

# 5 Ways Holiday Shopping Tests Your Financial Literacy



Spend this time to think about what facets of money management you'd like to get better at and make plans for turning your goals into reality.

The holiday shopping season is a hectic, expensive time of year, with much to do, many pitfalls to avoid and little room for error. That's abundantly clear when you consider that the average person is expected to spend nearly \$936 on holiday purchases, according to the National Retail Federation, while we collectively rack up credit card debt in a manner reminiscent of the run-up to the Great Recession. Not so obvious, however, is how well we're responding.

Answer the following questions to see if your financial literacy is strong – or if you're just throwing green out the window.

**1. Do you comparison shop?** Even if you don't actually buy anything right away, starting the holiday shopping process as early as possible enables you to pounce when prices are at their lowest. It's difficult to predict when that will be, after all, particularly since the date can vary from item to item on your gift list. For instance, a lot of people blindly buy on Black Friday, thinking that the deals are as good as they're going to get. But about 17 percent of items were actually more expensive on Black Friday 2016 than they were the week before on Amazon.com, according to WalletHub research. And 11 percent of this year's Black Friday deals were repeats from 2015.

Furthermore, paying with the right credit card will help calm any fears you may have about missing out on better deals as a result of buying too early. Many credit cards offer price-drop

guarantees, giving you a refund for the difference between what you paid for an item and how much it costs in the months that follow. Just make sure to keep your receipt. You'll need it not only to submit a price-drop claim, but also if you want to make any returns.

**2. Do you budget or wing it?** The fact that we're on pace to end 2016 with \$80 billion more credit card debt than we started with, according to WalletHub's latest Credit Card Debt Study, is perhaps less surprising when you consider that only two in five Americans adhere to a budget, according to the National Foundation for Credit Counseling. It's impossible to ensure spending within your means without knowing exactly what you can afford or monitoring your actual spending and payment habits. And doing so is doubly important during the holiday season, as we're faced with unusual obligations and accustomed to going overboard at the end of the year. Dating back to 2011, we've added an average of more than \$45 billion in credit card debt to our tab during the fourth quarter of the year, according to WalletHub data. And we're on track to surpass that this year.

Making a reasonable budget is the first step toward avoiding the ills of overspending. Sticking to that budget and adjusting as necessary along the way is the other crucial cog. If you're past that point and foresee being unable to pay off your holiday expenses within a single billing period, your priority should be to get out of debt as fast as possible. So build your budget around the biggest monthly debt payment you can comfortably afford and check your credit score to see if it's good enough to qualify for a decent balance transfer credit card.

**3. Are your purchases rewarding?** Paying with cash or a debit card benefits budgeting, but the benefits don't compare to what you're giving up in the process. When used responsibly, the right credit card can save you hundreds, even thousands, of dollars each year. For example, a good rewards card is worth 2 percent cash back on all your holiday purchases, \$500 or more to pay your bill in the new year or \$600-plus in spring or summer travel. And a zero percent credit card can help you avoid expensive interest charges on big-ticket purchases or reduce the cost of existing debt while reaching debt freedom faster.

It also bears mentioning that credit card-using households receive a subsidy of about \$240 per year from cash payers, according to a 2010 study by the Federal Reserve Bank of Boston. Prices for goods don't go up for card-based payments, you see, which means cash users help foot the bill for credit card payment processing and rewards programs without enjoying any of the perks. Furthermore, credit cards offer \$0 fraud liability and other helpful benefits, such as travel insurance and rental-car insurance.

**4. Do you think retailer financing is safe?** If you think that retailer financing is safe, then you've got a thing or two to learn. Every major issuer offering zero percent financing this holiday season uses a very dangerous feature called "deferred interest," according to WalletHub research. That means that if you pay your monthly bill a day late or leave even a \$1 unpaid balance when the 0 percent term concludes, the high regular APR can be retroactively assessed to your entire original purchase amount. So if you screw up in the slightest, you'll get blindsided by finance charges.

That's one reason why zero percent credit cards that aren't affiliated with any particular retailer are vastly superior. With such cards, only the balance remaining at the end of the intro period is subject to regular rates. Normal zero percent cards also tend to have longer zero percent terms.

Nevertheless, if you already slipped up by opting for retailer financing, your fate isn't necessarily sealed. You just need to be very careful with your payments.

**5. Got any money-related resolutions?** A big part of financial literacy is learning from your mistakes. And we've all made our share in the past year, so we all have room for improvement. It's not like everyone has perfect credit scores, a robust emergency fund or a fully funded retirement.

So, think about what facets of money management you'd like to get better at and make plans for turning your goals into reality. Because if you don't, you'll undoubtedly be leaving money on the table.

Finally, it's important to note one other significant, yet often overlooked, way in which the holiday season tests our financial literacy: the example we set for our kids.

If you spend wildly and cater to your child's every desire, you're sending the message that money is no object and entitlement is fine. On the other hand, if you use holiday shopping as an opportunity to teach budgeting skills and deprioritize material goods, you'll really get your money's worth. Keep that in mind as you enjoy quality time with family in the weeks to come.

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