This Credit Card Trick Could Be the Key to Saving More Money for Retirement

Description

Ask any three Canadians if the country is in the midst of a retirement crisis, and only one will respond, "No." At least that's what the Healthcare of Ontario Pension Plan (HOOPP) discovered this year.

According to their survey, 67% of Canadians believe we're on the brink of a retirement crisis. With the economy still recovering from two years of lockdowns, Canadians have been unable to save as much as they would have liked. In fact, according to another survey, this one by the CIA, nearly half of Canadians don't have a financial plan for retirement, with another 40% admitting they don't know when they'll retire, if at all.

So, it's clear: when it comes to saving for retirement, Canadians can use all the help they can get. Aside from taking on side gigs, not to mention trying passive-income ideas, there is one easy way to generate retirement income, without having to do little else other than spend money: get a cash-back credit card.

How could a cash-back credit card help?

It seems absurd — laughable, even. A *credit card*, you might think. How could that help you save for something so big as retirement?

But here's what most people overlook: with many cash-back credit cards, you can deposit your earnings into a brokerage account. Then you can invest your earnings in stocks, ETFs, or mutual funds, helping you grow your cash back into a sizable sum.

You could do this in a few ways. For one, you could redeem your cash back as a cheque. You can deposit this cheque into your bank account and then transfer the money directly to your brokerage account. With this method, you could even transfer your money into a TFSA, which would give you tax benefits, such as no capital gains taxes on investment earnings.

Some credit card issuers will even let you deposit your cash-back earnings directly into a brokerage account. Alternatively, you could apply your cash back as a statement credit and then deposit money from your own income into a brokerage account. This might work best if you want to deposit money from your paycheque into an RRSP, especially if you get an employer match.

How could a credit card hurt?

Earning cash back on a credit card is extra money, true. But it comes with one big risk: paying interest on your charges.

Recall that credit cards come with high APRs, which become pricey over time. If you carry debt on a credit card — that is, if you don't pay off your full statement balance before the due date — you'll incur interest. The longer you incur interest, the higher your interest charges will become. That's what we call the "credit card trap."

When credit card interest gains momentum, you could end up paying more on credit card interest than what you earned in cash back. For that reason, try not to charge more than you can afford to your credit card. Stay within your budget, and don't overcharge, no matter how tempting the purchase is.

If you *do* find yourself amassing credit card debt, do know that you have options. You can, for instance, take out a balance-transfer credit card. These cards often come with a low introductory APR period, which will help slow down the rate at which you accumulate credit card debt.

What cash-back card works best for retirement savings?

Easy — the best cash-back card is one whose earn rate aligns closely with your spending habits.

For instance, if you spend more money on groceries than any other expense (aside from housing costs), you'll want a cash-back card with a higher earn rate for grocery purchases. Of course, many credit cards come with more than one bonus earn rate. If that's the case, look for a card that aligns closely with your two or three spend categories, such as one that earns more for food, gas, and possibly utilities.

Get a credit card that helps you build wealth

Trust me on this — though a card credit won't make you rich overnight, it can help supplement your retirement saving. That, combined with other smart strategies, such as investing wisely and using tax advantage accounts, such as a TFSA and RRSP, could help you come out of the so-called retirement crisis with a hefty nest egg.

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