

MAY 27, 2009

## Credit Protection May Not Protect

By KELLI B. GRANT

Cardholders anxious about the economy and their own financial security may be tempted to sign up for a so-called credit-protection plan. Offered by credit-card issuers for a monthly fee, these plans promise 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 in Little Rock, Ark.

But in many 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 the plans pricey, but the pages of fine print that come along with the agreements are full of loopholes that leave policyholders uncovered, says Mr. Sheldon. For example, unemployment coverage typically 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 to consider before signing up for one of these plans:

**Costs.** 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 charging more than 50 cents per \$100, says Sandy Shore, senior counselor for Novadebt, a nonprofit credit-counseling agency in Freehold, N.J.

That means someone carrying a \$5,000 balance would pay \$17.50 to \$49.50 a month -- 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 stashing it in an emergency fund, says Ms. Shore.

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

**Other insurance.** In the event of disability or death, credit-protection benefits usually kick in only after other insurance policies pay out first, says Mr. Clark, the financial planner. So there's little point in signing up if you already have life or disability insurance through an employer or a private policy, he says, adding that such policies often offer broader coverage and tend to be a better deal.

"In a best-case scenario [with a credit-protection plan], you're paying \$300 a year for \$5,000 protection," Mr. Clark says. By comparison, a healthy 35-year-old man could secure \$250,000 in renewable term life insurance for about \$230.

**Exclusions.** 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 Ms. Shore, the credit counselor. For example, a surgeon with damaged hands who could still flip burgers wouldn't get any help with his bills, she says. And the unemployment coverage is usually void if the layoff was due to performance issues.

"Every consumer should read the contract and have a basic understanding of what their benefits are and when they kick in," says the Consumer Credit Industry Association's Mr. Burfeind. Every policy, he says, must meet state standards and issuers must also offer a 30-day trial period, during which a cardholder can cancel the plan and receive a full refund.

**Hardship help.** In the event of unemployment or disability, credit-protection plans typically make only the minimum monthly payment on your behalf, while any balance continues earning interest, says Mr. Sheldon, the consumer advocate. Those who get hit by either circumstance can often get better results by requesting a hardship plan, he says.

Under a hardship plan, issuers may agree to cut the rate to 0% and waive the minimum monthly payment for a set period. You'll pay a monthly fee similar to that of a credit-protection plan, but only as long as it takes to get back on your feet. Your account may be frozen during that time, however.

Capital One Financial Corp., which charges 99 cents per \$100 for its protection plan, lets cardholders continue to use their card while benefit payments are being made, says spokeswoman Pam Girardo. And because cardholders' payments continue to be made, their credit rating won't be affected, she says.

Printed in The Wall Street Journal, page D2

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)