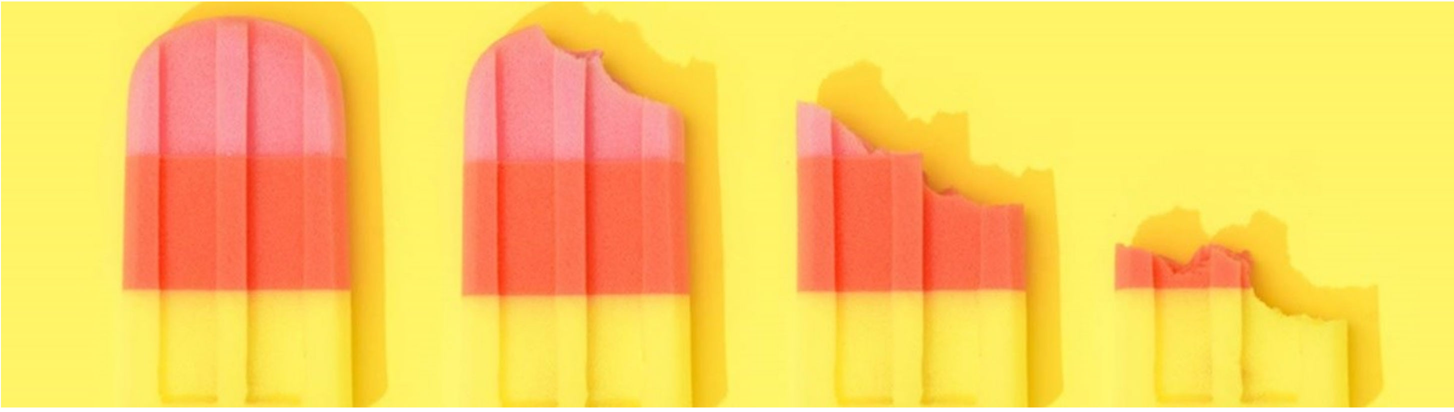
GENERAL ADVICE ON PAYING OFF CREDIT CARDS



PERPETUAL
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Are you in a complicated relationship with your credit card? You're not alone, it's estimated that 18.5% of Australian consumers, that's nearly 1 in every 6, have a credit card[1]. (ooft). And we know you've likely set out to break-up with that piece of plastic, but you 'just don't have the time to deal with it today' and every time you get that bill, guilt likely ensues and you promise to take care of it before the next bill arrives.

No matter how big or small your debt is, we appreciate that paying it down (and off) can be a journey. However, we're here to tell you that paying off your credit card in full can feel phenomenal.

Australians owe $45 billion in credit card debt. This affects 1.9 million consumers, many of whom have cards that do not suit their needs[2]. So, here's some general advice on paying off credit cards.

Why credit card debt is bad

Credit cards are usually a debt that hurts Australians the most due to their high interest rates. In Australia, credit card interest rates average around 16.58% [3] and generally, other forms of debt including student and personal loans don't have interest rates as high. That's why we generally recommend you pay off credit cards first before any other form of debt.

When you make minimum payments, that money goes toward the unpaid interest first. And then you can get charged **compound interest** on the rest of your unpaid amount. So, if you're only making minimum payments, you do not make a dent in the underlying balance, if at all! Let's explain why.

> Let's say Belinda owes $2,200 in credit card debt and her interest rate is the average 16.58%[4]. The terms of her repayment schedule are 2% of the balance or $20, whichever is greater. If Belinda made only minimum payments, it would take over 17 years to pay off her $2,200 debt. And the killer, she'd pay $3,277[5] in interest (ouch).

This effectively means she'll pay more than twice what she originally owed (#prayforbelinda) across the 17 years.

You may be wondering, how to start.

Generally, a great place to start is to pay off high interest debt first (especially if it's as high as credit cards). This can be daunting but the good news is that every little bit you do will help pay it down.

1. If you have an emergency fund, you may consider using it to pay off that credit card (unless, of course, you're in some sort of financial emergency). The maths says to do it. The interest you **gain** from your cash being in your emergency savings account will likely be far less than the interest you're paying (**losing**) on your credit card, it's a no brainer. If the idea of having nothing in your savings account makes you feel uncomfortable, keep around $1,000 in savings. If you have other investments, they may be fair game too. For example, Australian shares return an average of 11.8%[6], at least historically (since 1900) which means the **gains** you're likely making still won't outweigh the interest you're paying (again, **losing**) on your credit card.
2. Unless you're experiencing some sort of financial emergency, it's generally recommended that you STOP using the card. Take it out of your wallet, cut it up, put it in the freezer; we don't mind, just stop relying on it. This may be a good time to look at what you're spending versus what you're earning. If what you're spending is greater than what you're earning, it may be a good time to start budgeting.
3. Organise your money. The 50-30-20 method is very popular. At a high level this means 50% of your take-home pay goes towards basic needs (bills, rent, food), 30% should be going to fund your lifestyle (entertainment, dining out) and 20% of your you take home pay should be put toward 'future you' – this means paying off that debt or investing. If you're still unsure which goal you should be tackling first, not to worry, we've got you sorted (link to article). If you can't manage 20% right now, that's okay too – even 1% is better than none. Start today.

Note: your minimum payments should be coming out of the 50% needs bucket. Anything above and beyond the minimum should come out of the future you 20% bucket. This is what will really speed things along and make a dent in your underlying balance (and the interest you would owe). And that's what may save you from Belinda's situation above.

There are other, less common tips that may be utilised that may help pay off credit card debt. Here's three:

1. **Ask to lower you interest rate.**
   Yes, not ground-breaking stuff… literally just call and ask. Before you make this call, gather the relevant information on your history with the provider. This may include the length of time you've been with them, how much interest you paid last year as well as how many on-time payments you've made. Also look at competitor interest rates. They say, if you don't ask, you don't get. Interestingly, ASIC estimates that consumers in high interest products could have saved approximately $621 million in interest in 2016-17 if they had carried their balance on a card with a lower interest rate[7].
2. **You could consider a balance transfer.**
   There are many balance transfer offers out there. This generally means that if you move your credit card debt from your current provider to a new provider, the new provider may offer you a very low or even 0% interest rate for a while as a promotion. Once the promotion period is over, the card's interest rate will then creep up (the average sits around 16.58%[8]). Check that this rate is not larger before you cancel your initial card. Note: you may be hit with a one-time transfer fee which typically is added to your total balance and you may need to have certain credit ratings to qualify. In saying this, if you think you can pay off your credit card before the promotional period ends, then you may end up saving some cash. It may also motivate you to pay it off faster than you otherwise would. Ensure you read all terms and conditions carefully before acting.
3. **You may also consider taking out a personal loan.**
   (*A debt to pay off a debt… huh?)* Yes, you heard correctly. If you have a good credit rating, generally, you may be able to take out a personal loan to pay off your credit card debt (please check respective interest rates before doing this). This means you would owe a bank and not a credit card provider. Why? Firstly, because the interest rates on the loan will generally be lower than the credit card (again, check before you do this). And if you have multiple credit cards, it makes the one payment more manageable.

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1. https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-201mr-asic-s-review-of-credit-cards-reveals-more-than-one-in-six-consumers-struggling-with-credit-card-debt/
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8. https://www.canstar.com.au/credit-cards/aussies-pay-24-billion-average-interest-over-four-years/