

## BASICS

### Should I Use Credit or Debit?

**Credit cards offer more protections and rewards, but debit cards reduce the temptation to overspend.**



Getty Images

With the holiday shopping season approaching, you'll need to decide not only what to buy but also how to pay for it. The decision will be even more important this year, when many shoppers will make their holiday purchases online. In the credit versus debit card debate, proponents of both sides have good reasons for embracing one method and rejecting the other.

**The case for credit.** The greatest advantage a credit card offers is security. Under the Fair Credit Billing Act, if someone uses your card number fraudulently to go on a spending spree, federal law limits your liability to \$50. And many credit card companies extend their protection beyond that baseline. American Express, Discover, Mastercard and Visa assume all liability for unauthorized purchases.

The FCBA protections are especially important if you're shopping online. If you use your credit card to make a purchase and have a billing problem with a merchant—including a dispute over unsatisfactory merchandise—the credit card issuer must investigate and resolve your complaint, and you can withhold payment until then.

In addition, credit cards may offer other protections, such as extended warranties and purchase protection, says Ted Rossman, analyst for Bankrate.com.

Credit cards also have more-generous rewards programs. Depending on the card, you can earn as much as 5% cash back (or, typically, five points per dollar) for spending on groceries, gas, restaurant meals and travel. Some cards earn up to 3% cash back on every purchase you make.

**The case for debit.** Although credit cards allow you to spread out payments over time, the costs can be steep if you don't pay off your balance in full each month: Interest on credit card balances averages 16%. And missing payments, exceeding your credit limit or using too high a ratio of your available credit could hurt your credit score.

You avoid those pitfalls with debit cards. Because funds are taken directly out of your checking account when you use a debit card, the temptation to spend money you don't have is removed. "In practice, debit cards are viewed as a debt-free payment method akin to cash, whereas a credit card could be used as a loan," Rossman says.

Debit cards don't offer the same legal protections as credit cards. They have stricter time frames for reporting fraud, which could leave you liable for substantial losses if you wait too long to report unauthorized use. If your debit card is stolen, you must report it within two days to get the same \$50 limited liability. Notifying your bank between three and 60 days after the fraud occurred could cost you up to \$500, and beyond 60 days your losses could be unlimited.

In practice, though, your bank will likely refund any unauthorized charges as long as you notify it promptly of a lost or stolen debit card. But it could take weeks to get your money back. And some debit card issuers offer additional protections. For example, Visa debit cards do not hold you accountable for fraudulent transactions if the transaction is processed by Visa—though you may not know which transactions are processed by Visa and which aren't.

**NYSUT Note: Considering credit card consolidation or debt management assistance? For more than 20 years Cambridge has been assisting consumers with eliminating debt, and with the NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling program, members are eligible to receive free, no-obligation, debt and student loan consultations with one of Cambridge's certified counselors. For more information or to set up a consultation, [click here](#).**

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