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## **Why Airline Credit Cards Have an Enduring Appeal**

By Ron Lieber

*IdeaWorksCompany contributed information to this article - - see italics.*

It's been more than 30 years since the first credit card offering frequent-flier miles made its debut, so you'd think that the market for plastic passports bearing the promise of free trips would be mature by now.

But consider the numbers that Delta Air Lines has been throwing around recently in investor presentations. It generated \$3 billion from its relationship with American Express in 2017 and expects to hit \$4 billion by 2021. Even as competition intensifies for big-spending cardholders with rewards lust in their hearts, spending on the Delta Amex cards rose at a compound annual growth rate of 12 percent from 2013 through 2017.

This surprised me. Then I looked in my wallet. After years of fealty to my trusty Starwood Preferred Guest credit card, I, too, gave in last year and picked up cards from American Airlines and Delta.







Image: Robert Neubecker for The New York Times

When they first emerged in the 1980s, half a decade or so after the invention of the frequent-flier mile, airline cards offered one mile for every dollar spent. But with all of the reward currency that was soon floating around, airlines had to either raise the number of miles required to get free seats or restrict the availability of those tickets (or both).

Card companies like Capital One eventually got the bright idea of issuing their own cards with generic points that customers could redeem for flights on any airline. And all along, pundits and newspaper reporters predicted a reckoning for the airline mile.

But here we are. American Express thinks so much of the business that it added a fourth Delta consumer card in the latter half of last year, one with no annual fee (unlike most miles cards). And why not, given that the number of new Delta cards it issued in 2017 was up nearly 60 percent from 2014.

### Delta's Cards Compared

	 <b>Blue Delta SkyMiles Credit Card</b>	 <b>Gold Delta SkyMiles Credit Card</b>	 <b>Platinum Delta SkyMiles Credit Card</b>	 <b>Delta Reserve Credit Card</b>
Annual fee	None	None first year, then \$95	\$195	\$450
Earnings beyond the standard one mile per dollar spent (and two on Delta purchases)	2 miles per dollar spent at United States restaurants	No other bonuses	No other bonuses	No other bonuses
Free Checked Bags*	None	One	One	One
Priority Boarding	No	Yes	Yes	Yes
Delta airport lounge privileges	No discounts	Discounted access	Discounted access	Free access

\*Includes up to eight additional travelers who are listed in the same reservation. | By The New York Times

This week, Citi, clearly feeling the competitive heat, announced plans to add goodies to one of its American Airlines cards, including double miles on all restaurant and gas station purchases. While Citi did not offer up hard numbers like Delta and Amex, the company did tell me that the growth of its American Airlines card portfolio was outpacing the predictions of overall economic metrics.

A few years ago, Barclays made an aggressive bid for the JetBlue credit card business and won it. The bank now reports that it has doubled the overall size of the business in two years.

So what accounts for the continued appeal of the airline credit card, and who ought to have one?

Some things that have always been true about these cards remain so: If you travel a lot on the same airline and spend a lot of money in your everyday life, earning the same reward currency when you travel and when you're using your card can help you quickly earn more and better free trips.

But things have also changed. In addition to the miles, many of the mileage cards now come with privileges. You might get a free checked bag. Or you can board your flight in the fifth group instead of the seventh, thereby getting space for your carry-on in the overhead bin.

This is clever and ought to inspire some healthy cynicism. After all, the airlines created the problem that the cards are now solving by charging for checked baggage. Now, for an annual fee of \$95 or \$150 or \$450, you can avoid multiple \$25 or \$35 nicks for checking bags. And even if you can't be sure what a free flight will cost in miles, at least the baggage giveaway is something tangible.

"As points become more confusing and devalued, people turn to perks — and they are easy to see and easy to value," said Brian Kelly, the founder of The Points Guy, a website that makes money from referrals by channeling consumers to the most useful cards. (Wirecutter, a New York Times company, has also made money this way in the past and plans to again in the future.) "The issuers are doubling down on perks, and it appears to be paying off."

The card offerings are now complicated enough that it's nearly impossible to offer generic advice about who ought to have one. For me, the sign-up bonuses for the Delta and American cards plus the baggage fee waivers on Delta were enough to persuade me. The top-tier American card also comes with airline lounge access, which I finally treated myself to (and deducted on my taxes) after too many years of hacking together standing desks at abandoned airport gates so I could work comfortably on my laptop.

One bit of math should be obvious: If you're carrying a balance and paying 18 percent annual interest, the rewards don't come close to making that up. According to American Express, 21 percent of its outstanding credit card loans belonged to people with a Delta credit card as of the end of 2017.

Many people don't spend or earn enough to justify switching cards. Sure, they might extract a bit more value from a simple card that refunds 2 percent of all purchases, but then they would have to change all automated payments, which is a giant headache.

It's also possible that plenty of people simply do not know that generic points cards from the likes of Chase and its Ultimate Rewards program might offer more in the way of returns. Many bloggers offer helpful advice about this offering.

***For those who don't want to do the math themselves, Jay Sorensen did it for you. Mr. Sorensen, who runs the IdeaWorksCompany airline revenue consultancy, ran hundreds of simulations to come up with the following data for an award seat availability study he does with the rental site CarTrawler: The average value per mile redeemed for economy class travel ranges from 0.7 cents to 1.4 cents, depending on the airline. For long-distance business class seats, it ranges from 1.5 cents to 2.4 cents. So a 2 percent cash-back card would more often be a better value.***

But some consumers simply do not care about the math — or perhaps are hypnotized by years of gauzy marketing and the daydreaming it inspires. “While you may be right that the value per mile has decreased, that’s a function of a lot of things,” said Denny Nealon, who runs Barclays’ United States partnerships business. “Airline miles are an incredibly aspirational and valuable currency.”

And those aspirations cement the emotional hook of credit-card airline miles: They offer the distinct possibility that you could use everyday spending to get yourself as far as possible from your everyday life.

“What we are in the business of doing is travel,” said Bridget Blaise-Shamai, vice president for loyalty and customer insights at American Airlines. “We could have this conversation 100 years from now, and it would remain relevant.”