

# Here's Exactly How to Determine if Credit Card Annual Fees are Worth It

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by Tiffani Sherman

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We all like to get something for nothing, and in some ways credit card rewards fit the bill.

“It’s one of the few things in the world where it sounds too good to be true but it actually is true that you get these huge payouts with usually very little effort,” says Greg Davis-Kean, also known as The Frequent Miler. “If you’re smart about [your finances] you can win big by taking advantage of these offers.”

He’s talking about the credit cards that offer either cash back or points per dollar you spend, which can be redeemed for all kinds of perks.

Many credit cards are free to open, but the ones with the most benefits often have an annual fee, which can be hefty: \$99 to more than \$595.

So, the question is: Are cards that carry an annual fee worth it?

## How Credit Card Rewards Work

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Many cards are linked to one company, such as an airline, and offer benefits on that specific airline like free checked bags or early boarding. Others are connected to a bank and offer points that are flexible and can be redeemed for things like statement credit, travel expenses, or gift cards. Several cards have bonus categories where you earn more points for spending money at certain places, like grocery stores or restaurants.

Some premium cards offer car rental insurance, admission to airline clubs, travel insurance, and other travel benefits as part of being a member. Cash back cards offer statement credits.

“The types of perks vary hugely from one card to another,” Davis-Kean said. “It really depends on the card, but there’s some kind of valuable perks you get for keeping the card. And in order to justify the expense of those perks, the card issuers charge a fee.”

Usually cards offer a substantial bonus for signing up and satisfying a minimum spending requirement, which often more than makes up for the first year’s annual fee.

## How to Decide Whether to Keep a Card with a Fee

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Deciding whether or not to keep that card when the annual fee is due again requires some thought and a few simple calculations.

- Do you earn enough points to offset the fee? If you're a big-spender and put everything on a credit card, you might earn enough points to justify the fee outright.
- Does the card include things you would pay for anyway if you didn't have the card? This could include rental car insurance, airline lounge access, etc.
- Does the card have bonus categories you use, which increase its value to you?
- Do you use the extra benefits of the card often?

“Most of the airline cards charge around \$95 a year and they give you free checked bags, so a typical family traveling when the checked bag rates are \$30 or more can easily justify the cost of the card in just one or two trips,” Davis-Kean said.

For the other cards, he said he tries to estimate how much the perks of the card are worth to him. He takes each of the card's benefits and assigns a value to them based on what he would be willing to pay for that benefit. If the value of the benefits are worth more to him than the cost of the card, he renews.

For cash back cards, take a look at the annual fee (if there is one) and the percentage of cash back and determine the point at which you will break even. If you charge more on the card than that each year, you will make money. When you factor in bonus categories, they can have even more value.

For the no-fee cash back cards, that's just free money, and Davis-Kean said there are “plenty of really good fee-free cash back cards.”

This review process is something Davis-Kean does every year for some of his cards.

## What if You Just Don't Want to Pay an Annual Fee?

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If you go through your calculations and determine a fee isn't worth it, you have some options.

- Cancel the card.
- Ask for a retention offer.
- Downgrade the card to one without a fee.

“I'll call the bank and say I'm interested in canceling and sometimes they'll offer me a deal that makes it worth keeping another year — and sometimes they don't,” Davis-Kean said. Sometimes the retention offers involve removing the annual fee or rewarding a bonus for a minimum spend, which offsets the fee.

If they don't make an offer, Davis-Kean said he will try to downgrade the card to a similar one that is free and often has reduced earning power and fewer perks.

“If you ever change your mind about wanting the perks for the card, then it's usually a very simple thing to call and change back, and usually your card number doesn't change. ... With most banks it's an instant process and you get those perks right away,” he said.

Upgrading a card also does not involve a new credit check or application process.

If there are no retention offers and the card is not worth it to you, cancel it. Just make sure to cancel it during the required period so you don't pay another annual fee for a card you won't use.

*Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.*

