



Why Own a Credit Card With Annual Fees?

Description

It seems counterintuitive (absurd even): why pay an annual fee to own a [credit card](#), when Canada has *so many* no-fee cards available? Who in their right mind pays money to hold a card?

Well, as surprising as it may seem, credit cards with annual fees could help you earn money, not lose it. How does that work exactly? Let's look at cards with annual fees and see when the rewards outweigh the costs.

What exactly are annual fees?

Annual fees are the what cardholders pay to enjoy the benefits on certain credit cards. Credit card companies often charge these fees once per year (usually on your card's first billing cycle, then ever year after), or they'll break your fee into twelve smaller fees and charge you once per month.

Why pay annual fees to own a credit card?

Paying annual fees to use a credit card can seem like a pain, but in many situations the fee is small compared to its benefits. Here are some cases when it's smart to pay an annual fee to own a credit card.

1. The rewards outweigh the fees

The first (and perhaps most exciting) reason to pay annual fees is to take advantage of a higher rewards rate — more travel miles, [cash back](#), or even [rewards](#) points per dollar spent. If you spend enough, the higher rewards rate can far exceed the annual fees.

But that's the trick — you have to spend enough. If you don't, you're better off with a card with no fee.

Let's look at a quick example. Let's say Card Y has an annual fee of \$120 and offers 3% cash back on all purchases. To get back the \$120, you would need to spend at least \$4,000 (\$4,000 x 3%).

Everything you spend above \$4,000 can be considered your profits.

Now, let's say you're also looking at Card Z. Card Z has no annual fee, and a 2% cash back rate. If you spent \$4,000 on Card Z, you would earn \$80 in rewards points, \$80 that you can consider your profit.

Which card is the better deal? If you only spent \$4,000 in a given year, you would make more money with card Z (no annual fees) than with card Y, despite Card Y's higher cash back rate. In fact, in order for Card Y to be more profitable, you'd have to spend more than \$12,000. If you spend less than that, Card Z would be the better option.

2. The sign-Up bonus more than pays for the fees

Many rewards cards offer a hefty introductory bonus for spending a certain amount within the first few months. Sign-up bonuses can be more than double what you'll pay in annual fees, sometimes even more.

Of course, to get the bonus, you have to meet certain spending requirements. For instance, you might have to spend \$3,000 in the first three months to get a \$750 bonus. If you look at \$3,000 and think *pshh, I can spend that*, then the sign up bonus, plus other perks, can make the card more than worth it.

Introductory bonuses aren't restricted to cards with annual fees, however. You can find bonuses on no-fee cards, too. These bonuses will be far less lucrative, though the spending requirements will be lower, too.

Keep in mind introductory bonuses won't last forever. You still want to balance rewards with costs to make sure the card is worth its weight. If it is, the that promotional bonus can really put you ahead.

3. The perks are worth it

As if rewards points and bonuses weren't exciting enough, credit cards with annual fees often include incredible perks and surprise benefits that can really boost your card's value.

Perhaps the biggest perk is *travel insurance*. For Canadians who frequently travel abroad, travel insurance isn't just a nice luxury: often it's a necessity. Travel insurance can give you necessary medical coverage to help pay for medical bills that aren't covered by your provincial insurance provider. Though travel insurance coverage varies from card to card, here are some of the most common coverages:

- Trip delay, cancellation, and interruptions insurance
- Coverage for damaged, stolen, or lost baggage
- Emergency medical insurance
- Rental car coverage

Travel insurance can be costly, anywhere around 4% to 12% of your total trip cost. If you're a frequent traveler, the travel insurance alone can be worth the annual fees.

In addition to travel insurance, your card may include some coveted travel luxuries, too. Airport lounge access, free checked bags, free nights at a hotel, and upgraded seats are just some of the most

common benefits you can score.

4. You need to build your credit score.

For Canadians with bad or low credit, you may have to pay annual fees not for rewards or perks but simply to have a credit card. Though these cards don't come with the bells and whistles of rewards cards, they give you the opportunity to rebuild your credit score.

Some of these cards will also require you to put down an initial security deposit, which your credit card company will use if you miss a payment. For these cards (called [secured credit cards](#)), you may pay the security deposit in addition to the annual fee.

5. You have the option to downgrade.

Finally, keep in mind a credit card with an annual fee isn't a ball and chain: if you find the fees too high, or you don't use the card enough to take advantage of its benefits, you can always downgrade to a card with no fees.

Before you downgrade — or cancel — consider calling your credit card company and asking them to waive the annual fees. Yes, it sounds crazy, but some credit card companies will let you keep your card's benefits without paying the fees. It's not guaranteed to work, but it's definitely worth a try.

When are the annual fees not worth the cost?

Before you take out a card with annual fees, let's take a step back and see if paying for a credit card is the smartest choice for you. Higher rewards and sign-up bonuses aside, not everyone will get their money's worth in the long run. Here are some reasons to pass on a credit card with annual fees.

1. You're on a budget.

Budget-conscious Canadians probably should think twice before paying fees to use a credit card. When the money is tight, a credit card with no fees is probably better for you. Don't worry—you can always upgrade later.

2. You don't spend enough.

In order for you to truly enjoy those massive rewards and bonuses, you have to spend enough to make the annual fees worth it. If you don't spend that much, you probably don't need to pay a fee to hold a card. Besides, you can find plenty of no-fee credit cards that offer travel miles and rewards points. Your earnings won't be as lucrative, but hey—at least you won't pay a fee to own the card.

3. You have a large balance on a card.

Credit cards with great rewards programs often come with high [APRs](#) — your annual interest rate — that can cost you extra money if you don't pay your balance in full at the end of your billing cycle. While high spending will allow you to take advantage of the rewards, high balances can come back to haunt

you.

If you plan on making a big purchase that you can't repay in full, consider a low-interest card, or a card with a promotional APR period. These cards typically have no annual fees, and so long as you pay off your balance before the promotional period ends, you can save a lot on interest.

Is a credit card with annual fees right for you?

Annual fees may seem pesky, but, when done right, they can pale in comparison to a card's benefits. While paying annual fees isn't right for everyone, financially savvy Canadians will do well to consider taking one out if the rewards and perks outweigh the costs.

PP NOTIFY USER

1. tmfkopp

Date

2025/08/14

Date Created

2021/04/07

Author

sporrello

default watermark

default watermark