

BULL & BEAR *Bulletin*

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Let Credit Cards Pay for a Free Vacation—Part II

Six and a half years ago, a Bull & Bear was written about using sign-up bonuses offered by credit card companies to pay for free vacations. Back then there was not even a name for the activity that is now called “credit churning” or the “points and miles hobby,” which has really taken off with the younger generation. The percentage of Americans that carry a credit card balance has declined from 65% in 2018 to 60% in 2020 to now about half of Americans. Surprisingly, Gen Z is less likely to carry balances, as only 42% do. Credit cards are a trap for roughly half of American card holders as they pay interest that averages 20% to those corporations, up from 15% in 2018. For these people, credit cards should be torn up to facilitate paying down debt. For the other half of Americans, credit cards are used wisely for convenience purposes, paying off their balances every month. If you have shown discipline having credit, have a high credit score, and have not carried a balance on revolving debt for over five years, then those same corporations can pay for a free vacation.

Card companies still covet two kinds of customers: those who hold balances and are charged usurious interest rates and those who pay off their balances every month but engage in many transactions. The only group of non-defaulters credit companies do not like are people who pay their balances off every month and rarely use their cards. To entice individuals who pay off balances to use their cards, rewards programs have evolved. Originally started as up to 1% cash back with Discover in the 1980’s, rewards programs have exploded into a bidding war between card issuers. It is not unusual to offer hundreds of dollars’ worth of airline miles or hotel points for new card sign-ups with some offers going over a thousand. Those miles can be used to pay for domestic airline fare for two or hotel accommodations.

As an example: First, an individual signs up for loyalty programs where miles and points can be used. For example, if American Airlines offers routes from a local airport to a destination you desire, open up an American Advantage account, and if you like Marriott-branded hotels open a Marriott Bonvoy account. It is free to join their reward programs, and there are no fees. Then choose credit cards that offer large sign-up bonuses for those programs. For instance, the AAdvantage Platinum Select MasterCard credit card by Citi gives 50,000 in bonus sign-up miles for opening the card and spending \$2,500 within the first three months and includes a free checked bag and priority boarding for cardholders with the \$95 annual fee waived for the first year. So Citi partnered with American to give you enough miles for two free airline tickets. After you receive your bonus miles from the airline card, you can move on to the hotel portion.

For the hotel, earlier this year the Marriott Bonvoy Boundless card by Chase and the Marriott Bonvoy Card by American Express were offering five free night certificates after completing the spend requirement. Currently, the best offer is the Marriott Bonvoy Card by Chase, which will give you 125,000 bonus points after spending \$5,000 in the first three months, with a \$95 annual fee. That many bonus points is enough for four to five free nights in Marriott's lower reward tier of hotels. Someone with patience would wait for Chase or American Express to bring back the five free night certificate as they have done the past two years. The value of those certificates on a trip is over \$1,500 in exchange for the \$95 annual fee. These bonus offers apply only to new cardholders that do not currently have these cards nor had them in the past four years. Also, these offers do not apply to individuals who have opened five or more cards in the past 24 months.

With some advanced planning, an individual or couple can get two of these credit cards if they can meet the spending obligation and have airfare for two plus hotel covered on a domestic vacation from free points and miles. When the first year of waived credit card fees ends on the Citi card, just cancel the card to avoid the annual fees. We are not encouraging spending to meet these bonus thresholds, but individuals who spend such sums already might as well be rewarded for the spending that they already engage in. It goes without saying, for those who carry balances, the interest charges would overwhelm any benefit from bonuses, and, therefore, this is not for you.

For those of you worried about your credit score, don't be. When credit score metrics were adjusted over a decade ago, the impact of new credit applications was adjusted to only be a 10% factor on your score, and the impact of closing an account that has been open a year was also minimized. As highlighted in the beginning, if you have paid off your balances in full for the last five years, you will have a solid credit foundation that will allow for these point and mile maximizing tactics with little negative impact.

There are dozens of credit cards out there offering miles or points, which would be impossible to cover here; there is even one card that at times offers 100,000 points equal to four domestic airfares. It is an interesting hobby to become involved with for spending you already engage in. This hobby has created multiple websites discussing tactics and current offers for the online community. This is the one time the moneylenders can pay you for borrowing their money for the month.

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