

Is It Worth It To Buy A Phone On Contract In 2022?

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In brief

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If you're in the market for a new phone, you are probably grappling with what you can afford. Unfortunately, most Americans don't have a thousand dollars in cash to spare. For this reason, many people turn to phone contracts from service providers. Contracts involve paying off the phone, usually over 24 months, without a downpayment. Depending on the plan, you also get a certain amount of voice minutes and data. When it comes to financial matters, it is rarely wise to go with a company whose primary purpose is to sell you a product. For example, mobile service providers offer to sell you insurance with your phone, but what they offer falls short of what you need - they do not cover theft - while costing more than it would elsewhere. This is why you should purchase mobile insurance from your actual insurer. Does this apply to phone contracts as well? There are pros and cons to buying a phone on contract. Here's what you need to know.

Check your finances

It is easy to speak about the pros and cons of buying a phone on contract without taking real-life home economics into account. You may simply not be able to afford a new phone without struggling financially for a couple of months. However, a contract is a worthwhile alternative if buying a phone outright will strike you financially. You get desperately needed something, and the fees are not too high. We will discuss the question, assuming you have the money to spare. If this is the case, should you consider a contract?

The time value of money

You may have heard talk of the time value of money, which will impact your decision. The concept refers to your money growing over time through an interest in a bank account or investments in funds and opportunities. So, if you have twenty thousand dollars of spare cash and need a new car, you may choose to finance the car so that you can use the money to buy stocks or start a business. When buying a phone, you're grappling with this on a scaled-down basis, but it still makes a difference. Theoretically, if you were paying the same amount over the 24-month contract as you would when paying straight out, choosing the contract would be an easy decision. However, this is unlikely to be the case. You can calculate the value of the contract over the period, but you will almost certainly find that the difference is higher than what you would have made from interest on the amount. So unless you have big plans for that thousand dollars, it will not make you as much money as you lose. In this sense, you are better off paying for the phone upfront.

Mobile providers vs. FSPs

Another reason you may be better off paying for the phone upfront is because your mobile provider is not a financial services provider (FSP). This means that a third-party company underwrites their contracts, and they are just a white label. You are therefore signing up for a type of loan through an intermediary. The point is it does make a difference if anything happens along the way. For example, if you hit a rough patch in terms of personal finance through no fault of your own, you may have trouble paying for your contract. If you could go directly to the FSP, making arrangements to delay your payment would be far more accessible. However, dealing with the mobile provider will be frustrating, as they cannot make decisions. The mobile provider also may not have a complete understanding of financial services. As a result, they may make decisions that put you at a disadvantage simply because they don't know it matters. For example, let's say you miss some payments. Your mobile provider may send your account to a legal firm, which will immediately go on your credit record. A proper FSP would likely communicate with you first and help you find a better solution. Ultimately, that is the best option if you can afford to pay for your phone outright. Only go with a contract if you need a new phone but don't have the money to spend.

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