

How to make money by spending more

The recession may have started with the mortgage meltdown but it's the nation's savers that have really borne the brunt.

Savings rates have been slashed in the last year or so, meaning that those who carefully put aside their hard-earned cash are suffering now. In fact, a combination of low interest rates and current high inflation means that many savers are actually seeing their wealth eroded.

The government's official measure of inflation - the Consumer Price Index - is currently 3.4 per cent, so a basic rate taxpayer would need to earn at least 4.25 per cent to stop their wealth being eroded and a higher rate taxpayer a whopping 5.7 per cent. Those earning over £150,000 a year now pay the new 50 per cent tax rate, and need to earn a massive 6.8 per cent on their savings just to beat inflation.

And with Base Rate still at its record low of 0.5 per cent, and savings rates extremely poor, earning this is extremely difficult from savings accounts. The average instant-access account pays less than 1 per cent, and even the best buys pay less than 3 per cent, so savers need to look further afield to make their money work harder for them.

The obvious route is to tie up your savings in a fixed rate bond which pay higher rates of interest than instant-access accounts. If you can tie up your money for two years you can achieve 4.15 per cent with the West Bromwich Building Society's E Bond 39.* And if you can keep your hands off your cash for five years, you can earn 5 per cent with the State Bank of India's Hi Return Fixed Deposit account.*

But in the fight to beat inflation, some savers are finding less traditional ways to make money, including spending on their credit card to boost their savings income. Making money by spending on your plastic might sound like music to the ears of the most ardent shopaholics, but how does it work?

Spend to save

Cashback [credit cards](#) reward you for spending by crediting your account with cash each time you use your card. You usually get paid a proportion of what you have spent, plus because cashback isn't taxed it can be a highly efficient way to earn money for higher rate taxpayers.

Of course, this isn't strictly saving as you have to spend in order to get the money. However, if you simply use your cashback credit card to make purchases you would have made anyway, you are effectively getting the money for nothing.

Move as much of your day-to-day spending such as groceries and petrol onto a cashback card and you will earn money without actually spending any more. You are simply maximizing the benefits of your credit card.

It's essential to remember that you must pay off your credit card balance each and every month to make this worthwhile. If you don't, the interest you are charged will probably completely wipe out any cashback you have received. Only get a cashback card if you can afford to repay your spending in full every month and make sure you set up a direct debit to automatically repay your balance.

Which are the best cashback deals?

American Express offers the highest rate of cashback - a whopping 5 per cent on everything you spend for the first three months up to a maximum of £100 cashback. After that the cashback rate is tiered, but those spending over £7,501 in a year can achieve long-term cashback of 1.25 per cent. Up to £3,500 the cashback is 0.5 per cent and those spending £3,501 to £7,500 receive cashback of 1 per cent. The APR is 19.9 per cent.

Below are the best of the rest, all paying a 1 per cent rate of cashback:

Provider Card Cashback Conditions APR

Egg Money World MasterCard 1% Maximum £200 cashback per year; if less than £5 no cash back is payable. £1 monthly fee 17.8%

Capital One World MasterCard 1% plus extra £10 a year Annual fee of £18 19.9%

Barclaycard Reward Platinum Credit Card (though most Barclaycards benefit from the Reward scheme) 1% Must be redeemed at selected retailers 15.9%

*Correct as of 19/4/10

About the Author

Read more about [credit cards](#) at <http://www.confused.com>

Source: <http://www.kiarticle.info>