

Credit cards

Handle with care



NAME

CLASS

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YOUR INDEPENDENT MONEY GUIDE

BROUGHT TO YOU BY THE RETIREMENT COMMISSION

1 Raeanna's Sorted journey

ADVERTISEMENT

You will watch Raeanna's advertisement several times: www.sorted.org.nz/journeys/raeanna. Before each screening you will be asked to look for certain themes. Jot down your key findings in the spaces below.

Theme 1 Raeanna's profile - her age, lifestyle, spare time activities.

Theme 2 Raeanna's financial planning tools.

Theme 3 Raeanna's future goals and plans.



WHAT DO YOU REMEMBER?

Q What activities did Raeanna enjoy doing in her spare time?

Q What did Raeanna know about credit cards when she first got one?

Q Raeanna used a credit card calculator. What information did she have to include?

Q How did Raeanna react when she pushed the 'calculate' button?

Q True or false – Raeanna keeps track of her spending on her credit cards?

Q What money does she keep track of?

Q Is saving for retirement on Raeanna's list of goals? Why? Why not?

REFLECTION

Consider

What do you think will happen to Raeanna in the near future?

Will Raeanna continue using her credit card the way she is now? Why? Why not?

What are Raeanna's goals? What do you think is important to her?

How does Raeanna's lifestyle compare to yours? Do you know someone like Raeanna?

Notes



2 Credit cards - What are they?

Raeanna said that since everyone had a credit card she thought it was a normal thing to have and that it didn't seem like she was spending money. Having had one however, Raeanna has learnt some hard lessons about credit cards.

CREDIT CARDS DEFINED

A credit card enables cardholders to purchase goods and services on credit rather than pay by cash, cheque or EFTPOS. Users receive a monthly statement on their credit transactions and will not usually be charged interest if the monthly account is paid in full by the due date. Credit cards may also be used to get cash advances.

Answer the following:

What is credit?

What different types of credit cards are there?

Why are there different types of credit cards?



How old do you have to be before you can get a credit card?

Do you know anyone with a credit card?

What do they use their credit card for?

CREDIT CARD OPTIONS

Different credit cards have different features:

SUPPLIER	TYPE OF CREDIT CARD	FEATURES

REFLECTION

What are the advantages of having a credit card?

What are the disadvantages of having a credit card?

Notes



3 Kiwi stories about credit cards

Different people have different experiences with credit cards and debt.

YOU CAN'T DO WITHOUT YOUR SLEEP

Trudy is 28, single, and working in an office. She's earning a good salary, and she loves beautiful things. Over the past couple of years she has built up quite a bit of debt, and she's got absolutely no savings. Her credit card balance is \$3,000 and she owes \$1,200 on HP.



It's high interest debt so she's been making a concerted effort to pay it off. But with no savings Trudy is concerned about not having anything put aside for emergencies (like her car breaking down!). In fact she is worrying so much about her money situation that she isn't sleeping at night.

Trudy visits Sorted and realises that her biggest concern should be improving her net worth - the difference between what she owns and what she owes. So she decides to take a long-term view and stay focused on getting rid of her debt.

She sets a goal to pay off her credit card and HP balance in six months. After that, she will start saving for the emergency fund.

Notes

SHE'S GOTTA HAVE IT

Mandy loves shopping and often buys on the spur of the moment. If she sees something she likes, she's got to have it, right now!

However, when her partner threatened to cut up her credit card, Mandy realised she might need to review her spending habits.

She did the Money Personality Profile on Sorted and found she was a Hedonist - someone whose talent for enjoying the good things in life can also make them more subject to impulsive temptations.

That rang true. And it motivated her to try a new tack.

Mandy forced herself to slow down and think before her next purchase by slipping her credit card into the freezer.

Next time she felt the urge to splurge on a pair of the latest designer shoes she'd have to come home, de-ice the card, then go back and buy...or not.



Notes

PUT AWAY THE BOXING GLOVES

If there's one topic that's likely to cause an argument in Pete and Myra's house, it's money. Pete's spur of the moment spending sprees drive Myra nuts. No matter how hard she tries to minimise the times he's alone with their credit card, Pete can't seem to help himself – if he spots something he wants, he buys it. For Pete's part, he doesn't understand why Myra gets so worked up about it. After all, that's what a credit card's for isn't it?



Friends tell Myra & Pete about the Money Personality Profile on Sorted and how it helped them understand why they had such different attitudes to money. So the two of them decide to give it a go. Not surprisingly, Pete discovers he's a Money Maestro – prone to bursts of extravagant expenditure. Myra on the other hand is a Practical Domestic – someone who likes order and structure with money, and believes in saving. No wonder Pete's tendencies with the credit card have her lying awake at night. They work together to reach a compromise. They set Pete a monthly spending fund – an amount he can use to buy whatever he likes, as long as he keeps within the budget. And Myra agrees to the fund being slightly more than she'd normally agree to – because she knows they'll actually be able to save more than before because Pete's no longer got a free reign with the credit card.

Notes

THE RIGHT SORT OF DEBT

Brendan has decided to get a qualification through distance learning. He needs a computer at home so he can keep up with the course work in the evenings.

His course is about to start and he hasn't got enough saved to buy the computer he needs. But Brendan is comfortable about borrowing for this because he knows he's investing in his future.

Brendan has found a 12 month interest free deal for the \$3,000 laptop he wants. He has to pay \$35 in account charges but no repayment insurance premium.

He committed himself to paying off the debt within 12 months so won't be paying any interest with the interest free deal. All up he would end up paying \$35 extra – the set up account charge – for the deal.

If Brendan puts the laptop on his credit card at 19.5% interest, he wouldn't pay any additional account charges but he would end up paying around \$300 in interest over the year.

The cost of Brendan's laptop:

Cash	\$3,000
12 month interest free deal	\$3,035
Credit card	\$3,300 (11 monthly repayments of \$300)

Comparing all the costs, it's obvious to Brendan that, assuming he pays off his laptop inside the interest free 12 months, hire purchase would be a good way to buy the computer.

Notes

4 Doing the figures on credit cards

Credit cards are an easy way to pay for things but they can also be very expensive if you don't pay off the balance in full every month. The longer you leave an unpaid credit card balance the more expensive it gets.

INTEREST

Credit cards usually have an annual fee. But this may be less than you pay on EFTPOS fees in a year and credit card payments are usually fee-free. If you pay your credit card balance in full at the end of each month, this is a cheap way to pay.

If you don't pay your monthly balance on time you will be charged interest – often more than 20% per year. That means you're paying 20% more than everyone else for the same item. Remember if you add the interest to the outstanding balance then your debt can grow very fast.

What's more, cash advances (when you withdraw money with your credit card) can be expensive because you're charged interest from the day you get the money out instead of getting a month or more free credit.

It's important that you choose a credit card that suits how much you spend and your ability to repay. For example, if you tend not to pay off your card every month, you'll probably be better off with a lower interest rate.

Notes

CALCULATIONS

Use the Credit card calculator on sorted.org.nz to calculate how long it will take for the people in the table below to pay back their credit card debt, to see how much interest would have been paid over that time and the total amount paid.

Name	Credit card debt \$	Current interest rate %	Repayment amount \$	Frequency	How long will it take to repay?	Interest paid \$	Total amount paid \$
Jules	3,000	21.95	150.00	Monthly			
Hans	15,000	19.00	1,450.00	Monthly			
Claire	450	15.90	22.50	Monthly			
Hoani	1,680	22.20	50.40	Monthly			
Liana	6,500	19.95	260.00	Monthly			

REFLECTION

- What is your reaction to the length of time and the interest amount on the amount borrowed for each person?
- Compare the original amount borrowed with the total amount paid. What are your thoughts?
- What suggestions and advice do you have for any of the people above?

Notes

5 Everyday spending

When you want to buy something like a TV, MP3 player, or a new pair of shoes, you probably don't think a lot about how to pay for it. But the way you pay can make a difference to how much you actually pay.

WHERE DOES MY MONEY GO?

How much does your class spend in a month on the following items? Record your answers next to each item and the preferred method(s) of payment.

ITEM	SPEND EACH MONTH	PREFERRED PAYMENT METHOD(S)
Food and drink		
Transport		
Entertainment		
Sports gear/tickets		
Communication (mobile, internet downloads)		
Music		

REFLECTION

- Are you surprised at any of the figures for the month? If so which ones? Why?
- Does one particular item stand out as being where most of your class's money goes? If so, why do you think this is?
- What items would you like to spend more money on? Why?

Notes



THE TRUE COST

The way you choose to pay for things can make a huge difference to how much you actually pay in the end. Use the Spendometer on sorted.org.nz and choose four items you'd like to buy. What's the best method of paying for these? Why?

ITEM	BEST METHOD OF PAYMENT	REASONS
1		
2		
3		
4		

DISCUSS

- Were you aware of the different ways to pay?
- Now you know the way to pay can affect the cost of what you buy – will you change your spending behaviour or consider this in the future?



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