

EVALUATION OF ECONOMIC LOSS:

***TERMINATION OF
HARVEY GORMAN***

PREPARED FOR:

**TRIAL ASSOCIATES, P.C.
ATTORNEYS AT LAW**

PREPARED BY:

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May 15, YR-1

Summary of Findings

Due to his termination from Sterling & Morgan, Mr. Harvey Gorman, born November 25, YR-33, is no longer employable within the legal community of Metropol. I have learned that as a result, Mr. Gorman decided to return to Home State to practice law after and passing the bar examination. If successful, he will be admitted in December YR-1. Therefore, Mr. Gorman will have no earnings in YR-1. The back pay earnings (wages and benefits in YR-1) loss amounts to \$190,549. The front pay loss arising from the difference between Mr. Gorman's earnings (wages and benefits) as an associate (and later a partner) with Sterling & Morgan, P.A. and Mr. Gorman's anticipated earnings as a sole practitioner in Rocky Mount (assuming, of course, that he passes the Bar exam) has a net present value of \$7,957,190. This differential is likely understated as it assumes that Mr. Gorman will not incur losses during the first few years of his new practice when building up clientele but will earn the average of what other sole practitioners earn immediately. The total earnings (back and front pay) loss is accordingly \$8,147,739. This \$8,147,739 represents the full amount of monies needed to be provided to Mr. Gorman to compensate him for his lost after-tax stream of earnings. In addition, the cost to establish Mr. Gorman's new practice, cover his bar exam fees and the expenses of relocation and equipping his new office has a value of \$121,500. Therefore, the total loss to Mr. Gorman amounts to \$8,269,239. If the legal criteria requires that this lump sum be taxed, then this award must be increased to \$11,742,319 in order to net Mr. Gorman the full after-tax losses of \$8,269,239.

The analysis, assumptions, and calculations underlying my conclusion are found in subsequent sections of the report. The elements of loss are:

Earnings Loss

A:	Back pay losses for YR-1 (includes wages and benefits) 1/1/YR-1 – 12/31/YR-1	\$ 190,549
B:	Future pre-termination net wages as Metropol attorney in YR-1 dollars 1/1/YR-0 – 12/31/YR+35	8,446,723
C:	Allowance for anticipated net wages as a sole practitioner in YR-1 dollars 1/1/YR-0 – 12/31/YR+35	<2,711,634>
D:	Fringe benefits at Sterling & Morgan \$900 per month for medical coverage for family 5.5% average percentage for social security and medicare 5.0% pension/retirement plan 2% for misc. benefit	2,222,100
E:	Fringe Benefits as a sole practitioner None considered as he will be a sole practitioner and will have to pay for all of his own benefits	0

Net Earnings Loss (Back and Front Pay) \$8,147,739

Educational, Licensing and Relocation Costs

Bar Review Course	\$ 3,500
Expenses to establish law office	64,000
Relocation expenses	<u>54,000</u>
Total	<u>\$121,500</u>

Documents Reviewed

I have reviewed case information forwarded to me by your office including Statement of the Case, the deposition of Harvey Gorman taken May 1, YR-1 and general and specific economic data concerning interest rates, inflation, wage growth, labor force participation, employment probabilities, employee benefit levels, retirement and pension information, etc. I have also conducted a telephone interview with Mr. Gorman.

Personal Status

Harvey Gorman was born on November 25, YR-33 and stopped working on December 20, YR-2 due to his termination from Sterling & Morgan. At that time he was 31 years old. He has been unable to find employment as an attorney in Metropol. Although Mr. Gorman's statistical work-life is to age 64 (U.S. Department of Labor, Bureau of Labor Statistics, Bulletin 2254), I have been advised that Mr. Gorman intends to work at least to age 65, and probably to age 70. My calculations reasonably anticipate retirement at age 68.

Employment and Earnings

Mr. Gorman had worked as an associate for Sterling & Morgan from YR-6 until his discharge in YR-2. At the time of his termination, Mr. Gorman's annual salary was \$161,504. Mr. Gorman received a raise in YR-2 of 16% over his YR-3 base salary. This is well within the range of raises provided to other Sterling & Morgan associates in YR-3. Therefore, I have calculated Mr. Gorman's total lost wages and benefits in YR-1 to be \$190,549 net of taxes which includes the loss of \$25,000, his expected YR-2 year end bonus. On this basis the loss to the present is:

Net Wages:	\$148,641
Benefits:	
\$900 per month for medical coverage	\$ 10,800
5% for pension/retirement plan	\$ 10,617
7.65% for social security	\$ 16,244
2% for misc. (life insurance, disability insurance, etc.)	<u>\$ 4,247</u>
Back Pay Loss:	\$ 190,549

The projection of Mr. Gorman's front pay wage loss anticipates a continued increase in his current earnings level at the rate of 10% per year until age 45 after which increases are decreased to 5.0% per year as the double-digit wage increases typically experienced by partners in a law firm tend to taper off in the later years of their work life. The calculated earnings loss is reduced by 30.0 percent to reflect federal and state income tax liability.

As part of his compensation with Sterling & Morgan, Mr. Gorman was covered by Blue Cross-Blue Shield and Major Medical Insurance. These benefits are valued at \$900 per month for the value of medical coverage to the Gorman family. Also, it is necessary to recognize the employer's mandatory payments to social security and medicare, as without these contributions Mr. Gorman will not qualify for the same level of social security retirement. The typical employer contribution is 7.65% of gross pay up until a certain earnings level. Once Mr. Gorman's earnings reach a certain level, contributions for social security are not required on the amount above that level. Therefore, social security and medicare contributions are included at an average of 5.5% on all pre-termination wages over the front pay period. Miscellaneous benefits such as life and disability insurance have been valued at two percent of gross pay.

Wage Increase Trends and Comparative Wages

The YR-2 average compensation for attorneys in Home State working in established firms with one to three lawyers is considered to be \$67,000 based on the data set forth in Exhibit 2. Over the last ten years, this figure has grown at the rate of 7% annually. Using this annual rate, the average attorney compensation is \$76,708 in YR-1 dollars. Mr. Gorman's future earnings losses commence January 1, YR-0 when he anticipates opening his new firm. Based on relevant wage data, future wages at Sterling & Morgan are expected to increase at an average of 10% per year decreasing to 5.0% per year after age 45, while compensation for sole practitioners in Home State is projected to grow at the annual rate of 7%.

Present Value Calculation

Any award which is given should be equal in value to the projected future loss. To obtain this present-day value one must discount the future loss by the interest which can be earned from the date of the award until the time that the projected future loss would actually occur. The discounted value of the future loss is called the "present value" of the loss.

Interest rates which can be earned on various investments will vary greatly, due to differences in risk and liquidity. The calculations herein assume that the award will be invested in U.S. Treasury securities to ensure the lowest degree of risk and provide adequate liquidity. However interest income on U.S. Treasury securities is subject to federal income tax. Future interest rates may, of course, change. However, a future rise in interest rates will most probably be associated with rising inflationary expectations and rising wages. Therefore, the impact of a higher interest rate on investment income will be greatly diminished by the likely accompanying increase in wages.

Educational, Licensing and Relocation Costs

I have been advised that the tuition for the Home State bar review course is \$3,500. Estimated expenses for books, equipment and other set-up costs for Mr. Gorman's law office in Rocky Mount are \$64,000. Relocation expenses, which include transportation of belongings, air fare for Mr. and Mrs. Gorman and their children, closing costs arising from the sale of the Gorman townhome in Metropol, and closing costs arising from the purchase of a new home in Rocky Mount, total \$54,000 (based upon information obtained from discussions with Mr. Gorman), but I have not yet received any other verification of the costs. I would like to reserve my right to review these documents and make adjustments, if necessary.

Submitted by,



Lisa Leah Miller, M.A.,
Economist and Certified Actuary

Exhibit 1

WAGE INCREASE TRENDS

	<u>New State</u>	
	YR-16-YR-6	YR-11-YR-6
Total Economy	6.0%	5.7%
Manufacturing	6.8	6.6
Construction	6.4	5.9
Retail/Services	4.8	4.6

Source: New State Department of Labor

Exhibit 2

**Home State Bar Association
Committee on Law Office Economics**

The following is a summary of the YR-2 poll results of the Committee of Law Office Economics Annual Survey of law firms.

	City Population				
Law Firm Size	0 – 10,000	10,000 – 25,000	25,000 – 50,000	50,000 – 100,000	Over 100,000
1 – 3	\$51,300	\$67,000	\$78,300	\$84,600	\$81,900
4 – 10	\$85,500	\$84,600	\$88,200	\$92,700	\$96,300
11 – 20	N/A	\$118,800	\$140,400	\$145,800	\$153,900
21 – 50	N/A	N/A	N/A	\$166,500	\$161,100
Over 50	N/A	N/A	N/A	\$176,400	\$189,000

Net Income Exclusive of Benefits

MR. HARVEY GORMAN
Front Pay Losses

Age	Year	Pre-termination										Post-termination									
		1.10	1.05	30.0%	1.05	1.08	Med. Cov.	1.05	12.50%	1.05	1.07	30.0%	1.05	Net Wages	Total NPV	Diff NPV	Cum NPV				
		Salary	Bonus	Gross Sal. And Bonus	NPV of Net Salary and Bonus	Medical Coverage	Med. Cov. NPV	Benefits	Benefits NPV	Total NPV	Wages	Net Wages	NPV	Total NPV							
1	32	206,080	10,000	216,080	144,053	11,664	11,109	27,010	25,724	180,686	76,708	53,686	51,139	129,747	129,747	0	129,747				
2	33	226,688	236,688	463,376	150,278	12,597	11,426	29,586	26,835	189,539	82,078	57,455	52,113	136,426	266,173	129,747	266,173				
3	34	249,357	249,357	498,714	150,783	13,695	11,752	31,170	26,925	189,481	87,823	61,476	53,106	136,355	402,528	136,355	402,528				
4	35	274,283	274,283	548,566	148,893	14,883	12,038	34,287	28,208	189,259	93,971	65,780	54,117	144,142	546,670	144,142	546,670				
5	36	301,722	301,722	603,444	146,485	15,869	12,434	37,715	29,551	207,469	100,549	70,384	55,148	152,322	698,992	152,322	698,992				
6	37	331,894	331,894	663,788	143,365	17,138	12,789	41,487	30,958	217,112	107,587	75,311	56,198	160,914	859,905	160,914	859,905				
7	38	365,084	365,084	730,168	139,021	18,509	13,154	45,635	32,432	227,207	115,118	80,583	57,269	169,938	1,029,844	169,938	1,029,844				
8	39	401,592	401,592	803,184	133,300	19,990	13,530	50,199	33,977	237,776	123,177	86,224	58,360	179,416	1,209,260	179,416	1,209,260				
9	40	441,751	441,751	883,502	126,269	21,589	13,917	55,219	35,595	246,841	131,789	92,259	59,471	189,370	1,388,630	189,370	1,388,630				
10	41	485,926	485,926	971,852	118,148	23,316	14,314	60,741	37,280	260,425	141,025	98,718	60,004	200,429	1,589,051	199,821	1,588,451				
11	42	534,519	534,519	1,069,038	108,821	25,162	14,723	66,815	39,065	272,554	150,897	105,628	61,758	210,796	1,800,247	210,796	1,800,247				
12	43	587,971	587,971	1,175,942	98,466	27,196	15,144	73,496	40,925	285,252	161,480	113,022	62,935	222,318	2,031,564	222,318	2,031,564				
13	44	646,768	646,768	1,293,536	88,006	29,372	15,577	80,846	42,814	298,547	172,762	120,933	64,133	234,414	2,265,978	234,414	2,265,978				
14	45	711,445	711,445	1,422,890	78,450	31,722	16,022	88,931	44,916	314,467	184,655	129,366	65,355	247,112	2,513,090	247,112	2,513,090				
15	46	783,388	783,388	1,566,776	69,760	34,258	16,476	98,077	47,816	331,283	200,458	138,458	66,600	261,683	2,754,773	261,683	2,754,773				
16	47	863,988	863,988	1,727,976	61,930	36,980	16,930	108,307	51,662	349,945	219,648	149,458	67,889	276,537	3,031,310	276,537	3,031,310				
17	48	953,588	953,588	1,907,176	55,150	39,890	17,393	120,948	55,516	370,860	238,455	161,458	69,181	293,639	3,324,949	293,639	3,324,949				
18	49	1,053,588	1,053,588	2,107,176	49,330	43,157	17,933	135,096	60,416	405,276	268,407	178,458	70,479	318,155	3,643,104	318,155	3,643,104				
19	50	1,163,588	1,163,588	2,327,176	44,510	46,610	18,445	151,500	65,816	448,091	299,269	191,488	71,821	343,900	3,987,004	343,900	3,987,004				
20	51	1,283,588	1,283,588	2,570,176	40,630	50,338	19,014	168,516	72,830	500,921	332,418	211,488	73,189	370,089	4,357,093	370,089	4,357,093				
21	52	1,413,588	1,413,588	2,836,176	37,630	54,365	19,514	188,030	80,346	561,261	371,418	231,488	74,583	400,602	4,757,705	400,602	4,757,705				
22	53	1,553,588	1,553,588	3,119,176	35,230	58,715	20,072	209,052	87,368	628,623	421,418	251,488	76,004	432,616	5,190,321	432,616	5,190,321				
23	54	1,703,588	1,703,588	3,416,176	33,230	63,412	20,645	231,697	95,413	704,036	471,418	271,488	77,451	467,067	5,667,388	467,067	5,667,388				
24	55	1,863,588	1,863,588	3,726,176	31,130	68,485	21,235	256,932	104,548	790,568	521,418	291,488	78,927	504,995	6,182,383	504,995	6,182,383				
25	56	2,033,588	2,033,588	4,056,176	29,030	73,964	21,842	285,074	114,690	888,158	571,418	311,488	80,430	545,428	6,737,813	545,428	6,737,813				
26	57	2,213,588	2,213,588	4,426,176	26,930	79,881	22,468	318,242	125,832	998,399	621,418	331,488	81,962	592,390	7,330,203	592,390	7,330,203				
27	58	2,403,588	2,403,588	4,826,176	24,830	86,271	23,108	356,350	138,040	1,134,539	671,418	351,488	83,523	645,913	7,976,116	645,913	7,976,116				
28	59	2,603,588	2,603,588	5,256,176	22,730	93,173	23,768	399,508	151,298	1,305,837	721,418	371,488	85,114	705,427	8,681,543	705,427	8,681,543				
29	60	2,813,588	2,813,588	5,716,176	20,630	100,627	24,447	448,880	165,545	1,511,382	771,418	391,488	86,735	772,163	9,453,706	772,163	9,453,706				
30	61	3,033,588	3,033,588	6,206,176	18,530	108,677	25,145	509,124	181,790	1,758,172	821,418	411,488	88,388	846,556	10,300,262	846,556	10,300,262				
31	62	3,263,588	3,263,588	6,726,176	16,430	117,371	25,864	574,462	200,145	2,042,634	871,418	431,488	90,071	921,645	11,221,907	921,645	11,221,907				
32	63	3,503,588	3,503,588	7,286,176	14,330	126,760	26,603	644,805	220,022	2,437,439	921,418	451,488	91,787	993,432	12,215,339	993,432	12,215,339				
33	64	3,753,588	3,753,588	7,906,176	12,230	136,901	27,363	720,124	240,223	2,927,562	971,418	471,488	93,535	1,076,967	13,292,306	1,076,967	13,292,306				
34	65	4,013,588	4,013,588	8,596,176	10,130	147,853	28,145	804,269	260,959	3,531,821	1,021,418	491,488	95,317	1,172,284	14,464,590	1,172,284	14,464,590				
35	66	4,283,588	4,283,588	9,346,176	8,030	159,682	28,949	894,218	281,145	4,186,039	1,071,418	511,488	97,132	1,281,416	15,746,006	1,281,416	15,746,006				
36	67	4,563,588	4,563,588	10,146,176	5,930	172,466	29,776	1,000,145	301,145	4,986,184	1,121,418	531,488	98,982	1,395,408	17,141,414	1,395,408	17,141,414				
37	68	4,853,588	4,853,588	10,996,176	3,830	186,253	30,627	1,120,152	321,152	5,906,336	1,171,418	551,488	100,866	1,515,894	18,657,308	1,515,894	18,657,308				
		\$36,714,380	\$20,000	\$36,734,380	\$25,714,052	\$2,368,612	\$713,757	\$4,591,795	\$1,508,343	\$10,668,824	\$12,298,210	\$8,609,447	\$2,711,634	\$2,711,634	\$7,957,190		\$7,957,190				

Mr. Harvey Gorman
Back Pay Losses

Earnings:

\$187,345	YR-4 Salary
<u>\$25,000</u>	Bonus
\$212,345	
<u>(\$63,704)</u>	Taxes @ 30%
\$148,641	
\$10,800	medical @ \$900 per month
\$10,617	pension @ 5%
\$11,679	social security and medicare @5.5
<u>\$4,247</u>	misc. @ 2%
\$185,985	

Other Expenses:

\$54,000	Cost of relocating to Rocky Mount
\$64,000	Cost of setting up a new law office
<u>\$3,500</u>	Cost of bar review course
\$121,500	