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The long-held idea that credit cards encourage overspending isn't necessarily false. A journal article by University of Toronto Researcher Dilip Soman found that those who have a history of using credit cards as a form of payment tend to overspend more than those who have a history paying with cash or checks.

According to the article, cash and check payments produced a more “painful,”

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## WITH CREDIT CARDS, YOU REAP WHAT YOU SOW

Most financial tools have the potential to benefit you or set you back depending on how you use them. For example, through compound interest, high-yield savings accounts allow you to earn based on the money you've deposited into the account. Yet, if you overdraw the account to compensate for debts elsewhere, you'll most likely incur a fee and exasperate your situation.

In terms of credit cards, owning one gets you a line of credit through which you can spend responsibly and well-within your credit limit or irresponsibly and over it. How you use these tools is up to your discretion.

## HOW YOU CAN AVOID OVERSPENDING ON YOUR CREDIT CARD

It's safe to say most people have overspent at least once in their lifetime — whether they were intentionally splurging on a big purchase or covering an unforeseen charge.

If the idea credit card debt from overspending keeps you up at night, know it doesn't have to; here are a few ways you can prevent overextending your finances and set yourself on the path toward long-term financial health.

## STICK TO A BUDGET AND TRACK YOUR SPENDING

It's easier said than done, but creating a reasonable budget for yourself based on your income, necessary spending and savings goals can help prevent accidental overspending.

“We recommend using something like YNAB (You Need a Budget), an app that forces you to allocate each dollar before you spend it,” says Tara Unverzagt, financial planner at South Bay Financial Partners. “... It's hard to reverse your thinking if

you're used to paying for things before you get your paycheck to pay for it. If you can

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If your credit card offers it, spending or transaction alerts are a great way to not only keep tabs on whenever a purchase is made using your card information, but can also help keep your spending top-of-mind.

Transaction alerts are most commonly sent via email, text or as push notifications through your card's mobile app. American Express, for example, allows users to set both spend and credit limit tracking alerts that notify you when you're approaching a previously determined threshold.

## REVIEW YOUR CREDIT CARD STATEMENT

Michael Uehlein, financial planner and founder of WealthU Advisors, suggests going over your credit card statements each month to pinpoint where you may be overspending.

"This can be done using an account aggregative such as Mint.com," Uehlein says. Using either the app or website, Mint allows you to link your credit cards, debit cards and bank accounts. Each transaction is then automatically grouped by Mint into categories, making it easy to visualize your budget and spending patterns.

## BE PREPARED FOR FINANCIAL HARDSHIP

While unforeseen events like medical emergencies or loss of income are bad enough in their own right, accumulating credit card debt because of them can make your situation even worse.

Establishing an emergency savings fund with three to six months' worth of living expenses is one way to prevent breaking out a credit card when times get tough.

"To calculate (your emergency fund), add up all fixed expenses (rent, utilities, mortgage, car payment, etc.) plus food," Uehlein says.

One way to jumpstart your emergency fund is to scale back the spending you've

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Sometimes — such as in the current climate — financial hardship can be brought on without warning. If you're ever in need of financial assistance, there's a likelihood your credit card issuer can help.

Amid the coronavirus pandemic, most major issuers are offering assistance such as payment deferment, waived late fees and a pause in credit reporting that can be implemented by reaching out via phone, email or chat.

Going forward, having a demonstrated history of responsible card use can improve your chances of receiving issuer help when you need it.

## DON'T CHASE A REWARD YOU CAN'T AFFORD

Welcome bonuses or exclusive perks earned through spending with a credit card are great, but if the spending you do normally isn't enough for you to qualify, you'll most likely end up overspending.

If you're in the market for a new credit card and a flashy offer catches your eye, keep in mind you 1) most likely won't receive the offer right away 2) typically have to reach a specific spending threshold within a set amount of time to earn it.

With all this in mind, focus on the rewards structures of the cards you're considering and any fees they charge (such as annual fees, late fees and foreign transaction fees). Doing so ensures you're applying for the card based on the value it can add to your life rather than the potential of earning a one-time reward.

## THE BOTTOM LINE

When it comes to credit cards, the power is in your hands to either use them to your advantage or overspend and collect debt. By practicing responsible card usage and preparing your finances for the unexpected, a credit card can benefit you for years to come.

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