



Are Aeroplan Credit Cards with Annual Fees a Waste of Money?

Description

Of all the credit cards with annual fees in Canada, perhaps none offers such tempting benefits and perks as **Aeroplan** rewards cards. But those annual fees can be massive (some as high as \$500). How exactly can you prevent a \$500 credit card from becoming a complete waste of money? It's not easy, but let's look at when it pays to get an Aeroplan card with an annual fee.

When an Aeroplan credit card is worth its fee

Like all credit cards with annual fees, the trick is to earn more rewards than the fee itself. For example, if your card comes with a \$199 fee, you want to earn at least \$199 in rewards in order to make the card worth the money.

But Aeroplan cards can be tricky for one reason: the value of your points depends on how you redeem them.

In general, you'll get the most value when you redeem your Aeroplan points for flights. By good estimates, you could get around \$.02 per point when you redeem them for flights in Canada. The value begins to diminish for other redemptions, such as car rentals, hotels, merchandise, and gift cards.

So, if you don't fly frequently, a card with an annual fee might not be worth it, even if it does earn you a significant amount of points.

But let's assume that you *do* fly frequently. Moreover, let's assume you choose to redeem your points for flights, giving you \$.02 per point. How do you know if your points outweigh the annual fee on an Aeroplan card?

You have to do the math. First, you have to determine how much it will cost you to earn at least the annual fee in points. Then, you have to compare the card with a card that *doesn't* have an annual fee.

So let's try it. Let's say you're looking at an Aeroplan card (we'll call it Card A) that has a \$120 annual fee along with the following perks:

- 5 points per dollar for gas and groceries
- 1 point per dollar for everything else

And let's say you're comparing this with an Aeroplan card (we'll call it Card B) that comes with no annual fee and the following perks:

- 1 point per dollar for every purchase

First, let's calculate how much you're actually earning per dollar spent. Because we're assuming one point equals \$.02, you will technically earn \$.10 per dollar on Card A when you use it to buy gas and groceries. That's around 10% back, which is crazy high for a credit card. On Card B, you'll earn \$.02 per dollar spent, which is 2% back. Not bad for a card with no annual fee.

For Card A, you need to spend \$1,200 on groceries and gas to earn \$120 in rewards points. Of course, if you only spent \$1,200 for the entire year, then Card B would be the better option: you would earn \$24 instantly, and you wouldn't have to pay an annual fee. On Card A, you would break even; on Card B, you would pocket \$24.

So, at what point does Card A become more profitable than Card B? The calculation is simple. Here's the formula (you can use this for any rewards or cash back card):

$$\text{Annual Fee} / (\text{Difference in Rewards}) = \text{Breakeven Point}$$

So, let's plug in our numbers.

$$\$120 / (10\% - 2\%)$$

$$\$120 / 8\% = \$1,500.$$

In this case, the moment you spend \$2,400 on groceries and gas with Card A, and \$2,400 on anything with Card B, you break even. After \$2,400, Card A becomes more profitable.

Should you get an Aeroplan card with an annual fee?

Again, if you use your Aeroplan points for flight purchases only, then it's probably wise to pay an annual fee to earn more points. As you can see from the example above, it doesn't take much spending for an Aeroplan card with an annual fee to earn more than its costs.

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