



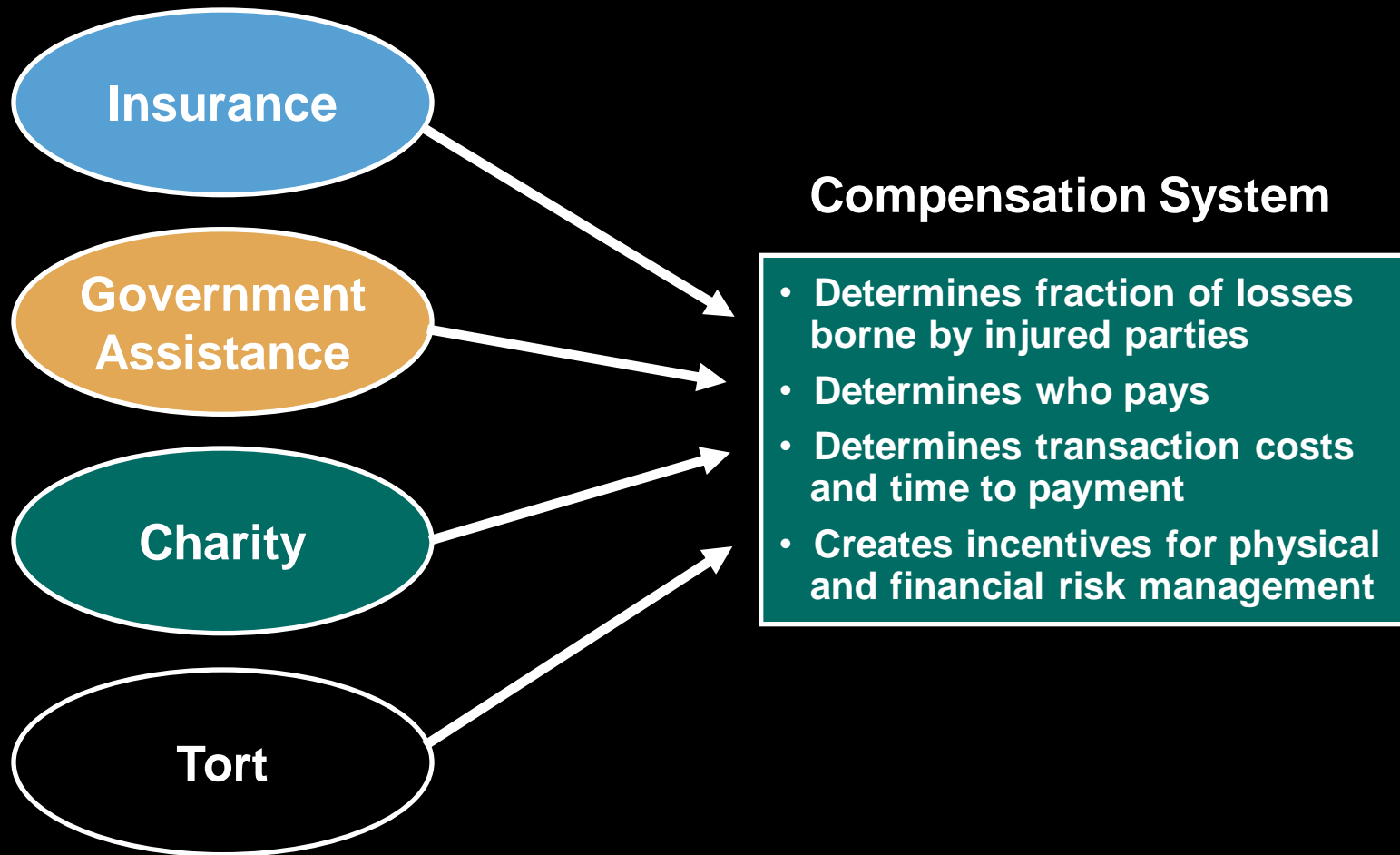
CENTER FOR TERRORISM  
RISK MANAGEMENT POLICY

***Compensating Individuals for Losses  
from Terrorist Attacks***

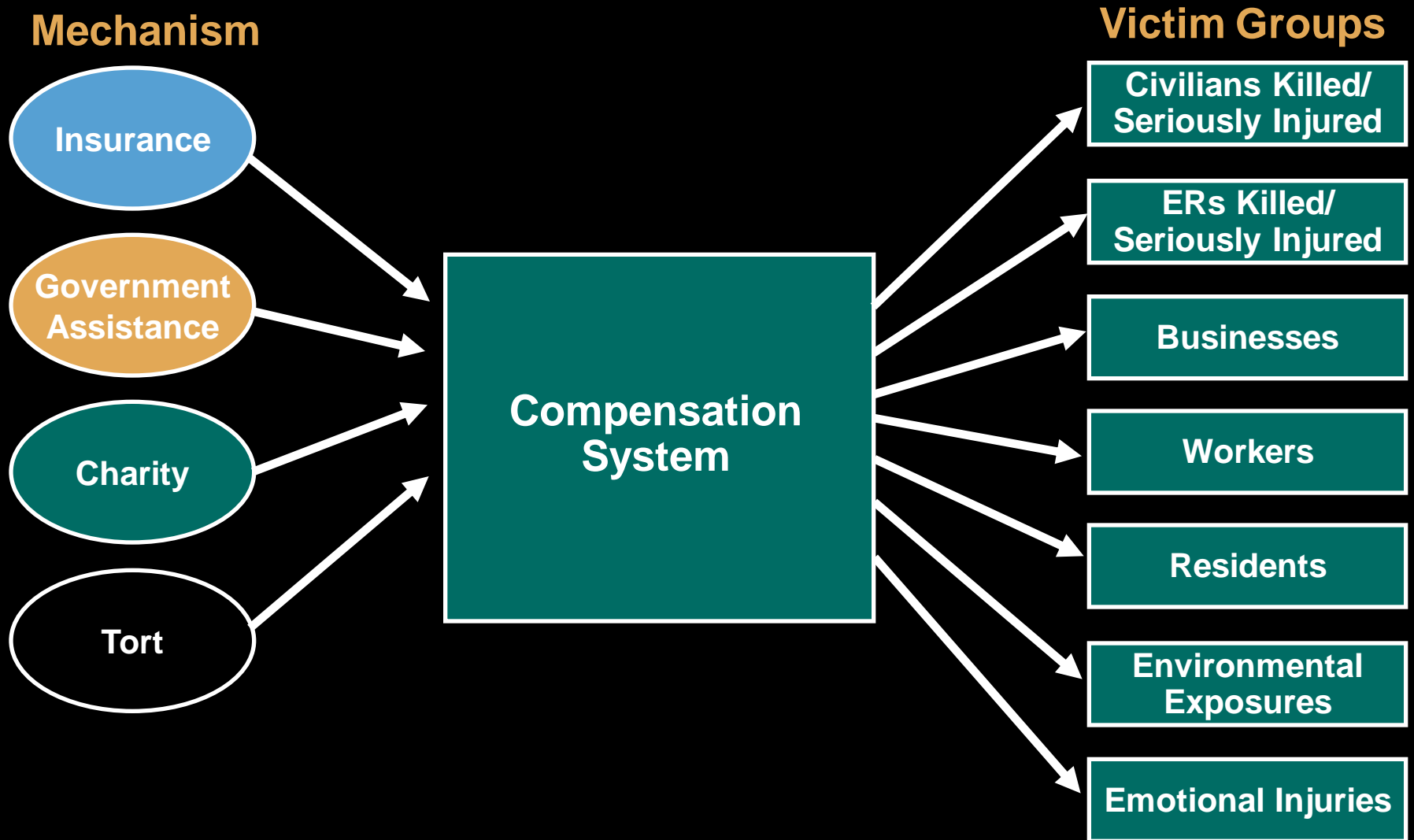
**Lloyd Dixon**

**June 20, 2005**

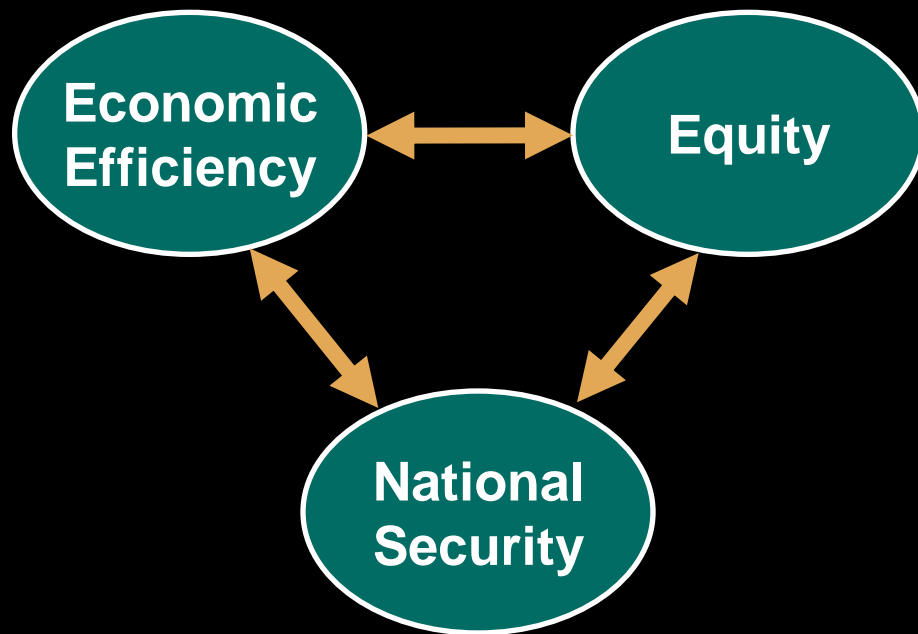
# *The Compensation System Is Composed of Four Mechanisms*



# The Compensation System Distributes Funds to Various Victim Groups



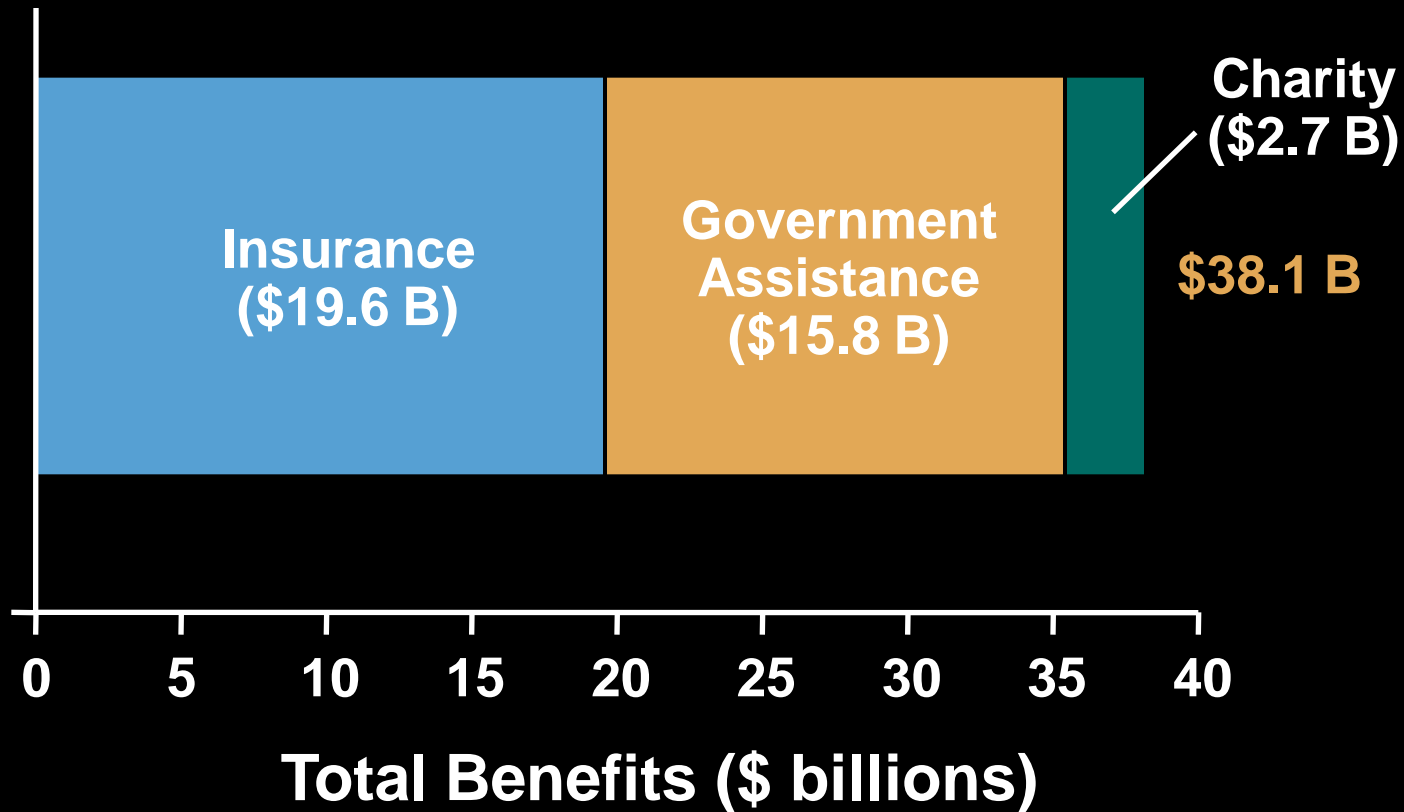
# Benefits Can Be Assessed in Terms of Three Fundamental Goals of Compensation System



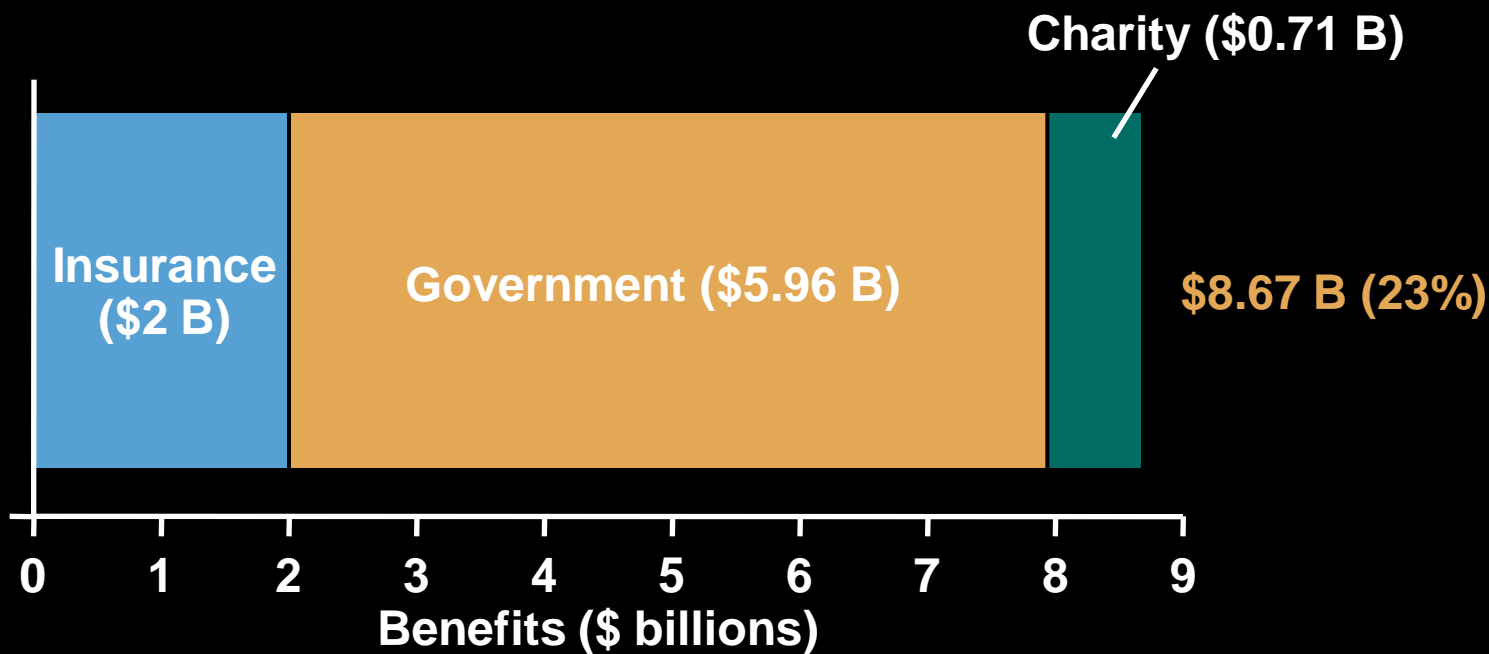
- **Economic Efficiency**—to what extent do policies create incentives for individuals and businesses to maximize standards of living
- **Equity**—policies can be evaluated in terms of corrective and distributive justice issues
- **National Security**—to what extent to policies discourage terrorists and reduce consequences of terrorist attack

*Goals may conflict or work to reinforce each other*

# *Insurance Provided the Largest Amount of Benefits; Tort Has Played Minor Role So Far*



# Government Provided Most of the Benefits to Civilians Killed or Seriously Injured



Life insurance  
Workers Comp.

VCF  
Tax benefits

Cash and services  
Scholarships

**Average total benefit: \$3.1 million per person**

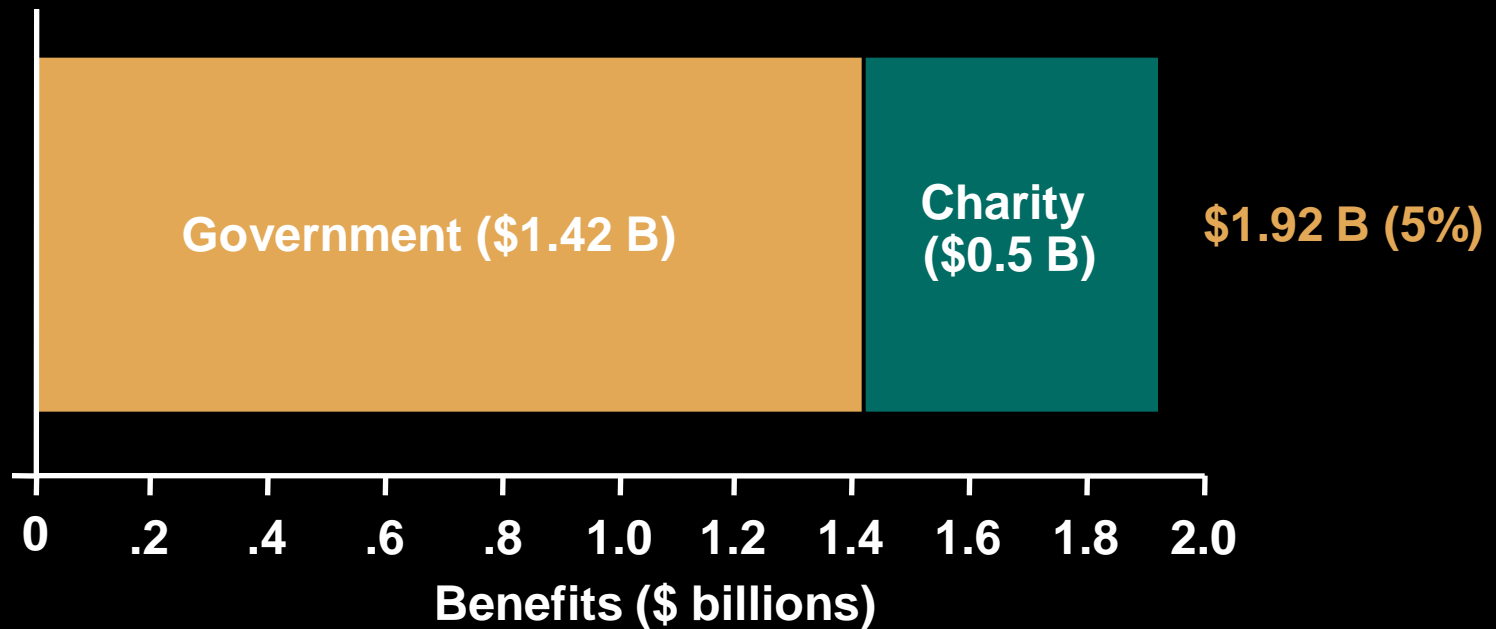
# *Despite Large Benefits, Unclear How Benefits Measured Up on Corrective Justice Standard*

- **Some features of VCF awards increased compensation relative to economic loss**
  - Life insurance and charity donations not deducted
- **Other features tended to decrease compensation relative to economic loss**
  - No payments made for lost parental guidance
  - Income over \$231K not used in projecting lifetime earnings
- **Non-economic damages much lower than those in aviation wrongful death cases**

# *VCF Compensation Approach Created Contention Over Distribution of Benefits*

- **Tailoring payment to expected lifetime earnings raised fairness issues among families of those killed or seriously injured**
- **Large government payments raised concerns about distribution of benefits:**
  - **Across other victim groups**
  - **For those killed in other settings**

# Government Provided Most of Benefits to ERs Killed or Seriously Injured



**VCF**  
**Public Safety Officers' Benefit**  
**Mayor's Office Benefit**  
**Tax benefits**

**Cash and services**  
**Scholarships**

*On average, received \$1.1 million more than a civilian with similar economic loss*

# ***Large Payments to Emergency Responders Raised Equity Issues***

- **Some argued that pre-existing salary and pension programs accounted for increased risk on job**
- **Others argued that distribution of benefits inappropriate**
  - **Emergency responders received too large a share of 9/11 benefits**
  - **Benefits higher than those available to emergency responders killed in other settings**

# ***There Is No Ongoing Program to Compensate Victims of Terrorist Attacks in the U.S.***

- **The VCF was event-specific**
- **Federal interventions in insurance markets set to sunset December 31, 2005**
- **Charitable response unpredictable**
- **Crime victims programs and social insurance programs provided limited compensation**
- **Unless U.S. adopts a program for future attacks, the tort system may be the primary recourse for injured parties**

# ***Option: Flat Government Payments to Those Killed or Seriously Injured***

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"><li>• <b>Provide flat government payment for those killed or seriously injured (e.g., \$250K per deceased)</b><ul style="list-style-type: none"><li>– <b>Have higher-income individuals responsible for purchasing life insurance for additional benefits</b></li><li>– <b>Continue to limit tort access</b></li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Lower claim process costs for government, faster payments</b></li><li>• <b>Less divisive (perhaps)</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Many people are underinsured for loss of life</b></li><li>• <b>Limiting tort may reduce incentives for appropriate risk management</b></li></ul>

# ***Option: Subsidized Life Insurance for Terrorism***

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"><li>• <b>Include life insurance under TRIA or provide some other subsidy for life insurance</b><ul style="list-style-type: none"><li>– <b>Continue to limit tort access</b></li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Increasing take-up rates may reduce pressure for government assistance after attacks and have national security benefits</b></li><li>• <b>Provides quid pro quo for limiting tort options</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Unlikely to be bought by lowest income individuals</b></li></ul>

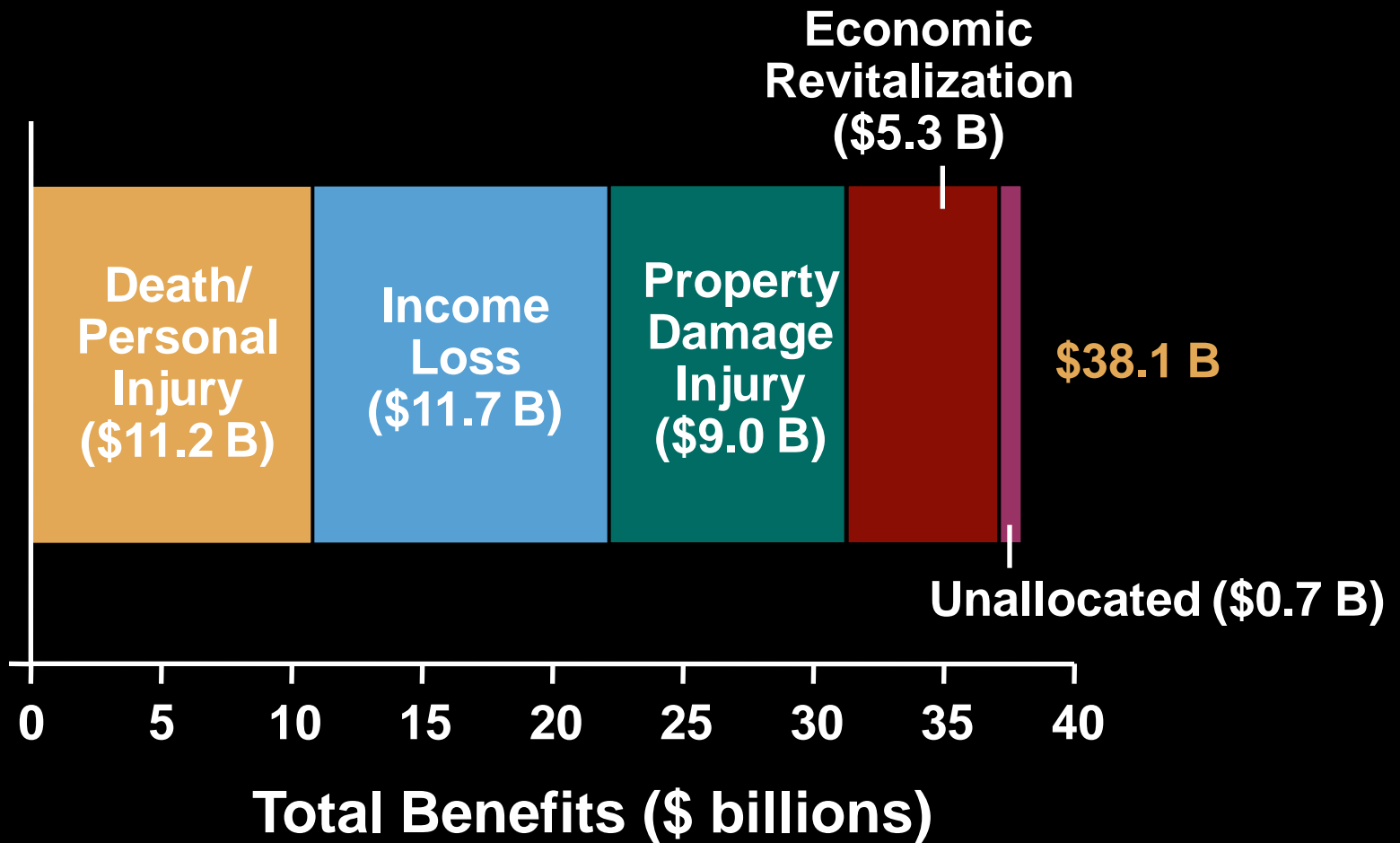
# ***Option: Federal Government Payment of Life Insurance and Workers' Comp Benefits***

<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"><li>• Fed. govt. assumes responsibility for life insurance and workers' com. benefits after a terrorism event</li></ul>	<ul style="list-style-type: none"><li>• Solves industry capacity and pricing problems</li><li>• Implicit subsidy would encourage purchase of life insurance</li></ul>	<ul style="list-style-type: none"><li>• Uninsured would not benefit</li><li>• Increased tax burden</li></ul>

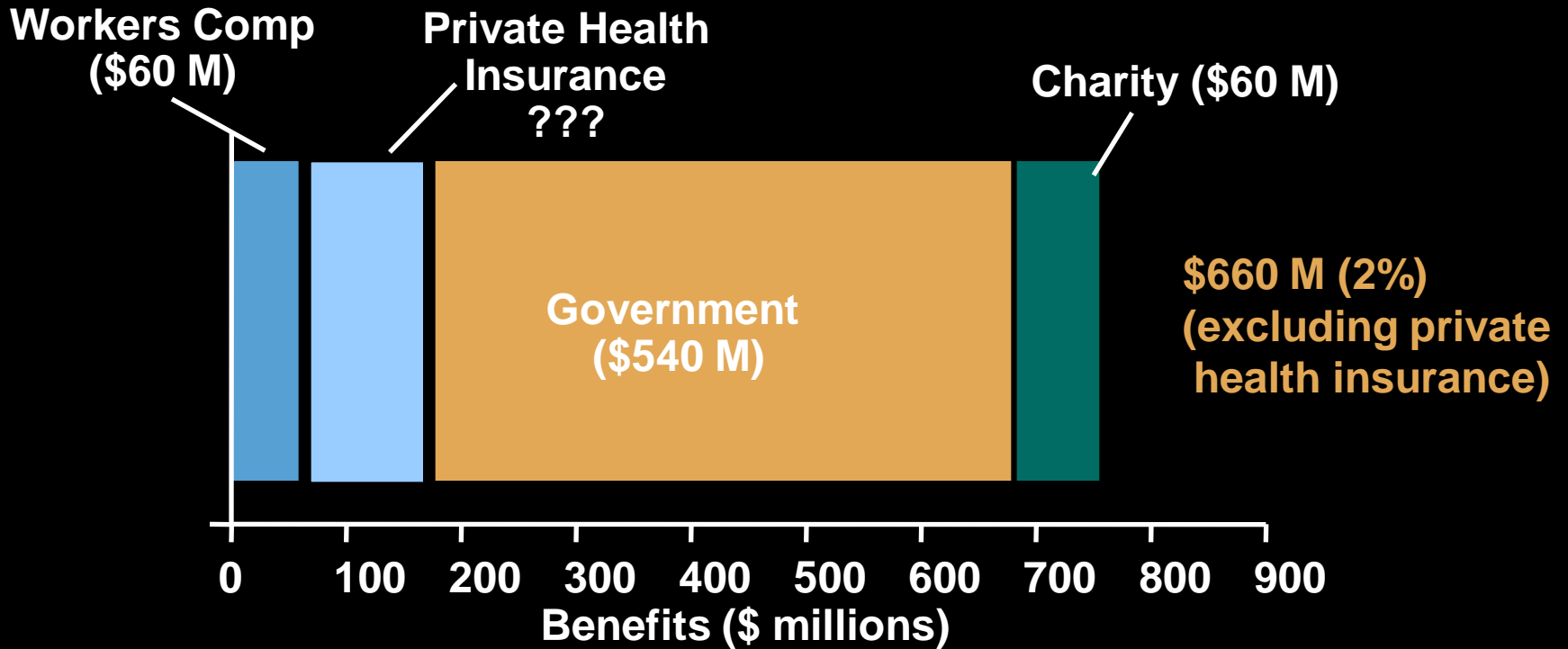


CENTER FOR TERRORISM  
RISK MANAGEMENT POLICY

# *Most Benefits Were for Losses Not Associated with Death or Personal Injury*



# Government Programs for Environmental Injuries Were Expanded



Health insurance  
Workers Comp.

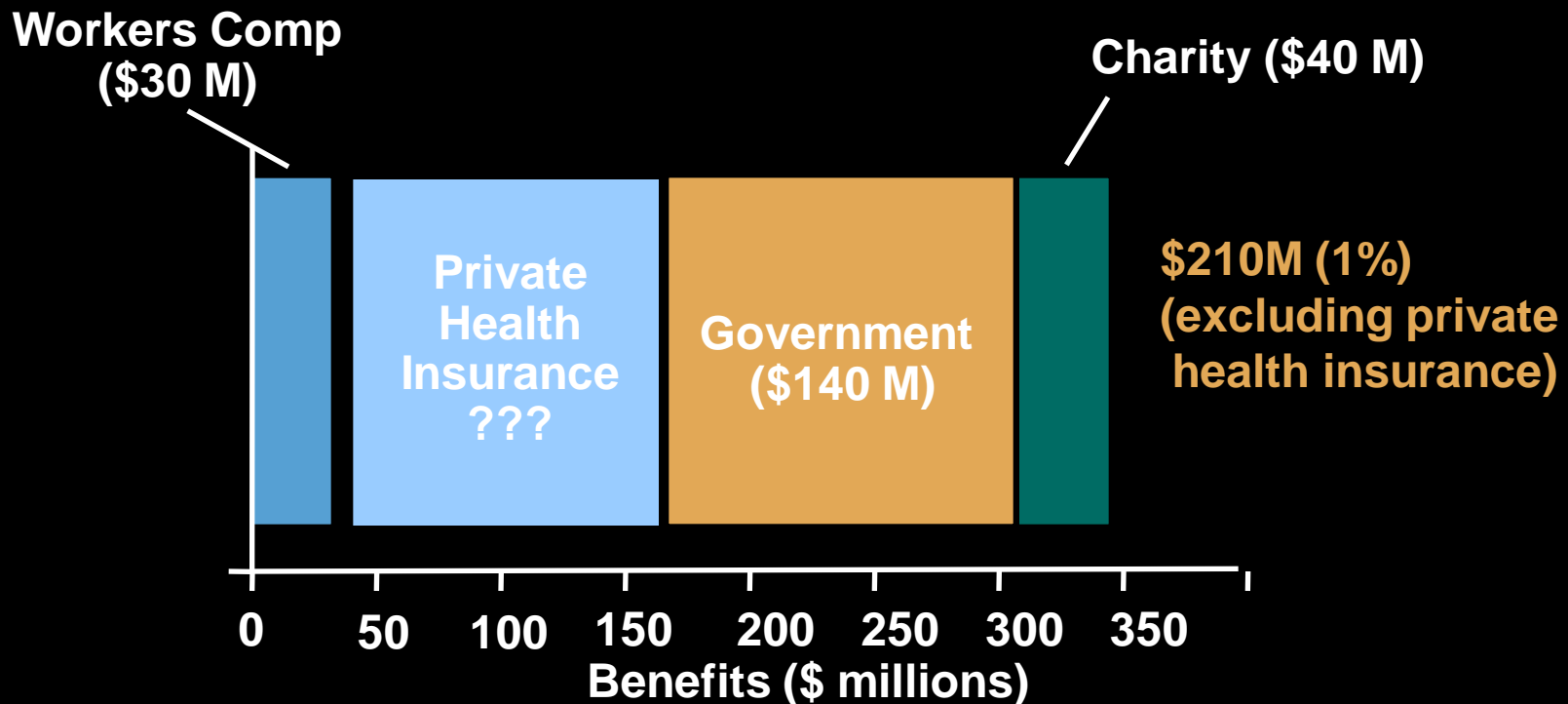
VCF  
Health monitoring

Medical services  
Alternative housing

# ***System for Compensating Environmental Injuries Needs to Be Better Developed***

- **Poor communication of health risks and slow response of government agencies may have increased exposures**
- **Financial responsibility for latent injuries remain unclear**
  - **FEMA provided liability insurance for clean-up contractors possible source of compensation**
    - **But must trace injuries back to 9/11**
  - **Private and public health insurance may end up providing coverage**

# Government and Charities Expanded Programs for Emotional Injuries



Health insurance  
Workers Comp.

Project Liberty  
Office of Victims  
of Crime

Medical  
services

# ***Current Programs Not Suited to Compensating Those with Long-Lasting Emotional Injuries***

- **Both charities and government slow to put programs in place**
- **Mismatch between short-term FEMA programs and long-term needs**
- **Lack of provider infrastructure**

# *Options for Environmental and Emotional Injuries*

- **Increase government responsibility; for example:**
  - **Extend government payment programs to cover emotional injuries for those not killed or seriously injured**
  - **Extend time horizon of government payment programs to cover latent injuries**
- **Expand role of private insurance**
  - **Require insurers to provide enhanced mental health benefits in certified terrorist attacks**