

Buying a new car? Be careful of dealer add-ons



For most people, buying a new car is a major expense, often the second most expensive purchase after a home. And with a new auto costing on average \$48,397,* consumers must make sure that they are getting the best deal possible. If you are in the market for an auto, you can ensure that you are getting exactly what you want and at a price you feel is fair by taking the time to understand that certain dealer add-ons are unnecessary and expensive. Here's a breakdown of some common dealer add-ons.

✓ Extended warranties

Understand that every new car is covered by a manufacturer's warranty. Warranties are essentially promises that the manufacturer makes to pay for the cost of any repairs that the auto needs for a specified number of years or for so many miles driven. An extended warranty picks up this coverage when the manufacturer's warranty expires.

Some autos perform better and have fewer mechanical, electrical and rust issues compared to others. Some auto manufacturers rank high year after year in reliability ratings. So, it makes sense to search for online user reviews and reliability ratings of the car you plan on buying for several reasons. First, it's cheaper to buy an extended warranty when you first buy your car than waiting until later. Second, warranties cost less when you are buying one on an auto that has a reputation for reliability.

If you opt to buy an extended warranty, look for one that covers "wear and tear" and mechanical breakdown. Also, you'll want your warranty to cover car rental and towing costs as well as toll-free assistance and lost key lockout. You are not obligated to buy an extended warranty from the dealer selling you your car -- you can shop around to see if you can get a more competitive price.

✓ Credit life insurance

Credit life insurance is intended to pay off the balance of your auto loan if you were to die prior to the end of your loan term. Auto dealers will generally push this product because they earn a commission on every policy they sell, and it guarantees that their loans will be repaid.

Some lenders, but not all, require insurance protection for your loan. If your lender requires it, just remember that you are not required to buy the policy from the dealer or from a company recommended by them. In addition, you may not require credit life insurance if you already have life insurance. If you don't have life insurance, it may be cheaper to buy a term life insurance policy than a credit life insurance.

✓ "Poor credit" loans

People with poor credit history will be charged a much higher interest rate on an auto loan compared to a person with better credit.

If you have made several late payments on loans in the past, your credit score will have been impacted, and you may be considered a "subprime" borrower. Lenders believe that individuals in this category have a higher risk of not repaying (defaulting) a loan, so they manage the risk of default by charging higher interest rates and by demanding stricter terms.

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If you are fully paid up on all of your debts currently, it's likely that you will find an auto loan at a reasonable interest rate from a bank or a credit union. It's also possible that you could get a competitively priced auto loan if you make a large down payment or if you apply for a low-interest lease with a large security deposit.

Before buying a new car, talk to a financial professional or your insurance agent for more specific information on how to determine what, if any, dealer add-ons may make sense for your situation.



If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

* Kelley Blue Book, 2024.

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