How Canadians tackled debt in 2013

By Gail Johnson | Pay Day – Fri, 24 Jan, 2014 4:16 PM EST

We may be facing record levels of debt, but nearly a quarter of Canadians managed to lower the amount of money they owe last year, according to a new survey.

The top strategies that reportedly helped 24 per cent of the population chip away at debt in 2013 were cutting out frivolous spending (44 per cent) and only buying items that are on sale (40 per cent), found the survey by RetailMeNot, a digital discount source.

One in three of those polled said they set money aside to put in the bank, while 11 per cent said they created a financial plan.

“Studies show that non-mortgage debt is continuing to rise in Canada but at a much slower and modest pace than before, which…shows a trend that we’re trying to become more conscious of our spending and trying to pay off our non-mortgage debts,” says Vancouver certified financial planner Annie Kvick, a certified money coach with Money Coaches Canada.

Other stats point to positive money changes among Canadian consumers: After getting into better shape, becoming financially fit was the next top priority among Canadians who made New Year’s resolutions this year, according to the Bank of Montreal.

Vancouver certified financial planner Satpal Rai says she’s noticed several ways in which clients have cut back.

“The public does seem to be more conscious about their everyday spending: getting gas across the border, grocery shopping in local markets, making more things at home, reducing winter-holiday budgets,” Rai says. “For Christmas [last year], a lot of people opted for family get-togethers or picking a name out of a hat and purchasing a gift for one person instead of [buying] for everyone.”

Those people who are focused on paying down debt are reducing their spending on non-necessities, Rai says. She’s also noticed that when people have something on their wish list, they’ve been doing their research, comparison shopping, and purchasing once they’ve saved up enough money for it rather than automatically reaching for the credit card.

In other cases, people have changed their spending habits but aren’t necessarily spending less money.

“The trend is to spend less on clothing, entertainment, and other types of luxuries, however it’s not due to the need to decrease debts alone for most,” Rai explains. “This has been a response to spending on education, activities for their children if they have them, and on homes and/or vacations rather than on other material goods.”

For people determined to get out of debt this year, financial advisors suggest starting with the basics.

“The first step to be able to reduce our debt load is to have a good handle [on] and a clear understanding of how much money is coming in and going out and where it’s going,” Kvick says.

"Categorize the expenses into monthly fixed, monthly variable, and fixed yearly. When we know where our money has been going we can make informed decisions on where we want it to go going forward. The hardest part is then to be able to follow the plan and stick to it.

"Many of our clients have tried to do it on their own before and what they've learned is that their biggest hurdle might not have been the credit card but their line of credit," she adds. "The LOC has been 'helping' them pay off their credit card each month but in the end, they were still adding to their debt load."

One-off strategies that don't take into account people's full financial picture don't typically help them eliminate debt, Rai says. For instance, consolidation loans and the use of credit cards with lower interest rates to pay off those with higher interest-bearing cards may be sensical approaches for some, but they're not enough on their own if other money-smart measures aren't in place.

"[Debt] payments become lower, however if the debt is still not being paid down and expenses are not being reduced or savings not being increased, then it's difficult to climb out of debt," Rai says, who says tracking spending for three to four months can be an effective way for people to come up with a realistic and meaningful budget.

Having an emergency fund is recommended too so that unexpected expenses don't force people into a position on having to take on additional high-interest debt.

Are you in the debt danger zone?
Warning signs you could be in trouble when it comes to your debt load.