4 Ways to Beat Extended Warranties

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You can insure yourself instead of paying more to retailers.

Your high-yield savings account can help you say no to extended warranties when you're shopping for electronics and appliances. These are big money makers for retailers, but they are often losses for consumers. The plans are only worthwhile in circumstances that have a low chance of ever happening: when the product is damaged or malfunctioning within the (usually limited) time frame of the plan. Even when that happens, the store will probably still make it difficult for you to take advantage of the benefit.

[Slideshow: 20 Things You Should Never Buy Used]

With savvy planning, however, you can save the money you would otherwise spend on these plans and still be protected for as long as you like.

Extended warranties are wonderful from the store owner's perspective. Very few customers who have paid for the service take advantage of its features such as free repairs or replacement, so the companies generate significant revenue. Just as these companies pool money from many customers in order to cover repair costs for a few, you can use a similar strategy to take care of your purchases for yourself and your family.

Before you start, check your credit cards. Many cards, even those without an annual fee, automatically extend the manufacturer's warranty automatically when you buy a product. The manufacturer's warranty may not cover all circumstances, and your credit card may fill in some coverage gaps.

In addition to using these cardholder benefits when necessary, protect yourself by following these steps for each item you buy, taking a lesson from retail extended warranties.

[5 Home Ownership Myths to Avoid]

Step 1. How much does the extended plan cost? The cashiers and salespeople will always be eager to talk about their coverage plan. Determine the price of the warranty or replacement plan and write it on your receipt or send yourself a text message so you don't forget.

Step 2. Open a new savings account for your pooled warranty fund. If you haven't already, create an account to which you will transfer the value of the store's warranty plan. For example, you can set up an ING Direct sub-account called "Warranty Fund." Here you can earn interest on money put aside to cover repairs and replacement. Don't create a sub-account for each item.

Step 3. Repeat the above steps. Use the same Warranty Fund for all products you buy that may need repairs or replacement. Chances are good you won't need to fix or replace every item you cover in your Warranty Fund, so this account should keep growing and earning interest.

Step 4. Use your savings when needed. Rather than dealing with the third-parties contracted by retailers to handle extended warranties, handling the repairs or replacements directly should reduce your frustration. Don't dip into your emergency fund if you can avoid it. Once you've self-insured enough products, your Warranty Fund should cover most problems unless you are unnaturally prone to accidents.

The strength in this strategy is that you are pooling your own funds rather than giving them away to companies who pool your money with others' money. Just like not every retail customer will take advantage of their purchased extended warranty, not every product you self-insure will break. With this plan, you keep much more of your money and earn interest.