

Valuation of Loss of Earnings

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Introduction

- Expert witness engagements to assist Court to determine a fair value for compensation of loss of earnings
- Why write this paper?
- Terminology
 - Plaintiff, Defendant, Court, Event

General Approach

- Determine actual earnings (past and future)
- Determine expected earnings (past and future)
- Reduce earnings by personal tax
- Determine yearly shortfalls
- Apply causal contribution to yearly shortfalls
- Apply time value of money (accumulation of past shortfalls and discounting of future shortfalls)
- Adjust for any tax on compensation payments

Objective of the compensation

To place the Plaintiff in the same position they would have been had the loss of earnings not occurred by:

Determining a cash amount which, taking into account causal contribution, represents in today's dollars:

- shortfall of past earnings
- amount, which if invested, can provide shortfall of future earnings

Actual earnings

- From Event to present time usually readily available
- Future actual earnings needs to consider:
 - Extrapolation of past
 - Probabilities of promotion, death, change in employment, etc
 - Salary inflation
 - Self employment expenses

Expected earnings

- Employment related cases
- Promotion
 - Paths, probabilities of promotion, likely timings, financial impact
 - Promotion scenarios can be useful
- Decrements
- Contingencies
- Non employment cases

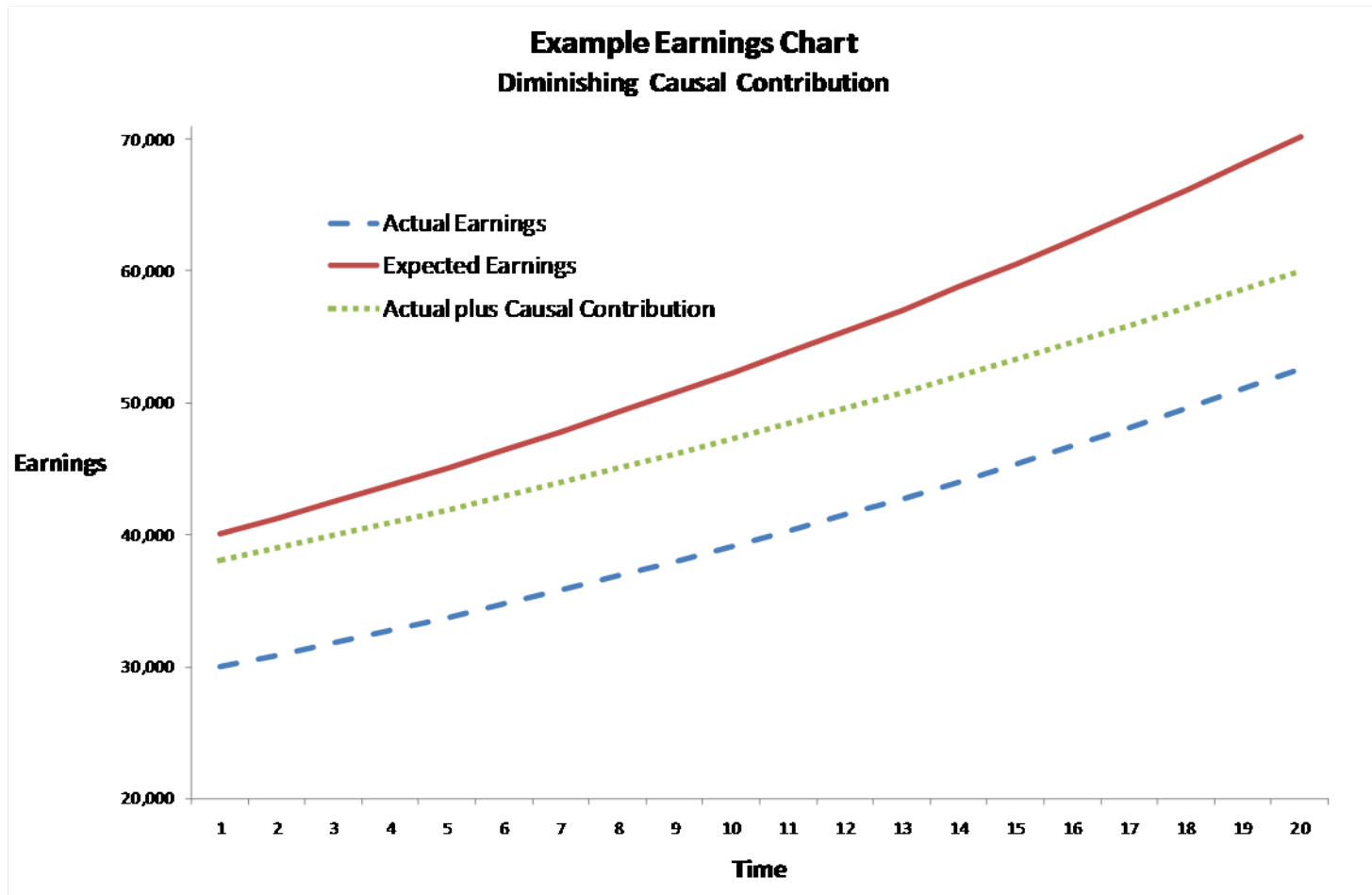
Taxation

- Taxation of income
- Taxation of compensation

Causal contribution

- The degree to which the earnings shortfalls are directly attributable to the actions or inactions of the Defendant
 - Plaintiff choices may impact
 - Varying effect of the Event
- Assessment of degree and impact not necessarily the province of the actuary

Causal contribution (2)



Time value of money

- Accumulation of past shortfalls
 - CPI, investment accumulation
- Discounting of future shortfalls
 - Investment strategy
 - Taxation of investment income (PIEs)

Other matters

- Brief of Evidence disclosures
- Peer review
- Codes of Conduct