



**CreditCards.com**

Expert Guide to  
**Maximizing**  
Credit Card  
**Rewards**



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## Welcome! Let's get started!

Thanks for downloading our Expert Guide to Maximizing Credit Card Rewards. Most credit cards in the market today offer some form of loyalty or reward program. Getting the minimum reward is pretty straight forward. But to get the most out of your credit card rewards, you'll have to be a savvy cardholder. This guide will offer you some tips to do just that.

## First, a Word of Caution

If you're carrying a balance on your credit card, and paying interest on that balance, you should stop reading right here. No credit card rewards program even comes close to offsetting the cost you're paying interest. Instead, ignore rewards completely. Get your spending under control, and find a card with a low rate and no annual fee.

We can't stress this enough.

Now, if you're like the 40% of Americans who pay their bill in full each month, then get ready to rack up the rewards!

## Boiling It Down to Value per Spend

Miles? Points? Cash Back? Discounts? Regardless of the reward, the way to think about any program is how spend turns into value.

$$\text{Spend} = \text{Rewards} = \text{Value}$$

**Spend:** How and where do you use your credit card? Do you use it for gas and groceries, or only for big ticket items? How much do you spend?

**Rewards:** What is the "currency" you earn? Is it miles? Free hotel stays? Points which are redeemable for merchandise?

**Value:** For everything except cash-back, this is the tricky part.

For example, assume your card earns 1 mile for every dollar spent and that it takes 25,000 miles for a domestic round trip ticket. So you have to spend \$25,000 to get a free ticket.

But the *value* of a free airline ticket depends on the regular fair.

A ticket from Dallas to Chicago, using a 21 day advance fare, currently costs approximately \$182.

Spend=	Miles=	Ticket	Val/\$1 Spend
\$25,000 =	25,000 =	\$182	\$0.00728

In this scenario, you earned \$182 in value for \$25,000 of spend, or \$0.00728 in value / \$1 of spend.

But a ticket from Dallas to Miami is \$308.

Spend=	Miles=	Ticket	Val / \$ Spend
\$25,000 =	25,000 =	\$308	\$0.0123

In this scenario, you earned \$308 in value for the same \$25,000 of spend. That's \$0.0123 / \$1 of spend - or nearly 70% more in value!

You can use the same logic with points programs. Assume you earn 1 American Express Membership Reward Point for every dollar you spend. You decide to redeem 24,100 points for a pair of noise-cancelling headphones.

Sony® Noise Canceling Headphones with Built-in Surrounding Environment Monitor Switch  
24,100 Points



At amazon.com, these currently retail for \$199.99.

Spend=	Points=	Merch.	Val / \$ Spend
\$24,100 =	24,100 =	\$199	\$0.008257

**1% MINIMUM:** As a rule, you should earn at least \$0.01 in value for every \$1.00 you spend. Don't settle for less!

Follow the strategies outlined in the rest of this guide and you'll easily earn twice that.

## Pick the Right Program

There's no single program that's right for everyone. The best advice is to look for a rewards credit card that offers perks on the type of expenses you frequently charge, or for goods and services you frequently use.

If you live in Atlanta (Delta's largest hub), like to travel and have some flexibility in scheduling your travel, you should consider a Delta SkyMiles American Express Card.

But if you live in El Paso, drive 50 miles a day to work and have three small children at home, a card that offers gas discounts and double rewards on groceries is better choice.

The bottom line when choosing a program is: be practical, not aspirational.

## Don't Ignore the Annual Fee

Many rewards cards carry an annual fee. Paying \$75-\$125 just for the privilege of carrying the card can really eat into the value of your rewards.

Take our earlier example of a ticket from Dallas to Miami. The cost of the ticket is \$308.

Spend=	Miles=	Ticket	Val / \$ Spend
\$25,000 =	25,000 =	\$308	\$0.0123

That looks pretty good. But the annual fee on the Gold Delta SkyMiles Card is \$95 (though it's waived the first year – more on that in a moment).

So the *net* value is \$213 (\$308 - \$95), which drops the Val / \$ Spend by nearly 70%!

Spend=	Miles=	Ticket	Val / \$ Spend
\$25,000 =	25,000 =	\$213	\$0.00852

As noted above, many cards offer to waive the annual fee for the first year you have the card. But put your renewal date on your calendar. You may consider redeeming your rewards and closing the account before paying the annual fee.

## Look for Sign-Up Bonuses

You might never earn as many miles or points using your card, as you will when sign up for a new card. As the competition for good customers intensifies, the generosity of the sign-up bonuses does too.

Note that most sign-up bonuses require some minimum spending requirement, before being awarded.

Here are some examples in the market as of Nov. 15, 2011.

- The Chase Freedom Visa offers \$200 cash back after you make \$500 in purchases in the first three months.
- The Delta SkyMiles Gold Card offers 30,000 in bonus miles when you spend \$300 in the first 3 months. That's enough for a round trip ticket!
- Chase Sapphire offers 50,000 bonus points (the equivalent of \$50,000 in spending) after you spend \$3,000 in the first three months.

Spend=	Points=	Merch. Val	\$ Spend
\$3,050 =	50,000 =	\$400	\$0.131148

Assuming you spent just over the minimum and redeemed for a \$400 value, your Val/\$ Spend is an amazing \$0.131148; 10 times our goal!

Before you decide to chase too many signing bonuses, be aware that opening a new account can have a small, short-term negative impact on your credit score.

## Optimize Your Spending

So you've found a card with a reward that fits your lifestyle. And hopefully you've gotten a great sign-up bonus.

The next step is to make sure you use it in a way that maximizes your rewards.

**Know Your Bonus Categories.** Many cards offer point bonuses or higher cash back awards for spend in certain categories. G&G, gas and groceries is ever-popular. Their goal is to get you to use your card more frequently, and in places you might otherwise use cash or check. But your goal is to maximize rewards.

Here are some examples in the market as of Nov. 15, 2011.

- The Discover More Card offers 5% cash back bonus on Restaurants and Fashion.
- Bank of America's BankAmericard Cash Rewards Visa offers 2% on groceries and 3% on Gas.

Maximizing these savings might mean changing your shopping habits. For example, let's say you usually buy your cosmetics and beauty supplies at the drugstore. You get 1% cash back there. But if you get 5% cash back at the supermarket, you should buy those items there (assuming the prices are similar).

**Know Your Limits and Caps.** Most programs will limit the amount of rewards you can earn in a year, or the amount of spend on which you can earn a bonus.

For example, the Discover More Card mentioned above, only offers 5% cash back on \$300 in spend. That's only \$12 more cash back over the base 1% cash back amount.

**Concentrate and Categorize.** Chances are you don't do all the spending in your household. Be sure that your spouse and any college age children carry cards that will contribute to your rewards accumulation.

The only exception to concentrating spend on one card (aside from any caps) is if you spend disproportionately in one category. Then it may make sense to have a special card, just for that type of activity.

For example, if you have 4 teenage boys, you almost certainly spend a lot on groceries. The Blue Cash Preferred card from American Express offers 6% unlimited cash back on supermarkets. That might be enough for you to consider getting this card for groceries only.

**Put Away Cash and Debit Cards.** To maximize rewards, you should put as much of your daily spending on the credit card as possible. It may seem easier and more convenient to use a debit card or cash for some purchases. But credit cards

have all the benefits of using a debit card plus you earn added rewards.

Most banks provide free online bill pay now so you can easily transfer the funds from your checking account to pay off your credit card without accumulating any interest.

Also, pay for recurring, predictable charges with a reward credit card. The chance to pay for recurring charges such as utilities, cable television and phone services on plastic offers additional ways to earn rewards. To be safe, consumers should inquire about any added fees for bill payment using their plastic.

Putting as many costs as possible onto a rewards credit card has some other benefits. Rewards cards, like most other credit cards, provide consumers with tallies of their spending in the form of monthly statements. "For people who know how much they make and how much they spend, it makes sense to put every single dime on your credit cards. It's the easiest way to track expenses, provided it's paid in full," says Rockville, Md.-based certified financial planner Karen Schaeffer.

Just remember, the goal here is not to spend more, but rather to spend differently. "You can't let the promise of rewards drive the decision to make a purchase," says Michael B. Rubin, author of "Beyond Paycheck to Paycheck."

**Not Included.** You probably already know this, but we'll say it anyway: you won't earn rewards on the following transactions and activity.

- Balance transfers
- Convenience checks
- Interest charges
- Cash advances
- Annual fee charges
- Returned merchandise

## Capture Any Spend-free Bonuses

Many banks offer bonuses for actions other than using your card. For example, you might be offered bonus points for enrolling in paperless statements or referring a friend.

One more example: The Citi Forward Card offers up to 1,200 bonus points just for paying on time and staying under your credit limit.

## Watch Out for the Gotcha's

As easily as points come, they can vanish. Most cardholders know failing to make on-time payments, or other irresponsible behavior, can result in penalty fees, higher interest rates and damaged credit. They may not aware it can also cost you reward points. "If you are late on that month's payment, you can lose the rewards for that month. And if you default on the card, all the points get wiped away." says Michael McAuliffe, president of Family Credit Counseling Service, a consumer debt counseling firm based in Rockford, Ill.

Late payments aren't the only way to lose points. A lot of the reward programs today have an expiration trigger in place if things go dormant. In such cases, look for ways to transfer the points into an active account so you don't lose the points from previous programs.

For points that have already expired, a phone call to the issuer may convince them to reinstate your points.

## No Reward Without Redemption

You've probably heard the cliché about investing in stocks: "It's not worth anything until you sell it." A stock may go up 50% in value, but if you don't sell it, you don't realize that increase.

It's true for rewards too. They're not worth anything, until you redeem them. And the choices you make at redemption will drive the most value.

Two rules of thumb: 1) be mindful of redemption "sales", and 2) redeem points only for the priciest perks.

Of course redemption strategies will vary, depending on the type of reward card you carry. Below

## Special Tips – Cash Back Cards

Cash back cards are a great choice for the casual reward consumer. The rewards are the easiest to value. The annual fees are usually low to non-existent. Cash doesn't expire, like points do. And redeeming cash is pretty straight forward.

That simplicity is appealing to many consumers. If you've earned \$200 cash back, you'll get \$200 in value.

But this also means there's little "up-side" on redemption. Unless you're find an item you want at a deeply discounted price at one the issuers shopping portals, you can't extend the value.

Here are few other things to consider about cash back cards:

You might not get actual cash. In some programs, you'll get a statement credit that offsets future purchases.

There may be minimum redemption levels. For example, Discover requires cardholders to redeem at least \$50 at a time, and in \$50 increments.

**Why spend it? Save it!** \$200 a year might not make a dent in your annual budget. But if you're like many Americans, you're not saving enough for retirement or college.

Cards from Merrill and Fidelity will contribute your cash back awards directly to retirement or college savings accounts, so you'll never be tempted to waste your reward on movies and pizza.

The UPromise MasterCard contributes to college savings too. Studies indicate that it costs \$212,000 to raise a child from birth to age 18. 1.5% cash back on that is \$3,000 – enough to make a dent in the first year's tuition.



## Special Tips – Airline Miles Cards

**Book very early or very late.** Tickets purchased with miles are considered by the carriers to be “non revenue”. That’s why they limit the number of tickets and have blackout dates.

To get the flights you want for the fewest miles you’ll do best by booking at least 6 months in advance.

Or, if the departure date is very close and the carrier has unsold seats, they’ll likely offer last-minute discounts.

**Be flexible.** Early morning, late evening or overnight flights will have much more availability than more convenient flights.

**Treat yourself.** Upgrades can be more valuable than free seats, especially on international flights. For example, upgrading from economy to business from on American Airlines from Los Angeles to Paris will cost you 15,000 advantage miles. But the fare difference between economy (\$734) and Business (\$3,302) is \$2,568. That’s a whopping \$0.1712 in value per spend – more than 10 times our target!

Spend=	Points=	Merch. Val / \$ Spend
\$15,000	= 15,000	= \$2,568 \$0.1712

**Alliances matter.** You can often redeem air miles from one program on another carrier – especially internationally. Or you may be able to redeem air miles for hotel stays, rental cars or even merchandise.

**Expiration is Evil.** Many popular frequent-flyer programs have added expiration rules. It could be inactivity or just time that triggers miles to expire. Be sure to stay on top of expiring points.

## Special Tips – Points Cards

**Exchange Rates.** Generally speaking points programs can be some of the least valuable rewards programs in the market. They promote flexibility; “Redeem your points for airline tickets, hotel stays, cash back or merchandise!” And that’s true.

But in these programs, points are a currency, with a standard exchange rate. And that locks in your value per \$ spend, leaving little room to optimize.

For example, with the Capital One No Hassel Rewards program, you can redeem points for a free airline ticket. To determent the number of points needed, they say “add two zeros to the price of your travel purchase, then trade in that number of miles to pay for it”.

So at \$175 ticket costs 17,500 points – right at our \$0.1 value per spend. But for a \$500 ticket, it takes 50,000 No Hassel points. With an airline card, that ticket would cost only 25,000 miles. So you’ll spend twice as much with a No Hassel card to get the same value.

Redeeming points for merchandise can be a bad deal too. The prices of the items can be marked up dramatically. For example, this Le Creuset Dutch oven can be had for 37,400 American Express Membership Rewards points.



To meet our minimum \$0.01 value per \$ spend, the retail price should be \$374. But you can find this item at William-Sonoma for \$280. That means this item has a \$0.007326 value per \$ spend.

**Do the Discount Double Dip.** The best way to make reward point programs payout is to double dip on discounts with gift cards.

- 1) Use points to redeem for merchant gift cards when they’re offered at a discount.
- 2) Use the gift cards to buy discounted merchandise at the retailer.

Here’s an example using the Le Creuset oven from above:

- 1) You can frequently get gift cards to Williams Sonoma for a discounted number of rewards points.



In this case, you redeem 24,000 points for \$300 worth of gift cards – enough to buy the oven at retail. If you stop here, you've already improved your exchange rate by 15%, from \$0.07326 per dollar of spend to \$0.11667.

- 2) But better yet, wait until the item goes on sale or is available at a discount with a coupon. Then your savings really multiply.

## Stay Tuned

No matter which card or program you choose, it's important to be aware of important program dates, program changes and special offers. Here are some final tips:

**Review your statements every month.** Make sure you've earned all the rewards you're entitled to and that you have not reached any limits or caps.

### **Add these to your calendar or day planner:**

- Payment due dates – so you'll never forfeit rewards.
- Annual fee renewal dates – so you can avoid an annual fee if choose not to renew.
- Promotional end dates – so you'll be sure take advantage of any earnings or savings opportunities.

**Subscribe to alerts, newsletters and social media accounts.** Most programs send weekly or monthly updates on special offers or discounts. Be sure to read these so you can take full advantage of any opportunities that suit you. You'll also want to follow you program on Twitter and Facebook. Issuers and programs are increasingly relying on these channels to send special offers.

## Now Go Forth and Maximize!

Maximizing rewards required discipline. But if you make it habit and follow the tips laid out here, the value you get from using your card will be truly rewarding.