

Remedies for holiday debt hangovers



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Patricia Lovett-Reid, *Financial Post* · Wednesday, Dec. 29, 2010

Does the thought of opening your credit card statement after the holidays send shivers up your spine? The holiday shopping season may be over but for many, it means the start of the holiday debt hangover. A MasterCard Holiday Spending Survey found that Canadians are expected to have spent on average \$1,100 during the holidays, with one in four spending between \$1,000 and \$5,000.

With numbers like that, it isn't much of a surprise that Statistics Canada recently reported that what we are spending compared to our affordability has hit an all time high.

The ratio of household credit market debt to disposable income is at 148.1%. That is a 65% increase from the early 1990's and puts us above the United States for the first time in nearly 20 years.

TAKE CONTROL OF YOUR DEBT TODAY

As the bills roll in for your holiday purchases, it is important to ensure that they get dealt with promptly and that they don't linger on your credit card statements beyond the interest-free grace period.

Pay your credit card debt or high-interest unsecured loans first. Department store credit cards can charge up to 19.75% per year in interest.

Remember that if you have money in low-interest savings accounts or cashable GIC's in your non-registered investment accounts it may be worth cashing in some of these investments to pay off your debts.

The amount you will save in interest payments on your credit cards will far outweigh the potential returns on those types of investments.

REPAY "BAD DEBT" FIRST

Simply readjusting your debt structure to pay off high-interest debt first, or consolidating into a single lower interest unsecured line of credit or secured Home Equity Line Of Credit (HELOC), could lead to a substantially lowered interest and servicing cost.

LOOK FOR WAYS TO CUT SOME DISCRETIONARY SPENDING ITEMS

It could be something as simple as taking lunch to work an extra day a week, and/or taking your kids skating to a free public rink rather than a movie theatre on the weekend.

Use the extra money to boost your minimum monthly payments. Consider setting up a pre-authorized payment to your loan on your pay day. After a few payment cycles you will have adjusted to your new lifestyle and cash flow and you will be well on your way to pay the loan off quicker.

Many companies start the New Year off by giving their employees a raise and/or bonus. Direct the difference in your pay cheque towards your debts.

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As you are already accustomed to receiving your previous take home pay, you won't even realize the difference and you will be paying down your debt faster.

PLANNING FOR NEXT YEAR'S HOLIDAY SEASON

I know, the New Year hasn't even started and here I am telling you about planning for next year's holiday season. But, a little bit of planning will help ease a lot of stress for next year.

In order to get a good grasp of what you need to do, keep the receipts of all of the items you just purchased. You may be surprised about how much you have actually spent. All the little "add on" gifts you purchased, can really add up.

Tallying the bills will be a good starting point to help you find your number for the 2011 holiday season. Take a hard look at how much you can truly afford to spend. Keep in mind that none of your friends or family members expect you to go into debt for them when holiday shopping.

Armed with a target, develop a plan to save all or part of your holiday fund over the next 12 months. Putting away \$20 a week through a systematic savings plan can help you accumulate just over \$1,000 by next year's shopping season. This may be a great use of your TFSA.

Making a resolution to set aside money now for your 2011 holiday spending can give you financial peace of mind for next year.

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