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DEAL OF THE DAY by Kelli B. Grant (Author Archive)

Published May 20, 2009 | A A A

Credit-Protection Plans: Not Always the Best Defense

PEACE OF MIND IS one thing you can't put on plastic.

Cardholders anxious about the economy and their own financial security may be tempted to try, however, by signing up for so-called credit-protection plans. Offered by credit-card issuers for a monthly fee, these plans claim to cover your payments should you lose your job, become disabled or die. "The pitch from the credit-card issuers is: If anything happens and you can't pay off your debt, we'll pay it for you," says Ken Clark, a certified financial planner based in Little Rock, Ark.

But in most cases, the only finances that are being secured are those of the card issuers, says Matt Sheldon, an attorney and consumer advocate in New York who specializes in debt reduction. "These are a cash cow for the companies," he says. Not only are plans pricey, but the pages of fine print that come along with these agreements are full of loopholes that leave policyholders uncovered, he says. For example, unemployment insurance won't kick in if you voluntarily leave your job, or are let go for performance reasons.

Credit-protection plans work best for people who are uninsured or underinsured, says William Burfeind, executive vice president for the Consumer Credit Industry Association, a trade group of companies that underwrite plans. "It fills a need in the marketplace," he says, and can be an inexpensive alternative for people who might not be eligible for a traditional life or disability insurance policy.

Even so, there are plenty of factors (and pitfalls) to consider before signing up for a credit-card protection plan.

Costs could dig you deeper into debt

Depending on the card issuer, state and the protections included, the monthly fee for a credit-card protection plan ranges from 35 to 99 cents per \$100 of debt, with most plans charging more than 50 cents per \$100, says Sandy Shore, senior counselor for Novadebt, a nonprofit credit counseling agency. That means someone carrying a \$5,000 balance would pay \$17.50 to \$49.50 a month (\$210 to \$594 annually) -- and that's not including the extra finance charges they'll incur from tacking plan payments onto the balance. You're better off using that cash to pay down your balance or (if you're really worried) stash it in an emergency fund, says Shore.

Consumers whose balance is zero at the end of the month won't be charged a fee for Chase's credit protection plan, says spokeswoman Gail Hurdis. (Otherwise, the issuer charges 59 cents or 89 cents per \$100, depending on the plan selected.) And when a cardholder activates plan benefits, their balance won't generate interest, she says.

Life insurance trumps protection plans

In the event of disability or death, credit-protection plans usually kick in after other insurance policies, says Clark. So there's little point in signing up if you already have life insurance or disability insurance through an employer or a private policy. Such policies often offer broader coverage and tend to be a better deal, he says. "In a best-case scenario [with a credit-protection plan], you're paying \$300 a year for \$5,000 protection," he says. In comparison, a healthy 35-year-old man could secure \$250,000 in renewable term life insurance for about \$230.

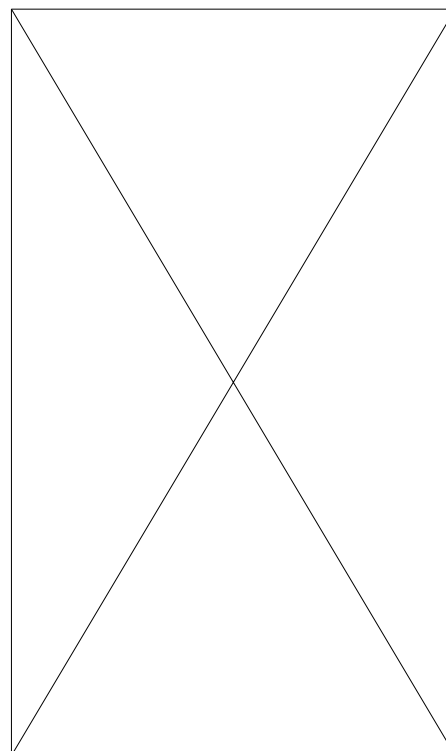
Exclusions can leave you uncovered

Read the fine print to see what's really covered and under what circumstances. "Disability [coverage] may only pay if you can't do any work whatsoever," says Shore. For example, a surgeon with damaged hands who could still flip burgers wouldn't get any help with his bills, she says. And unemployment protection is usually null and void if the layoff focused on performance issues. "That includes situations where they laid off all but, say, the top three performers," says Clark. "I promise you that before they start making payments, they're going to call your employer."

"Every consumer should read the contract and have a basic understanding of what their benefits are and when they



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kick in," says Consumer Credit Industry Association's Burfeind. Every policy, he adds, must meet state-mandated standards and issuers must also offer a 30-day trial period, during which a cardholder can cancel the plan and receive a full refund.

Issuers offer more generous hardship help

In the event of unemployment or disability, credit-protection plans typically make only the minimum monthly payment on your behalf, while the balance continues earning interest, says Sheldon. Consumers who get hit by either circumstance can get better results appealing to their issuer for a hardship plan, he says. Under these plans, issuers may agree to cut the rate to 0% and waive the minimum monthly payment for a set period of time (usually, a year or two). You'll pay a per-month fee that's similar to that of a credit-protection plan, but only as long as it takes to get back on your feet. The catch: Your account may also be frozen during that time.

Capital One, which charges 99 cents per \$100 for its protection plan, lets cardholders continue to charge on their card while benefit payments are being made, says spokeswoman Pam Girardo. And because the cardholder's payments are still being made (via the plan), your credit rating won't be affected.

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