



# Extension News Column

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*University of Alaska Fairbanks, Cooperative Extension Service, [www.uaf.edu/ces/](http://www.uaf.edu/ces/)  
[fycit@uaf.edu](mailto:fycit@uaf.edu), 907-474-5211, FAX 907-474-6885*

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**To:** Mary Beth Smetzer, community news editor, News-Miner, 459-7546 (wk), 452-7917 (fax), [msmetzer@newsminer.com](mailto:msmetzer@newsminer.com), and [people@newsminer.com](mailto:people@newsminer.com)  
**From:** Roxie Dinstel via Ronda Halvarson  
**Re:** [Pinching Pennies to run Mondays on page A-3](#)

**Additional Contact:** Debbie Carter, information officer, 474-5406, [dscarter@alaska.edu](mailto:dscarter@alaska.edu)

I got a phone call the other night offering to sell me an extended warranty on my car. However, I haven't had a new car for more years than I care to count. No warranty on my car to extend.

I had received a phone call from a phone bank that was just hoping that I had a car that might be reaching the end of its warranty. It was counting on me having a car that was new and that it might be able to scare me enough to put my money on the line for the warranty.

Increasingly, car owners are getting urgent-sounding notifications, either by phone or mail that the manufacturer's warranty is about to expire. Some people opt for this warranty not even realizing that their original factory warranty is in effect. Often these phony notices come from firms with the word "dealer" or "warranty" in their name in order to create the illusion that they work for the car's manufacturer or dealer. In fact, most of them are just a room full of people that have no relationship with any car dealership.

Even when the offer is legitimate, extended warranties are usually not necessary. You are betting on a pretty narrow window. That whatever you are buying the warranty for will break, after the regular warranty is up, but before the year is up that you are paying for. Several years ago, I found that my father-in-law had paid an extended warranty of \$50 a year for five years on a washing machine. The machine was 10 years old and he had invested an additional \$250 on a warranty that never paid off. In fact, at 15 years old, the washer is still going strong, but at least he hasn't paid the warranty for the last five years.

An extended warranty works like an insurance contract for the product you purchase and can be offered by either the product's manufacturer, or by the retailer, which contracts this service out to an insurance company.

What most consumers fail to realize is that although the price of an extended warranty often seems like a bargain to those who know what repairs cost, it has actually been carefully analyzed by the company that offers it. The company uses probability and statistical methods to calculate the likelihood that your new refrigerator or big screen television, for example, will require repairs. This figure is weighed against how much those repairs would cost to arrive at the price that a company will charge consumers for a warranty on a particular item. This formula is not designed to work in your favor.

In fact, the operating profit margins on extended warranties can be as high as 70 percent, compared to only 10 percent for the products they cover, according to an article in *Consumer Reports*.

Let's say you are going to pay \$2,250 for a new washer and dryer. An extended warranty will cover the cost of services and repairs for three years and includes a replacement guarantee if the product can't be fixed has a cost of \$660. You know that repairs on these expensive appliances could easily exceed the cost of the warranty. Is the warranty a good deal?

In the best case, you would purchase your appliances, turn down the warranty and your new purchase would not require repairs within the three-year period that the warranty would have covered. If this occurs, you save yourself \$660. Of course, if you don't buy the warranty, the worst case is that your new appliances require repairs within three years and that those repairs cost more than the \$660 warranty you could have purchased.

However, according to the statistics from the *Consumer Reports*, your washing machine has a 22 percent chance of needing repairs within the first three years, and your dryer is even more reliable with only a 13 percent possibility that it will break down within that period.

Although warranties may seem like an act of customer service that companies extend to consumers, they are actually carefully calculated to be profitable for the companies that offer them. Before you agree to purchase that warranty, carefully consider the likelihood that the product will fail as well as how much it would cost for you to repair or replace it yourself. In many cases, your best course of action will be to bet that your appliances and electronics will outlast the warranties you left behind.

**Roxie Rodgers Dinstel is a professor of extension on the Tanana District Extension Faculty. Questions or column requests can be e-mailed to her at [rrdinstel@alaska.edu](mailto:rrdinstel@alaska.edu) or by calling 907-474-2426. The Cooperative Extension Service is part of the University of Alaska Fairbanks, working in cooperation with the U.S. Department of Agriculture.**