



Is That Credit Card Welcome Bonus Really Worth it? Here's How it Could Come Back to Haunt You

Description

Scoring a welcome bonus on a [rewards card](#) or [cash-back credit card](#) is, hands down, one of the fastest ways to amass rewards. It's also fairly easy. Just spend a minimum amount within a specific time frame, and your credit card provider will give you the bonus. How could you resist that?

As lucrative as these welcome bonuses sound, sometimes they don't live up to their reputation. In fact, if you're not careful with your credit card spending, you can actually lose money, even after you get your bonus. Here are just a few ways a credit card bonus can come back to haunt you.

You pick the wrong rewards or cash-back card

A welcome bonus is *not* a good reason to apply for a [rewards](#) or [cash-back credit card](#). A welcome bonus is a great supplement to a card that you truly want. But if you're applying for a credit card solely to cash in on a great offer, you have the wrong idea of credit cards.

For the record, I'm not against "churning" — that is, opening multiple credit card accounts to score welcome bonuses, only to discontinue them later. In fact, for Canadians with high credit scores, churning might be a minor source of passive income. But if you're looking for your primary rewards or cash-back card — the card you plan to use for your everyday expenses — then you want to look beyond welcome bonuses.

To find the right rewards or cash-back card for you, you'll want to find a card that will earn you more rewards for your everyday spending. For instance, if you currently don't earn cash back on groceries, you might want to find a credit card with a higher earn rate for grocery store purchases.

If a grocery credit card also comes with a welcome bonus, then great. That's a win-win. If it doesn't, I wouldn't get, say, a travel credit card with a bonus, if you plan to use the card primarily on groceries. In the long run, your card will earn you far less than a card that's designed for grocery shoppers.

You spend more than you can afford

Welcome bonuses have a dark side: they could tempt you to overspend.

That can go two ways. Either you blow your budget with additional credit card spending, forcing you to readjust your spending, or you choose to carry a balance — in which case, you'll end up paying interest.

Of the two, the latter is the most counterproductive. If, to score a welcome bonus, you end up paying interest on credit card debt, how much of a bonus are you really getting?

Depending on how much you're carrying, it could amount to a pretty scant bonus. Credit cards come with [high APRs](#) that force you to accumulate debt the longer you don't pay your card off. The more interest you accrue, the less of a bonus you actually get.

If you can score a welcome bonus without overspending, by all means — go for it. Otherwise, you're better off not taking your chances with credit card debt.

You get slapped with an annual fee

[Annual fees aren't bad](#). In fact, depending on the card, you could easily outearn what you pay in fees, especially if you get a welcome bonus.

But you have to do the math. If you can't at least earn back what you pay in fees, the card won't be worth your efforts. No, not even with the welcome bonus. And, if you earn just enough to cover the annual fee, it might still not be worth it — for the same spending on a card with no annual fee, you would have earned rewards and cash back. In one scenario, you break even; in the other, you're in the green.

Cards with bigger bonuses will often come with higher annual fees. Don't let that tempt you. Do the math and see if the card is actually worth it to you.

Bottom line on welcome bonuses

Many of Canada's best rewards and cash-back credit cards offer massive bonuses that can help you accumulate a mound of rewards in a short period of time. As long as you mind these three tips, you can turn that bonus into a source of passive income.

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