

How to choose a rewards credit card

Credit card rewards programs have tons of potential -- but plenty of pitfalls. Here's how to choose the best one for you.

Earning money by spending money is a nice deal -- and it's one of the major ways credit card companies entice customers to sign up with them. The more you spend, the more you earn.

Using a credit card to earn rewards and build or improve your credit score can be a win-win. But if you don't know how to use a credit card responsibly, there are significant risks. The mesmerizing world of cash back, reward miles and complicated redemption processes can lead you down a road of spiraling interest payments and late fees that could cost you far more than it's worth.

There's no shortage of credit card offers and sign-up bonuses out there, making it hard to choose the best one. This guide is designed to show you the basics -- not provide a comprehensive overview of the best rewards credit cards. As always, it's important to do your own research and consider exactly how credit cards -- and all of the potential perks and benefits -- fit in to your personal financial plans.

Beware of "budget creep"

Rewards cards work by granting "points" for shopping in certain categories, like travel, dining or groceries.

When it comes to how to earn rewards, there are two main categories:

1. **Cashback:** You'll earn a certain percentage back based on where you shop, like restaurants, grocery stores, warehouse clubs and gas stations.
2. **Travel:** These cards typically give you points or miles based on how much you spend, which you can redeem for flights, hotel rooms and other destination-related activities. Typical rewards spending categories include travel and dining.

While these are categories most people spend on anyhow, getting a credit card can sometimes obscure your budget, since you can spend however much you want and deal with the bill later. Call it "budget creep." The deferred cost model makes it much easier to exceed what you had planned to spend. And if you spend 50 percent more on say, dining out, than you typically would, and your travel rewards credit card rewards you with 4X miles (worth about 1 cent each), you're losing money.

Studies have shown that when paying with a credit card, consumers tend to spend substantially more than when paying with cash, up to 83 percent more in some cases.

To help offset the tendency to spend more with a credit card -- which has to do with "the pain of paying" -- it's helpful to chart your spending over the past three to six months and break out expenditures into categories. After

signing up for a credit card, compare your spending across the same time period with the period before having the credit card. If you notice discrepancies, especially large ones, consider using cash for those purchases or simply take note of how you used to spend and match it up.

Understand the difference in rewards

Even among standard rewards, there is a large variety of different types to choose from. The first thing you should do is learn about your potential earnings. For instance, if you get 3% cashback at restaurants, you'll earn \$3 for every \$100 you spend. And that's only at restaurants; you might get 2% at gas stations and grocery stores, then 1% everywhere else, for example. These types of rewards credit cards literally put cash back in your pocket.

For instance, the Blue Cash Preferred Card by American Express offers up to 6% cashback at supermarkets and some streaming services. The Chase Freedom card offers up to 5% cashback on rotating offers.

If you choose a travel card, you can earn points or miles towards travel. Some cards limit your use to specific airlines or hotels, while others don't have any restrictions. How much you earn on travel cards from spending varies, but redemption is usually \$0.01 per point or mile. Depending on the card and offers, you might be able to earn more. Also see if there's flexibility in your redemptions. For instance, can you transfer your points for a statement credit, cashback or gift cards?

When you use the Bank of America Travel Rewards Credit Card, you'll earn 1.5 points for every \$1 you spend, no matter where you spend your money. You can redeem your points for a statement credit to go towards flights, hotels, rental cars and other travel-related expenses. The Chase Sapphire Preferred credit card will redeem cash, gift cards and travel purchases.

Read more: [The best cash back credit cards in 2020](#)

Watch out for games that make you spend more

Most rewards credit cards are set up to feel like a game. You unlock bonuses and earn points through spending, which can later be redeemed for "rewards." This system inverts the natural emotions of shopping -- typically you have a visceral sense of loss or sacrifice when you trade in your hard-earned cash for another object, which helps regulate your buying tendencies.

But with rewards credit cards, you get a *positive* emotional kick when you see your credit card points increase, you unlock a bonus or qualify for a perk. Take sign-on bonuses, for example. You only get the bonus if you are able to spend a certain amount during the initial three months of card ownership. Usually, the threshold is set such that you have to spend more than you typically would, luring you into bad habits. One exception to this rule is if you've budgeted for a large purchase and you're able to time it to take advantage of a new card bonus, like signing up for an airline credit card and then booking your annual trip. But even in that case, you aren't altering your trusty budget.

The gamification of your finances can tempt you to play games, instead of treating it as an important discipline. It's better to ignore the gamified terms and seek offers that will generate the largest return for your current spending habits, instead of causing you to alter them in service of an issuer's game.

Check the fees

Credit card companies have fees for a reason: you have the luxury of using the card and they can charge you for it. Look out for fees like:

1. **Annual fees:** This is a fee for using the card. Some cards don't charge annual fees. The ones that do can range greatly in cost.
2. **Late fees:** If you don't make a minimum payment on time every month, you could face a late payment charge.
3. **Interest fees:** These are what you face if you don't pay your balance off every month. If you tend to charge more than you can afford, or don't think you'll be able to pay your balance in full, you'll be responsible for the statement balance as well as the added interest costs.
4. **Cash advance fee:** If you take out cash against your credit card balance, you could pay a fee for the convenience, like 3% to 5% of your advance. You might also get hit with a higher interest rate on your cash advance compared to your card's interest rate on purchases.
5. **Balance transfer fee:** If you're moving a credit card balance over to another card, some issuers will charge you a balance transfer fee.
6. **Foreign transaction fee:** Some issuers charge for using your card overseas. Look to see what this fee is before using it for overseas travel.

Review sign-up bonuses and how to redeem

While \$3 back on \$100 spent doesn't sound like much, an introductory offer might be more enticing. Think \$200 on the first \$1,000 you spend in the first three months of opening an account. Some credit cards offer bonus earnings for a specific amount of time. For example, earn 6% back at restaurants for the first three months of your account opening, then 3% after that.

For travel cards, it might be 50,000 bonus points when you spend \$3,000 on purchases within the first three months. Some companies that charge an annual fee might waive it for the first year.

How you redeem your rewards is important, too. For instance, you could redeem:

1. **In cash:** Deposit your cashback rewards straight into your bank account as cash.
2. **As a statement credit:** Use your rewards to lower your monthly credit card payment.
3. **On purchases:** Like airlines, airport lounges, hotels, room upgrades, and more.
4. **As gift cards:** Convert your earnings into a gift card for you or someone else.

Don't go overboard

Earning and redeeming points can *take time*. While some rewards credit cards are easy to use, others require awards charts, transfers and complicated redemption processes to maximize the value of points or miles. Some credit card review sites even explain how to make the most of credit card rewards by signing up for five to 10 different cards (or more).

These strategies fail to take into account the amount of time and emotional investment required on your end. If you're paying seven different credit card bills twice a month and spending hours comparing reward flights and points systems, you need to factor in that effort when calculating the cards' overall value. How much is your time

worth? And how much emotional energy are you expending to keep track of all the offers and bonus categories?

Before choosing a credit card, don't forget to determine how much time and energy you're willing to invest in the process. It's usually a matter of a few hundred dollars a year -- a significant amount of money, but not enough to sacrifice your peace of mind.

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