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Aviation

How to Value Airline Pilot Careers: The \$8 Million Dollar Man has Wings!

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Airline pilot careers are much more valuable than many attorneys, spouses, and even the pilots themselves often realize. Even after all of the well-publicized pay reductions and retirement plan failures at our established legacy passenger airlines, these careers are still providing high career values.

Pilot pay, benefits and retirements are complicated. Almost all are governed by labor union-negotiated contracts, which spell out each element in detail. These contracts are usually from 300 to 400 pages in length; finding each piece of this career value puzzle is not a task for the uninitiated. I see reports from economists, vocational-rehab professionals, and other "aviation experts" that regularly leave out one or more parts of the career value equation—worth millions of dollars.

PILOT UNIONS

The Air Line Pilots Association (ALPA) represents 38 mostly U.S. airlines, with approximately 51,000 of the 90,000 total U.S. airline pilots. The Teamsters Union represents several pilot groups, as well, and there are a small number of independent "in-house" unions (American Airlines and Southwest Airlines for example). The majority of U.S. airline pilots belong to a union. The various pilot union contracts, especially those from the same union, follow a set structure—from definitions and compensation to insurance and retirement benefits.

CAREER MODELS

Career Models have been constructed for pilots as young as 16 years of age and as old as 67; however, most pilots are in their post-college, prime earning years, somewhere between learning to fly and being established at a career airline. The closer they are to reaching their career goal, the easier it is to determine the value of their career. Time may be needed to allow younger, less experienced pilots to complete their formal education, build additional flight experience, or additional flight ratings. A typical airline pilot reaches his career-goal company in his mid-30s, but some are successful as early as their mid-20s, while others may not reach the upper echelons of pay and benefits until much later, especially if they entered the field later in life. Airline pilots are hired in small numbers over 60 years of age.

Refer to the constructed career earnings models for about 300 pilots who have been delayed, injured, or for the estate of deceased pilots, at the end of this article. Most injuries or deaths are the result of aircraft accidents, but a fair number of cases involve automobile and motorcycle accidents or any injury that makes getting and keeping an FAA medical certificate impossible due to physical injury or the use of restricted medications for pain or mental health. Not surprisingly, pilots have their share of divorces. Their spouses and their attorneys also need to appreciate the value of these careers.

COLLECTING AND DEFENDING THE DATA

There are typically two arguments against any career earnings model. The first is that the pilot could not achieve his goal, and the second is that if he did reach his goal, it would not be worth what I project in my model. If the pilot is already established in his career at a career goal airline, then reaching his goal is not in question.

To overcome the *first*, toughest, *objection*, "can the pilot get the job?" I must rely on my 30-plus years as a professional airline pilot, instructor pilot, pilot career counselor, and pilot career information service owner. I have been collecting and publishing data about the U.S. airline pilot job market for over 30 years and for most of that time I have been gathering statics on what a successful airline pilot candidate looks like. My past companies have recorded our member's and customer's pilot résumé information into a database of over 14,000 pilots interviewed or hired by the airlines. From this database, we have learned the age, education, flight ratings and certificates, flight experience, background, and physical profile of successful airline pilot applicants. Additionally, we supplement this information with union, airline, and government (FAA) statistics. Our database contains pilot-specific information that even the FAA or the airline has not collected. All we need to do is compare the profile of the pilot in question to this large sample of successful airline pilots who have gone before them. To gather the information necessary for the earnings model, if the pilot is deceased, a two-page worksheet is used, which details the essential information and documents for the evaluation. If the pilot is available, an expanded eight-page worksheet is utilized. If possible, meet with the pilot personally for an interview and also interview his family members, professional peers, flight instructors, and flight managers. Skype and phone are also used to interview the pilot. There is a medical advisor available that is board-certified in aerospace medicine, an FAA aviation medical examiner, and a past major airline medical director for an independent medical examination, if necessary.



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The *second objection* is easy to defend but complicated to explain. Pilot hourly rates are published in their union contracts. The hours they can work are specified as a range from a monthly pay guarantee of 60 to 78 hours to a maximum of 89 to 100 hours. Obviously, the difference can be as much as 60 percent. The challenge is to determine realistic average hours flown each month either from the pilot's work history, if he has the job, or from available monthly bid lines and flight hour averages at each airline, if he is still in the career development stage. This generates the earnings that will appear on his W-2. At most airlines for each dollar of W-2 earnings, there is an additional dollar in benefits and retirement. Profit sharing and other incentive programs can add to the career value, but are difficult to estimate going forward.

AIRLINE PAY SNAPSHOT

Hourly rates are very low for the first year, which is considered a probationary period during which the pilot does not enjoy union protection. Their duty position: captain, first officer, or flight engineer (a vanishing position as most airlines are configured in a two-person flight deck) determines hourly rates. Less than three percent of pilots are currently working as flight engineers and the percentage continues to decrease. Flight engineers make about 45 to 60 percent of captain's pay; first officers earn about 50 to 70 percent of captain's pay. Most pilots make the rank of captain in eight to 10 years. Historically, some airlines have experienced captain upgrades in as little as two years; at a few airlines it has taken as many as 20 years to achieve this rank. Promotions are driven about 50/50 by pilot retirements and airline growth. I publish an annual US Pilot Demand forecast to estimate the future job market for airline pilots in the US.

Hourly rates also increase with aircraft size and speed. As an example, a B-747 jumbo jet pays about 50 percent more than a B-737 narrow body jet. To determine which aircraft the pilot would fly throughout his career, I look at the aircraft fleet at the airline and give the pilots the same distribution during their career as they move through the normal process: the junior aircraft and seat with the lowest pay scale to the largest aircraft as a senior captain with the highest pay scale, based on seniority. Most pilots are never flight engineers, so first officers and captains are about 50/50 on most aircraft. Very long-range aircrafts require an extra first officer if the flight exceeds eight hours and two extra first officers if the flight exceeds 12 hours. This means some long-range international aircrafts require more first officers than domestic short-range aircraft. In general, there are about five to 10 crews and 10 to 20 pilots per aircraft depending mostly on the range of the aircraft being flown.

In addition to making more by achieving a higher duty position and flying larger aircrafts, pilots also get annual raises based on their longevity with the company; referred to as seniority. Most airlines have increasing rates for the first 12 years, and a few have annual increases up to 20 years. They also get pay, benefits and retirement increases based on contractual increases, usually on an annual basis.

BEYOND THE PAYCHECK

An airline pilot typically has an excellent benefits package based on a percentage of their pay. They range in value from 25 to 39 percent, with an average of 31 percent. The benefits package typically includes health, life, vision, dental insurance, travel benefits, and a company-paid retirement. The estimated value of the non-retirement benefits would be about 15 percent, and then I calculate the value of the retirement using the formulas for each airline-specific retirement plan(s).

The retirement elements include a mix of defined benefit, defined contribution and 401(k) retirement plans. The defined benefit and defined contribution plans are based on a percentage of the pilots pay, in addition to his pay, which is fully paid by the airline. These percentages range from five to 16 percent. The 401(k) plans are usually optional and have no matching funds from the airline. Optional 401(k) plans without matching funds are not considered unless the pilot has an established history of participation in the plan. A few 401(k)s are included in the career value when they are the primary retirement plan and the company offers matching funds. The 401(k) pilot contributions range from one to 9.3 percent with a 100 percent company match typical at major airlines, and about 50 percent match at smaller airlines. All of these programs allow the money invested by the airline, or the pilot in the case of 401(k)s, to grow tax-free until the FAA-mandated retirement at age 65. Retirement values for a 35-year airline pilot career range from \$1.8 million to over \$3 million at the US major airlines.

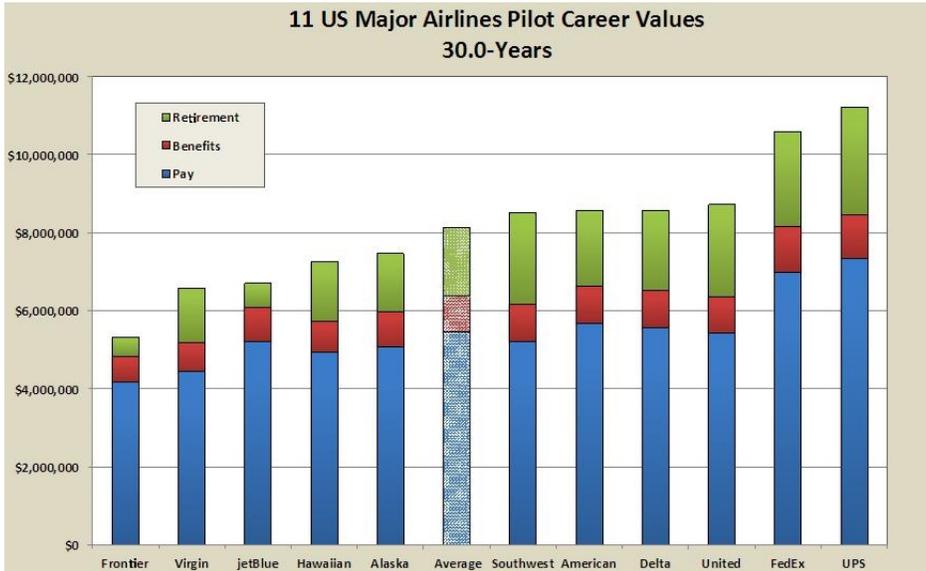
Retirement benefits are estimated at either 7.5 percent of the defined benefit program, if one is provided, or three percent of the final annual salary. The life of the pilot is conservatively estimated using the standard life expectancy tables from the latest census with most males living into the upper 70s and women several years longer. Several studies show that pilots with their high pension values and regular health maintenance during their career live almost five years longer than the average population.

Total 30-year career values at the major airlines range from \$5.3 million to \$11.2 million with an average of \$8.1 million. This provides an annual average salary and benefit value of \$270,000 or \$22,500 per month for a 30-year career. Shorter careers provide smaller values and longer ones higher values.

Even the smaller regional airlines that feed the major airlines offer significant career values over a more typical 35-year career. These careers start slow with the typical co-pilot making very low wages (Starting average is \$25K) but after making captain in one to eight years, the earnings and benefits offer a valuable career choice (starting captain at six years averages \$68K/yr. and tops out at over \$110K/yr.). Career values range from \$4.5 to \$6.5 million. These values are in current (2015) dollars and have not been increased for future contract productivity raises or decreased to adjust for the time value of money. If these adjustments are necessary, an economist annually applies a net discount rate of -.6 to -1 percent.

OPPOSING VIEWPOINTS

The opposition's typical reaction to this multi-million dollar career model is, "What? That can't be!" and my deposition is promptly scheduled. After the deposition is complete, and the basis for the value is fully understood by the opposition, their conclusion is usually, "We are in trouble now." Even if they do not agree, they have learned that the model is conservative, factually-based, and most of all, believable. A settlement is usually achieved at that point with less than 10 percent of my 300 cases over the past 25 years going to trial.



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