

## THE PILOT SHORTAGE – BEYOND THE NUMBERS

The aviation industry has experienced shortages of pilots in the past, but the current shortage is proving to be a bigger challenge than those the industry has faced before. Unlike prior shortages, the current need for pilots is the result of numerous factors—such as retirement, global demand, upgrades in technology, and a generation of pilots who have left the industry due to poor working conditions and instability at the airlines. The impact is currently being felt across the industry.

In 2016, Republic Airways filed for Chapter 11 bankruptcy protection, in part due to “grounding aircraft due to a lack of pilot resources.” Horizon Air cancelled 6% of flights scheduled in August and September 2017 citing a lack of pilots. The United States Air Force has implemented incentive programs offering up to a \$455,000 bonus over a 13-year period to attract and retain fighter pilots. The Air Force is also considering the possibility of providing pilots with “fly-only” tracks thereby removing administrative duties and allowing pilots to concentrate on flying.

Boeing estimates that passenger and cargo airlines around the world will need more than 637,000 new pilots between 2017 and 2036 to meet airlines’ equipment upgrades alone. A report from Oliver Wyman estimates that the industry will need 350,000 pilots by 2024. Per the dean of Embry-Riddle Aeronautical University’s Prescott Campus, “The pilot shortage is absolutely real and growing significantly.” However, the shortage creates problems that can’t be solved by simply replacing one pilot with another.



Broad sectors of the aviation industry — including airlines, charter operators, corporate flight departments, and pilot training centers — face increased risk on multiple levels brought about by the continued depletion of experienced and qualified aircraft pilots. In addition to flying aircraft, pilots typically perform multiple roles overseeing key administrative functions, including, but not limited to training, standardization, hiring new pilots, and providing input on new technology and aircraft. While larger flight departments and charter companies may have the numbers to quickly fill the void when a pilot leaves the organization, smaller operations will be challenged to hire personnel with the skills and experience necessary to continue without missing a step.

Finding the right fit for replacement pilots can be a daunting prospect. With so little hiring taking place during the industry’s downturns of the 1980s through early 2000s, there are fewer professionals with the level of experience and expertise needed to assume leadership roles. Also, as established aviation markets ramp up hiring, emerging aviation hubs are seeking out and paying a premium for the best talent and there is an increased urgency to address succession planning.

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## MARSH GENERAL AVIATION UPDATE

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Some airlines have recently signed new contracts with pilot unions which allow them to continue to use superior pay and benefits to attract many of the best pilots to their organizations. Per Sheryl Barden, President & CEO of Aviation Personnel International: “With a limited supply of pilots and an overall recovery in the US airline industry, major airline pilot pay and benefits should, in theory, continue to move higher as the majors airlines compete for talent.”

Smaller airlines, charter operators, and corporate flight departments will face challenges when it comes to retaining their best pilots if they are not able to “pay up.” If their pilots move on, companies may have to choose from a pilot pool consisting of older airline retirees, who may be unwilling to adapt to the culture outside of the airline environment, or younger pilots just starting their professional careers who may leave on short notice to take positions with airlines.

To retain key pilots at a higher pay scale, companies may contemplate cost reductions elsewhere within the flight department. A growing concern is that some companies may begin to push back on costly safety and loss control processes (for example, less frequent training for flight crews and mechanics, and reduced investment in technology and safety programs). In extreme cases, some companies may decide to close down their flight department due to the high costs associated with pilot retention. While no one wants to see a decline in aviation safety, the current pilot shortage may create situations in which decisions to control costs could result in increased losses.



Changes which so deeply impact an organization often bring risk management to the forefront. Aircraft operators will need insurance policies with broad pilot warranty language with respect to pilot flight experience and training requirements. Marsh brokers are experienced in managing risk, driving creative solutions, and controlling costs — and will proactively advocate on your behalf, negotiating with insurers to provide broad coverage, competitive pricing, flexible pilot warranty language, and meaningful safety service programs.

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## SOURCE MATERIAL FOR FURTHER READING

[The Pull of the Pilot Shortage.](#) (Lift - ERAU Alumni Magazine; Spring 2017)

[The U.S. Will Face a Staggering Shortage of Pilots.](#) (CNN Money; July 31, 2017)

[Air Force Gets Creative to Tackle Pilot Shortage.](#) (Military.com; July 30, 2017)

[New Bonus: \\$455K Over 13 Years for Air Force Fighter Pilots.](#) (Military.com; June 5, 2017)

[The Storm on Aviation's Radar.](#) (Insights – Oliver Wyman; October 2014)

[Pilot Shortage: How We Got Here & What's Next.](#) (APIAviation.com; July 10, 2017)