



## Should You Ever Pay an Annual Fee for an Aeroplan Credit Card?

### Description

Maybe this has happened to you.

You got an offer for an Aeroplan [rewards credit card](#). The earn rate is good, but the welcome bonus makes your eyes water: 90,000 miles free if you spend over \$3,000 within the first three months.

“\$3,000 in three months,” you think. You could do that in *two*.

Then you read the fine print and your heart sinks: the card comes with a \$600 [annual fee](#). Yeah, talk about a big *whomp, whomp*.

But don't discard that offer just yet. Sometimes, it's worth taking out an Aeroplan credit card with an annual fee, even if the fee seems high. Let's take a look at when you should pay the annual fee for an Aeroplan rewards card.

### When an Aeroplan credit card is worth its fee

First off, let's assume you're going to redeem your Aeroplan points for flights. In general, when you redeem points for flights, you get the highest value. By good estimates, you could get around \$.02 per point for flight redemptions. The value begins to diminish for other redemptions, such as car rentals, hotels, merchandise, and gift cards.

Assuming that one point equals \$0.02, we can see if an Aeroplan credit card is worth its [annual fee](#). To do this, we need to determine two things: if you'll earn more than the annual fee costs you, and if you'll earn more than a card with no annual fee.

Let's say you're looking at an Aeroplan card (we'll call it Card A) that has a \$600 annual fee along with the following perks:

- Three times the points for **Air Canada** flights (three points per dollar spent)
- Two times the points for restaurants (two points per dollar spent)

- 1.25 times on everything else (1.25 points per dollar spent)

And let's say you're comparing this with a no-fee Aeroplan card (we'll call it Card B) that has the following perks:

- One times the points for every purchase (one point per dollar spent)

On Card A, you will technically earn \$0.06 per dollar when you use it to buy Air Canada flights. That's around 6% back, which is fairly good. You'll also earn \$0.04 back for food purchases and \$0.02 back for everything else.

On Card B, you'll earn \$0.02 per dollar spent, which is 2% back — not bad for a card with no annual fee.

For Card A, you need to earn \$600 in rewards to make the fee worth it. You can do this in a number of ways, but let's say you earn it on Air Canada flights alone. To earn \$600 back, you'd have to spend \$10,000 on Air Canada tickets flights. You can already see how Aeroplan rewards card put the "frequent" back into "frequent flyer."

By spending \$10,000, you earn your \$600 in rewards, essentially covering the cost of the card. But what if you *only* spend \$10,000 within any given year? In that case, you would earn more on Card B. With Card B, you get \$0.02 for every dollar spent, or \$200 back. Because there's no annual fee, this money goes directly in your pocket.

So, at what point does Card A become more profitable than Card B? To calculate that, we need a formula (you can use this for any [rewards](#) or [cash-back card](#)):

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

Let's use the higher earn rate on Card A and plug in our numbers.

$$\$600 / (6\% - 2\%)$$

$$\$600 / 4\% = \$15,000$$

In this case, the moment you spend more than \$15,000 on Air Canada flights with Card A, you earn more than Card B.

## Should you get an Aeroplan card with an annual fee?

I like to do this exercise because it's eye-opening. Sometimes, you spend enough in a year to more than double the [annual fee](#). Other times, the welcome bonus is lucrative, but you don't spend enough to make the card worth the costs.

Of course, you could always snag the welcome bonus and then close the account. For the example above, you could get 90,000 miles (or \$1,800 in flights) and still be ahead, even with the \$600 fee. But if you want a card for the long term, the exercise above can help you determine if it's worth the cost.

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## Date

2025/08/05

## Date Created

2022/03/09

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