What Is a Credit Card Annual Fee?

Description

If your credit card plays a crucial role in your everyday spending, you're probably well aware that it comes with an assortment of fees. One of the most common of these is the annual fee, charged once per year to your credit card account.

The annual fee is the fee you pay for being able to use the card and enjoying its benefits, such as reward points, miles, or cash back. It's the most basic fee your card issuer charges you, besides the interest, of course.

The annual fee varies based on several factors, including the type of card you possess, your spending habits, and even your credit standing. In some cases, you may be able to avoid the annual fee altogether — all the more reason to pay closer attention to it.

What's the purpose of the annual fee?

With so many pesky credit card fees to contend with already, such as balance transfer fees, late fees, and foreign transaction fees, you may be wondering why you have to incur this additional charge.

There's usually a valid reason for the presence of an annual fee. Your card issuer may wish to mitigate the risk of loaning funds to high-risk borrowers, who may miss payments or default on their outstanding balance. And, of course, your card issuer expects to be compensated for all those generous perks their card provides to you!

How much does an annual fee cost?

The annual fee is not a standardized charge and varies widely. Typically, it ranges from around $20 to $150, but it could be more or less. In general, the more goodies the credit card offers, the higher the yearly price tag.

Travel reward cards tend to charge among the highest fees due to the popularity of reward programs

like Air Miles and Aeroplan. Premium credit cards, which confer users with a range of exclusive and luxurious perks, come with some of the heftiest annual fees around.

Conversely, a plain, no-frills card with limited features comes with a much more reasonable fee. There are also certain card brands that eschew the annual fee entirely, but these usually offer fewer perks. In addition, they may also saddle you with other fees and higher interest charges.

Is it worth getting a credit card with an annual fee?

The benefits provided by a credit card may or may not warrant the annual fee. Consider the following:

- Does the card offer a lucrative and flexible reward program?
- Is there a cash back program? If so, what percentage of your spending can you earn as cash back?
- Does the card come with a substantial sign-up bonus?
- What is the annual percentage rate (APR) on the card? Is there a promotional ultra-low rate on offer for a limited time?
- Does the card provide any travel perks, such as airport lounge access and discounts on hotels?
- Can you downgrade your credit card while retaining your account history and credit limit?

Depending on your spending habits and lifestyle, opting for a credit card with an annual fee — even a large one — can yield tremendous benefits. This especially true if you're an avid traveller. The yearly cost will be negligible compared to the number of rewards you collect and redeem on travel-related expenses.

Suppose you rarely use credit cards and maintain a frugal lifestyle. In that case, paying the yearly fee will feel like you're lighting money on fire. Settling for a low-fee or no-fee card would be the preferable option for you.

In some cases, the annual fee is unavoidable. If your current credit score is less-than-stellar, it may be challenging to obtain a card with no annual fee attached. Even many of the top-rated secured credit cards come with an annual fee. Though in these cases, it can be well worth it if you use the card responsibly to rebuild your credit.

Can you avoid paying the annual fee?

Yes! With the right approach, you may be able to escape paying it.

Some card issuers will waive the fee if you maintain a certain level of spending activity on your card. Others may abolish it once you've cultivated a solid payment history over a considerable time. Your financial institution may also offer to rebate the fee if you open a premium bank account with them.

However, sometimes you'll have to pick up the phone and negotiate directly with your card issuer to get the fee removed. If you're persistent, present a compelling case, and remain diplomatic, they'll be open to your request – and that may be the last time you'll see that annual fee!

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