



# Managing payslips, pensions and self-employment

Age range: 16-19

 **BARCLAYS** | LifeSkills



# Session overview

Time	Key learning outcomes	Resources
120 mins	<p>By the end of the activity students will be able to:</p> <ul style="list-style-type: none"> <li>Understand payslips including NI and tax contributions for employed and self-employed individuals.</li> <li>Identify strategies for saving regularly and planning for the future with a pension.</li> <li>Explore how to manage money being employed and self-employed.</li> </ul>	<ul style="list-style-type: none"> <li>Managing payslips, pensions and self-employment presentation slides.</li> </ul>



This lesson plan is designed to be used in tandem with a PDF containing interactive activity slides. They are accredited with the Young Money Finance Education Mark, recognising them as recommended financial education resources.

Always start the session by agreeing ground rules with the group. For advice on this and other ways to establish a safe learning environment, download the [content guide](#).

## Contents

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There is Money Skills content to suit a range of ages and abilities – take a look at our 5-11, 11-14, 14-16, 16-19, 19+ resources, which focus on topics such as attitudes to money, money management and risk, financial independence and fraud.

Please note that this lesson includes figures used in calculations such as student loan thresholds, NI contributions or similar. These figures were correct at the time of publication but may have changed by the time you use the resource as they are usually updated by the Government on a yearly basis.

# Activity one

## Becoming an employee

### 1. Getting paid at work



- Ask how many students have a job of some kind. Ask one or two of those that respond how often they receive their pay and how their pay is calculated. The most likely response will be that they are paid on an hourly rate, either weekly or monthly.
- Then, ask the students how they know if they are being paid a fair rate for the job they do.

#### What might the hourly rate be based on?

- Students may mention the minimum wage or living wage. Discuss what they think these mean, and how they are set. Show **slide 2** and discuss the difference between the minimum wage and the living wage (you may want to search the current rates online and share with students or ask them if they know).
- Explain to the students that in full-time, permanent employment they will probably be paid an annual salary, which is divided into 12 equal parts over the year.
- Ask the students if any of them have regular monthly bills to pay. Some students are likely to have a mobile phone bill. Explain that in situations where you are paid weekly, it's important to set aside money each week to ensure you have enough to pay any monthly bills.

#### Extension

- Students could research the minimum wage using the calculator at [gov.uk](https://www.gov.uk).
- Students could research and discuss the living wage and companies that support it at the [Living Wage Foundation](https://www.livingwagefoundation.org/).

### 2. Understanding a payslip

- Ask students how many of them have received a payslip from an employer. Explain that they're going to work through the different items on a payslip and identify what each item is.
- Introduce the idea of deductions by explaining that an advertised salary (gross salary) doesn't always represent the amount of money you will take home (net pay). Explain that deductions are made from gross pay, starting with Income Tax. Use the prompt questions on the next page to get a discussion going, asking students to contribute their ideas.

# Activity one

## Becoming an employee (cont'd)

1. What is Income Tax?  
*A tax levied on wage earners.*
2. Does everyone have to pay Income Tax?  
*Only those earning over a certain amount, again you may wish to have these figures to hand or ask students to search.*
3. What is Income Tax used for?  
*Government spending on things like health, education, armed forces.*
4. Do all employees pay the same amount of tax?  
*No, there are tax 'bands' set so higher-wage earners pay a higher percentage of their earnings in tax.*

- Explain that when they start work, they can track their pay and deductions using a payslip, which should be given to anyone who is employed. The percentage of tax paid varies depending on your income, and is only paid on salaries above a certain amount. It's important to know how to check any deductions that have been made on your payslip to ensure you are paid the right amount.
- Display **slides 3 – 4** and use the definitions on **slide 4** explore the payslip, and make sure they understand the terminology.
- Display **slide 5**. Talk through how the tax deduction example works, explaining that the tax code is based on the amount you are allowed to earn before paying any tax. Students can check the current tax codes and rates on the HMRC website.

### Ask the students what is National Insurance? What is it for?

- Take ideas from the groups and compare with the definition on **slide 6**, along with the example of an NI calculation. Explain to students that most people remember about having to pay tax but it's easy to forget the NI contributions we have to make when working out our monthly budget.
- If you have access to the internet, ask students to explore the interactive tax calculator at [Money Saving Expert](#).
- Then show them the short animation from [HMRC, Tax Facts: Starting your first job](#).
- Direct students to search for 'Payslips explained' and explore other areas of the LifeSkills website in their own time for more tips and tools.

# Activity two

## Saving for your future and pensions

### 1. Understanding spending habits

- Introduce the activity by explaining to students what disposable income means.

**Ask students how easy do they find it to keep their spending within their disposable income and whether they would know everything they have spent money on at the end of each week?**

- Discuss with the group any contributions that are offered.
- Explain to students that to work within a budget you need to understand your spending patterns and where your money goes (particularly the small amounts).
- Show **slide 7** and ask students to think about what they spend their money on during an average week. They should use the spending diary to record what they can remember. Explain that it's a good idea to use a spending diary for a few weeks, particularly in periods where your circumstances have changed (e.g. starting a new job or going to university). You could complete the table on the slide as an example, or print copies for each student.

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### 2. Keeping to a budget

- Mention to your students that there are lots of budgeting apps and tracking services now widely available from banks that can be used to help track spending.
- Explain to students that, to live within our income and keep to the budgets we set ourselves, we need to be good at saving money where we can. This is to make sure there is money for the essential things, as well as emergencies and luxuries.
- Show **slide 8**, and ask students to discuss the items and think about the things they regularly buy that they could cut down on. There are some blank boxes on the sheet where they could enter items of their own. Print a copy for each student to complete individually but they should discuss within the group what they'd cut and why.
- When students have completed the activity, ask one person from each group to volunteer an example of what they could save and what they would put that saving towards.

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### 3. Why save?

- Ask students whether they save money, and if they regularly put it into a savings account. Explain that it's good to get into the habit of saving, even just a small amount, on a regular basis, so you have money put aside for unexpected expenses, occasional treats or long term savings goals.
- As a group generate a quick-fire list of things they may want to save for further in the future, e.g. housing deposit, holidays, car, wedding, having children, retirement. Remind them that aside from tracking regular income and expenditure, using a budget will enable them to work out how much they are able to save on a regular basis.
- Explain that a savings account can help you make the most of your money. Ask students to describe the difference between a savings and a current account, and to define AER and interest. Use the definitions on the next page to clarify if needed.

# Activity two

## Saving for your future and pensions (cont'd)

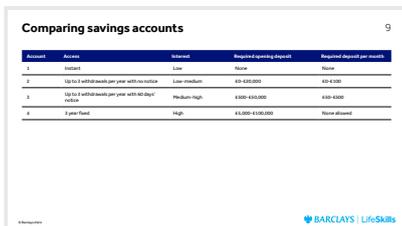
### Definitions

**Annual Equivalent Rate (AER):** interest rates on savings are often expressed using the acronym AER. This is designed to help consumers compare which accounts would earn you the most interest if you intend to keep your money in the account for a full year.

**Savings account:** used to keep 'savings' separate from money used on a day-to-day basis. Consider the 'terms' of the savings accounts, some accounts will want you to put your money away and not withdraw any for a set period of time, like one to five years or some are instant access. Make sure you compare the interest rates and the terms of different savings accounts before you choose one.

**Interest:** an amount the bank or building society pays you for keeping your cash in their account. All accounts are different, so go for one with a good interest rate worked out as a percentage (the higher it is, the better) and that meets your other requirements e.g. how quickly you can access the money.

### 4. Saving that suits



Account	Interest	Minimum opening deposit	Required deposit/penalties
1 Instant	Low	None	None
2 £5 to £1000 savings per year with no restriction	Low-medium	£50-£100,000	£10-£200
3 £5 to £1000 savings per year with 40 days' notice	Medium-high	£100-£100,000	£10-£100
4 5 year fixed	High	£1,000-£100,000	None allowed

- Show **slide 9** which has a selection of savings accounts and talk through the key terms, comparing the access terms, minimum and maximum opening deposits and interest. Demonstrate that the higher interest accounts have more restrictions on access.
- In small groups, challenge students to come up with ideas about what they need to save for and discuss the sort of account they would opt for using the examples on **slide 9**.
- If the groups need inspiration, share the scenario below and ask them to discuss which account they would choose:
  - Suki needs to save £1,000 for a big holiday. She will be able to save £100 a month and won't need to touch the money until she has to pay for her flights and accommodation this time next year.
- Summarise by explaining that saving little and often can help with financial security by providing a back up in times of financial difficulty, not just to help with bigger purchases. Use **slide 10** to recap on the key points.

### 5. What's the point of a pension?

- Ask students to share their thoughts on what a pension is and how important it is to them to think now about planning for when they're older. Explain that, in simple terms, a pension scheme is a long-term savings plan which can provide you with an income for later life. You put money into a plan whilst you are working so you have money available for when you want to work less or retire.
- Discuss with them that although it seems a long way off, investing in a pension is a good form of long-term saving. Explain that although they can't access the pension fund until they reach a specified age, it will provide them with a better quality of life when they reach retirement age. To help young people engage with this concept you could ask them to think about the situation of elderly relatives or acquaintances to help set the scene.
- Lead a discussion on the current pension landscape. Explain that the government currently provides people who have reached retirement age with a 'state pension'. You usually need to have made national insurance 'contributions' (NICs) before you can claim the state pension. NICs are deducted from your pay.

# Activity two

## Saving for your future and pensions (cont'd)

### 6. Different types of pensions

- Emphasise that the students should not expect to rely on the state pension as their only source of income when they retire. They should consider saving into an additional scheme, often called a 'company', 'personal', or 'workplace' pension.
- Employers have a legal duty subject to the governments' terms and conditions to enrol their employees into a pension scheme and make a contribution to your pension fund. This would be deducted directly from your wages.
- To demonstrate how this works, show **slides 11 and 12** and ask students to work in pairs to calculate Suki's pension contributions, before clicking to reveal the answers. If you have time, ask students to research more on pensions at [Money Helper](#), and try out different options using the [workplace pension calculator](#).
- Explain that although it may seem like a small amount each month starting to contribute early in your working life can make a big difference in the long run.
- Explain that if you are self employed or working freelance you will need to investigate a pension plan.



# Activity three

## Self-employment

### 1. Considering self-employment

- Discuss with students the idea that they may, at some point in their working life, want to be self-employed or work for an organisation as a freelancer or as a sub-contractor.

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#### Definitions

**Self-employed:** working for yourself by offering a service or product and being responsible for your own tax and insurance affairs.

**Freelance worker:** declared to tax office as 'self-employed', working for organisations on an 'as needed' basis.

**Sub-contractor:** a person or organisation hired to provide a service or deliver a project on behalf of another organisation.

Source: [gov.uk](https://www.gov.uk)

- Explain that the principles of running any small enterprise or working freelance are the same when it comes to working with a budget to ensure profitability.
- Ask students to spend a few minutes discussing in their groups what they think the key differences are between being employed by a company, being self-employed and working as a freelancer. Ask students to note down their ideas during their discussion and be ready to share them with the other groups.
- Show **slide 13** as a summary and ensure all of the possibilities have been discussed.
- Now ask the groups to think about what the challenges of self-employment or working freelance might be when it comes to finance. Offer them one or two suggestions to get them started, e.g. needing capital, having enough income to live.

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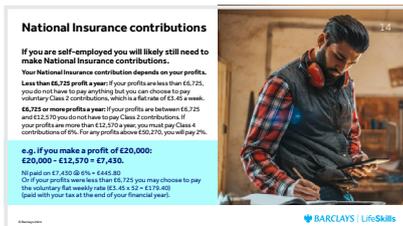
### 2. Rules of self-employment

- Explain to students that if they wanted to take on freelance work or set up their own enterprise, they would have to take responsibility for their own tax and National Insurance contributions. Explain that the amount they would be taxed would work in the same way as if they were employed but, rather than the employer deducting their tax each time they're paid, they would need to declare their self-employed earnings and fill in a tax return itemising what they've earned over a year.
- Highlight that not declaring your earnings for tax purposes or failing to provide an honest account of your income is an offence that can lead to heavy fines and, in extreme cases, prison (for tax evasion). Emphasise the importance of registering for self employment with HMRC and keeping good accounts. Mention that, although it can sound intimidating, it can be straightforward if managed properly.
- Ask the group how they could ensure they had enough money to cover their tax bill. The response should be to save the right percentage of their earnings each month in a savings account (preferably one that will pay some interest) so that it's available when the bill comes in.
- Explain to students that currently if you save at least 20% of everything you earn in a savings account each month you would have sufficient to pay your tax bill at the end of the financial year at the basic rate of earnings and tax. Explain too that if your earnings go over a certain amount, you pay a higher proportion of tax. Information on current levels of tax can be found on the HMRC website.

# Activity three

## Self-employment (cont'd)

### 3. Keeping straightforward accounts



**National Insurance contributions**

If you are self-employed you will likely still need to make National Insurance contributions.

Your National Insurance contribution depends on your profits.

Less than £6,725 profit a year: If your profits are less than £6,725, you do not have to pay anything but you can choose to pay voluntary Class 2 contributions, which is a flat rate of £3.45 a week.

£6,725 or more profit a year: If your profits are between £6,725 and £12,570 you do not have to pay Class 2 contributions. If your profits are more than £12,570 a year, you must pay Class 4 contributions of 6%. For any profits above £50,270, you will pay 2%.

e.g. If you make a profit of £20,000:  
 £20,000 - £12,570 = £7,430  
 No tax on £7,430 (20% = £1,486)  
 Or if your profits were less than £6,725, you may choose to pay the voluntary flat weekly rate (£3.45 x 52 = £179.40) (paid with your tax at the end of your financial year).

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- Students need to work together in groups to explore the scenario of a freelance designer. The principles of the accounts and how the designer works would apply to any vocational area, e.g. a freelance plumber, mechanic or mobile hairdresser.
- Show **slides 14** and **15** and talk through how the tax and NI insurance calculations work for being self-employed.

**Note:** If you are self-employed the class of National Insurance you pay depends on your profits.

**If your profits are less than £6,725 a year:**

- You do not have to pay anything but you can choose to pay voluntary Class 2 contributions of £3.45 a week to avoid gaps in your National Insurance record.

Source: [gov.uk](http://gov.uk)

**If your profits are £6,725 or more a year:**

- Class 2 contributions are treated as having been paid to protect your National Insurance record. This means you do not have to pay Class 2 contributions.

Source: [gov.uk](http://gov.uk)

**If your profits are more than £12,570 a year** you must pay Class 4 contributions:

- 6% on profits between £12,570 and £50,270.
- 2% on profits over £50,270.

Source: [gov.uk](http://gov.uk)

Profits are calculated by deducting your expenses from your self-employed income.

- Show **slide 16** and read through the scenario which outlines how a freelancer manages her finances. Print copies of **student sheets 17 – 19** and **14**. They should use the information in the accounts spreadsheets to answer the questions and fill in the blank total boxes.
- Go through the answers as a group, using slides **20 – 22** and compare their results.

### 4. Top tips for self-employment



**Top tips for self-employment**

1. Record all income and expenditure carefully as you go along.
2. Keep all receipts so you have a record of expenditure.
3. Put money aside every month in a separate account to cover tax and NI.
4. Plan your budget based on average monthly income.
5. Put money aside to cover quarter months and holiday periods.
6. Declare your self-employment to the tax office and complete tax returns on time.
7. Seek advice on taking out liability insurance, however, you may find it is not needed for your type of business.

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- Ask the groups to spend a few minutes discussing and agreeing some top tips they could give to anyone considering self-employment to help them manage their finances successfully.
- Ask for contributions and ideas from each group in turn, writing them up on the board as you discuss them. Show **slide 23** to summarise. Talk through any items on the list that haven't already been discussed.

# Activity three

## Self-employment (cont'd)

### Extension

- For more on starting a business and developing the enterprise skills needed to become self-employed, take a look at [Steps to starting a business](#).
- Set your students the challenge of putting their enterprise skills into practice whilst building their knowledge around what it means to be an entrepreneur with our suite of [Enterprise and entrepreneur resources](#).

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## Summary

- Ask students to discuss in pairs or small groups some key things that they have learnt from the session, e.g. are there any new skills that they have learnt or things they now know which they didn't know at the start of the lesson?
- To close the lesson ask students who are comfortable to share any key takeaways.

