



The ILS Decision Sequencing System™
Financial Planning Framework for Fractional Aviators

Matt Samson President & Financial Advisor

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

Executive Summary

A fractional commercial pilot's financial plan is not a scaled-down version of a Part 121 pilot's plan. It is a structurally different integration of compensation, schedule, and residency: production-weighted pay, a gateway commute model under Part 91K, and — for NetJets pilots — a collective bargaining agreement ratified in 2024 (NetJets Association of Shared Aircraft Pilots [NJASAP], 2024).

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

1. Establish the Income Floor
2. Map the Contract-Driven Benefits Stack
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 pilots flying fractional operations under Part 91K — including NetJets pilots represented by NJASAP, Flexjet pilots represented by Teamsters Local 1108, and pilots at VistaJet, Wheels Up, and other on-demand operators — as well as Part 121 pilots evaluating a move into fractional flying, and for spouses and co-planners working alongside fractional pilot households.

STEP 1

Establish the Income Floor

Fractional pilot compensation is structurally split between a contractual base and production-weighted components that vary with flight activity. Only the base is reliable on a monthly cadence. The floor should be modeled against contractual base pay and any guaranteed credit under the current collective bargaining agreement, not against a rolling 12-month average that incorporates override, day-rate, and production pay (NJASAP, 2024).

Per diem paid under an accountable plan at or below federal rates is excluded from W-2 wages and is not treated as retirement-plan compensation (Internal Revenue Service [IRS], 2024a). It is real cash flow, not part of the structural income floor.

- Verify contractual base pay under the current CBA by seat and seniority
- Identify guaranteed credit or minimum hour provisions, if applicable
- Confirm per diem rate structure and accountable-plan status
- Calculate after-tax base pay under projected state of residence
- Model total household floor: pilot base + spousal income + other durable sources
- Stress-test income floor under a light-flying quarter and a temporary medical grounding scenario
- Evaluate pension or military retired pay, if applicable, as a floor component
- Confirm Social Security projected benefit integration (SSA, 2024)

Production pay is not treated as floor income. It is the variable layer that sits above the floor and funds the next tier of the stack.

STEP 2

Map the Contract-Driven Benefits Stack

A fractional pilot's benefits stack is defined by the contract in force. The 2024 NJASAP agreement reshaped multiple components of NetJets pilot compensation, including the retirement plan structure (NJASAP, 2024). Specific contract terms are distributed to members and may not be fully reflected in public sources; the plan document and benefits summary remain the controlling references.

A. Compensation Structure

- Confirm base pay by aircraft type and seniority under the current CBA
- Identify override, day-rate, and production-based pay formulas
- Document per diem rates and accountable-plan status (IRS, 2024a)
- Model year-over-year production variability across the most recent two to three years

B. Retirement Plan Provisions

- Confirm employer non-elective contribution, match formula, and vesting schedule
- Evaluate Roth 401(k) availability and elective deferral split
- Identify voluntary after-tax capacity and in-plan Roth conversion toward IRC §415(c) (IRS, 2024b)
- Review Form 5500 filing for plan structure confirmation (U.S. Department of Labor, n.d.)

C. FAA Medical Certification

- Confirm medical class and renewal schedule under 14 C.F.R. Part 67 (FAA, 2024)
- Identify conditions with Special Issuance implications

D. Healthcare and Ancillary Benefits

- Confirm health, dental, and vision premium structure under the current plan year
- Evaluate HSA eligibility through a qualifying high-deductible plan, if offered
- Confirm short-term and long-term disability coverage and group life portability

E. Loss of License Coverage

- Confirm union-sponsored loss-of-license coverage in force (Harvey Watt & Company, n.d.)— Evaluate third-party LOL supplementation relative to household floor

Benefits stack decisions are made against the contract in force and the plan document — not against internet commentary or prior-contract assumptions.

STEP 3

Pressure-Test Irreversible Decisions

Several decisions a fractional pilot encounters are difficult or impossible to reverse cleanly: state-residency changes, beneficiary elections, after-tax plan authorizations, and certain real-estate and bid decisions. Pressure-testing them before execution is the purpose of this step.

A. State Domicile

State domicile is often one of the most significant decisions with the largest compounding tax effect for most fractional pilots. 49 U.S.C. §40116(f) restricts state taxation of qualifying air carrier compensation to the state of residence and any state in which the employee earns more than 50% of pay (U.S. Congress, n.d.). The gateway commute model makes a move operationally tractable; audit exposure in the former state does not fade on its own (New York State Department of Taxation and Finance, n.d.).

- Identify viable domicile candidates and model lifetime tax differential
- Confirm domicile established and documented before the tax-year boundary
- Align license, voter and vehicle registration, banking, and operator payroll with new state

B. Retirement Plan Elections

- Roth versus traditional elective deferral split under production-pay variability
- Voluntary after-tax and in-plan Roth conversion authorizations, where plan permits (IRS, 2024b)
- Beneficiary designations on 401(k), IRA, HSA, and life insurance

C. Career-Path Decisions

- Upgrade and aircraft transition bids under the current contract
- Movement between fractional operators (e.g., NetJets to Flexjet)
- Movement to or from a Part 121 carrier, including seniority-number tradeoffs

D. Asset Commitment Decisions

- Illiquid private investments or concentrated equity during a production-pay plateau
- Real estate purchases tied to a specific gateway city
- Mortgage terms under Fannie Mae variable-income rules (Fannie Mae, 2024)

Irreversible elections are evaluated before capital allocation. Optionality is preserved by sequencing, not by speed.

STEP 4

Sequence Tax Buckets

Fractional pay creates two distinct tax-planning opportunities: the ability to choose a state of residence with few operational constraints, and the ability to direct variable pay into the most appropriate tax bucket as it is earned. Both are time-sensitive. Neither is automatic.

A. Residency, Per Diem, and Compensation Mix

- Confirm current state of residence is a deliberate choice, not a default
- Align operator payroll records with residency and document day count contemporaneously— Review per-diem add-back treatment in the state of residence
- Confirm per diem paid under an accountable plan at or below federal rates (IRS, 2024a)
- Recognize that unreimbursed travel expenses are not deductible for W-2 employees through 2025 under TCJA
- Distinguish W-2 treatment from self-employed transportation-worker treatment under IRC §274(n)(3)

B. Account-Type and Long-Term Architecture

- Maximize employer match as first priority; choose Roth versus traditional on projected bracket
- Fund HSA if enrolled in a qualifying high-deductible plan
- Fund IRA capacity via backdoor Roth if household income exceeds direct-contribution limits— Stack voluntary after-tax → in-plan Roth conversions where the plan supports it
- Coordinate pre-tax bucket across 401(k) and any pre-tax IRA; Roth across 401(k), IRA, and conversions
- Identify a Roth conversion window in any light-flying or bracket-compression year

Tax sequencing is addressed before return optimization. The bracket of the year controls the allocation of the year.

STEP 5

Contain Fragility

Fractional pilot income has structural fragility that differs from Part 121 carriers. Production pay can drop in a quarter without a change in employment status. Temporary medical events remove a pilot from the line entirely. Operator-level restructuring of crew complements or fleets can interrupt a base assignment. Structure ideally accounts for these exposures before optimizing growth.

A. FAA Medical and Production-Pay Risk

- Document current medical class, renewal schedule, and AME relationship (FAA, 2024)
- Identify known conditions with Special Issuance implications
- Identify standard deviation of production pay over the most recent 24 months
- Confirm fixed obligations fit inside contractual base, not inside production-inclusive average— Model income floor scenario if medical certification is interrupted

B. Operator, Contract, and Liquidity

- Monitor contract amendable dates and Section 6 negotiation windows
- Model a six-month contract-disruption scenario against the household floor
- Target 6–12 months of contractual-floor expenses in cash and short-duration fixed income— Stress-test reserves against a 90-day medical grounding plus 60-day return-to-line period

C. Disability, LOL, and Estate Coverage

- Confirm employer LTD benefit cap and own-occupation definition
- Identify shortfall between LTD cap and household income-floor requirement
- Confirm LOL coverage (union-sponsored and supplemental) aligns with household floor
- Update umbrella liability, will, power of attorney, healthcare directive, and beneficiaries

Fragility containment precedes return optimization.

STEP 6

Optimize Return

Only after the income floor is established, the benefits stack is mapped, irreversible elections are pressure-tested, tax buckets are sequenced, and fragility is contained should portfolio optimization occur. Allocation decisions are constrained by the prior phases, not the other way around.

- LOL and LTD treated as contingent-income components, not portfolio substitutes
- Equity allocation aligned with actual income-floor stability, not rolling 12-month income— Asset location across taxable, tax-deferred, and Roth buckets to reflect expected tax drag— Coordinate with Social Security timing to optimize combined income floor (SSA, 2024)

Conclusion. A fractional pilot's financial plan requires disciplined sequencing. The ILS Decision Sequencing System™ is intended to help ensure:

- ✓ Income floor is established first — against contractual base pay, not a rolling average
- ✓ Benefits stack is mapped — current contract and plan document control the inputs
- ✓ Irreversible elections are pressure-tested — domicile, beneficiary forms, plan authorizations
- ✓ Tax buckets are sequenced — residency, per diem, and account-type strategy coordinated
- ✓ Fragility is contained — medical, production-pay, operator, liquidity, and LOL exposure
- ✓ 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. Fractional operator contracts, FAA medical certification standards, tax laws, and plan provisions are subject to change. Consult official sources and qualified professionals — including a qualified Aviation Medical Examiner and a state-licensed tax practitioner for residency questions — for 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. The ILS Decision Sequencing System™ is a trademark of ILS Financial, LLC.

References

- Fannie Mae. (2024). *Selling guide*. <https://selling-guide.fanniemae.com>
- Federal Aviation Administration. (2024). *Medical standards and certification, 14 C.F.R. Part 67*. <https://www.ecfr.gov> Harvey Watt & Company. (n.d.). *Loss of license insurance for pilots*. <https://www.harveywatt.com>
- Internal Revenue Service. (2024a). *Publication 463: Travel, gift, and car expenses*. <https://www.irs.gov>
- Internal Revenue Service. (2024b). *Notice 2024-80: 2025 dollar limitations on qualified plans*. <https://www.irs.gov> Internal Revenue Code §274(n)(3); §408A (Roth IRA); §415(c) (defined contribution all-sources limit).
- NetJets Association of Shared Aircraft Pilots. (2024). *2024 contract ratification communications*. <https://njasap.com>
- New York State Department of Taxation and Finance. (n.d.). *Residency and telecommuting guidance*. <https://www.tax.ny.gov>
- SECURE 2.0 Act of 2022, Pub. L. No. 117-328; 49 U.S.C. §40116 (state taxation of air carrier compensation).
- Social Security Administration. (2024). *Retirement benefits*. <https://www.ssa.gov>
- Tax Foundation. (2024). *State income tax rates and brackets*. <https://taxfoundation.org>. U.S. Department of Labor. (n.d.). *Form 5500 search*. <https://www.efast.dol.gov/5500Search/>