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Safe Or Sorry: Are extended warranties worth it?

Extended warranties seem like a good idea up front. If you're going to spend the money on a new gadget, why not pay a little more to get protected from premature repair bills? While this may sound logical, you might end up paying for services you'll never need. It's important to consider what you're buying and how much it costs before snatching up that extra warranty.

What is a warranty?

A manufacturer's warranty promises that if a product becomes defective under certain conditions the company will fix or replace it for free. This is typically a one-year contract, but some manufacturers are getting stingier, making these agreements shorter and covering fewer repairs.

An extended warranty is an agreement between the buyer and the seller, lengthening the term of protection on the product. Of course, it comes at a price.

Too good to be true?

Here are a few ways an extended warranty can be deceptively enticing.

1. Most failures occur in either the first year (usually already covered by the manufacturer's warranty) or after the extended warranty has also expired. This is one of the reasons why retailers are able to pocket 80% of the money they make from selling extended warranties.
2. For electronics and appliances, the cost of an extended warranty can equal or be greater than the price of a repair. The cheaper the product, the less useful that extended warranty might be. Is a \$20 toaster really worth sending in for repairs?
3. Don't assume that every warranty covers accidental damage. If you're interested in an extended warranty because you're exceptionally clumsy, read the fine print to make sure it actually covers that kind of damage.

What is the "no lemon" policy?

If you aren't covered by a warranty, you may be protected under a "lemon" law. Federal lemon laws state that if a product fails a certain number of times for the same reason, the entire product will be replaced. If a product is repaired more than once, check if it's

covered by a lemon law. Lemon law statutes vary by state, so search "lemon laws" at findlaw.com for state-specific information.

When might an extended warranty be worthwhile?

1. Extended warranties usually include technical support, so when you buy an electronic device and you can't tell a microSD slot from an HDMI input, that warranty might be worth purchasing.
2. For first-generation products (the first of its kind), a warranty could be worth it. New technology products often take a few versions to work out the kinks. If you have to have the newest gadget, it may pay to ensure that it doesn't become a \$500 paperweight.
3. For more expensive items (think appliances, tech gadgets, etc.) it might be worth the extra money. It would be nice to have your two-year-old laptop repaired (which could cost hundreds of dollars otherwise) for free. Compare the replacement cost with the price estimates of the most common repairs.

Many credit cards offer automatic warranties on purchases, so find out if yours issues an extended warranty at no additional charge before you spring for coverage from a store.

Bottom Line: Don't let pushy salesmen pressure you into an extended warranty. Extended warranties can usually be purchased 14 – 30 days after purchasing the item, so there is time to think it over and decide what's best for your situation.

Sources: consumerreports.org; investopedia.com; smartmoney.com; consumerist.com

Stats

43% of laptops need to be repaired within the first 3 – 4 years, according to a 2006 report by *Consumer Reports*.

Source: consumerreports.org

Less than 10% of digital cameras need to be repaired within the first 3 years, according to a 2006 report by *Consumer Reports*.

Source: consumerreports.org

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