

August 6, 2013

Frequent flyer miles: A close look

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This article is based upon a report issued by IdeaWorksCompany

For years, I've proposed four "rules" about frequent flyer miles:

- When used for domestic coach travel -- the most popular use -- frequent flyer credit is worth about 1 cent per mile.
- Frequent flyer credit is worth more for business- and first-class awards or upgrades, but those premium seats are hard to score.
- If you earn most of your miles through a credit card, you're better off with a generous reward card that actually buys tickets.
- Airline miles are most valuable when used for air travel; the "exchange rates" for other purchases are generally poor.

A new study by IdeaWorks supports these conclusions. The study was based on United's Mileage Plus program, but it concluded -- and I agree -- that United's program is generally representative of other domestic programs. IdeaWorks compared ticket costs for 170 representative itineraries with the miles required to obtain both limited-availability "saver" award seats and almost-always-available "standard" award seats. The inquiry covered 50 domestic itineraries on 10 "major" and largely long-haul routes, 50 Hawaiian trips and 170 trips to Asian, European, and other long-haul markets. Because frequent flyers must pay some taxes and fees, IdeaWorks deducted these values from the posted fares. All in all, I'd say the research was rigorous. And the results generally confirm what many have derived from personal experience and lesser studies.

Most travelers use credit for limited-seat "saver" awards in coach/economy, which IdeaWorks values at 1.4 to 1.8 cents a mile:

- Domestic flight: 1.4 cents
- Hawaii flight: 1.8 cents.
- Intercontinental flight: 1.8 cents.

Obviously, the values of the credit for standard awards are much lower. IdeaWorks notes that saver award seats were available on almost all tries for these coach/economy awards, so you can largely ignore the values for standard awards.

Miles are generally much more valuable when used for premium class saver awards than for coach/economy flights -- up to more than 5 cents a mile:

- Domestic upgrade from purchased coach ticket to first class: 2.1 cents.
- Domestic first-class flight: 2.7 cents.
- Hawaii premium-class flight: 4 cents.
- Hawaii upgrade from purchased coach ticket: 4.1 cents.
- Intercontinental business-class flight: 4.5 cents.
- Intercontinental first-class flight: 5.1 cents
- Intercontinental upgrade from purchased economy ticket to business class: 5.4 cents

Unlike the case of coach/economy travel, however, you have to offset these values to compensate for two major factors:

-- As IdeaWorks points out, its researchers had a tough time scoring premium seats on saver awards, and an award limited to a very few flights is worth far less than the value of either a paid ticket or an award you can use anytime. IdeaWorks calculated a value of 1.9 cents a mile when used for a standard intercontinental business-class award -- not a lot higher than the domestic coach awards. Moreover, in my experience, American, Delta and most other lines are a lot stingier than United with premium seats.

-- A "free" award seat is only as valuable as the cash amount you'd pay for that seat. If a business-class round-trip costs, say, \$8,000, and you'd never pay that, you can't value your miles on business-class fare equivalents. At best, your miles might be worth what you'd have to pay for a discounted consolidator ticket, often available for as much as 50 percent off regular prices.

Generous reward credit cards, such as Capital One Venture, can return as much as 2 cents per dollar spent. So if you get most of your miles through a credit card, and use them for coach/economy travel, you're better off with the generous reward card than with an airline card. But if you prefer to use your credit for premium trips, the bank cards don't work: List prices for premium tickets are much too high, so airline cards are your only choice. And if you don't want to use your credit for travel, airline credit is worth less than 1 cent per mile for most merchandise or hotel nights.

Every frequent traveler should take a look at this report. Download it at IdeaWorkscompany.com/category/current-reports.