



How to Turn Credit Card Rewards Into a \$1,000 Emergency Fund

Description

From gas to groceries to rent, many of us are facing what could be the most expensive years of our lives.

In fact, according to a poll from the Angus Reid Institute, around half of those surveyed said the rising cost of living has taken over their finances. As a consequence, one in every seven Canadians can't fit an unexpected bill into their budget and, even more alarming, half of respondents said they couldn't cover a \$1,000 emergency expense.

That's tough news. It's even tougher for those facing a \$1,000 expense right now. And if you don't have the financial means to save a \$1,000 emergency fund, an unlikely source of passive income could be the answer: credit cards.

How a credit card can help you save \$1,000

First off, let's be clear: in order for this to work, you must have a fairly good [credit score](#). While every card provider views scores in a slightly different manner, most see a 660 or above as good, with scores above 725 as excellent.

If your score is above 660, that's good news for you. Now, let's find some credit cards that will give your income a boost.

Of course, we're talking about [rewards](#) and [cash-back cards](#) here — cards that will earn a percentage of your purchases in the form of rewards or cash back. The trick to building an arsenal of rewards cards that earn \$1,000 is two-fold: (1) get cards with bonus earn rates, and (2) get cards with welcome bonuses.

Cards with bonus rates

Every cash-back and rewards card has an earn rate. For instance, a cash-back card might earn 2% back on every purchase. Or a rewards card could earn three points or miles. The 2% rate, or the three

points back, is the earn rate, also called the *base rate*.

But many of the best credit cards in Canada come with *bonus rates*. These are rates that earn more cash back or rewards for major spending categories, like groceries, gas, restaurants, and subscriptions. For instance, a cash-back card could earn 4% back for groceries, 3% back for gas, and 1% back for everything else.

The trick to earning \$1,000 in cash back or rewards is to apply for cards with bonus rates that align with your spending. For instance, if you spend the most on food, gas, and subscriptions, then you'll want cards that earn more for those categories. Likewise, if you spend on transit, like buses or planes, you might want a travel card that earns miles or points.

Cards with welcome bonuses

Bonus rates are essential. But if you want to hit that \$1,000 in a short period of time, you'll need some more firepower.

Enter the welcome bonus.

Snagging a welcome bonus, or a sign-up bonus, is the fastest way to accumulate rewards. Typically, you'll get the bonus if you can spend a certain amount within a specific period of time. If you hit the spending threshold in time, you could get a tonne of cash back or rewards.

How to turn your cash back or rewards into a \$1,000 emergency fund

If you want to convert your rewards into an emergency fund, you'll need a card with flexible redemption options. For instance, many cash-back cards allow you to convert your earnings into a cheque or chequing account deposit. You can also get a statement credit, which might work as an emergency fund, so long as you can pay the emergency expense with your credit card.

Be careful with rewards card, however. Depending on the card, you might not have flexible options. Some rewards cards, like retail cards and travel cards, give you the most value when you redeem for certain purchases or flights. Others will let you convert rewards into cash, but at a terrible conversion rate.

To get started, take a look at some of [Canada's top credit cards](#). Of course, you also want to align your credit card spending with your budget. Overcharging to your card could result in high interest payments, which won't help you in the long run. So long as you borrow responsibly, paying your statement balance in full and on time, your credit card might help you save that \$1,000 emergency fund.

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