



The ILS Decision Sequencing System™

Financial Planning Framework for Military Pilots Transitioning to Commercial Aviation

Matt Samson President & Financial Advisor

Business Phone/Text: 402.204.0230 Cell: 402.980.5183 Matt.Samson@ilsfinancial.com

Executive Summary

A military-to-airline transition is not a single financial decision. It is a structured integration of two income systems involving benefit coordination, irreversible elections, tax sequencing, income floor management, and long-term capital optimization.

The ILS Decision Sequencing System™ organizes these decisions in the proper order:

1. Establish the Income Floor
2. Map Lifetime Benefit Streams
3. Pressure-Test Irreversible Decisions
4. Sequence Tax Buckets
5. Contain Fragility
6. Optimize Return

Sequencing matters. Decisions made out of order may reduce optionality or create unintended long-term consequences.

This framework is designed for active-duty military pilots approaching EAS or retirement date who are pursuing commercial aviation careers, and for officers who have recently transitioned.

STEP 1

Establish the Income Floor

The military pension and first-year airline income together form the transition income floor. Unlike investment assets, the pension represents contractual lifetime income generally adjusted for inflation under current law. (Defense Finance and Accounting Service [DFAS], 2024) Airline income begins at its career low point and advances with seniority.

Checklist

- Verify High-3 or BRS pension calculation accuracy
- Confirm retirement date, terminal leave sequencing, and pension start date relative to class date
- Model gross and net pension income after SBP premium (if elected)
- Calculate first-year First Officer base pay under current collective bargaining agreement (Air Line Pilots Association [ALPA], 2024)
- Model income gap between prior military total compensation (base pay + BAH + BAS) and transition-year income (DFAS, 2024)
- Identify minimum household cash flow requirement across the compression window
- Stress-test income floor across conservative, mid, and optimistic seniority progression scenarios
- Evaluate pension taxation under projected state domicile

The pension is not treated as an investment asset. It is the structural income base upon which all other transition decisions are layered.

STEP 2

Map Lifetime Benefit Streams

Military-to-airline transitions involve multiple benefit streams that must be modeled in coordination — not in isolation.

A. VA Disability Compensation

VA disability compensation is tax-free income. (Internal Revenue Service [IRS], 2024) Three structural tiers:

Tier 1: Less than 50% Service-Connected

- Potential pension offset absent CRSC election
- Limited concurrent receipt eligibility

Tier 2: 50% or Greater Service-Connected

- Eligible for Concurrent Retirement and Disability Pay (CRDP) (DFAS, 2024)
- Expanded healthcare priority access; increased tax-free income floor

Tier 3: 100% Permanent and Total

- Maximum tax-free compensation; Priority Group 1 VA healthcare (VA, 2024)
- DIC interaction modeled for SBP analysis (10 U.S.C. § 1450(c))
- FAA First Class medical certification intersection evaluated (14 CFR Part 67)

B. Thrift Savings Plan

- Confirm traditional and Roth TSP balances
- Evaluate four-decision rollover framework: leave in TSP / IRA / airline 401(k) / Roth conversion
- Model transition-year Roth conversion window against pension start and first airline paycheck (IRS, 2024)
- Project Required Minimum Distribution timing (SECURE 2.0 Act, 2022)

C. Airline Retirement Benefits

- Model airline 401(k) structure, employer contribution rate, and profit-sharing eligibility period
- Project 401(k) and profit-sharing accumulation across seniority scenarios (ALPA, 2024)
- Confirm rollover acceptance policy for incoming TSP assets

D. TRICARE & Healthcare Coverage

- Confirm TRICARE Prime or Select enrollment at separation (Defense Health Agency, 2024)
- Evaluate employer-sponsored health plan through airline
- Model Medicare coordination at age 65

E. Social Security

- Estimate Full Retirement Age benefit on combined military and airline earnings record
- Model delayed retirement credits; evaluate spousal coordination (Social Security Administration [SSA], 2024)

STEP 3

Pressure-Test Irreversible Decisions

Some elections are difficult or impossible to reverse. In a military-to-airline transition, several of these decisions must be made before the full income structure is understood. Pressure-testing them before execution is the purpose of this step.

A. Survivor Benefit Plan (SBP) Election

SBP is governed by federal statute and is largely irrevocable once elected. (10 U.S.C. §§ 1447–1455; DFAS, 2024) Airline income changes the analysis materially.

- Model full vs. reduced coverage with airline income layer included
- Actuarial break-even analysis incorporating second income system
- Private insurance feasibility and cost comparison
- DIC interaction modeled if VA rating is 100% P&T; (10 U.S.C. § 1450(c); 38 U.S.C. § 1311)
- Paid-up provisions modeled: age 70 / 30 years of payments; tax treatment compared (IRC § 101(a))

B. Terminal Leave & Pension Start Timing

- Model sell-back vs. use-before-separation; evaluate tax year impact (IRS, 2024)
- Coordinate terminal leave timing with first airline paycheck and pension start
- Confirm immediate vs. deferred retired pay election; assess Reserve gray area implications
- Validate DD-214 accuracy

C. State Domicile

- Model military pension taxation under viable candidate states (Tax Foundation, 2024)
- Model airline income taxation and lifetime tax differential across 30-year horizon
- Confirm domicile established and documented before separation date

D. SGLI Conversion Window

- Confirm 120-day SGLI conversion window from separation (VA, 2024)
- Evaluate private underwriting options; model term ladder relative to SBP decision

Irreversible decisions are evaluated before capital allocation decisions.

STEP 4

Sequence Tax Buckets

The transition year often creates a temporary tax planning window. First-year airline pay is at its career low. Military pension starts. Terminal leave may inject a one-time income event. The combination can produce a Roth conversion and TSP positioning opportunity that does not reopen at the same cost. (IRS, 2024)

A. Transition Year Planning

- Model final military tax year: base pay, allowances, terminal leave sell-back
- Identify reduced-income gap year and evaluate Roth conversion opportunity
- Coordinate state domicile timing with tax year
- Estimate combined effective rate for transition year vs. projected mature-career rate

B. Retirement Account Architecture

- Traditional TSP / IRA balance positioning
- Roth TSP / Roth IRA balance and conversion analysis
- Airline 401(k) allocation and Roth vs. traditional election
- Multi-year Roth conversion ladder modeled across seniority ramp
- Required Minimum Distribution projections (SECURE 2.0 Act, 2022)

Tax sequencing is addressed before return optimization.

STEP 5

Contain Fragility

Military-to-airline transitions concentrate multiple sources of income fragility in the same window. Probationary status, medical certification risk, and a seniority ramp that takes years to mature all present simultaneously. Structure must account for these before optimizing growth.

A. First Class Medical Certification Risk

First Class medical certification is a precondition for Part 121 airline employment. (14 CFR § 121.437) VA disability and FAA standards operate under different frameworks and must be coordinated before separation. (14 CFR Part 67; VA, 2024)

- Identify VA-rated conditions with potential FAA certification implications
- Evaluate Standard Issuance vs. Special Issuance pathway; assess CACI eligibility (FAA, 2024)
- Coordinate VA claim documentation with AME before separation to avoid non-disclosure exposure
- Model income floor scenario if First Class medical is not maintained

B. Probationary Period & Liquidity

- Establish 6-month minimum liquidity buffer before class date
- Account for training phases with reduced or no pay
- Reset household expense baseline to post-separation income — remove BAH and BAS

C. Disability Coverage & Risk Management

- Evaluate airline-provided long-term disability limits and own-occupation definition
- Model VA disability as non-cancelable income floor component
- Update estate documents, umbrella liability policy, and beneficiary designations

Fragility containment precedes return optimization.

STEP 6

Optimize Return

Only after the income floor is established, lifetime benefit streams are mapped, irreversible decisions are pressure-tested, tax buckets are sequenced, and fragility is contained should portfolio optimization occur.

Investment Design Considerations

- Military pension and VA disability treated as bond-equivalent income floor — may reduce the need for traditional fixed income exposure depending on the stability of the income floor
- Sequence-of-returns risk modeled across compression window — more conservative positioning is often evaluated during year one— Liquidity tiering: short-term (6–24 months), intermediate, long-term
- Equity allocation aligned with actual income floor stability, not assumed career trajectory
- Coordinate TSP / IRA allocation with airline 401(k) to avoid overlap and achieve diversification
- Coordinate with future Social Security timing to optimize combined income floor in retirement

Return optimization without sequencing may increase unnecessary risk.

Conclusion

A military-to-airline transition requires disciplined sequencing.

The ILS Decision Sequencing System™ is intended to

ensure:

- Income floor is established first — across the compression window and seniority ramp
- Lifetime benefit streams are coordinated — military and airline systems modeled together
- Irreversible elections are pressure-tested — SBP, domicile, pension timing, terminal leave
- Tax buckets are sequenced — Roth window, TSP positioning, multi-year architecture
- Fragility is contained — medical certification, probationary risk, income durability
- Return is optimized last — only after structure is established

Proper order preserves optionality.

Educational Disclosure

This white paper is for educational purposes only and does not constitute individualized financial, tax, legal, or medical advice. Military benefits, VA disability rules, FAA medical certification standards, tax laws, and healthcare eligibility are subject to change. Consult official sources and qualified professionals — including a qualified Aviation Medical Examiner where applicable — for current guidance specific to your circumstances.

ILS Financial LLC is a Nebraska registered investment advisor. Registration does not imply a certain level of skill or training.

References

Air Line Pilots Association. (2024). *Pilot pay rates and contract information*. <https://www.alpa.org>

Defense Finance and Accounting Service. (2024). *Military retirement, pay tables, and survivor benefit plan*. <https://www.dfas.mil>

Defense Health Agency. (2024). *TRICARE program overview*. <https://www.tricare.mil>

Employee Retirement Income Security Act of 1974, Pub. L. No. 93-406, 88 Stat. 829.

Federal Aviation Administration. (2024). *Medical standards and certification*. 14 CFR Part 67. <https://www.ecfr.gov>

Federal Aviation Administration. (2024). *Conditions AMEs can issue (CACI)*.

https://www.faa.gov/licenses_certificates/medical_certification/conditions_ames

Internal Revenue Service. (2024). *Publication 525: Taxable and nontaxable income*. <https://www.irs.gov>

Internal Revenue Code § 101(a) (income tax exclusion for life insurance proceeds).

Internal Revenue Code § 408A (Roth IRA).

SECURE 2.0 Act of 2022, Pub. L. No. 117-328.

Social Security Administration. (2024). *Retirement benefits*. <https://www.ssa.gov>

Tax Foundation. (2024). *State individual income tax rates and military exemptions*. <https://taxfoundation.org>

Thrift Savings Plan. (2024). *TSP fund options, withdrawal, and rollover guidance*. <https://www.tsp.gov>

10 U.S.C. §§ 1447–1455 (Survivor Benefit Plan statutory authority).

10 U.S.C. § 1450(c) (DIC offset provision).

14 CFR Part 67 (FAA medical standards and certification).

14 CFR § 121.437 (Part 121 pilot in command certificate requirement).

38 U.S.C. § 1311 (Dependency and Indemnity Compensation).

38 U.S.C. § 5301 (VA disability compensation — federal income tax exemption).

U.S. Department of Veterans Affairs. (2024). *VA disability compensation and healthcare eligibility*. <https://www.va.gov>