Is a balance transfer the right choice for you?

For many Canadians, the idea of getting out of debt sounds like a distant and impossible dream. But with balance transfers, the dream can be a little closer to reality - as long as you're motivated and disciplined at paying off your debt.

Balance transfers are exactly that: a way to transfer high-interest debt from one credit card to a credit card with low or no interest for an introductory period. The upside to balance transfer cards is the lower interest rate. The downside is they could be a gateway to more debt, if you aren't careful.

The benefits

Debt is tricky because it can accumulate silently and quickly. Consumers who don't pay close attention to their credit cards only notice the balance has been creeping up when the debt already seems astronomical. That's when a balance transfer starts to make sense, says Tom Drake, self-employed personal finance expert and financial analyst.

"A balance transfer can provide customers with a lower interest rate - or no interest - for a period of time, which translates directly into cash savings," says Scott Plaskett, senior financial planner and CEO at Ironshield Financial Planning.

There are a number of benefits to having a lower interest rate on your card debt.

For starters, a lower interest rate could mean lower payments, Drake says. If you are struggling to make minimum payments on your current credit card, transferring your balance to a lower-interest card could help ease that cost.

If you aren't having trouble making minimum payments on your higher-interest card, you should make the same payment each month on the balance transfer card - even if your minimum is lowered. That way, you tackle the debt faster.

This is especially important if your low- or no-interest period is short, because the interest on many balance transfer cards will rocket up after that introductory rate expires. As a result, you could be paying the same - or a higher - interest rate than you were paying before the balance transfer.

Another perk of balance transfer cards is that you should save money in the long run. If you have $1,000 on a 20 per cent interest credit card, and you pay $30 a month, you'll end up paying almost $500 extra in interest by the time it's paid off (50 months). However, if you have $1,000 on a card with 10 per cent interest, and you pay $30 a month, you'll only pay about $175 extra in interest by the time it's paid off (40 months).

An astute customer may even be able to hop from one balance transfer card to the next multiple times, thereby lengthening the low- or no-interest period, Plaskett says. However, the wording of some contracts may prohibit you from doing multiple balance transfers within a specified period of time, he adds. Trying to dodge balance transfer rules could result in your special interest rate being voided, leaving you back where you started.

The drawbacks

Balance transfer cards can have traps, but if you're careful, you can easily avoid them.

First, be mindful of the small print, says Patricia White, executive director of Credit Counselling Canada. If your new credit card has a low interest rate for a promotional period, be sure to clear the balance before that expiration date. Otherwise, you'll not only have to pay the higher rate once the promotional period ends, but the interest is often backdated.

"Balance transfers are usually treated like a cash advance on a credit card, which means that interest charges begin immediately -- there is no grace period," says White.

Second, beware your own psychology when it comes to finances and debt.

"You need to be able to change your mindset on spending and get it under control," Drake says. Otherwise, once you transfer the balance to a new credit card and see all that available credit to spend, the temptation may be too much to resist.

"Without a change in lifestyle, you could quickly find yourself in twice as much debt," he says.

Drake also warns about balance transfer fees. You'll need to make sure the savings still seem worthwhile once you've paid the fee. This fee is typically about 3 per cent of the balance transferred, but it varies among cards, so read your card's terms and conditions before you agree to transfer a sum.

By using balance transfers as a tool, customers can use that lower interest rate to dig themselves out of a mountain of debt. To keep that lower interest rate, heed the conditions outlined in the fine print of the new credit card. And once your high-interest credit card is paid off, cut it up to avoid the temptation to get back into debt.

See related: Choosing a debt repayment plan for your needs, Don't put balance transfer bandage on serious debt wound

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