on being paid first. There are also other products and services that we buy for which we are happy to pay in advance because we get a discount if we do so, or because it is very convenient.

If we look at some particular products and services, this will become clearer.

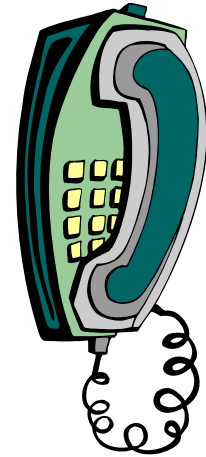
Telephones

A telephone landline has to be paid for in advance. The telephone company will bill a customer for the cost of the line for the future three months and then will bill the customer for the actual calls made during the last three months.

Pay-as-you-go mobiles are also payments in advance. The phone is topped up with money, which we call 'credit'. So, in effect, we have paid in advance for the calls.

These two examples suggest that there are two reasons for payments in advance – that is:

- the seller insists on it; and
- it is convenient.



Season tickets

We buy season tickets because they offer us a discounted price, compared with the usual price – but only if you use the facilities regularly or make many visits.



Activity 4a

How many different types of season ticket can you think of?

Did you know?

At the time of writing, a child's full annual pass for Legoland in Windsor costs £76.50 when bought online, while the cost of a single visit is £41.40 on the gate (or £31.05 if bought online).

Alton Towers charges £99 for an annual individual theme park pass when bought online, while the cost of a child's day ticket is £40.80 on the gate (or £30.60 if bought online).



Activity 4b

A rail season ticket between Bradford and Leeds is £95.70 a month. The return journey is £7.20 a day.

If someone does this journey every day for a month (assuming that this comprises 22 working days), how much will they save by buying the season ticket?

Magazine subscriptions

A monthly magazine is a popular purchase for many of us. If you take out a subscription, which means that you pay in advance for six editions or 12 editions, the magazine publisher will offer a discount.

The advantage of this for the customer is the reduced price and that the magazine will be sent by post, so that the customer will not need to go to the shops to collect it.

The advantage for the publisher is that it has some guaranteed sales for the next six or 12 months.

Holidays and travel

When you book a package holiday, you will usually pay a deposit on booking and then the balance several weeks before you leave. We accept this as a normal way of doing business. It makes sense: no holiday company is going to let you take a flight and stay in a hotel, and then ask for payment only afterwards. The situation is the same for flight and train tickets.



Rent and a rental bond

When someone rents a house or flat, a contract is drawn up. It is normal for the landlord to expect the tenant to pay each month's rent in advance and also to make an extra payment at the beginning as a deposit (usually one or two months' rent).

This deposit of extra money is called a 'rental bond'. This means that the landlord will keep this money as security in case the tenant disappears without paying rent or causes damage to the property for which the landlord has to pay. At the end of the contract, assuming that all of the rent has been paid and that there has been no damage to the property, the landlord will return the deposit to the tenant.

This type of payment in advance is another example of a normal way of doing business.

Insurance

Insurance can also be considered to be a payment in advance. In Topic 5, we will look at different types of insurance in detail.

Insurance for a motorbike, for example, may be for a 12-month period. The insurance company is covering the customer for the risk of accidents or the theft of the bike over the 12 months. It is the company's usual way of doing business to ask for the payment in advance.

Some insurance companies will quote for monthly payments, even though the whole contract is for the year. This helps a customer to manage their money.



Paying regularly and automatically

The providers of services such as electricity and gas offer customers a discount if they make regular monthly payments. The method uses an estimate. The total bill for the year is estimated and divided into 12 monthly payments; these payments can be made by direct debit. At the end of the year, a new estimate is made and the payments adjusted to take into account any overpayment made during the previous period.

This type of payment in advance is a good way of managing money, because the monthly payments are the same. Further, at the end of the year, there is a chance that you will have made a small overpayment, which will help towards next year's bill.

Payments in advance and budgeting

A budget is a financial plan. We will be looking at budgets in more detail in Topic 7. It does help us to plan if payments are made regularly and are the same amount each time. The usual time period for which people prepare a budget is a month, because this fits in with their income.

Some of the advance payments at which we have looked this topic are helpful when making financial plans, such as monthly insurance and regular automatic payments.

Other types of payment in advance are helpful when planning because they reduce the cost – season tickets, for example – or because they fix the cost so that you know that it will not change during the year – for example, a magazine subscription.



Review questions

1. List all of the reasons given in this topic for payments in advance.
2. Why might sellers want buyers to pay in advance? Give an example.
3. Why might buyers want to pay in advance? Give an example.
4. In what other sorts of situation might payments in advance be more convenient or be normal practice? Give examples.
5. In what circumstances might a buyer lose out when paying in advance?

Learning activities



Internet

Look in your favourite magazine or visit its website and find out how you can buy it on subscription.

- How would you pay?
- What discount or free gift might you be given?
- Why do you think the magazine gives a discount?
- What might be the disadvantage to you if you were to take out a subscription?



Group

Review your answers to Activity 4a. Look up several providers of one of the types of season ticket that you listed. Find out how much the saving is compared with prices per visit. Try to convert the saving into a percentage, so that you can compare the savings across providers more easily.



Individual

Visit www.nationalrail.co.uk and go to 'Train times and tickets', then 'Check your season ticket price' and select 'Season ticket calculator'. For the following journeys, work out how much a traveller would save by buying a season ticket rather than buying a ticket daily.

- Birmingham to Nottingham
- Doncaster to Sheffield
- Peterborough to Cambridge



Key points for Topic 4

You should now understand:

- different methods of paying in advance;
- different types of payment, including mobile phone top-up cards, phone line rentals, season tickets, bonuses for paying in advance (magazine subscriptions), rental bonds and insurance;
- how payments in advance are helpful when budgeting.