



Rewards credit card can pay off if you follow basic guidelines

You've stopped going out to eat, canceled your cable TV service and learned to cut your own hair. But you still have to buy groceries and gas. And the kids have promised to stop making fun of your hair if you take them on vacation this summer. Will rewards programs help you stretch your tattered dollars during these tough economic times?

Perhaps. But while the idea of earning money each time you shop is appealing, many rewards programs offered by retailers and credit card issuers are encumbered by complex rules and limits on how much you can earn. High interest rates and annual fees could wipe out your savings. And you might be tempted to spend more than you would otherwise, says Amanda Walker, senior project editor for *Consumer Reports*. "Lots of studies have shown that people who use reward cards tend to spend more" than those who don't, she says.

That doesn't mean you can't save money with rewards programs. Curtis Arnold, founder of CardRatings.com, says he and his wife earned more than \$1,000 last year by using cash-back credit cards. Arnold isn't a typical credit card user. He uses the cards for most purchases of more than \$5, pays the cards off every month and sticks to a budget. In addition, he and his wife have five children, which means they charge an unusually high amount for groceries.

Still, figuring out how to take advantage of rewards programs isn't rocket science, Arnold says. You just need to follow some basic guidelines, including these:

- Don't use a rewards card unless you pay off your balance every month.** Rewards cards typically carry higher rates than non-rewards cards do. Some of the most generous rewards cards charge rates of nearly 20%, according to *Consumer Reports*. If you carry a balance, even occasionally, forget about rewards programs and look for a card with a low interest rate. Otherwise, you'll end up paying more in interest than you'll earn in rewards, says Bill Hardekopf, chief executive of LowCards.com.

Make sure you pay your bills on time, too. Some cards will scrap rewards you haven't used or stop adding to them if your payment is late.

- Avoid cards with annual fees.** Depending on how much you spend and the amount of your rewards, you could end up ahead, even with an annual fee. But as competition has grown, it's become easier than ever to find a rewards card with no annual fee. Only four of the 30 rewards cards analyzed by Bankrate.com charge annual fees. (You can find the survey at www.bankrate.com/creditcardrewards.)

•**Find a card that matches your spending patterns.** Some cards increase the size of your cash-back rewards rebates after you've spend a certain amount. For example, the American Express Blue Cash card says it offers "up to 5% cash back" on groceries, drugstore items and gas (known as "everyday purchases"), and up to 1.5% cash back on other purchases. Those generous rewards don't kick in, though, until after you've spent more than \$6,500 a year. Below that threshold, the rebates are limited to 1% for everyday purchases and 0.5% for everything else.

If you charge more than \$1,000 a month, tiered rewards programs can pay off, Arnold says. Otherwise, you're probably better off with a card that pays a flat rate for all your purchases, no matter how much (or little) you spend.

In selecting a rewards card, you should also consider where you spend your money. Some rewards cards don't count purchases at warehouse stores, such as Costco, according to Bankrate.com.

•**Choose cash over merchandise.** Many retailers reward you with points that can be redeemed for travel, merchandise, gift cards or even donations to charities, according to *Consumer Reports*. But you could end up with lots of points for stuff you don't need, or find out, after the fact, about restrictions on how your points can be used, Hardekopf says.

"Cash is good for everything, whether you're buying tires or books or NASCAR merchandise," he says. In addition, cash-back cards tend to offer more generous rewards than points cards do, according to *Consumer Reports*.

A cash-back card may also be a better choice than an airline rewards card. Cards that reward users with airline miles are more likely to charge an annual fee than other types of rewards cards, Hardekopf says. In addition, rising fuel costs have forced airlines to cut back on flights. That's reduced the number of seats available to consumers looking to redeem their airline rewards miles.

Airline rewards cards may still pay off for consumers who travel frequently on the same airline, Arnold says. But for most consumers, airline rewards programs have "too much red tape," he says. "I'm a big believer in keeping it simple, and cash-back is simple."

Best gasoline rewards cards

Card	Reward basics	Drawbacks	Recent APR
Chase PerfectCard MasterCard	6% on gas purchases for the first 90 days, 3% thereafter, 1% on all other purchases.	Maximum 3% monthly rebate is \$15.	10.99% to 19.99%

Discover Open Road	5% on gas and auto maintenance, up to 1% on all other purchases.	5% rebate applies to first \$100 in purchases a month. You must spend \$3,000 on other purchases annually to earn 1%. Otherwise, you get 0.25% to 0.5% back.	10.74% to 18.74%
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Shell Platinum Select MasterCard	5% on Shell gas, 1% back elsewhere given as Shell credit.	\$20 annual fee after the first year; waived if you made nine or more Shell purchases in the previous year.	12.99%
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Sources: Consumer Reports, CardRatings.com