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MARKET MATTERS: Credit card debt — far too high and wasting your money

By Joseph Matthews
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Photo: Keith Srakocic / Associated Press

Credit card debt is on the rise in Connecticut, nationally, and worldwide, as consumers take advantage of a hot economy. But, is tying up your money in high-interest credit cards its best use?

Borrowing money to increase productivity could be good for a business, start-ups, or those that plan to expand; but excessive debt can stifle businesses and consumers alike. And, even though consumer use of credit cards is one of the driving forces behind the economy, the high interest rates can turn short-term gain into long-term shackles.

Many analysts believe that while the economy can benefit from credit card spending for a period of three to five years, positive aspects will be outweighed by negative influences after that time frame. Low unemployment and higher economic growth can be offset by high indebtedness that forces consumers to curtail spending, which in turn can have a negative effect on the economy.

Connecticut residents on average own 3.23 credit cards each, ranking fifth in the U.S. This already could be an issue for some residents in Connecticut, a state that has the highest average credit card balance in the contiguous 48 states, at $7,258.

A recent analysis indicates that more than 41 percent of American households pay interest on unpaid credit card balances each month, a situation that has not occurred since 2008. This puts investors into the position of deciding whether to pay down debt with any extra cash that might come their way or invest the money to grow their wealth.

Having to make the decision to pay off debt could reduce the amount of funds available for investments which could negatively impact investors' ability to fund long-term goals, and even their eventual retirements.

So, what can consumers do to reduce debt but still meet their financial goals?

One idea is to look at tax season. With tax return season imminent and the average taxpayer refund hitting $2,782 in 2018, there certainly could be some extra cash available. Some analysts recommend paying off high-interest credit card debt before anything else, since interest payments alone can be a major drain on monthly finances. By removing interest payments, which easily can carry rates that are 20 percent and higher, from their monthly budgets, investors can be giving themselves some much needed leverage.

There are many other areas where your refund could be helpful, including saving for retirement, increasing your contribution on your workplace retirement fund, investing in the market, or funding a health savings account.

Basically, each business owner, homeowner and investor should review their own situations to determine their best options. In the short run, it may be acceptable to maintain a higher credit card balance, particularly if the credit is used to purchase much needed goods that have been on the back burner due to economic constraints; but in the long-term, many analysts believe credit card balances should not exceed 30 percent of the credit available.

But holding high levels of debt will not encourage or assist long-term growth, and in the overall analysis that is the goal for some investors. A close look at the types of debt held, the investment options that are available and the immediate as well as long-term goals is necessary to determine the best option. And maintaining a close view on the underlying conditions of both debt and investments is equally important for investors who want to ensure that opportunities are not missed on either end of the spectrum.

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