

Analyzing a Report of Patricia Pacey

David G. Tucek
Value Economics, LLC
david.tucek@valueeconomics.com
314 440 4925

© 2023

Analyzing a Report of Patricia Pacey

- PhD Economist in Boulder, Colorado
(Pacey Economics, Inc; 3 other economists, 1 MA & 2 BAs)
- Not listed as a member of AAEEFE or NAFE
(One economist, Jeff Nehls, listed in NAFE member directory.)
- PI & WD cases seem to be exclusively for plaintiff attorneys
(Litigation work also includes WT & commercial cases.)

Analyzing a Report of Patricia Pacey

- Based on a real case that has since settled.
- Case name has been changed to “Smith versus Brown” to conceal the identities of the plaintiff and defendant.

Analyzing a Report of Patricia Pacey : Two Objectives Today

- Give you an understanding of Dr. Pacey's report and calculations.
- Review my response.

Overview of Case

- Smith injured at birth in Jan-2015.
- Plaintiff LCP assumes a 5- to 8- year reduction from normal life expectancy.
- Dr. Pacey's loss estimates consist of:
 - Past essential home services.
 - Future lost earnings and benefits.
 - Future medical care costs.

Overview of Case

- Smith injured at birth in Jan-2015.
- Plaintiff LCP assumes a 5- to 8- year reduction from normal life expectancy.
- Dr. Pacey's loss estimates consist of:
 - **Past essential home services.** ←
 - Future lost earnings and benefits.
 - Future medical care costs.

50 hours per week @ \$14 per hour from Smith age 2 until date of trial.

Not addressed in my report – less than 0.4% of total estimated loss.

Structure of Dr. Pacey's Report

- Fifty-seven pages overall
 - 13 pages covering facts of case and categories of loss.
 - 1-page exhibit showing lost earnings by year.
 - 2-page exhibit showing medical care costs by year and major category.
 - 1-page appendix listing documents received and reviewed.
 - a 40-page appendix presenting data and comments dealing with numerous topics such as calculation of NPV; macroeconomic indicators; wage and benefits; displaced workers; LE, WLE & PC.
- This last appendix is boiler plate with little that is specific to the given case
 - For example, it covers personal consumption even though this is not a wrongful death case – similar to Charles Linke's reports.

Lost Earnings and Benefits

- Lost earnings based on PINC-04 tables for males with Bachelor's degree.
- Lost benefits equal 20 percent of lost earnings
 - Includes “legally required” benefits which are actually Social Security, Medicare, and unemployment insurance taxes paid by an employer
- Projected with certainty through age 65.
- Earnings assumed to grow at 3 percent and discounted at 4 percent. (NDR= 0.97 percent)

Lost Earnings and Benefits

Very close to what I was using at the time, so I didn't comment on her NDR. However, after 2½ years Dr. Pacey has continued to use 3 percent for growth and 4 percent to discount even though my NDR has roughly doubled.

- **Earnings assumed to grow at 3 percent and discounted at 4 percent. (NDR= 0.97 percent)**

LCP Present Values

- Projected with certainty through normal LE minus 5 years. (Ignored normal LE minus 8 years also specified in plaintiff LCP).
- Doesn't show detail for each LCP component.
- Only shows costs by broad category (*e.g.*, Medical Care, Supplies, Assistance, . . .) divided between
 - expenses associated with CPI for Medical Care and
 - all other expenses.
- Discounted to present with 0.48 percent NDR based on the medical care CPI and the same 0.97 percent NDR used for earnings.

Comments on Report Overall

- Lack of detail on individual LCP components makes it impossible to validate mapping of LCP to the future loss period.
- Most of Dr. Pacey's report consists of information and discussion that has no direct linkage to the calculations she specifically utilized in this case.
- Assuming LCP expenses would occur with certainty through a given age and then stop likely overstates the expected present value of the LCP. (Cite to Krueger's 2001 *Litigation Economics Review* article.)

My Response on Lost Earnings and Benefits Estimates

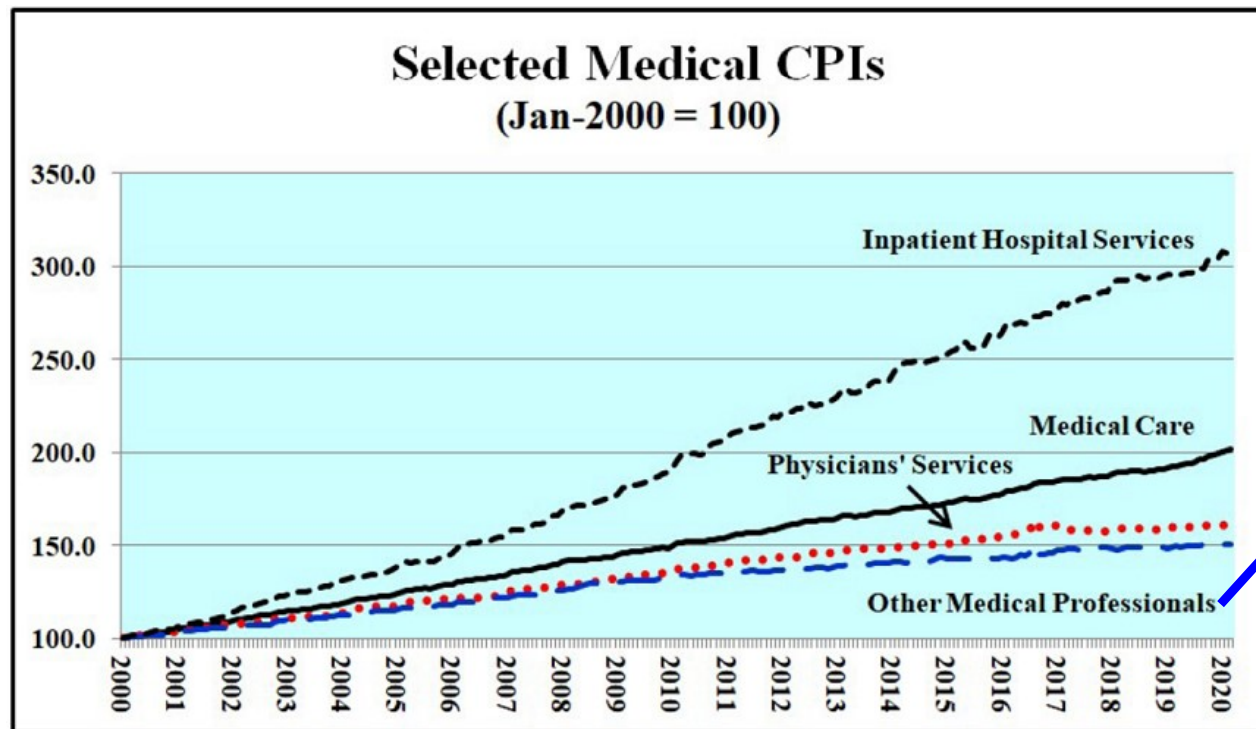
- Based on FTEUS for males with HS diploma and Bachelor's degree.
- Offset the latter with cost of college education and with probability of surviving through college graduation.
- Adjusted for probability of being active labor force participant and of being unemployed (based on CBO's estimate of the natural long-run rate of unemployment).
- Benefits equal 14.54 percent of earnings (excludes "legally-required" benefits).

My Response on Lost Earnings and Benefits Estimates

- Future lost earning discounted to present using a long-run NDR of 0.92 percent.
 - Less than Dr. Pacey's 0.97 percent
 - Based on W&S ECI for all private industry workers
 - Forecast with an AR(1), AR(2) model.

My Response on LCP NDRs

- NDR based on CPI for medical care is overly broad.
- Should rely on NDR specific to growth in each LCP component:



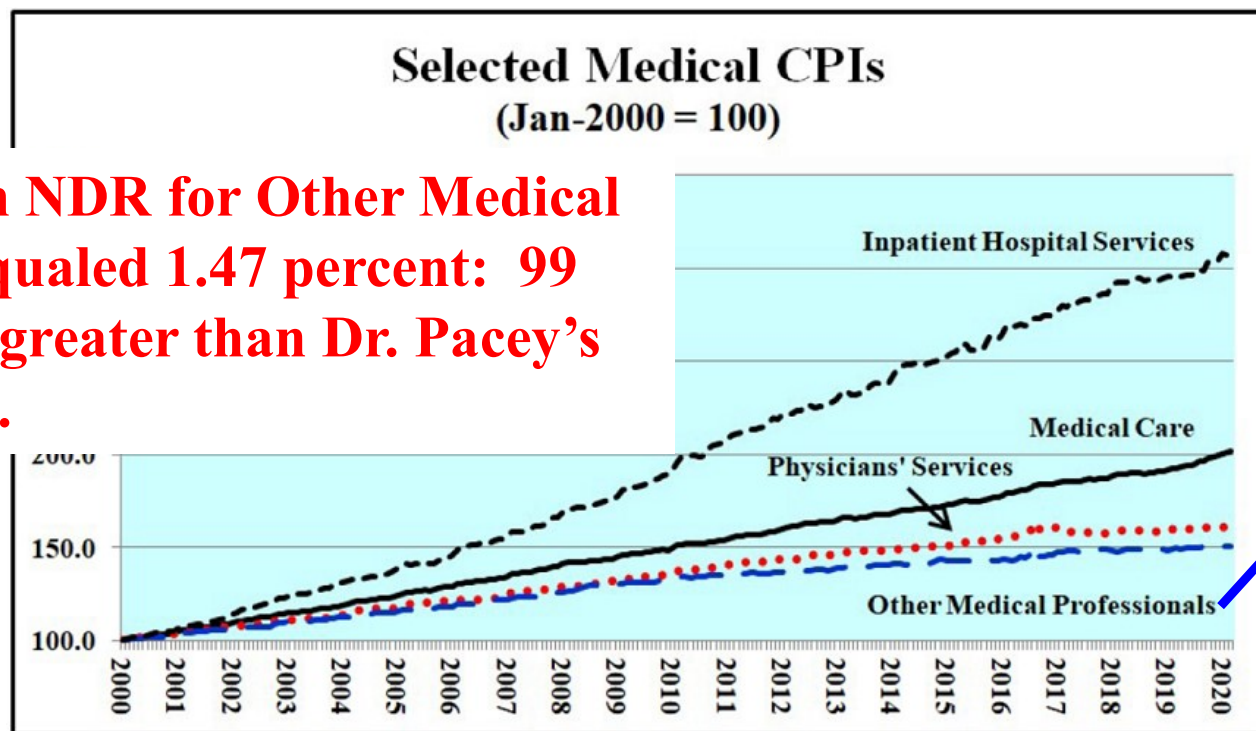
86% of LCP is attendant care



My Response on LCP NDRs

- NDR based on CPI for medical care is overly broad.
- Should rely on NDR specific to growth in each LCP component:

My long-run NDR for Other Medical Personnel equaled 1.47 percent: 99 basis points greater than Dr. Pacey's 0.48 percent.



86% of LCP is attendant care

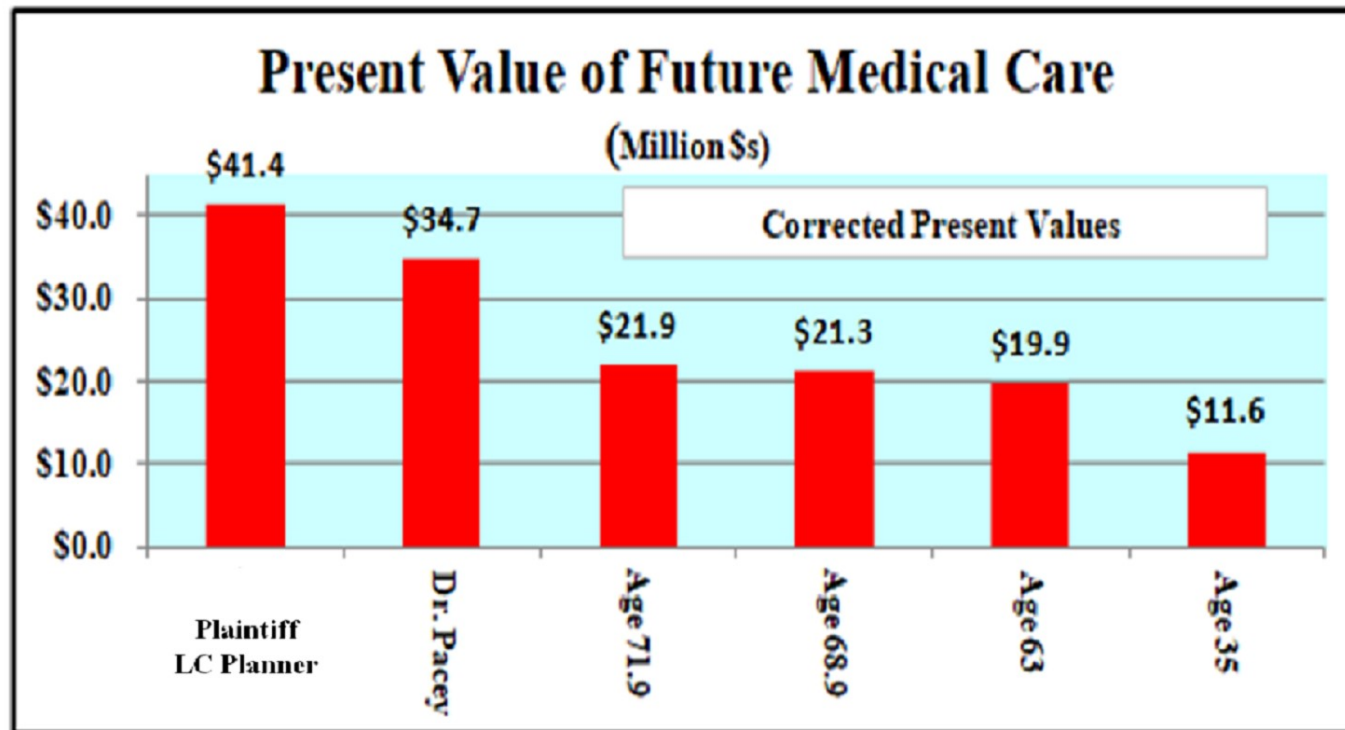
My Response on LCP Estimate

- Except for inpatient hospital services, my long-run NDRs were all greater than Dr. Pacey's 0.48 and 0.97 percent.
- Expected present value of each individual LCP component estimated.
- Adjusted for mortality risk through end of modified life table (5 & 8 years less than normal life expectancy).
(“Life Expectancy in Court – A Textbook for Doctors and Lawyers”, T. W. Anderson, 2002, Teviot Press, Vancouver, Canada.)

My Initial Results

- Earnings and benefits loss reduced by 40.0 percent compared to Dr. Pacey. (Average of HS and Bachelor's degree assumptions.)
- Expected present value of LCP expenses reduced by 27.6 percent.

My Ultimate Results for the Plaintiff's LCP



My Ultimate Results for the Defendant's LCP

