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How I Estimate The Value Of Points And Miles

may 31, 2013 by david · 1 comment

Placing an absolute value on a particular type of point or mile is a highly abstract and nearly impossible task. I realize that this might sound like a pretty compelling reason *not* to continue to read my blog – given that I purport to dole out advice on how to earn and spend points efficiently – but please let me explain.

Let's start with the fairly non-controversial premise that the value of any given point depends almost entirely on how that point is redeemed. I could spend 25,000 United miles on a \$500 round-trip flight from New York to San Francisco, or I could spend 25,000 United miles on a \$250 round-trip flight from New York to Boston. In the first case, each mile provides 2 cents of value, and in the second, each point provides 1 cent of value.

Plus, at the risk of stating the obvious, different people redeem points differently. At one extreme, some people are ultra-selective and hoard their points until they find an opportunity to redeem them for an extremely high-value redemption. At the other, some people spend their points as soon as they earn them, without regard to the value of their redemption. (I'd submit that neither extreme is wise, because points generally lose value over time so hoarding large quantities of points is extremely risky, and redeeming points for low value is unwise for more obvious reasons).

So we can't actually *calculate* the value of a point. The best we can do is to *estimate* the value of a point.

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But First, Some Background From The Blogosphere

Two of my favorite bloggers, Gary (View from the Wing) and Ben (One Mile at a Time) debated the value of Hilton points last summer. Keep in mind that this “blogfight” – as Gary put it – occurred before the massive devaluation of Hilton points this past February, but, at the time, [Ben argued that each Hilton point was worth .8 cents](#), and [Gary thought a better estimate was .5 cents](#). Both arguments are excellent reads, though I think that Ben overstated the impact of ultra-high-value “aspirational” redemptions on his estimate, and Gary slightly mischaracterized Ben’s valuation as a mere average of aspirational redemption values.

In any event, during the course of that debate, Gary wrote something that rang true with me:

[T]he value of a loyalty program point, expressed in dollars (cents), is the amount at which you are indifferent between holding points and holding cash.

Gary went on, however, to describe how he identifies *his* point of indifference, and that’s where he and I differ.

[H]alf a cent is basically my indifference point. I know I can get half a cent of value out of my Hilton points, so at that point it’s as good as holding cash Pretty much every day of the week you’ll find the average Hilton property redeemable at about half a cent per point. So you can unload your Hilton points and get that much value back.

So, for Gary, the value of a loyalty program point is the value at which he *knows* he can redeem that point consistently, across the spectrum of redemption options.

My Approach

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I take a slightly different approach to valuing my points because, while I agree with Gary that aspirational, ultra-high-value redemptions should not form the basis of a point valuation, I also don't think that the potential for high-value redemptions should be disregarded entirely.

So what I do is start with Gary's value – the value at which I *know* I can redeem a point consistently – and then try to reasonably account for the probability that I will redeem a given point for a higher value than the baseline value that I *know* I can get. There's no precise formula, but I try to tack on a reasonable, conservative amount of value in each case. Essentially, it's an attempt to estimate the weighted average of the value of redemptions that I'm likely to make in the future.

For example, I know that I can consistently receive about 1.5 cents per Hyatt point, but my point of indifference for Hyatt points is significantly higher – about 1.8 cents per point – because I also know that there's a high likelihood that I will achieve much higher values on some or even most of my redemptions, especially since Eleni wants to visit Paris this year and we'll likely use our points at the [Park Hyatt Paris Vendôme](#), which costs 22,000 points and would otherwise run us about \$1,000 per night (before taxes!).

I think that this 20% bump is especially justified in Hyatt's case because Hyatt – like several other hotel chains – allows you to reserve a room with points *whenever there is an unbooked room*, which means that Hyatt points can be used to reserve rooms even on the most desirable and expensive nights – for instance, during the holidays.

If the point is a [flexible point](#), I try to account for the value of that flexibility as well. As a starting point, I use the most valuable transfer partner's points as my baseline value, and then add a modest amount to represent the value that I place on the *flexibility* of the point.

For example, I've previously mentioned that I value Chase Ultimate Rewards ("UR") points at about 2.0 cents apiece. UR points are instantly transferable, on a 1-to-1 basis, to United Airlines, British Airways, Korean Air, Southwest, Hyatt, Marriott, Priority Club, and Amtrak. Of those transfer partners, I place the highest value on Hyatt points (about 1.8 cents). But since UR points can be converted instantly to Hyatt points *or* can be transferred to several other

loyalty programs, I believe that UR points are *necessarily* at least as valuable as Hyatt points. [This is where I differ with Wallaby](#).

So I look to the value of my other options for redeeming UR points, and, in an admittedly unscientific manner, I add a modest .2 cents per point. Again, there's no formula for quantifying that addition, but I think that it reasonably approximates the added value of the other redemption options. For instance, I value the ability to transfer UR points to British Airways and [redeem a mere 9,000 points for a round-trip ticket from New York to Montreal on American Airlines](#). I also value the ability to transfer UR points to United, and recently used this option to top off my account for a [mixed business/first redemption to Hawaii for my honeymoon](#).

So In Conclusion . . .

There is no set "value" of a point (or mile) because the value of any given point depends almost entirely on how that point is redeemed. The best we can do is to *estimate* the value of a point, and even that task requires a host of assumptions about how selectively and efficiently consumers redeem points.

I've outlined my framework for analyzing the value of points and miles, and hope that you found it helpful, but I realize that some people *just want a number*. I'd caution, of course, that *my* number might be quite different than *your* number, but I will address the value of some of the major points currencies in future posts. If you're itching for numbers *now*, I'll direct you to Ben's [comprehensive guide to the value of loyalty program points](#), but I'll also caution that this guide is about a year old at this point, and a year – especially *this* year, when so many hotel programs significantly devalued their points currencies – is a long time in the points world.

For now, please feel free to comment on my analytical approach. Reasonable minds can and do differ on this topic, so please feel free to be critical!

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