

Topic 2: Understand the sources of money

After completing this topic, you will be able to:

- explain what 'employment' is and different types of employment, including:
 - full-time;
 - part-time;
 - casual work and zero-hours contracts; and
 - self-employed;
- list and give short details of some government benefits, including:
 - Education Maintenance Allowance (EMA) (only available in Scotland, Ireland and Wales);
 - Jobseeker's Allowance (JSA);
 - Income Support;
 - Employment and Support Allowance (ESA);
 - Universal Credit;
 - Child Benefit;
 - basic State Pension;
 - flat-rate State Pension;
- explain how investments can be a source of money;
- discuss how gifts can be a source of money; and
- explain what an 'inheritance' is and the factors that will affect an inheritance, including:
 - wills; and
 - inheritance tax (IHT).

Different types of employment

When people have jobs, they become 'employees'. The person or organisation for which they work is called their 'employer'. Employers make decisions about the tasks that employees do, the hours that they work and the pay that they earn.



Case study

Ali is an employee and his employer is The Corner Shop.

Demi is an employee and her employer is Dolby and Crane Ltd.

Some people work for themselves and are what is known as 'self-employed'.



Case study

Evan has his own painting and decorating business. He advertises his services in the local paper, and gets jobs with many different families and organisations. He is self-employed.

He decides what tasks he does, what hours he works and what he will charge customers. He works five days a week to earn enough money to pay his mortgage and other bills.



Self-employed people must also follow rules set out by the government.

Full-time working



I work full-time for Smith and Jones, the printer.

Full-time work means working for all of the working day and week, all year round except for paid holidays.

For offices and shops, this is often:

- 9 am to 5 pm...
- with one hour off for lunch...
- for five or six days a week.

Shifts

I work the morning shift at The Gwesty, a local hotel.

Some employers are open for more than eight hours a day, such as supermarkets, hotels, pubs, restaurants and call centres. They may even operate for 24 hours a day, as do the police, hospitals, large airports, some motorway service stations and some factories. They need staff for all of the hours for which they are open, so they have employees working in shifts.

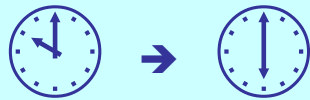


A 'shift' refers to working hours that have been moved (or 'shifted') to hours that are different from 9 am to 5 pm. The working day is instead divided into different periods (that is, lengths of time). Each period is said to be one shift.



Case study

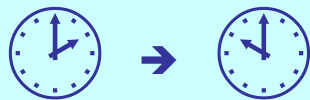
Quick Eats is a 24-hour restaurant in a busy motorway service station. Its staff provides 24-hour cover by working in three shifts of eight hours each:



10 am to 6 pm;



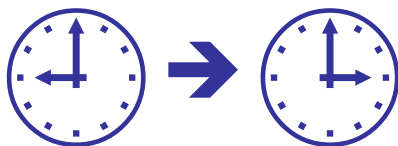
6 pm to 2 am; and



2 am to 10 am.

Part-time working

I work part-time in an office to fit around taking my children to school at 9 am and picking them up at 3 pm.



People who work 'part-time' work for part, or some, of the employer's working day, week or year. They might, for example, work for:

- a few working hours each day – such as students working in the evenings or parents working for a few hours while their children are at school;
- a few days in a working week – such as doing a Saturday job or working three days rather than five; or
- several months in a year – such as students working during school holidays or an ice-cream seller who works only in the summer.

It is up to their employers to decide whether people are considered full-time or part-time workers. The employment contract (that is, a written agreement between the

employee and the employer giving details about the job) must state whether the employee is full-time or part-time.

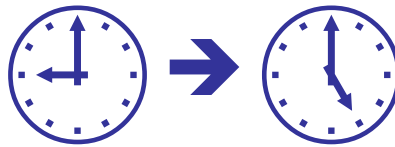
Working regulations mean that part-time employees get the same legal rights as full-time employees.

Self-employed people can choose to work part-time if they wish: for example, someone might work three days a week instead of five.



Activity 2a

Fran works 9 am to 5 pm for five days a week. She gets one hour for lunch every working day.



How many hours does she work during one week?

Casual work



Case study

Ahmed works for a market research company. He has no guarantee of work and is called upon to work between six and ten times each month. He has another part-time job in a warehouse and is available to work only Monday to Wednesday. If he is offered work on a Thursday or Friday, he usually turns it down.

Ahmed is a casual worker, because he decides when he wants to work. He does not have to work for the warehouse or the market research company; it does not have to offer him work.



Zero-hours contracts

A zero-hours contract is a contract between an employer and a worker where the employer does not have to provide any minimum working hours, and the worker does not have to accept any work offered. The employee is free to leave at any time.

Zero-hours workers do not know from week to week whether or not they will be offered any work, or how many hours they might be offered.

Income for people who are not working

Education Maintenance Allowance (EMA)

The Education Maintenance Allowance (EMA) scheme is a weekly payment of between £10 and £30 a week, available to qualifying students over the age of 16 in full-time education in Scotland, Wales and Northern Ireland.



The scheme closed to new applicants studying in England on 1 January 2011.

In Scotland, a weekly EMA benefit of £30 is still available to students whose household income is less than £24,421 a year (for those families with only one dependent child) or £26,884 a year (for those families with two or more dependent children). Students must also have a 100 per cent attendance record to qualify.

In Wales, the benefit is available to students from households with an income of less than £20,817 a year (if they are the only child in the household). The household income must be less than £23,077 if there are additional young people who are eligible for child benefit in the household.

In Northern Ireland, it is available to students whose household income is £20,500 or less with one dependent child, or £22,500 or less with more than one dependent child.

Activity 2b



Ling is 16 years old and lives in Scotland. She wants to stay on at school to do four AS subjects and then three A2s – but she feels that she should get a job to help her family to pay its bills.

Ling's father earns £18,000 a year. Her mother does not work and her two brothers are both under the age of 13.

a) Can Ling get EMA?

b) If so, how much will she receive?

Jobseeker's Allowance (JSA)

To get Jobseeker's Allowance (JSA), you must be:

- available for and actively seeking work;
- between 18 years old and State Pension age; and
- working less than 16 hours a week on average.

You will also need to attend an interview at the jobcentre. An adviser will help you to draw up a 'jobseeker's agreement'. This will set out the steps that you agree to take to find work. To keep getting benefit, you will have to attend regular job search reviews – usually every fortnight. There are currently two types of JSA: contribution-based JSA (which is paid to claimants who have made a sufficient number of National Insurance contributions [NICs] to qualify), and income-based JSA (for those whose record of National Insurance contributions (NICs) is insufficient).

Did you know?

The amounts of JSA in the year 2016/17 are the same as they were for 2015/16:

- £57.90 a week for those aged 16–24; and
- £73.10 a week for those aged 25 and over.

Income Support

Income Support is a benefit that may be paid if you cannot be available for full-time work and do not have enough money on which to live. You can work up to 16 hours a week and still claim Income Support, but you will not get anything if you have savings of more than £16,000, because the government expects you to spend your savings first. You have to be at least 18 years old to claim Income Support.

How much Income Support you receive depends upon your personal circumstances, such as whether you are:

- a single (lone) parent;
- caring for someone who is sick or elderly; or
- pregnant or have recently given birth.

People who receive Income Support may also receive financial help towards their rent and Council Tax.

Employment and Support Allowance (ESA)

Employment and Support Allowance (ESA) is a benefit that is paid to people who are disabled or unable to work because of illness. It is paid for the first 13 weeks at a low rate and, after that time, the claimant is expected to undergo an assessment to see if they are able to do some kind of work, even if it is not a full-time job or the job that they did before they became ill.

Claimants are offered personal support by being given access to a specially trained personal adviser and a wide range of further services, including training, condition management support (to help them to cope with their illness or disability) and help finding appropriate employment if they are able to do some kind of work.

Under ESA, if you have an illness or disability that severely affects your ability to work, you will get increased financial support and will not be expected to prepare for a return to work.

Universal Credit

Beginning back in October 2013 and continuing through to sometime in 2017, JSA, along with many other state benefits, is gradually being replaced by a new benefit called Universal Credit.

Universal Credit was introduced by the Welfare Reform Act 2012. It is a means-tested benefit for people of working age. The upper age limit is at the point where people qualify for Pension Credit, ie State Pension age.

Universal Credit is not specifically an 'in-work' or 'out of work' benefit; it is one benefit for people whatever their employment status. This makes it easy for people to ease into and out of work, as they will not need to keep transferring from one type of benefit to another as their circumstances change. The structure is intended to be much simpler than that of the current system, where separate benefits (which often overlap) are administered by different agencies, with different premiums and different methods of means-testing.

Child Benefit

Child Benefit is a payment that you can claim for your child. It is usually paid every four weeks, but in some cases it can be paid weekly. There are separate rates for each child. From January 2013, the amount of Child Benefit reduced for those households in which one parent earns £50,000 or more. The benefit will reduce by 1 per cent for every £100 over that threshold.

Benefit is paid if any child is under the age of 16, or over the age 16 and in full-time education (until they leave school).

Did you know?

The 2016/17 rates of Child Benefit are the same as they were for 2015/16:

- £20.70 a week for an eldest child or only child; and
- £13.70 a week for each of the other children.

Basic State Pension

The basic State Pension is a pension paid to you by the government when you reach State Pension age. It is based on the number of 'qualifying years' gained through National Insurance contributions (NICs) that you have paid.

Did you know?

On 6 April 2016, a new flat-rate pension began, which is £155.65 for those with full entitlement.

The amount of pension payable can change. More recently, the State Pension age has changed: it will be equalised to the age of 65 for most men and women by 2018. It was expected that State Pension age would then rise to 68 for men and women by 2046, but this is now likely to happen sometime in the mid-2030s.

Previous State Pension arrangements

Over the years, the State Pension has been provided in the UK in a number of forms. Most recently, those who reached the state retirement age qualified for the basic State Pension, plus those who had been employees during their working life (as opposed to self-employed) earned entitlement to additional benefits through a number of 'top-up' schemes. These schemes are called the State Earnings-Related Pension Scheme (SERPS) and the State Second Pension (S2P).

Since 6 April 2016, the State Pension is provided through a new flat-rate scheme.

New flat-rate State Pension

Those retiring after 6 April 2016 receive a flat-rate State Pension of £155.65. This is the amount received by those with full entitlement, which requires an individual, whether employed or self-employed, to have paid the necessary NICs for 35 years of their working life. A pro-rata pension is paid to those who have contributed for fewer years than this, but anyone with under 10 years' NICs will not receive any State Pension at all. Carers will be credited with NICs.

Anyone who reached State Pension age before April 2016 will continue to receive benefits according to the former system.

Auto enrolment and NEST

Not all employers offer a pension scheme for their employees and not all employees who have access to an employer's pension scheme bother to join it. In 2009, only 50 per cent of UK employees were members of their employer's pension scheme.

Since October 2012, employers have had to offer a qualifying pension scheme to their employees and all workers who earn above a certain amount each year (known as the 'earnings trigger' – equivalent to the income tax personal allowance, which for 2016/17 is £11,000) are automatically enrolled into that scheme. The employee can choose to opt out, but only after they have automatically been made a member. Many existing workplace pensions already 'qualify' as suitable schemes for this purpose; those employers who had no scheme set up have been able either to establish one or to enrol their employees into the National Employment Savings Trust (NEST). There is an annual limit on contributions to NEST.

Larger companies had to put in place a workplace pension by October 2012 but smaller companies were given longer to make arrangements depending on how many employees they had. All employers must have a qualifying scheme in place by April 2017, and even a

new employer setting up a new business and paying its first wages in February 2016 must have a workplace pension in place by November 2017.

Investment income

While interest is paid by the bank on the money that we put into our savings accounts, if a person has a *large* sum of money that they want to put away for a longer period of time, this is usually referred to as an 'investment'.



With an investment, the 'investor' usually has *thousands* rather than *hundreds* to put away, and because they are prepared to put it away for a longer period of time, they have a much wider choice of places in which they can put it, as follows.

- They can invest in *shares* – that is, they can buy shares in a company, which means that they own a tiny part of that company; if it does well and makes a profit, part of that profit is paid to them (called a 'dividend').
- They can buy *property* with their money and rent it out.
- They can simply put it in a *bank or building society account* and receive interest. Because the investment is for a large amount of money, they will receive a much better rate of interest than someone with only a few hundred pounds.

Whichever option the investor chooses, each will produce income, known as 'investment income':

- for shares, the income is called 'dividends';
- for property, the income is called 'rent'; and
- for bank and building society accounts, the income is called 'interest'.

For some people, especially those who are retired and no longer have a job to pay them a wage or a salary, investment income is an important source of money.

Did you know?

The *ifs* Student Investor Challenge is a competition involving teams investing £100,000 of virtual money in the stock market. Students keep their virtual portfolios healthy by reading and forecasting market information to identify shares and make judgments of when to buy and sell in order to make a profit.

Gifts

Gifts of money are an important source of income for younger people.



Activity 2c

Discuss what you do with gifts.

- How important a source of income are they for you?
- Do you wait until your birthday or other celebration to buy a special item, hoping that you will receive enough gifts of money to be able to buy it?



Inheritance and its implications

Inheriting money and possessions

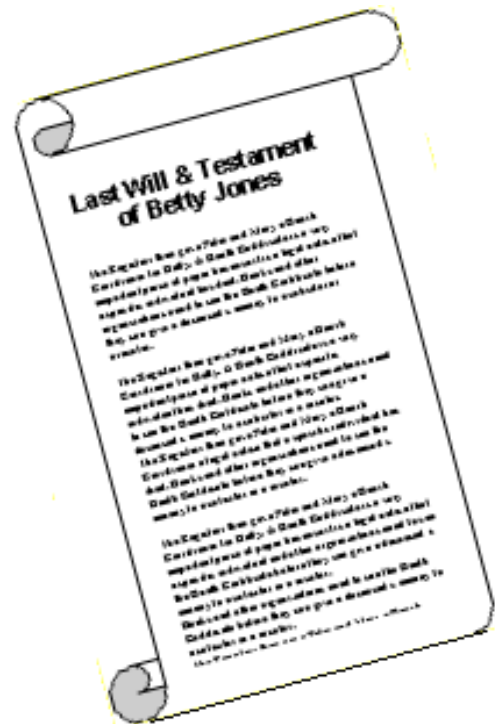
When people die, their money and possessions are given to other people. The people who receive money or goods are said to 'inherit' them.



Case study

When Betty died, her family inherited the things that she owned.

- **Peter**
Betty's son inherited her house and its contents, her car and the money from her life assurance policy.
- **Mary**
Betty's daughter-in-law inherited nothing directly.
- **Jack**
Betty's grandson inherited half of her jewellery and savings.
- **Angie**
Betty's granddaughter inherited the other half of her jewellery and savings.





Activity 2d

There are several specialist words used when talking about inheritance. What do you think the following words mean?

Will	
Estate	
Deceased	
Executor	
Beneficiary	

A will

A will is a document written and signed by an individual that gives instructions about what should happen to all of the things that they own after they have died.

'Executors' are the people who carry out the instructions in the will. They are given the job of collecting together all of the possessions and money owned by the person who has died. These possessions are known as the deceased's 'estate'.



Case study

In her last will and testament, Betty named her son Peter and his wife Mary as her executors.

Sometimes, there is tax to pay when someone dies – this is called inheritance tax (IHT). The executors must pay any IHT that is owed to the government and then follow the deceased's instructions about giving their estate away.



Why do you think people often name two or more people to be executors of their will?

People use some of the following phrases when talking about the executor's role.

Executors distribute the assets.



Executors have a legal duty to follow the instructions in the will.

Making wills

Wills are paper documents that must be signed by the will-maker. (The will-maker is called the 'testator'.) Two other people, who saw the will-maker sign the document, must also sign the will as witnesses.



Do you think that you need to go and see a solicitor to make a will?

Existing wills are made invalid when you get married, so it is vital to make a new one. Why do you think that the old will becomes invalid?

Intestacy

If someone does not leave a will, they are said to have died 'intestate'. This can happen quite often for various reasons. The government has made special laws that tell lawyers how an estate should be distributed if there is no will. These can be complicated and you do not need to understand them at this stage.

The simplest rule to follow is that you should always make a will when you start to build up possessions.



Activity 2e

Visit www.civilpartnerships.org.uk/InheritingIfThereIsNoWill.htm and find out what the rules are for inheriting someone's estate if you have a registered civil partnership or if you only live together as a couple.

Inheritance tax (IHT)

IHT is paid on the total value of the estate before it is divided between the beneficiaries.

If the estate is not complicated, in the tax year 2016/17, the first £325,000 of an estate is always tax-free. This amount is known as the IHT 'threshold'. IHT is then usually charged at 40 per cent of the estate above £325,000.



Activity 2f

Seth is planning to leave his house and all of his possessions to his sister Corinne in his will. He thinks that his house is worth £290,000. He has got £2,000 in savings and so thinks that his estate will not pay IHT when he dies.

Will IHT be payable on Seth's estate if he dies soon?



Review questions

1. What are 'earnings'?
2. What is 'shift work'?
3. What do the beneficiaries of a will inherit from someone who has died?
 - a) Money
 - b) Goods
 - c) Debts
4. What is the job of an 'executor'?
5. What does 'intestate' mean?
6. Which group of people is more likely to get income from investments?
7. Which group of people is more likely to get income from gifts?
8. In England and Wales, do people who live together have the same inheritance rights as people who are married or registered civil partners?
9. What is the purpose of a 'codicil'?
10. Is it true that wills made when people are single are not valid after they get married?
11. Spence and Bryony are in their mid-20s. They have borrowed £120,000 to buy their own home and will be paying back the mortgage for the next 25 years. They have three children under the age of 5.

Spence and Bryony have not made wills, because they feel that they are too young to do so.

List the reasons why they should both make a will now.

Learning activities



Internet

- Visit www.lawontheweb.co.uk and click on '4 reason you should make a will now'. Read through the reasons given for making a will now.
- Visit the websites of some charities and find out how people leave money to them in their wills.



Group

Look in your local newspapers at the 'Situations vacant' or 'Recruitment' pages (this is where jobs are advertised).

- How many jobs require the applicant to work shifts?
- Are most of the jobs advertising an annual salary, or is the pay expressed as a weekly or hourly figure?
- Most of the jobs will ask the applicant to send in their 'CV'. What is a CV and what does it contain?



Individual

- Decide at what age you will make a will. Why did you choose this age?
- Create a glossary of words used when talking about inheritance.



Key points for Topic 2

You should now understand:

- what 'employment' is;
- the different types of employment, including full-time, part-time, casual and self-employment;
- some government benefits, including Jobseeker's Allowance (JSA), Employment and Support Allowance (ESA), Universal Credit, Income Support, Child Benefit, basic State Pension and State Second Pension (S2P); flat-rate State Pension.
- how investments can be a source of money;
- how gifts can be a source of money;
- what 'inheritance' is and the factors that will affect an inheritance, including wills and inheritance tax (IHT).