This 1 Threat to Credit Card Rewards Is Terrifying and Makes Me Want to Use Mine Today

Description

If your rewards points are worth $200 today, then they'll be worth $200 tomorrow, right?

Think again.

Contrary to what you might think, your credit card provider doesn't have to preserve the value of your rewards. In other words, what might be worth $200 today could be worth $190 tomorrow.

How does that work? It's called *devaluation*. And if you're the kind of credit card user who hoards their rewards, it might just be the biggest threat to your earnings.

Let's take a look at two different kinds of devaluation: indirect devaluations and direct ones.

Providers can devalue points directly

Perhaps the most obvious way credit card providers can devalue points is to change the structure of their rewards program. The outcome of these changes could very well result in points having less value than before.

Typically, a credit card company will overhaul the entire rewards program, introducing new perks or benefits to conceal the devaluations. This happened, for instance, with the revamped Aeroplan program. Many Aeroplan members found that the new program, which uses multiple flight charts instead of one, required more miles to fly to locations.

Providers can devalue points indirectly

Credit card providers devalue rewards indirectly by increasing the number of points or miles you need to redeem for certain awards. In this way, your points are worth less, even though the rewards program itself hasn't changed.

For example, let's say you've earned 20,000 miles. Normally, you could buy a $200 domestic ticket for 20,000 miles, which would come out to $.01 per mile. But let's say your card provider now requires 25,000 miles for the same ticket. Now, your miles are no longer worth $0.01. They're worth less than a cent, around $0.008 each.

Indirect devaluation often happens alongside inflation. As things get more expensive, your credit card issuer may ask you to spend more points for certain rewards.

How can you stop point devaluations?

Unfortunately, credit card providers don't have to warn you about point devaluations (though, as a courtesy, they often do). That said, you can still protect your points by using them frequently, or what some call "earn and burn."

When you earn and burn, you spend rewards almost as soon as you get them. In this way, you don't give credit card providers a chance to erode their value.

Another option is to get a cash-back credit card. Cash-back cards earn cash, not points, so it would be unusual for your provider to devalue your earnings. Of course, you still have inflation to contend with. But at least with cash back you can apply your earnings to your statement balance, which makes it easier to use your rewards more frequently.

CATEGORY

1. Personal Finance

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. kduncombe
2. sporrello

Category

1. Personal Finance

Date
2025/08/05
Date Created
2022/03/09
Author
sporrello