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Extended warranties warrant a closer look

Service contracts promise to pay repair bills, but may not be worth the money

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Spending Smart

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Do extended service contracts warrant your attention and your dollars?

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It's a question that comes up time and again. Seemingly whenever we buy anything of value, a salesperson suggests that we should buy an extended warranty, sometimes called a service contract.

There are three common types: extended warranties for consumer products, such as a newly bought camera or computer; an extended warranty on a vehicle; and a home warranty, which addresses the major appliances in a house, such as a furnace or dishwasher. In each case, the warranties are essentially repair bill insurance.

There's a good reason warranties are offered so often — they can be very lucrative for sellers. But are they a good deal for consumers? The short answer, said many consumer-interest groups, is "no," or at best, "not often."

Consumer Reports, for example, recently said of extended warranties: "Chances are that what you spend will be money down the drain." It found the median price for in-store electronics warranties was \$75, while a major appliance warranty cost \$118.

But it's difficult to write off such service contracts altogether because of the peace of mind some people might get from a longer or more robust warranty. That's difficult to place a dollar value on.

Many finance experts espouse a simple rule of thumb: Don't buy insurance — or extended warranties — to protect yourself from small-dollar losses. Insurance is for financial disasters. Dropping your cellphone in the toilet is annoying and inconvenient, but probably not a financial disaster.

The cure-all for buying extended warranties is maintaining a cash emergency fund. If you have a stash of cash, you can say no to all those warranties and just pay for repairs to your products, vehicles and home appliances.

But the counterargument is that few people maintain a repair fund, said Tim Meenan, executive director of the Service Contract Industry Council, an industry group representing warranty companies. "I've probably asked more people than anyone else ... 'Do you have a fund set aside to make repairs?'" he said. "I'm waiting for the first 'yes.'"

Here's a look at three common types of extended warranties:

Product extended warranties. These are offered most often on electronics, such as cellphones and cameras, and appliances, such as refrigerators and clothes washers.

An argument against extended warranties for products is that repairs may be covered, first by the retailer as a returned item, then by the manufacturer's warranty.

Even the federal government issues a caution. "Some extended warranties duplicate warranty coverage that you get automatically from a manufacturer or seller, so this add-on may not be worth the cost," says the 2014 Consumer Action Handbook, put out by the General Services Administration.

Consumer Reports' data show products seldom break within the window of time that the warranty covers.

And often a repair doesn't cost any more than the warranty. So buying a warranty is like paying for a repair whether you need it or not.

Meanwhile, the credit card you bought the item with might already extend the manufacturer's warranty for free. It's worth checking on what your card offers.

Just as concerning is that a service plan can have "fine-print exceptions that a provider can use to deny your claim," Consumer Reports said.

Meenan points out the advantages. For one, you don't have to buy the warranty from the store that sells you the item.

Consumers can shop around for warranties online like they shop for the products themselves, comparing prices and coverage. For example, SquareTrade has become a popular choice for electronics service plans.

Meenan added that credit card extended warranty coverage is becoming less prevalent, and manufacturer's warranties are getting shorter.

A bonus of many extended warranties is they might have in-home service for large appliances and big televisions, for example, he said. Or for a portable item, it might have a speedy shipping option, such as overnight FedEx delivery, he said.

"The time convenience is probably one of the most attractive features on these," he said. An extended warranty also eliminates the hassle of trying to find a service person to repair the product, he added. And some extended warranties cover accidental damage or power surges, unlike manufacturers' warranties, he said.

Auto warranties. After buying a new car, you'll be shuffled into the F&I room, which stands for finance and insurance. That's where you will be pitched an extended warranty on your vehicle, which is essentially insurance against costly auto repairs. Auto warranties are available for used cars too.

Consumer Reports in a recent report called vehicle extended warranties "an expensive gamble." A survey it conducted found 55 percent of owners who bought an extended warranty hadn't used it for repairs during the lifetime of the policy. The median price paid for coverage was about \$1,200. Those who did use the warranty spent hundreds more for the coverage than they saved in repair costs, it found.

A primary argument for buying an extended auto warranty is that people are keeping vehicles longer and auto

warranties are getting shorter, Meenan said.

Auto warranties are typically transferable to a future buyer of your vehicle, and sometimes are refundable — giving back a prorated portion of the warranty's cost if you sell the vehicle, he said.

Home warranties. Such warranties are often part of a real estate sale, trying to give buyers peace of mind that they'll be covered for some major home repairs. Some people opt to continue the warranty. The homeowner buys the one-year service contract, often for \$300 to \$500, and pays a service charge, maybe \$100, for each call.

But Angie's List, which provides reviews of service professionals, found home warranties problematic.

During the past decade, home warranty companies have had the highest percentage of complaints from Angie's List members.

"Consumers turn to them for help when an appliance or HVAC system or something else around the house goes kaput, but all too often, they find their warranty is kaput as well," said Cheryl Reed, an Angie's List spokeswoman.

Nearly 40 percent of the reviews submitted to Angie's List in 2013 for home warranty companies were given D or F grades.

Most commonly reported issues included misunderstandings about what is covered, no-show or uncommunicative repair technicians, and payment and cancellation issues.

Meenan said he didn't have a good answer on why consumers seem displeased with home warranties.

"It's the same with home warranties as with anything else. If you read it and are disappointed, it's not going to cover the things you thought would be covered ... you can cancel at midstream and get a refund for prorated cost of that contract," he said.

What's the smart advice on extended warranties? Caveat emptor: Let the buyer beware.

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