

## **Explanation of Economic Loss Calculations for Port Authority Fire and Police Victims**

**Revised October 17, 2002**

The calculation of presumed economic loss for victims who were members of the New York State and Local Police and Fire Retirement System (“Port Authority Fire or Police”) will use the same general procedures and assumptions used to calculate presumed economic losses for death claims involving NYPD or FDNY victims.<sup>1</sup>

Like the NYPD and FDNY victims, Port Authority Fire or Police victims under the Special 20-Year Retirement Plan would have been eligible to retire from Port Authority Fire or Police employment with 20 years of service<sup>2</sup> and collect an immediate pension equal to at least 50% of last pay. According to Port Authority representatives, the average length of service for Port Authority Fire or Police is 25 years. The presumed awards will therefore assume that after 25 years of creditable service<sup>3</sup>, the victim would have begun collecting a pension pursuant to the terms of the Special 20-Year Retirement Plan, and at the same time continued to receive wage or salary income elsewhere equivalent to the victim’s last projected Port Authority compensation plus any supplemental outside income, if applicable, adjusted for annual increases, through the individual’s expected remaining working years. The Port Authority Fire or Police pension is assumed payable through the victim’s life expectancy.<sup>4</sup>

Consistent with all presumed economic loss calculations,

1. Income up to the IRS’s 98<sup>th</sup> percentile of wage earners of \$231,000 is considered;
2. Included are the value of fringe benefits, including medical insurance coverage, and potential pension benefits related to post-Fire or Police employment estimated at 4% of compensation;
3. Growth of income and benefits through the victim’s expected work-life incorporates an annual inflationary or cost-of-living component, an annual real overall productivity or scale adjustment in excess of inflation, and an annual real life-cycle or age-specific increase;
4. An unemployment risk factor of 3% is applied to earnings and benefits other than Fire or Police pension payments;
5. All amounts are adjusted for the estimated personal consumption of the victim and reduced for estimated combined federal, state and local income tax (to the extent applicable); and
6. Future amounts are adjusted to present value using current yields on risk-free treasury securities.

Refer to Tables 1-5 accompanying the general “Presumed Loss Calculation Tables Before any Collateral Offsets” explanation for additional information on Presumed Future Effective

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<sup>1</sup> Refer to the “Explanation of Economic Loss Calculations for FDNY or NYPD Victims.”

<sup>2</sup> Based on discussions with Port Authority representatives, the Special 20-Year Retirement Plan is the plan elected by virtually all New York State and Local fire and police.

<sup>3</sup> For victims who had already attained the average years of credited service for fire or police retirees, one additional year of creditable service will be assumed. In general, this maximizes the present value of projected future pension benefits because they start earlier.

<sup>4</sup> According to provisions of the Special 20-Year Retirement Plan, a portion of the fire or police retirement benefit is increased by a cost of living adjustment after attaining age 55 and 10 years out or age 62 and 5 years out.

## **Explanation of Economic Loss Calculations for Port Authority Fire and Police Victims**

Combined Federal, State and Local Income Tax Rates for New York (Table 1), Expected Remaining Years of Workforce Participation (Table 2), Presumed Age-Specific Earnings Growth Rates (Table 3), Decedent's Personal Expenditures or Consumption as Percent of Income (Table 4), and Assumed Before-tax and After-tax Discount Rates (Table 5).

To comply with the Act's requirement that the Fund deduct from any award collateral source compensation including pensions and death benefits, the Fund will deduct from the award the present value of the death benefit that the survivor obtains under the New York State and Local Police and Fire Retirement System. Any lump sum survivor benefit is offset, or if the death benefit is paid on an annuity basis, that deduction will be computed based on the annual value of the death benefit for the expected life span of the spouse of the victim (or the relevant period of time the benefit is payable to children or parents) in accordance with current rules governing the payment of death benefits.<sup>5</sup> The calculation assumes that the death benefit will not be increased over time, as any increases must be legislatively mandated. The methodology is set up so that the Fund will not include in the offset the amount of the Fire or Police pension that was vested as of September 11. Since this reduction in the offset is like a credit or pre-payment to the survivor of the victim's vested pension, the economic loss will make up the remaining portion of the victim's lifetime pension benefits that would have been earned for continued Fire or Police service after September 11.

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<sup>5</sup> Under the Special 20-Year Retirement Plan for fire or police, the Special Accidental Death Benefit pension equal to 100% of the victim's salary is payable to a surviving widow or widower for life.

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## ILLUSTRATION

### September 11th Victim Compensation Fund of 2001

#### Illustration of Presumed Losses for Port Authority Fire or Police

##### Assumptions

Victim Name:	Port Authority Fire or Police		
Date of Death:	9/11/01		
Age:	30		
Marital Status:	M		
Number Children Under Age 18:	2		
Children's Ages at 09/11/2001:	Child #1	9	
	Child #2	newborn	
Occupation:	Police		
Employer:	Port Authority		
Total Annual Earnings From All Employers:	\$70,000		
Fire or Police Annual Earnings:	\$70,000		
Hire Date at Last Employer:	9/11/95		
Years of Creditable Fire or Police Service at 09/11/2001	6.0		
Assumed Start of New York State or Local Fire or Police Pension:	10/1/20		

#### Total Economic Losses Before Collateral Offsets

<b>Loss of Earnings &amp; Benefits Including Loss of Lifetime Port Authority Pension Benefits From Continued Port Authority Service After 09/11/2001*</b>	<b>\$2,454,281</b>
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<b>Total Non-Economic Losses</b>	<b>\$550,000</b>
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<b>Total Losses Before Collateral Offsets</b>	<b>\$3,004,281</b>
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\* Includes amount of pension projected at ultimate retirement less amount of vested benefit prepaid in the form of survivor benefits.

#### Less:

##### Known Offsets:

**Present Value of Survivor Lump Sum Pension Benefit Reduced by Present Value of Victim's Vested Pension as of 09/11/2001:**

<b>Past Survivor Benefits</b>	<b>\$68,036</b>	
<b>Present Value Future Survivor Benefits</b>	<b>\$1,263,387</b>	
<b>Less: Victim's Vested Benefit</b>	<b>(\$40,718)</b>	<b>\$1,290,705</b>

<b>Social Security One-time Lump Sum Death Benefit</b>		<b>\$255</b>
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<b>Past Social Security Survivor Benefits</b>	Spouse	<b>\$0</b>
	Children	<b>\$52,356</b>

<b>Present Value of Children's Future Social Security Survivor Benefits</b>	<b>\$317,386</b>
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<b>Basic Life Insurance (3 times pay)</b>	<b>\$210,000</b>
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<b>Total Known Offsets</b>	<b>\$1,870,702</b>
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<b>Amount of Total Award</b>	<b>\$1,133,579</b>
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