Don’t Hoard Your Rewards Points: Inflation Will Make Them Worthless

Description

For the eighth month in a row, inflation has been above the Bank of Canada’s target rate of 1% to 3%. Just last month, in fact, inflation hovered at 4.7%, the same as it was in October. Inflation has touched everything from the price of gas to meat to furniture. But it’s not just our dollars that are shrinking. If you hoard your rewards points, inflation is quietly making them worthless.

How does inflation affect rewards points?

Just like it affects your money: the more costly things become, the less value your points have.

For cash back, it’s fairly simple to see the impact of inflation. But it depends on what you buy. For instance, let’s say you got a welcome bonus of $200 on a cash back card in 2020. You saved that bonus, and now at the end of 2021, you plan to redeem it on a grocery bill. Well, considering that the overall price of groceries has gone up by 3% to 5%, your cash back bonus is now worth around $194 to $190 in 2020 dollars.

But inflation can be tricky, especially with food, as some costs can actually go down. For instance, the price of tomatoes has decreased more than 20% since 2020. So if you just bought tomatoes with your $200 in cash back, you could buy $220 of tomatoes in 2020 money. That’s a lot of tomato sauce, or enough bruschetta to feed a small army.

With rewards points and miles, it works similarly. As inflation pushes prices up, you need more points to redeem certain purchases.

For example, your credit card provider may give you $.01 for every mile you earn. For 50,000 miles, then, you can purchase a $500 ticket. In 2020, $500 may have been enough for a round trip ticket to visit family in Calgary. With fuel costs going up, however, in 2021 you need $550. While your miles still hold the same value ($.01 for every mile you earn), you now need *more* miles to redeem the same flight.

How to protect your rewards from inflation

Perhaps the easiest way to protect your rewards points from inflation is to use them, what some call "earn and burn."

While true, some purchases require you to save points — such as certain flights or merchandise — now might be the best time to focus on small redemptions. Often you don't have to accumulate enough points to cover a full purchase. At the end of the month you can apply your accumulated points toward your credit card balance.

Of course, you want to redeem your points for the right things. For instance, if your credit card gives you more value for flight redemptions, use your points to buy flights. Redeeming your points or miles for cash back, simply because you're afraid they will erode under inflation, could devalue them in the process. That basically defeats the purpose of inflation-proofing your points.

Another option is to wait until prices deflate. When deflation happens, your points or cash back will gain some value. You'll have more purchasing power, even if your earn rate or rewards system hasn't changed.

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