

ECONOMIST REPORT

APPRAISAL OF ECONOMIC LOSS TO DAVID WILSON

J. Smith
SMITH ECONOMICS, INC.
1234 Orchard Drive, Suite 200
Palo Alto, California 94301
(650) 123-4567

SUMMARY

The total net present value of economic loss as a result of the injury to Mr. Wilson amounts to \$1,591,600. The components of this loss figure include earnings, home services, and medical care expenses. No dollar amounts for pain and suffering, loss of enjoyment of life, etc. have been included in this analysis. Also, unless specifically stated, this evaluation makes no offset for any monies received prior to the issuance of this report.

All future losses are adjusted for probable earnings growth, price increases, and probable interest returns. Because this loss is discounted to net present value, it is the probable fund required today to compensate for probable losses from the date of the incident in August, YR-5 to the trial and to replace the future lost stream of earnings and other future needs. The assumptions and data described in the following sections are the basis for this loss analysis.

CASE BACKGROUND

Mr. David Wilson sustained severe injury to the nerves, muscles, and tissues of his body when he was exposed to a weed killer on August 4, YR-5. Among the problems he continues to experience are weakness, nervousness, and severe headaches. Mr. Wilson's physicians do not anticipate any significant improvement in the future or that he will be able to return to his former employment. It is understood that Mr. Wilson should be able to handle most of the responsibilities associated with his small farm.

Mr. Wilson had been farming for approximately 30 years prior to his injury and had been employed as the manager/supervisor at Consolidated Farming ("Consolidated") for the past 15 years. His condition has precluded him from returning to Consolidated, and he has found that it will be necessary to hire additional help on his small, personal farm. Mr. Wilson has also not been able to continue repairing equipment during the past winter months, but anticipates he will soon be able to return to this work.

Mr. Wilson's condition has also impacted his wife, Debra. Prior to the accident, she had been pursuing her accounting degree but delayed her education as a direct result of the need for her to provide additional assistance at home and on the farm as well as additional care for her husband. Also, it was financially necessary for her to return to part-time employment following the incident. At a minimum, Ms. Wilson has lost approximately one and a half years in the labor market.

RELEVANT DATES AND TIME PERIODS

DATE OF BIRTH:	November 18, YR-55
DATE OF INJURY:	August 4, YR-5
DATE OF TRIAL:	July 30, YR-0
AGE AT INJURY:	49 years; 9 months.
LOSS PERIODS:	
PAST:	5.0 years
FUTURE:	6.7 years of remaining worklife (<i>Worklife Expectancies</i>) 23.3 years of life expectancy (<i>U.S. Vital Statistics</i>)
FAMILY DATA:	Married; one grown son from a previous marriage
EDUCATION:	High school degree
WORK HISTORY:	Farming for over 30 years; employed with Consolidated Farming for over 15 of those years

ECONOMIC FOUNDATION

In analyzing this particular case, the following documents have been reviewed:

- Income tax returns and/or W – 2 forms for the years YR-11 through YR-1;
- Interrogatories answered by Mr. and Ms. Wilson;
- Deposition of David Wilson and Statement of Debra Wilson;
- Pay stubs and benefit information from Consolidated Farming;
- Statement from Mr. George Wilson;
- Correspondence from Mr. Wilson to Mr. Weeks dated Sept. 24, YR-5;
- Depositions and medical reports from Drs. Jason, Donald, McGee, Gordon, Ogle and Towe; and
- Attorney correspondence.

In addition, specific inquiries and/or research related to this case were also performed by our office, including, a personal interview with Mr. and Ms. Wilson regarding their work histories, the operation of the farm, the changes in their lifestyle since the incident, etc.

A wealth of general economic data exists which is typically relied upon in any economic evaluation. This information includes:

- current and historical relationships between interest rates, inflation, and wage growth indices in addition to private and government agency forecast data for these economic indicators;
- state and federal labor department information regarding labor force participation rates, employment probabilities, geographic differentials, etc.;
- information on disabled workers including labor force participation, earnings, employment opportunities, unemployment rates, severity of limitations, etc.;
- age-earnings profiles and occupational mobility data;
- materials regarding employee benefit levels;
- retirement and pension information; and
- numerous documents regarding time contributions for household activities.

Academic and government citations for these data sources are located in the Appendix to this report.

TIME FRAME DEFINITIONS

The past loss time period reflects the losses incurred from the time of the incident to the time of the trial in July YR-0 (5.0 years). The amount of past net pecuniary loss is not adjusted for any probable interest earnings. No offset has been made for any monies which may have been received from other sources.

The probable future time frame commences at the time of the trial and continues through the remainder of Mr. Wilson's expected worklife or life expectancy from the time of the accident (6.7 and 23.3 years respectively), depending on the component being evaluated.

Annual loss amounts are set forth in today's dollars, but the stream of future loss amounts is discounted to reflect the probable net level of interest earnings relative to inflation and/or wage growth. In this particular evaluation of probable future loss, the discount rate used for the net present value analysis assumes that probable future average annual wage growth will be less than the probable annual interest returns on a lump-sum payment. The discount rate used for the net present value analysis of future medical care assumes that the probable future annual inflation of medical costs will be less than the relevant interest earnings on a lump-sum payment for this type of loss. See the Appendix for a more detailed explanation of discounting to net present value.

In the economic loss calculations, the following areas are analyzed:

- Earnings
- Home Services
- Medical Care Expenses

LOSS EVALUATION

EARNINGS – David O. Wilson

Mr. Wilson's average annual pre-injury wages were \$60,000. Since the accident, Mr. Wilson's wages would have grown in the past period with average growth rates in earnings. His expected wages in the past period are as follows:

YR-5	\$62,280
YR-4	\$64,647
YR-3	\$66,521
YR-2	\$68,451
YR-1	\$69,888
YR-0	\$71,356

His future wages are based on his YR-0 expected wages of \$71,356 per year. His anticipated average annual wages commencing in the future period are based on wages at Consolidated Farming or a comparable position consistent with Bureau of Census data regarding earnings of similarly situated males in YR-0 dollars.

Mr. Wilson's benefits from employment at Consolidated Farming were 20% of wages. This incorporates the value of legally required benefits, medical coverage and a pension/retirement plan or other typical benefits. In addition, the value of a company car that was available to Mr. Wilson while employed at Consolidated Farming was \$500-\$750 per month.

FARMING WAGES

The average annual loss associated with Mr. Wilson's decreased contribution to his farm, which recognizes the value of an extra farm laborer now needed based on \$12.00 per hour for seasonal assistance of some 500 hours per year during the past period, is \$6,000 per year. In the future period, the average annual loss is expected to be \$7,500 based on \$15.00 for some 500 hours per year, associated with hiring additional farm help in YR-0 dollars. Included in the expenses for farming operations is the value of legally required benefits, which are 10% of money wages paid to the farm employee that Mr. Wilson must hire for the additional farm help in the past and future periods.

EQUIPMENT REPAIR WAGES

Mr. Wilson has lost \$10,000 each year since the accident because Mr. Wilson was unable to do this work during the winter months as he had prior to the accident. There is no loss in the future period as Mr. Wilson is expected to be able to do this work in the future.

DISCOUNT RATE

With respect to Mr. Wilson's lost earnings at Consolidated Farming and from equipment repairs and the cost he incurs from additional farm help, the net discount rate is 2.5% in the future period.

EARNINGS – Debra Wilson

Ms. Wilson's probable delay in graduation and, therefore, delay in typical entry level wages of a college graduate will be a loss in wages of \$45,000 per year over a 1.5 year period commencing at Ms. Wilson's expected pre-incident college graduation. These are the anticipated lost accounting wages which reflect the occupational opportunities available to Ms. Wilson in a rural community. This amount will be offset by monies Ms. Wilson will earn until she can return to school in YR-0 dollars.

Ms. Wilson's expected benefits associated with accounting wages are 15-20% of wages, the value of post-graduation employee benefits for full-time work within the field of accounting. This percentage incorporates the value of legally required benefits, medical coverage and/or a pension/retirement plan. Included in the offset is 10% of wages for the value of employee benefits for the waitress positions Ms. Wilson will likely have during the delay period, which incorporates the value of legally required benefits only and recognizes the part-time nature of Ms. Wilson's employment opportunities.

DISCOUNT RATE

With respect to Ms. Wilson's lost earnings due to the delay in college graduation, the net discount rate is 3.0% in the future period. This analysis does not consider any ongoing, incremental loss of earnings from the delay.

HOME SERVICES – Mr. Wilson

Mr. Wilson contributed 5 to 10 hours each week to household activities. This includes such chores as home maintenance, car maintenance, yard work, etc. per information from an interview with Mr. and Ms. Wilson and tracked to labor market studies. Lost home services total \$6,630 per year using a rate of \$15 to \$19 per hour, the market replacement wage over past and future periods. This rate is based on area wage rates for variety of household activities and responsibilities, adjusted for geographical location.

DISCOUNT RATE

With respect to lost home services from Mr. Wilson, the net discount rate is 1.0% in the future period. The past loss reflects the value of time, not out-of-pocket expenses, while in the future period a fund of money is provided to meet these needs.

MEDICAL CARE EXPENSES – David Wilson

As of December YR-1, Mr. Wilson's past medical care expenses totaled \$30,000 per year. This amount may need to be adjusted at the time of trial. His anticipated cost for lab tests and additional tests and physician visits in the future period is \$4,000 per year.

DISCOUNT RATE

With respect to medical care expenses for Mr. Wilson, the net discount rate is 0.5% in the future time period.

CONCLUSION

The following chart summarizes the past and future time periods with their associated loss elements as previously discussed. Based upon the analysis presented here, an aggregate fund of \$1,591,600 will compensate Mr. and Ms. Wilson for the probable past losses and also replace probable future losses.

- Drawn upon each year in the future, this fund will serve as a substitute for the probable economic losses each year.
- Thus, at the end of the probable future loss period, the fund balance would be \$0. (That is, the actual purchasing power of losses replaced year by year at levels enumerated herein will be maintained.)
- To ignore the cost of living or earnings growth factor would understate the losses sustained while a failure to incorporate interest earned from funds on hand today would overstate the probable losses.
- By simultaneously considering these two magnitudes (earnings and interest factors), this economic evaluation appropriately reflects the net present values in real terms.

**SUMMARY OF ECONOMIC LOSS AMOUNTS
MR. DAVID WILSON**

<u>PAST LOSSES</u>	
EARNINGS – Mr. Wilson	\$522,000
HOME SERVICES	\$33,200
MEDICAL CARE EXPENSES	\$150,000
TOTAL PAST LOSS	\$705,200
<u>FUTURE LOSSES</u>	
EARNINGS – Mr. Wilson	\$613,500
EARNINGS - Ms. Wilson	\$44,400
HOME SERVICES	\$138,000
MEDICAL CARE EXPENSES	\$90,500
TOTAL NET PRESENT VALUE OF FUTURE LOSS	\$886,400
<u>TOTAL VALUE OF LOSS</u>	\$1,591,600