# Topic 2: The Personal Life Cycle

## Learning outcomes:

- distinguish between the key stages of the personal life cycle; and
- analyse the effect of key influences on it.

## Typical Life Cycle:

Birth and infanthood: 0–2 years old
Childhood (preschool): 2–5 years old
Childhood (school): 5–12 years old
Teenager: 13–19 years old
Young adult: 18–25 years old
Mature adult: 26–40 years old
Middle age: 41–54 years old
Late middle age: 55–65 years old
Old age: 65 onwards
Death: Possible at any age but more likely here.

## Life Cycle Events:

At each stage, people tend to have different:

- life events;
- levels of income;
- levels and patterns of spending;
- amounts of savings and attitudes towards savings;
- amounts of debt held and attitudes to debt;
- family sizes and structures;
- levels of education; and
- attitudes to risk (and to the future).

## Reasons for spending:

Three reasons why people spend money:

- to pay for essential items they need;
- to pay for optional items they want now;
- to save for items they aspire to buy in the future.

The distinction between needs, wants and aspirations is an important one for financial planning.

## Compulsory Schooling Ages:

N.Ireland, compulsory schooling starts at age 4.
England, Scotland and Wales it is 5.
Romania, Bulgaria and India it is 6.
Bulgaria, Poland and Sweden it is 7.
The ages when people can leave school vary as well: for example, in Bangladesh compulsory schooling ends at age 10, in India it is 14, in Scotland it is 16, and in England children starting school now must be in education or training until they are 18

## Key terms:

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| **Aspirations** | Things or experiences that people would like to have in the future, for example owning a home instead of renting, having a luxury holiday or buying a sports car. |
| **Assets** | Things that a person or a business owns. For a person their assets might include property, jewellery or financial products such as company shares. |
| **Bank rate** | The interest rate that the Bank of England uses when it lends money to other banks. Financial services providers take account of the Bank rate when they decide how to set interest rates on their own products. |
| **Demographic changes** | Changes to the size and structure of the population (for example an increase in the number of people over the age of 65, or a rise in children of school age). |
| **Economic boom** | A period when the country is producing and selling an increasing amount of goods and services. |
| **Interest rate** | The amount, expressed as percentage that a financial services provider charges a borrower when it lends money, or pays to a saver. |
| **Investments** | Money paid into financial products; the aim is that the value of the product will grow over time and so the person will eventually receive back more money than they paid in. Investments are a way of saving over the medium or long term. |
| **Life assurance** | A type of insurance policy that pays out a sum of money if the insured person dies. |
| **Life cycle** | The stages through which people pass between birth and death, including childhood, teenage years, young adult, mature adult and old age. Not everyone passes through all stages (for instance they might die at an early stage) and not everyone passes through the stages at the same age. |
| **Life expectancy** | The number of years that people are expected, on average, to live, based on the year in which they are born. |
| **Mortgage** | A loan taken out to pay for a property, usually over a long term such as 25 years. |
| **National Insurance contributions** | Money deducted from the pay of people who are employed or self-employed and used by the government to fund state pensions and other benefits. |
| **Needs** | Things that people need to survive, such as food, basic clothing and a place to live. |
| **Office for National Statistics** | The independent organisation that produces statistics on many aspects of life in the UK such as employment, health, how long people live for in different areas of the country, housing, etc. |
| **Pension** | An income that people receive after retiring from work. In the UK people receive a pension from the state; some people also receive pension payments from schemes run by their former employers or arrangements that they have made for themselves. |
| **Recession** | A period of at least six months when the amount of goods and services the country is producing is shrinking. |
| **Redundancy** | Losing a job because the business no longer needs, wants or can afford that job to be done; it is related to the needs of the business and not to how well or badly an individual does their job. |
| **Risk averse** | Reluctant to take any kind of risk. |
| **Risk tolerant** | Willing to take risks. |
| **Shares** | Investments that represent part-ownership of a company. |
| **Wants** | Things that people would like to have but can survive without, such as entertainment, fashionable clothes, etc. |
| **Will** | A legal document setting out what a person wants to happen to their belongings (assets) after their death. |

### External Influences:

**Social trends** include demographic changes, that is, changes to population size and structure through births, deaths and migration. Social trends also include changing attitudes and habits, such as attitudes to work, marriage and debt.
**Economic trends** include periods when a country is producing and selling increasing amounts of goods and services.

## Risk:

**Physical risks** include hazardous sports and activities such as parascending or bungee jumping. They also include more subtle risks, such as drinking alcohol, sunbathing or smoking, which have the potential to cause long-term damage to health.
**Emotional risks** include trusting other people, such as friends, partners and spouses, and so risking being hurt by that person. People may try to minimise the financial consequences of these risks by, for instance, making pre-nuptial arrangements that keep their finances separate when they marry.
An example of **risk to reputation** would be borrowing money and not repaying it on time: the borrower's behaviour affects the way they are regarded by other people. This can have an impact on the amount of money that the person can borrow in the future and at what cost.
An example of a **financial risk** would be putting money in an investment that might fall in value, or gambling.
People's attitude to risk can be influenced by the stage they have reached in the life cycle.