

Benefits of Reduced Debt



If you've set a goal to pay down your debt this year, you're not alone. According to a recent study, more than half of Canadians have set a goal to pay off debt in 2018.* Strategically reducing or paying off debt benefits your finances tremendously, but can positively impact other areas of your life as well.

- 1 Reduce stress.** Finances are a top source of stress for many Canadians. When you make the commitment to pay off your debt, you're also making a commitment to your overall health and well-being by minimizing a large cause of your stress.
- 2 Improve your credit score.** Although credit cards and lines of credit may help establish your score, maintaining low balances positively impacts it overall. Additionally, if you plan to finance a large purchase, such as a car or home, keeping your outstanding balances low may classify you as a lower credit risk and qualify you for reduced interest rates.
- 3 Easily pay an unexpected bill.** If your debts are low, you'll be able to save more in an emergency fund to handle financial surprises, such as an unexpected home repair bill.
- 4 Increase your expendable income.** Many Canadians live paycheque-to-paycheque; their hard-earned money is already earmarked to pay off debts and bills before it's even deposited in a bank account. However, the less debt you are in, the more expendable income you will have available to enjoy now or save for later.
- 5 Boost your retirement income.** If you want to maintain your lifestyle long after retirement, the time to save is now. Unfortunately, one of the biggest impediments to building a retirement nest egg is existing debt. The good news is, when you pay down or pay off your debt, you can choose to contribute additional funds to existing retirement accounts for enjoyment in your golden years.

*Source: CIBC Poll, December 28, 2017



Harness the benefits of compound interest

Whether you're paying down debt or are debt-free, transfer a percentage of your earnings each paycheque to an interest-bearing account. The intent is to make a portion of your earnings work for you.

"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."

—Albert Einstein



6 Model good financial habits for others. If you want others to cultivate good financial habits, be the example they can follow. People, especially children, mimic the behaviours they see. Explain how to cultivate good financial habits and why it is important to do so. Additionally, provide reasons why it is best to avoid unnecessary debt.

7 Become more generous. The less debt we have, the more generous we may feel with our money. Whether it's tithing more, donating to local school or sports programs or giving money to a cause dear to us, we may feel like we can give more.

3 Ways to Earn Extra Money

Looking for ways to earn more money? Whether you want to pay down debt, build emergency savings or invest, consider these options.

- **Get a side hustle.** Do you have a hobby or skill that could net more money on the side? Whether it's photography, web design or crafting, consider sharing your skills to earn extra cash.

Create a Get Debt-Free Plan

The ideal plan includes steps to become debt-free and milestones to reach along the way.

- **Get an accurate overview of your debt.** Gather your financial documents and make a list of all your monthly payments, using a spreadsheet or notebook. Include the name of the creditor, interest rate, outstanding balance and minimum monthly payment.
- **Decide which debt to pay off first.** In many cases, it makes the most sense to pay off the debt with the highest interest rate first, while making the minimum payment on the rest. Once the highest interest-bearing debt is paid off, choose the debt with the next highest interest rate and apply your payment from the paid off debt to this balance, while continuing to make the minimum payment on the rest.
- **Make it easier to pay off your unwanted debt by signing up for automatic payments.** Be certain that you'll never forget a payment while you focus on paying off the debt with the highest interest.
- **Be sure to keep your debt in check.** Create a budget and use cash or your debit card to make purchases.

- **If you have extra room in your home or an in-law apartment,** consider renting it through Airbnb. Be sure to check the regulations in your area to ensure you're in compliance with municipal codes or homeowners association rules.
- **Clear the clutter.** Sort through your stuff and set aside items that you don't use, are in good condition and others would enjoy. Consider selling them online, at a consignment shop or in a garage sale.



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