

Are Extended Warranties Worth It?



When you purchase a vehicle, a major appliance, a laptop, or other big-ticket item, chances are you'll be asked to buy an extended warranty or service contract. Extended warranties are offered by retailers for an additional cost and cover product repairs for a specific period of time under certain conditions.

Selling extended warranties may be quite profitable for retailers because they keep a percentage of what they charge for these contracts. But are they a good deal for you? Here are some questions to consider before you pull out your wallet.

Is your purchase covered by a manufacturer's warranty? Many products come with a manufacturer's warranty that covers replacement or repairs within a certain time period (one year, for example). Manufacturers may also offer low-cost repair or replacement of items known to have manufacturing defects, although there are no guarantees unless state or federal laws apply. You may want to forgo purchasing an extended warranty if it will result in duplicate coverage.

Does your credit card offer extended warranty protection? This benefit is included with some credit cards and generally doubles the manufacturer's warranty period for products purchased using the card up to a certain time and dollar limit. Some products (including motorized vehicles) are excluded, and terms and conditions vary. Check your card's benefit guide for more details.

Are you buying a product that's typically reliable? Before you spring for an extended warranty on a product that's unlikely to need major repairs, research online product reviews to gauge reliability and the potential for problems to occur.

Have you read the fine print? Extended warranties typically contain many exclusions and limitations, so don't assume all repairs will be covered — it's possible your claim will be denied if it doesn't meet strict criteria. In addition, some extended warranties may require you to pay additional charges when the product needs to be serviced (e.g., deductibles, fees, and shipping costs).

Will repairs be costly? Weigh the cost of the extended warranty against what it might cost to pay for the repairs yourself. Not all repairs are expensive, and if you could cover them out of pocket, buying an extended warranty might not be worth it.

An alternative to buying an extended warranty is to set aside money in an emergency account to cover future repair costs, big or small. That may be a more cost-efficient and flexible way to help protect your purchase in the event a repair is not covered under a manufacturer's or credit card warranty.

IMPORTANT DISCLOSURES

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