
The Short Answer

How to Safeguard Against Identity Theft

By [Esther Pak](#) | 08-02-11 | 06:00 AM | [E-mail Article](#)

Question: I've been hearing a lot about cases of identity theft. How can I protect myself? Is this something I can do on my own, or is it better to use a paid service of some kind?

Answer: In [last week's Short Answer column](#), I shared some tips on how to keep your credit score as high as possible. I briefly touched on the importance of scouring your credit card statements for signs of identity theft, which, if unreported and unchecked, can damage your credit rating in a hurry. Unfortunately, cases of credit card fraud and, more broadly, identity theft, are on the rise: Between 2001 and 2010, recorded complaints of identity theft [nearly tripled](#), from 86,250 to 250,854.

Sizing Up the Options

Consumers have a few options to ward against identity theft, ranging from free fraud alerts to paid credit-monitoring and identity-protection services. Choosing the right level of protection for you depends on your risk of identity theft and how much time you have.

Fraud Alerts

To help mitigate rampant identity theft, Congress passed the Fair and Accurate Credit Transaction Act of 2003 ([FACT Act](#)). In addition to allowing consumers to request and obtain free annual credit reports from each of the three nationwide consumer credit reporting companies (through [AnnualCreditReport.com](#)), the act also allows individuals to place free fraud alerts on their files if they have a good-faith suspicion that they have or are about to become a victim of fraud or identity theft.

To place a fraud alert, just call one of the three major credit bureaus. Once a fraud alert is placed in your credit file, a financial institution is then required to take reasonable measures to ensure your protection before approving any credit in your name, usually by asking you a series of questions about your other financial dealings (who your mortgage lender is, recent transactions, and so forth). Fraud alerts expire after 90 days, but can be renewed if you have continued reason to believe you're in danger of identity theft. Moreover, if you can show evidence that you were an identity theft victim (a valid police report showing that you have been a victim of identity theft, for example), you can request an extended fraud alert that stays in your file for a seven-year period.

On the plus side, fraud alerts are completely free and are a good first step if you have been, or are in danger of becoming, a victim of identity theft. However, they're not entirely foolproof. Keep in mind that fraud alerts are finite. They're also limited to protecting you from "new account" fraud, and they won't necessarily protect your existing accounts or credit cards.

Credit Freezes

An even more effective protection against identity theft is freezing your credit report, which will prevent anyone--including you--from taking additional credit in your name unless you decide to unfreeze your account. That means that new lenders cannot gain access to your credit report. And because lenders typically don't issue new credit without assessing a borrower's history first, a freeze effectively prevents identity thieves from opening an account in your name. But as long as the credit freeze is in place, you can't have access to your account, either, unless you pay an additional fee to temporarily unfreeze your account or completely remove the credit freeze from your file.

Consumer credit is regulated at the state and federal level; the fee structure for adding, temporarily lifting, or removing a credit freeze [will vary](#) state by state. For example, if you are a nonvictim Illinois resident, it will cost \$10 per agency to place a credit freeze, an additional \$10 dollars to temporarily lift it, and nothing to remove it altogether. Almost all states will waive all fees for identity-theft victims and for those who are over 65 years of age.

Credit freezes can make sense for those who have been victimized by identity theft and anticipate that they won't be applying for any additional credit in the near future. On the flip side, freezing and unfreezing credit might not only be costly, but also time-consuming (depending on the state you live in, it could take anywhere from 15 minutes to three days to lift or remove a credit freeze). If you anticipate that you'll be shopping for a mortgage or adding a new credit card in the future,

it might be worth waiting before initiating a credit freeze on your account.

Credit Monitoring Services

Although fraud alerts and freezes help stave off identity thieves by making credit more difficult to obtain, credit-monitoring services attempt to keep you abreast of red flags in your credit picture. Each of the major credit bureaus offers this type of service.

At Experian, for example, a monthly fee of \$14.99 will get you unlimited access to your Experian credit report and score, daily monitoring of your credit reports at all three agencies, and a monthly statement that notifies you of any suspicious activity. (Some signs of possible identity theft include inexplicable charges on your account or inaccurate personal information on your credit report--for example, an incorrect name, address, or Social Security number). Experian also offers telephone help with fraud resolution and reimburses some out-of-pocket expenses incurred while trying to resolve identity theft or other fraud.

Even though the additional protection might be worthwhile for those who are pressed for time, credit-monitoring services might not be necessary if you analyze your free credit reports each year and are vigilant about scouring your credit card bills and banking statements for unusual activity.

Identity-theft protection services

Identity-theft protection services such as Identity Guard offer not just credit monitoring but also a comprehensive array of other services, including identity theft insurance of up to \$1 million, a yearly three-bureau credit report, and a scan of black-market Internet and database sites that sell your information such as credit card and Social Security numbers. Such services also provide fraud detection using sophisticated technology to analyze customers' private information for signs of identity theft. You can expect the most comprehensive of services to cost anywhere from \$15 to \$20 dollars per month.

As with credit-monitoring services, it's possible to obtain some of the safeguards of identity-theft protection services on your own. Consumers can request free credit reports from the three major bureaus at AnnualCreditReport.com, and closely watch the activity on their bank and credit card accounts. For added protection, you can place a 90-day fraud alert on your credit files or even freeze your credit (as stated above); this way, you won't be paying monthly fees which can really rack up over time.

It's also worth noting that many of identity-theft protection services won't cover theft that occurred before you signed up for the service. So if an identity thief opened a fraudulent account in your name a year ago, you bought the service six months ago, and you don't discover the new account until next year when a collection agency notifies you, your insurance protection might not cover those losses.

Finally, before springing for extra protection, bear in mind that consumers automatically have protection from fraudulent activity. As a result of the Fair Credit Reporting Act, consumers cannot be held liable for more than \$50 for fraudulent purchases made on their credit cards as long as they inform the credit card company within 60 days of when they receive their credit card statements.

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