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## **Mighty Fine Print: Reading up on credit card protection plans**

Nobody wants to feel vulnerable, especially when it comes to their finances. Naturally, an add-on protection plan for your credit card might be appealing. But how do you know if the fees are worth it, or if you're just throwing money away?

### **Filling in the blanks**

Think of a protection plan as insurance for a credit card. You pay a fee that is most often based on a percentage of the card's balance (usually between \$0.80 and \$1.00 for every \$100 of the balance). If something happens and you're unable to pay the balance, a protection plan will postpone or cancel the minimum monthly payments. These "life events," as they're called, include hospitalization, marriage, divorce, or being called to active duty in the military.

### **Covering your six**

Coverage varies between plans. For example, one protection plan may cancel minimum payments for 18 months if you become disabled. Another may cover you for two years. Some will even let you skip three payments for "academic excellence" in college--not bad for those studying too much to hold down a full-time job.

### **The hair in the soup**

The catch is that you need to read the fine print. Joe Ridout, consumer services manager and spokesman for the nonprofit organization Consumer Action, says people can be left in the dark about how specific the coverage really is. He's heard cases of people with protection plans being denied benefits because of minor technicalities. Also, due dates for the account balance and the protection plan are different with certain plans. If this happens, you may zero the balance on your card, only to find that the protection plan fees were calculated on a different due date, so you'll still end up owing those fees.

### **Working the system**

There are some cases where a protection plan might be a good fit. While he urges people not to carry a balance to begin with, Joe says that for students who know they're going to be moving or graduating from college, a well-timed protection plan purchase can give them some breathing room. Just know what you're getting in to: read every clause, know what constitutes a "life event," and

make sure that what you need is actually covered by the plan. Also, Joe recommends asking the lender to synchronize the due dates for the account and its payment plan. He says they're usually willing to oblige, and it could help avoid confusion.

Credit card protection plans could be a good idea, but they may not be worth your while. It may be better to spend your money keeping the balance paid off. If having credit card debt is unavoidable, some smarts and savvy will help avoid getting hit in the checkbook by surprise charges or inadequate coverage.

**Bottom Line:** At the end of 2008, 78% of American households had one or more credit cards. While it's better to not carry a credit card balance in the first place, a protection plan might make sense for some circumstances.

*Sources:* bankofamerica.com; chasepaymentprotector.com; usbank.com; creditcards.com; columbiatribune.com  
useco.org

### **Stats**

5.4: The average number of active credit cards held by an American consumer in 2008.

*Source:* creditcards.com

84% of undergraduates had at least one credit card in 2008.

*Source:* salliema.com

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