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Rewards Cards: Minimize the Pitfalls, Maximize the Benefits



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Knowledge of card programs provides the best rewards

Wondering how to get cash back or free airline tickets by using a debit or credit card? With the variety of card rewards programs on the market and the restrictions that may accompany them, it's important to know the details and choose the card that's right for you.

What Are Rewards?

Rewards are incentives to use a debit or credit card to make purchases. Card rewards programs share several key characteristics:

- Rewards typically have units of value such as cash, miles, or points.
- Rewards can be accumulated over time and are subject to different terms and conditions.
- Rewards are often based on a percentage of your spending and can vary by what is spent in different categories. For example, you might get 5 percent back on gas purchases with your card. There may also be a lump-sum rewards bonus for spending a certain amount within a defined period of time.

Card rewards can take a variety of forms, but most fall within these major categories:

- *Cashback*, which you can redeem for a statement credit or a cash payment.
- *Points*, which you can use to purchase goods and services, including travel, gift cards, and discounts or rebates on goods or services, or convert to a cashback reward.
- *Co-branded card rewards*, in which a card issuer partners with a business, such as a retailer or airline, to allow you to earn rewards in the business's rewards program.

How Do Rewards Work?

Earning

Earning rewards is generally determined by your spending volume. In some cases, you earn a fixed quantity of miles, points, or cash in proportion to the amount you charge to the card, like one point per dollar spent. In other cases, you earn according to different conditions, like making purchases at a particular merchant.

The other major form of earning is the sign-up bonus, which is meant to encourage you to both sign up for the card and use it right away. Sign-up bonuses give you a substantial lump of additional rewards, but to receive the bonus, you must purchase a certain amount with your card within a specific time period, usually no more than a few months.

Redemption

Once you have accumulated your rewards, you will want to exchange them for the best value. Rewards programs are generally categorized by different types of goods and services available. In some cashback and co-brand rewards programs, redemption can occur automatically when you have accumulated a preset number of points.

More commonly, however, you must take action to redeem points and generally have to earn a minimum amount before you can use them.

Expiration and Forfeiture

All rewards not redeemed are potentially subject to expiration and forfeiture. Some cards have policies where if your card is inactive for a long period of time, your rewards may expire. You may also forfeit your rewards if they are not used by a specific deadline. Though these two terms are distinct, expiration and forfeiture both result in the same outcome: your inability to use the rewards if you don't follow the conditions provided by the issuer. If you're having trouble finding your card rewards expiration and forfeiture rules, contact the card issuer directly to ask.

Finding the Best Rewards Card for You

While the specific rewards offered and the rules for earning and using them are an important part of deciding which rewards card to apply for, you should also consider the following to find the best card for you:

Annual Percentage Rate (APR)

The APR is the amount of interest you will pay annually for borrowing money using your credit card. Of course, you'll want to find a card with a low APR, and you'll find many cards advertising low introductory APRs, which will eventually increase. You won't know the rate you'll get until after you're approved, but before committing

to a card, make sure you're comfortable that the APR charged is worth the rewards offered. For instance, you may find a card that offers 2% cash back on purchases, but if you do not pay your card balance in full each month and end up paying 15% on the balance that is carried over to the next month, you'll be paying more in interest than what you are earning in rewards.

APR for Balance Transfers

Most cards have a different APR for balance transfers. Often, cards offer a low introductory rate for balance transfers that will increase at some point. If you're thinking about transferring a balance from one card to a new rewards card, compare the interest rate you are paying now with the rate you'll pay with the new card (not just the introductory rate).

Fees

Compare the fees listed on each card you are considering. Common fees include an annual fee, cash advance fee, and late-payment fee. If you'll be transferring a balance, take a close look at balance-transfer fees too. You will want to think about whether the amount you will pay in fees is worth the amount of rewards you will earn.

There are lots of details to consider, so before you sign up for a rewards program, make sure it is the right choice for you to get the most from your spending.

For more help or information, go to www.fdic.gov or call the FDIC toll-free at **1-877-ASK-FDIC (1-877-275-3342)**. Please send your story ideas or comments to Consumer Affairs at consumeraffairsmailbox@fdic.gov

