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# Personal Consumption Greatly Impacts Economic Damage Calculations

— by Bruce Prenguber, Economist

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*Editor's Note: We welcome Bruce Prenguber as a new contributor to the OCAA Newsletter.*

In wrongful death cases where liability is proven, the damage award is reduced by the dollar amount of expenditures for self consumption by the decedent. Personal consumption is one of several important determinants of the “bottom line” economic damage award. This element of economic analysis deserves close attention when risk managers contemplate settlement by either negotiations or trial.

The theory behind personal consumption is simple: the plaintiff’s beneficiaries/estate is made financially “whole” by deducting the decedent’s exclusive consumption expenditures from the decedent’s lost earnings. For example, the decedent’s share of food, clothing, and entertainment is no longer expended, so this has to be determined and deducted from the award.

Rarely do families keep detailed records on how much is spent to benefit each family member. Economists most often rely upon consumer expenditure surveys by the U.S. Department of Labor for this estimate. These surveys are national in scope, and present personal consumption as a percentage of family income. The surveys separately show adult male and female

consumption. The data are presented by income ranges and for different sizes of households.

In households comprised of one individual, all consumption expenses are personal. In households with two or more persons, there are indivisible expenditures that are common to all family members. Usually these indivisible expenses include the rent or mortgage payment; fixed monthly charges for TV, internet access, sewer, and garbage; home repairs; replacement or purchase of durable goods such as refrigerators and renters or homeowners insurance.

Economists make assumptions about the future and often rely on the secondary data such as consumption surveys in order to calculate their estimates. Risk managers and attorneys who decide when and how to settle wrongful death cases are wise to understand the assumptions and data used to derive personal consumption. This, along with the base earnings capacity, change in earnings over time and the interest rate are usually the major factors that establish the present value of economic damage awards. ❖

— Bruce Prenguber is an economist who conducts forensic economic analysis throughout the Pacific Northwest from his office in Vancouver, WA. He can be reached at telephone 360-696-3888 or email [bruce@globalwiseinc.com](mailto:bruce@globalwiseinc.com).