



What Are Credit Card Rewards Points?

Description

Credit card rewards points are a perk offered by credit card companies that can help you earn money while you spend. Earning rewards on a credit card can be a lucrative way to give your budget an extra *oomph* every month. Though you probably understand the basics of rewards points (swipe, earn, repeat), you might not know how to redeem them or even the rules of rewards programs.

So, let's start from square one. What are credit card rewards points and how can you start earning them? Let's take a closer look.

What are credit card rewards points?

Reward points are a type of bonus that you earn and accumulate when you make purchases with your [rewards credit card](#). Rewards points can be accumulated and used towards certain purchases, exchanged for gift cards or cash, or credited to your statement balance.

Each reward point has a theoretical cash value (usually around \$0.01 or \$0.02), but that value can often vary considerably based on what you exchange the points for. For example, you may get \$0.015 in value per point if you exchange your points for an airline ticket, but may only see \$0.008 in value if you use the points for a statement credit.

Are rewards points the same as cash back?

Not really. Though they have similarities, rewards credit cards work differently than [cash-back cards](#).

With a cash-back card, you get a specific percentage back through each purchase you make. For instance, if your cash-back card has a 2% earn rate, you'd earn a flat \$2 for every \$100 you spend. Once you've accumulated enough cash back, your card issuer will put your earned cash toward your balance, deposit money in your bank account, or send you a check. The key here is you're getting *cash* back — hence the name.

Like a cash-back card, rewards cards give you a certain number of points for each purchase you make. The difference between the two is in the redemption. While, yes, you can usually redeem your reward points for cash, as noted above, more often your points will be worth more if you use them toward purchases favoured by your credit card company, such as flights, hotels, travel purchases, or products from retailers.

Do credit card rewards points expire?

In general, most rewards points don't expire, as long as you keep your account open and use your [credit card](#) frequently. If you have an airline- or hotel-branded card, however, your points could expire after a long period of inactivity.

How much are credit card rewards points worth?

On average, you can expect your rewards points to equal around one cent per point. That said, the value of your points ultimately depends on the points program your credit card issuer uses and how you redeem the points.

Comparing one points program to the next is important, since the starting value of the points may be different. For example, you may see one rewards card that offers 10 points per \$1 spent whereas another "only" offers two points per \$1 spent. The first card may seem like the easy favourite, but look closer at the program and it may reveal that the 10 points from the first card are worth less than the two points from the second card.

An easy way to compare one program to the next is to do a points conversion on a simple, cash-like item like a statement credit or Amazon gift card. This conversion can serve as a baseline to compare programs from one issuer to the next.

Even within a single points program the point value can vary a lot. Often, your credit card issuer will favour certain purchases over others. For instance, a travel credit card will probably give you more purchasing power with your points if you use them to book flights or hotels. Likewise, a store credit card will most likely value your points higher if you use them to buy products in that retailer's store.

For instance, let's say your credit card earns two points for every dollar you spend. You spend \$40,000 within a year, leaving you with 80,000 points. Now let's also say your rewards card is a travel card. With this hypothetical card, you get 1.5 cents for every point you've earned, so long as you use them to buy a flight from a limited number of airlines. If you buy a flight through one of the airlines, your points will be worth around \$1,200 ($80,000 \times .015$).

But let's say you don't want to buy a flight. Let's say you want cash back. Your card issuer will give you one cent for every point you've earned, which means your 80,000 will equal \$800 in pure cash — \$400 less than if you had used them to buy a flight.

One last thing to keep in mind: some rewards cards will give you extra points when you buy certain things with your card. For instance, you may earn two points for every dollar spend in general. But your credit card issuer may give you *five* points for food and gas purchases. That's why, if you use your

rewards card to both buy the right things and redeem them for the right purchases, you can make a killing off your card's rewards program.

How do you earn rewards points?

Easy, you spend money on your [rewards credit card](#). For every purchase you make, you'll earn a certain number of points, with some cards earning higher points for certain spending categories (such as travel, food, and entertainment).

Of course, you don't want to haphazardly spend with your card. The right spending strategy coupled with some tried-and-true tips will help you maximize earnings. So, if you're looking to earn more than the average points, here are some ways to get more rewards.

1. Snag sign-up bonuses

Perhaps the easiest way to earn a massive amount of points in a short period of time is to earn a bonus on a new credit card.

Here's how it works: you get an offer (or hear about an offer) on a rewards card. The offer will be something like "earn 20,000 extra points when you spend \$1,000 in the first three months." If you're already going to spend \$1,000 on essentials (groceries, gas, clothes) in three months, the extra 20,000 will give your rewards credit card a strong foot forward.

2. Get the right credit card

A sign-up bonus can give you a major boost. But, before you start applying for multiple cards, be sure the card will reward you with the most points over the long haul. And to do that, make sure [the card you get matches your spending habits](#).

For instance, if you don't travel much, take a look at your highest spending categories. For most people, that will probably be food or groceries. But you may spend more on gas, especially if you commute far distances for work. Or you may have a super-cool weekend life, in which case you'll spend more on entertainment.

Whatever you spend the most one, there's a credit card that will give you more points. It doesn't even have to be a spending category. It could be a retailer or grocery store. You could even get an **Amazon** credit card if you do most of your shopping online.

If you travel a lot, this is easy — you should probably get a travel credit card. The extra points (or miles) that you'll earn will be well worth getting the card, not to mention extra travel perks (say hello to first class) and travel insurances. A good travel card will also likely help you save on foreign transaction fees.

3. Shop through an online portal

Most credit card issuers have an online portal where you can shop and make purchases. Often these portals are simply an assembly of all the places where you can earn a higher percentage of rewards for

basic purchases. You can typically find it on your credit card's dashboard after you log in.

While you don't have to force yourself to spend money through the portal, it's always a good idea to be aware of the stores within your portal. Sometimes you'll find that golden ratio of a good price and higher rewards on an item you're already going to buy.

4. Don't rule out an annual fee

As counterintuitive as it sounds, you might earn more money on a rewards credit card by [paying an annual fee](#).

How does that work? A rewards card with an annual fee will most likely earn more points on everyday purchases than a card without the fee. The trick is to see if the extra points outweigh the annual fee. If they do, you should consider the card with an annual fee. If they don't, you're better off without it.

5. Don't carry a balance

Finally, to make these rewards points worth the effort, you should aim to pay your balance statement in full and on time each month. If you don't, you'll end up paying high interest charges, which can easily cost you more money than the value of your points.

How do you redeem credit card points?

Most rewards credit cards give you plenty of options to redeem your points. You can typically use them for travel or retail purchases, get cash back, gift cards, statement credits, or even a cheque.

But, as mentioned above, you don't want to redeem your points for just anything. You ideally want to use them in a way that gives you the most value. For instance, your card issuer may beef your points up if you use them for travel purchases. If that's the case, then you probably don't want to use your points for cash back or statement balances. To be clear, you *can* use them for these things. But, depending on your rewards program, your card issuer may value your points less.

That's why it's important to know the rules behind your credit card's reward program. The more you understand how your reward program works, the more strategic you can be about how to redeem your points.

Should you get a rewards credit card?

A [rewards credit card](#) can be a lucrative way for you to earn money on your spending, especially if the rewards program aligns with your spending habits. Likewise, if you redeem your rewards points in such a way as to get their full value, you'll take full advantage of your rewards program.

If, however, you want cash back or a statement credit, you probably won't get your rewards point's full value. In that case, you may be better off getting a [cash-back credit card](#).

For Canadians with no or bad credit, a rewards credit card may not be an option for you right now. In

that case, you can take out a [secured credit card](#). With a secured credit card, you put an initial deposit down, usually as large as your card's credit limits. As long as you use the card wisely — paying back what you borrow without overextending your credit limits — you might see a steady increase in your credit score. At a certain point, your credit card issuer could let you graduate to an unsecured credit card, possibly one with rewards.

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