MEMORANDUM TO: **SECRETARIAL OFFICERS
MODAL ADMINISTRATORS**

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Subject: Guidance on Treatment of the Economic Value of a Statistical Life in
U.S. Department of Transportation Analyses

Departmental guidance on valuing reduction of fatalities and injuries by regulations or investments has been published periodically by this office since 1993. We issued a thorough revision of our guidance in 2008 and have issued annual updates to adjust for changes in prices and real incomes since then. Our most recent update, dated July 29, 2011, stated that a new review of the technical literature would be conducted to inform the next publication. The conclusions of that review are incorporated in this guidance.

Empirical studies published in recent years indicate a VSL of $9.1 million in current dollars for analyses using a base year of 2012. We also find that an income elasticity of 1.0 should be used to project VSL to future years. Based on wage forecasts from the Congressional Budget Office, we estimate that there will be an expected 1.07 percent annual growth rate in median real wages over the next 30 years (2013-2043). These estimates imply that VSL in future years should be estimated to grow by 1.07 percent per year before discounting to present value.

This guidance also includes a table of the relative values of preventing injuries of varied severity, unchanged since the 2011 guidance. We also prescribe a sensitivity analysis of the effects of using alternative VSL values. Instead of treating alternative values in terms of a probability distribution, analysts should apply only a test of low and high alternative values of $5.2 million and $12.9 million.

This guidance and other relevant documents will be posted on the Reports page of the Office of Transportation Policy website, http://www.dot.gov/policy, and on the General Counsel's regulatory information website, http://www.dot.gov/regulations. Questions should be addressed to Jack Wells, (202) 366-9224 or jack.wells@dot.gov.

cc: Regulations officers and liaison officers

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Revised Departmental Guidance 2013:

**Treatment of the Value of Preventing Fatalities and Injuries
in Preparing Economic Analyses**

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On the basis of the best available evidence, this guidance identifies $9.1 million as the value of a statistical life to be used for Department of Transportation analyses assessing the benefits of preventing fatalities and using a base year of 2012. It also establishes policies for projecting future values and for assigning comparable values to prevention of injuries.

<u>**Background**</u>

Prevention of injury, illness, and loss of life is a significant factor in many private economic decisions, including job choices and consumer product purchases. When government makes direct investments or controls external market impacts by regulation, it also pursues these benefits, often while also imposing costs on society. The Office of the Secretary of Transportation and other DOT administrations are required by Executive Order 13563, Executive Order 12866, Executive Order 12893, OMB Circular A-4, and DOT Order 2100.5 to evaluate in monetary terms the costs and benefits of their regulations, investments, and administrative actions, in order to demonstrate the faithful execution of their responsibilities to the public. Since 1993, the Office of the Secretary of Transportation has periodically reviewed the published research on the value of safety and updated guidance for all administrations. Our previous guidance, issued on July 29, 2011, stated that a new review of the literature (our first since 2008) would be conducted to inform the next publication. The conclusions of that review are incorporated in this guidance.

The benefit of preventing a fatality is measured by what is conventionally called the Value of a Statistical Life (VSL), defined as the additional cost that individuals would be willing to bear for improvements in safety (that is, reductions in risks) that, in the aggregate, reduce the expected number of fatalities by one. This conventional terminology has often provoked misunderstanding on the part of both the public and decision-makers. What is involved is not the valuation of life as such, but the valuation of reductions in risks. While new terms have been proposed to avoid misunderstanding, we will maintain the common usage of the research literature and OMB Circular A-4 in referring to VSL.

Most regulatory actions involve the reduction of risks of low probability (as in, for example, a one-in-10,000 annual chance of dying in an automobile crash). For these low-probability risks, we shall assume that the willingness to pay to avoid the risk of a fatal injury increases proportionately with growing risk. That is, when an individual is willing to pay $1,000 to reduce the annual risk of death by one in 10,000, she is said to have a VSL of $10 million. The assumption of a linear relationship between risk and willingness to pay therefore implies that she would be willing to pay $2,000 to reduce risk by two in 10,000 or $5,000 to reduce risk by five in 10,000. The assumption of a linear relationship between risk and willingness to pay (WTP) breaks down when the annual WTP becomes a substantial portion of annual income, so the assumption of a constant VSL is not appropriate for substantially larger risks.

When first applied to benefit-cost analysis in the 1960s and 1970s, the value of saving a life was measured by the potential victim's expected earnings, measuring the additional product society might have lost. These lost earnings were widely believed to understate the real costs of loss of life, because the value that we place on the continued life of our family and friends is not based entirely, or even principally, on their earning capacity. In recent decades, studies based on estimates of individuals' willingness to pay for improved safety have become widespread, and offer a way of measuring the value of reduced risk in a more comprehensive way. These estimates of the individual's value of safety are then treated as the ratio of the individual marginal utility of safety to the marginal utility of wealth. These estimates of the individual values of changes in safety can then

be aggregated to produce estimates of social benefits of changes in safety, which can then be compared with the costs of these changes.

Studies estimating the willingness to pay for safety fall into two categories. Some analyze subjects' responses in real markets, and are referred to as revealed preference (RP) studies, while others analyze subjects' responses in hypothetical markets, and are described as stated preference (SP) studies. Revealed preference studies in turn can be divided into studies based on consumer purchase decisions and studies based on employment decisions (usually referred to as hedonic wage studies). Even in revealed preference studies, safety is not purchased directly, so the value that consumers place upon it cannot be measured directly. Instead, the value of safety can be inferred from market decisions that people make in which safety is one factor in their decisions. In the case of consumer purchase decisions, since goods and services usually display multiple attributes, and are purchased for a variety of reasons, there is no guarantee that safety will be the conclusive factor in any purchasing decision (even products like bicycle helmets, which are purchased primarily for safety, also vary in style, comfort, and durability). Similarly, in employment decisions, safety is one of many considerations in the decision of which job offer to accept. Statistical techniques must therefore be used to identify the relative influence of price (or wage), safety, and other qualitative characteristics of the product or job on the consumer's or worker's decision on which product to buy or which job to accept.

An additional complication in RP studies is that, even if the real risks confronted by individuals can be estimated accurately by the analyst, the consumer or employee may not estimate these risks accurately. It is possible for individuals, through lack of relevant information or limited ability to analyze risks, to assign an excessively low or high probability to fatal risks. Alternatively, detailed familiarity with the hazards they face and their own skills may allow individuals to form more accurate estimates of risk at, for example, a particular job-site than those derived by researchers, which inevitably are based on more aggregate data.

In the SP approach, market alternatives incorporating hypothetical risks are presented to test subjects, who respond with what they believe would be their choices. Answers to hypothetical questions may provide helpful information, but they remain hypothetical. Although great pains are usually taken to communicate probabilities and measure the subjects' understanding, there is no assurance that individuals' predictions of their own behavior would be observed in practice. Against this weakness, the SP method can evaluate many more alternatives than those for which market data are available, and it can guarantee that risks are described objectively to subjects. With indefinitely large potential variations in cost and risk and no uncontrolled variation in any other dimension, some of the objections to RP models are obviated. Despite procedural safeguards, however, SP studies have not proven consistently successful in estimating measures of WTP that increase proportionally with greater risks.

RP studies involving decisions to buy and/or use various consumer products have focused on decisions such as buying cars with better safety equipment, wearing seat belts or helmets, or buying and installing smoke detectors. These studies often lack a continuum of price-risk opportunities, so that the price paid for a safety feature (such as a bicycle helmet) does not necessarily represent the value that the consumer places on the improvement in safety that the helmet provides. In the case of decisions to use a product (like a seatbelt) rather than to buy the product, the "price" paid by the consumer must be inferred from the amount of time and degree of inconvenience involved in using the product, rather than the directly observable price of buying the product. The necessity of making these inferences introduces possible sources of error. Studies of purchases of automobiles probably are less subject to these problems than studies of other consumer decisions, because the price of the safety equipment is directly observable, and there are usually a variety of more or less expensive safety features that provide more of a range of price-risk trade-offs for consumers to make.

While there are many examples of SP studies and RP studies involving consumer product purchases, the most widely cited body of research comprises hedonic wage studies, which estimate the wage differential that

employers must pay workers to accept riskier jobs, taking other factors into account. Besides the problem of identifying and quantifying these factors, researchers must have a reliable source of data on fatality and injury risks and also assume that workers' psychological risk assessment conforms to the objective data. The accuracy of hedonic wage studies has improved over the last decade with the availability of more complete data from the Bureau of Labor Statistics' (BLS) Census of Fatal Occupational Injuries (CFOI), supported by advances in econometric modeling, including the use of panel data from the Panel Study of Income Dynamics (PSID). The CFOI data are, first of all, a complete census of occupational fatalities, rather than a sample, so they allow more robust statistical estimation. Second, they classify occupational fatalities by both industry and occupation, allowing variations in fatalities across both dimensions to be compared with corresponding variations in wage rates. Some of the new studies use panel data to analyze the behavior of workers who switch from one job to another, where the analysis can safely assume that any trade-off between wage levels and risk reflects the preferences of a single individual, and not differences in preferences among individuals.

VSL estimates are based on studies of groups of individuals that are covered by the study, but those VSL estimates are then applied to other groups of individuals who were not the subjects of the original studies. This process is called benefit transfer. One issue that has arisen in studies of VSL is whether this benefit transfer process should take place broadly over the general population of people that are affected by a rulemaking, or whether VSL should be estimated for particular subgroups, such as workers in particular industries, and people of particular ages, races, and genders. Advances in data and econometric techniques have allowed specialized estimates of VSL for these population subgroups. Safety regulations issued by the Department of Transportation typically affect a broad cross-section of people, rather than more narrowly defined subgroups. Partly because of that, and partly for policy reasons, we do not consider variations in VSL among different population groups (except to take into account the effect on VSL of rising real income over time).

Principles and policies of DOT guidance

This guidance for the conduct of Department of Transportation analyses is a synthesis of empirical estimates, practical adaptations, and social policies. We continue to explore new empirical literature as it appears and to give further consideration to the policy resolutions embodied in this guidance. Although our approach is unchanged from previous guidance, the numbers and their sources are new, consistent with OMB guidance in Circular A-4 and other sources, and with the use of the best available evidence. The methods we adopt are:

1.   Prevention of an expected fatality is assigned a single, nationwide value in each year, regardless of the age, income, or other distinct characteristics of the affected population, the mode of travel, or the nature of the risk. When Departmental actions have distinct impacts on infants, disabled passengers, or the elderly, no adjustment to VSL should be made, but analysts should call the attention of decision-makers to the special character of the beneficiaries.

2.   In preparing this guidance, we have adjusted the VSL from the year of the source data to the year before the guidance is issued, based on two factors: growth in median real income and monetary inflation, both measured to the last full year before the date of the guidance.

3.   The value to be used by all DOT administrations will be published annually by the Office of the Secretary of Transportation.

4.   Analysts should project VSL from the base year to each future year based on expected growth in real income, according to the formula prescribed on page 8 of this guidance. Analysts should not project future changes in VSL based on expected changes in price levels.

5.   Alternative high and low benefit estimates should be prepared, using a range of VSLs prescribed on page 10 of this guidance.

In Circular A-4 (2003), the Office of Management and Budget endorsed VSL values between $1 million and $10 million, drawing on two recently completed VSL meta-analyses.[1] In 2012 dollars, these values would be between $1.24 million and $12.4 million. The basis for the previous DOT guidance, adopted on February 5, 2008, comprised five studies, four of which were meta-analyses that synthesized many primary studies, identifying their sources of variation and estimating the most likely common parameters. These studies were written by Ted R. Miller;[2] Ikuho Kochi, Bryan Hubbell, and Randall Kramer;[3] W. Kip Viscusi;[4] Janusz R. Mrozek and Laura O. Taylor;[5] and W. Kip Viscusi and Joseph Aldy.[6] They narrowed VSL estimates to the $2 million to $7 million range in dollar values of the original data, between 1995 and 2000 (about $3 million to $9 million at current prices). Miller and Viscusi and Aldy also estimated income elasticities for VSL (the percent increase in VSL per one percent increase in income). Miller's estimates were close to 1.0, while Viscusi and Aldy estimated the elasticity to be between 0.5 and 0.6. DOT used the Viscusi and Aldy elasticity estimate (averaged to 0.55), along with the Wages and Salaries component of the Employer Cost for Employee Compensation, as well as price levels represented by the Consumer Price Index, to project these estimates to a 2007 VSL estimate of $5.8 million.

Since these studies were published, the credibility of these meta-analyses has been qualified by recognition of weaknesses in the data used by the earlier primary studies whose results are synthesized in the meta-analyses. We now believe that the most recent primary research, using improved data (particularly the CFOI data discussed above) and specifications, provides more reliable results. This conclusion is based in part on the advice of a panel of expert economists that we convened to advise us on this issue. The panel consisted of Maureen Cropper (University of Maryland), Alan Krupnick (Resources for the Future), Al McGartland (Environmental Protection Agency), Lisa Robinson (independent consultant), and W. Kip Viscusi (Vanderbilt University). The Panel unanimously concluded that we should base our guidance only on hedonic wage studies completed within the past 10 years that made use of the CFOI database and used appropriate econometric techniques.

A White Paper prepared for the U.S. Environmental Protection Agency (EPA) in 2010 identifies eight hedonic wage studies using the CFOI data;[7] we have also identified seven additional studies, including five published since the EPA White Paper was issued (see Table 1). Some of these studies focus on estimating VSL values for narrowly defined economic, demographic, or occupational categories, or use inappropriate econometric techniques, resulting in implausibly high VSL estimates. We have therefore focused on nine studies that we

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[1] Viscusi, W. K. and J.E. Aldy (2003). "The Value of a Statistical Life: A Critical Review of Market Estimates Throughout the World." *Journal of Risk and Uncertainty*, 27(1): 5-76; and Mrozek, J.R. and L. O. Taylor (2002). "What Determines the Value of a Life? A Meta-Analysis." *Journal of Policy Analysis and Management*. 21(2).

[2]Miller, T. R. (2000). "Variations between Countries in Values of Statistical Life." *Journal of Transport Economics and Policy*. 34(2): 169-188. http://www.bath.ac.uk/e-journals/jtep/pdf/Volume_34_Part_2_169-188.pdf

[3]Kochi, I., B. Hubbell, and R. Kramer (2006). "An Empirical Bayes Approach to Combining and Comparing Estimates of the Value of a Statistical Life for Environmental Policy Analysis." *Environmental and Resource Economics.* 34(3): 385-406.

[4]Viscusi, W. K. (2004). "The Value of Life: Estimates with Risks by Occupation and Industry." *Economic Inquiry.* 42(1): 29-48.

[5] Mrozek, J. R., and L. O. Taylor (2002). "What Determines the Value of Life? A Meta-Analysis." *Journal of Policy Analysis and Management.* 21(2).

[6] Viscusi, W. K. and J. E. Aldy (2003). "The Value of a Statistical Life: A Critical Review of Market Estimates Throughout the World." *Journal of Risk and Uncertainty*. 27(1): 5-76.

[7] U.S. Environmental Protection Agency (2010), *Valuing Mortality Risk Reductions for Environmental Policy: A White Paper (Review Draft)*. Prepared by the National Center for Environmental Economics for consultation with the Science Advisory Board – Environmental Economics Advisory Committee.

think are useful for informing an appropriate estimate of VSL. There is broad agreement among researchers that these newer hedonic wage studies provide an improved basis for policy-making.[8]

The 15 hedonic wage studies we have identified that make use of the CFOI database to estimate VSL are listed in Table 1. Several of these studies focus on estimating how VSL varies for different categories of people, such as males and females,[9] older workers and younger workers,[10] blacks and whites,[11] immigrants and non-immigrants,[12] and smokers and non-smokers,[13] as well as for different types of fatality risks.[14] Some of these studies do not estimate an overall ("full-sample") VSL, instead estimating VSL values only for specific categories of people. Some of the studies, as the authors themselves sometimes acknowledge, arrive at implausibly high values of VSL, because of econometric specifications which appear to bias the results, or because of a focus on a narrowly-defined occupational group. Moreover, these papers generally offer multiple model specifications, and it is often not clear (even to the authors) which specification most accurately represents the actual VSL. We have generally chosen the specification that the author seems to believe is best. In cases where the author does not express a clear preference, we have had to average estimates based on alternative models within the paper to get a representative estimate for the paper as a whole.

Table 1: VSL Studies Using CFOI Database

(VSLs in millions of dollars)

	Study	Year of Study $	VSL in Study-Year $	VSL in 2012$	Comments
1.	Viscusi (2003) *	1997	$14.185M	$21.65M	Implausibly high; industry-only risk measure
2.	Leeth and Ruser (2003) *	2002	$7.04M	$8.90M	Occupation-only risk measure
3.	Viscusi (2004)	1997	$4.7M	$7.17M	Industry/occupation risk measure
4.	Kniesner and Viscusi (2005)	1997	$4.74M	$7.23M	Industry/occupation risk measure
5.	Kniesner *et al.* (2006) *	1997	$23.70M	$36.17M	Implausibly high; industry/occupation risk measure

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[8]A current survey of theoretical and empirical research on VSL may be found in: Cropper, M., J.K. Hammitt, and L.A. Robinson (2011). "Valuing Mortality Risk Reductions: Progress and Challenges." *Annual Review of Resource Economics*. 3: 313-336. http://www.annualreviews.org/doi/abs/10.1146/annurev.resource.012809.103949

[9] Leeth, J.D. and J. Ruser (2003). "Compensating Wage Differentials for Fatal and Nonfatal Injury Risks by Gender and Race." *Journal of Risk and Uncertainty*, 27(3): 257-277.

[10] Kniesner, T.J., W.K. Viscusi, and J.P. Ziliak (2006). "Life-Cycle Consumption and the Age-Adjusted Value of Life." *Contributions to Economic Analysis and Policy*. 5(1): 1-34; Viscusi, W.K. and J.E. Aldy (2007). "Labor Market Estimates of the Senior Discount for the Value of Statistical Life." *Journal of Environmental Economics and Management*. 53: 377-392; Aldy, J.E. and W.K. Viscusi (2008). "Adjusting the Value of a Statistical Life for Age and Cohort Effects." *Review of Economics and Statistics*. 90(3): 573-581; and Evans, M.F. and G. Schaur (2010). "A Quantile Estimation Approach to Identify Income and Age Variation in the Value of a Statistical Life." *Journal of Environmental Economics and Management*. 59: 260-270.

[11] Viscusi, W.K. (2003). "Racial Differences in Labor Market Values of a Statistical Life." *Journal of Risk and Uncertainty*. 27(3): 239-256, and Leeth, J.D. and J. Ruser (2003), *op. cit*.

[12] Hersch, J. and W.K. Viscusi (2010). "Immigrant Status and the Value of Statistical Life." *Journal of Human Resources*. 45(3): 749-771.

[13] Viscusi, W.K. and J. Hersch (2008). "The Mortality Cost to Smokers." *Journal of Health Economics*. 27: 943-958.

[14] Scotton, C.R. and L.O. Taylor. "Valuing Risk Reductions: Incorporating Risk Heterogrneity into a Revealed Preference Framework." *Resource and Energy Economics*. 33 and Kochi, I and L.O. Taylor (2011). "Risk Heterogeneity and the Value of Reducing Fatal Risks: Further Market-Based Evidence." *Journal of Benefit-Cost Analysis*. 2(3): 381-397.

6.	Viscusi and Aldy (2007) *	2000			Industry-only risk measure; no full-sample VSL estimate
7.	Aldy and Viscusi (2008) *	2000			Industry-only risk measure, no full-sample VSL estimate
8.	Evans and Smith (2008)	2000	$9.6M	$12.84M	Industry-only risk measure
9.	Viscusi and Hersch (2008)	2000	$7.37M	$9.86M	Industry-only risk measure
10.	Evans and Schaur (2010)	1998	$6.7M	$9.85M	Industry-only risk measure
11.	Hersch and Viscusi (2010)	2003	$6.8M	$8.43M	Industry/occupation risk measure
12.	Kniesner *et al.* (2010)	2001	$7.55M	$9.76M	Industry/occupation risk measure
13.	Kochi and Taylor (2011)*	2004			VSL estimated only for occupational drivers
14.	Scotton and Taylor (2011)	1997	$5.27M	$8.04M	Industry/occupation risk measure; VSL is mean of estimates from three preferred specifications
15.	Kniesner *et al.* (2012)	2001	$4M - $10M	$5.17M - $12.93M	Industry/occupation risk measure; mean VSL estimate is $9.05M

* Studies shown in grayed-out rows were not used in determining the VSL Guidance value.

We found that nine of these studies provided usable estimates of VSL for a broad cross-section of the population.[15] We excluded Viscusi (2003) and Kniesner *et al*. (2006) on the grounds that their estimates of VSL were implausibly high (Viscusi acknowledges that the estimated VSLs in his study are very high). We excluded Leeth and Ruser (2003) because it used only variations in occupation for estimating variation in risk (the occupational classifications are generally regarded as less accurate than the industry classifications). We excluded Viscusi and Aldy (2007) and Aldy and Viscusi (2008) because they did not estimate overall "full-sample" VSLs (they focused instead on estimating VSLs for various subgroups). We excluded Kochi and Taylor (2011) because it estimated VSL only for a narrow occupational group (occupational drivers). For Scotton and Taylor (2011) and Kniesner *et al*. (2012) we calculated average values for VSL from what appeared to be the preferred model specifications. For this guidance, we adopt the average of the VSLs estimated in the remaining nine studies, updated to 2012 dollars (based both on changes in the price level and changes in real incomes from the year for which the VSL was originally estimated). This average is $9.14 million, which we round to $9.1 million for purposes of this guidance.

Our current guidance specifies that our VSL guidance will be updated each year, to take into account both the increase in the price level and the increase in real incomes. The VSL literature is generally in agreement that VSL increases with real incomes, but the exact rate at which it does so is subject to some debate. In our

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[15] In addition to Viscusi (2004) [cited in footnote 4], Viscusi and Hersch (2008) [cited in footnote 13], Evans and Schaur (2010) [cited in footnote 10], Hersch and Viscusi (2010) [cited in footnote 12], and Scotton and Taylor (2011) [cited in footnote 14], these include Kniesner, T.J. and W.K. Viscusi (2005). "Value of a Statistical Life: Relative Position vs. Relative Age." *AEA Papers and Proceedings*. 95(2): 142-146; Evans, M.F. and V.K. Smith (2008). "Complementarity and the Measurement of Individual Risk Tradeoffs: Accounting for Quantity and Quality of Life Effects." National Bureau of Economic Research Working Paper 13722; Kniesner, T.J., W.K. Viscusi, and J.P. Ziliak (2010). "Policy Relevant Heterogeneity in the Value of Statistical Life: New Evidence from Panel Data Quantile Regressions." *Journal of Risk and Uncertainty*. 40: 15-31; and Kniesner, T.J., W.K. Viscusi, C. Woock, and J.P. Ziliak (2012). "The Value of a Statistical; Life: Evidence from Panel Data." *Review of Economics and Statistics*. 94(1): 74-87.

current guidance, we cite research by Viscusi and Aldy (2003) that estimated the elasticity of VSL with respect to increases in real income as being between 0.5 and 0.6 (i.e., a one-percent increase in real income results in an increase in VSL of 0.5 to 0.6 percent). We accordingly have increased VSL by 0.55 percent for every one-percent increase in real income. More recent research by Kniesner, Viscusi, and Ziliak (2010) has derived more refined income elasticity estimates ranging from 2.24 at low incomes to 1.23 at high incomes, with an overall figure of 1.44.[16] An alternative specification yielded an overall elasticity of 1.32. Similarly, Costa and Kahn (2004) estimated the income-elasticity of VSL to be between 1.5 and 1.6.[17] These empirical results are consistent with theoretical arguments suggesting that the income-elasticity of VSL should be greater than 1.0.[18]

In view of the large increase in the income elasticity of VSL that would be suggested by these empirical results, and because the literature seems somewhat unsettled, we will increase our suggested income-elasticity figure only to 1.0. While this figure is lower than the elasticity estimates of Kniesner *et al.* and Costa and Kahn, it is higher than that of Viscusi and Aldy, the basis for our previous guidance. It is difficult to state with confidence whether a cross-sectional income elasticity (such as those estimated in these empirical analyses), representing the difference in sensitivity to fatality risks between low-income and high-income workers in a given population, corresponds to a longitudinal elasticity, representing the way in which VSL is affected by growth in income over time for an overall population. Consequently, we adopt this more moderate figure, pending more comprehensive documentation.

The index we use to measure real income growth as it affects VSL is the Median Usual Weekly Earnings (MUWE), in constant (1982-84) dollars, derived by BLS from the Current Population Survey (Series LEU0252881600 – not seasonally adjusted). This series is more appropriate than the Wages and Salaries component of the Employment Cost Index (ECI), which we used previously, because the ECI applies fixed weights to employment categories, while the weekly earnings series uses a median employment cost for wage and salary workers over the age of 16. A median value is preferred because it should better reflect the factors influencing a typical traveler affected by DOT actions (very high incomes would cause an increase in the mean, but not affect the median). In contrast to a median, an average value over all income levels might be unduly sensitive to factors that are less prevalent among actual travelers. Similarly, we do not take into account changes in non-wage income, on the grounds that this non-wage income is not likely to be significant for the average person affected by our rules. The MUWE has been virtually unchanged for the past decade, so this has very little effect on the VSL adjustment over the past ten years. However, it is likely to be more significant in the future.

We have chosen the Consumer Price Index (CPI-U) as a price index that similarly is representative of changes in the value of money that would be considered by a typical worker making decisions corresponding to his income level. This index grew from 2002 to 2012 by 27.62 percent, raising estimates of VSL in 2002 dollars by over 27 percent over ten years.

In 2011, we adopted a procedure for estimating VSL in each future year as it would respond to expected growth in real income levels. Logical consistency required that higher incomes in the future would influence projected VSLs, just as they affect the current year's baseline. The procedure we now specify uses the projected rate of

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[16] Kniesner, T.J., W.K. Viscusi, and J.P. Ziliak (2010). "Policy Relevant Heterogeneity in the Value of Statistical Life: New Evidence from Panel Data Quantile Regressions." *Journal of Risk and Uncertainty*. 40(1):15–31.

[17] Costa, D.L. and M.E. Kahn (2004). "Changes in the Value of Life, 1940-1980." *Journal of Risk and Uncertainty*. 29(2): 159-180.

[18] Eeckhoudt, L.R. and J.K. Hammitt (2001). "Background Risks and the Value of a Statistical Life." *Journal of Risk and Uncertainty*. 23(3): 261-279; Kaplow, L. (2005). "The Value of a Statistical Life and the Coefficient of Relative Risk Aversion." *Journal of Risk and Uncertainty*, 31(1); Murphy, K.M. and R.H. Topel (2006). "The Value of Health and Longevity." *Journal of Political Economy*. 114(5): 871-904; and Hammitt, J.K. and L.A. Robinson (2011). "The Income Elasticity of the Value per Statistical Life: Transferring Estimates between High and Low Income Populations." *Journal of Benefit-Cost Analysis*. 2(1): 1-27.

growth of the Real Median Wage for Workers Covered by Social Security, estimated by the Congressional Budget Office (CBO).[19] While the growth rate forecast fluctuates significantly over the next decade in response to incentives in the Affordable Care Act to receive wage compensation versus health insurance benefits, we believe that it is reasonable to use a long-term average growth rate to estimate changes in future VSL. We have calculated the average projected growth rate in the real median wage, based on the CBO data over the next 30 years, to be 1.07 percent per year. With an income elasticity of 1.0, the base-year VSL should thus be increased by 1.07 percent per year to estimate VSL for any future year (in base-year dollars), before discounting to present value.[20]

For future years, the formula for calculating future values of VSL is therefore:

$$VSL_{2012+N} \ = \ VSL_{2012} \ \text{x} \ 1.0107^N$$

where VSL_{2012+N} is the VSL value N years after 2012

and VSL_{2012} is the VSL value in 2012 (i.e., \$9.1 million).

When conducting sensitivity analyses using alternative VSL values (see page 10), analysts should use those alternative VSL values in place of the \$9.1 million value used here. We emphasize that future VSL values should be adjusted only for changes in real wages, not for changes in price levels. For analysts using base years prior to 2012, the new VSL for 2011 (adjusted for changes in real income and prices) is \$8.98 million in 2011 dollars. For 2010, this value is \$8.86 million in 2010 dollars.

Value of Preventing Injuries

Nonfatal injuries are far more common than fatalities and vary widely in severity, as well as probability. In principle, the resulting losses in quality of life, including both pain and suffering and reduced income, should be estimated by potential victims' WTP for personal safety. While estimates of WTP to avoid injury are available, often as part of a broader analysis of factors influencing VSL, these estimates are generally only available for an average injury resulting in a lost workday, and not for a range of injuries varying in severity. Because detailed WTP estimates covering the entire range of potential disabilities are unobtainable, we use an alternative standardized method to interpolate values of expected outcomes, scaled in proportion to VSL. Each type of accidental injury is rated (in terms of severity and duration) on a scale of quality-adjusted life years (QALYs), in comparison with the alternative of perfect health. These scores are grouped, according to the Abbreviated Injury Scale (AIS), yielding coefficients that can be applied to VSL to assign each injury class a value corresponding to a fraction of a fatality.

In our previous guidance, the values of preventing injuries were updated by new estimates from a study by Spicer and Miller.[21] The measure adopted was the quality-adjusted percentage of remaining life lost for median

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[19] The projected growth of the mean real wage is reported by CBO in its 2012 Long-Term Budget Outlook (p. 34, p. 65, fn. 5). CBO has provided us with unpublished forecasts of median real wages, which we believe are more relevant to estimating the VSL of the average person affected by transportation-related safety risks. We use these projected median real wage forecasts in our guidance for adjustments of future VSLs.
http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-05-Long-Term_Budget_Outlook.pdf
http://www.cbo.gov/sites/default/files/cbofiles/attachments/43288-LTBOSuppTables.xls

[20] 1.0107^1.0 = 1.0107 (annual income growth factor of 1.0107, raised to the power of the income elasticity, 1.0, yields annual real VSL growth of 1.0107).

[21] Rebecca S. Spicer and Ted R. Miller. "Final Report to the National Highway Traffic Safety Administration: Uncertainty Analysis of Quality Adjusted Life Years Lost." Pacific Institute for Research and Evaluation. February 5, 2010.
http://ostpxweb.dot.gov/policy/reports/QALY Injury Revision_PDF Final Report 02-05-10.pdf

utility weights, based on QALY research considered "best," as presented in Table 9 of the cited study. The rate at which disability is discounted over a victim's lifespan causes these percentages to vary slightly, and the study shows estimates for 0, 3, 4, 7, and 10 percent discount rates. These differences are minor in comparison with other sources of variation and uncertainty, which we recognize by sensitivity analysis. Since OMB recommends the use of alternative discount rates of 3 and 7 percent, we present the scale corresponding to an intermediate rate of 4 percent for use in all analyses. The fractions shown should be multiplied by the current VSL to obtain the values of preventing injuries of the types affected by the government action being analyzed.

Table 2: Relative Disutility Factors by Injury Severity Level (AIS)
For Use with 3% or 7% Discount Rate

AIS Level	Severity	Fraction of VSL
AIS 1	Minor	0.003
AIS 2	Moderate	0.047
AIS 3	Serious	0.105
AIS 4	Severe	0.266
AIS 5	Critical	0.593
AIS 6	Unsurvivable	1.000

For example, if the analyst were seeking to estimate the value of a "serious" injury (AIS 3), he or she would multiply the Fraction of VSL for a serious injury (0.105) by the VSL ($9.1 million) to calculate the value of the serious injury ($955,000). Values for injuries in the future would be calculated by multiplying these Fractions of VSL by the future values of VSL (calculated using the formula on page 8).

These factors have two direct applications in analyses. The first application is as a basis for establishing the value of preventing nonfatal injuries in benefit-cost analysis. The total value of preventing injuries and fatalities can be combined with the value of other economic benefits not measured by VSLs, and then compared to costs to determine either a benefit/cost ratio or an estimate of net benefits.

The second application stems from the requirement in OMB Circular A-4 that evaluations of major regulations for which safety is the primary outcome include cost-effectiveness analysis, in which the cost of a government action is compared with a non-monetary measure of benefit. The values in the above table may be used to translate nonfatal injuries into fatality equivalents which, when added to fatalities, can be divided into costs to determine the cost per equivalent fatality. This ratio may also be seen as a "break-even" VSL, the value that would have to be assumed if benefits of a proposed action were to equal its costs. It would illustrate whether the costs of the action can be justified by a VSL that is well within the accepted range or, instead, would require a VSL approaching the upper limit of plausibility. Because the values assigned to prevention of injuries and fatalities are derived in part by using different methodologies, it is useful to understand their relative importance in drawing conclusions. Consequently, in analyses where benefits from reducing both injuries and fatalities are present, the estimated values of injuries and fatalities prevented should be stated separately, as well as in the aggregate.

While these injury disutility factors have not been revised in this update of our VSL guidance, the peer review process for this guidance raised the question as to whether their accuracy could be further improved. We therefore believe that a more thorough review of the value of preventing injuries is warranted. While the results of that review are not incorporated in this guidance, we plan to incorporate the results of that review in future guidance as soon as it is completed.

Recognizing Uncertainty

Regulatory and investment decisions must be made by officials informed of the limitations of their information. The values we adopt here do not establish a threshold dividing justifiable from unjustifiable actions; they only suggest a region where officials making these decisions can have relatively greater or lesser confidence that their decisions will generate positive net benefits. To convey the sensitivity of this confidence to changes in assumptions, OMB Circular A-4 and Departmental policy require analysts to prepare estimates using alternative values. We have previously encouraged the use of probabilistic methods such as Monte Carlo analysis to synthesize the many uncertain quantities determining net benefits.

While the individual estimates of VSL reported in the studies cited above are often accompanied by estimates of confidence intervals, we do not, at this time, have any reliable method for estimating the overall probability distribution of the average VSL that we have calculated from these various studies. Consequently, alternative VSL values can only illustrate the conclusions that would result if the true VSL actually equaled the higher or lower alternative values. Analysts should not imply a known probability that the true VSL would exceed or fall short of either the primary VSL figure or the alternative values used for sensitivity analysis. Kniesner et al. (2012) suggest that a reasonable range of values for VSL is between $4 million and $10 million (in 2001 dollars), or $5.2 million to $12.9 million in 2012 dollars. This range of values includes all the estimates from the eight other studies on which this guidance is based. For illustrative purposes, analysts should calculate high and low alternative estimates of the values of fatalities and injuries by using alternative VSLs of $5.2 million and $12.9 million, with appropriate adjustments for future VSL values and for values of injuries calculated using the VSL.

Because the relative costs and benefits of different provisions of a rule can vary greatly, it is important to disaggregate the provisions of a rule, displaying the expected costs and benefits of each provision, together with estimates of costs and benefits of reasonable alternatives to each provision.

This guidance and other relevant documents will be posted on the Reports page of the Office of Transportation Policy website, http://www.dot.gov/policy. Questions should be addressed to Jack Wells, (202) 366-9224, or jack.wells@dot.gov.