



# Compensating the Victims of 9/11

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The injury, death, and destruction caused by the 9/11 terrorist attacks posed an enormous challenge for the U.S. compensation system. Insured losses alone—more than \$32 billion—were 30 times greater than the largest previous insured losses from a terrorist attack (the London bombing of 1993). How did the U.S. compensation system perform following 9/11, and what lessons can be drawn from that experience to improve the system’s response to large-scale incidents in the future? To answer these questions, a RAND Institute for Civil Justice study examined the compensation paid to victims of the 9/11 attacks. The report on that study, authored by RAND analysts Lloyd Dixon and Rachel Kaganoff Stern, draws a detailed portrait of the compensation amounts and their sources. Focusing on the impact of the attack on the World Trade Center, the data for the study was obtained from interviews with key stakeholders in New York City and from sources in government, charitable organizations, and the insurance industry.

The study addressed three main topics:

- The amounts and sources of compensation across the various groups of individuals and businesses affected by the 9/11 attacks
- An assessment of the benefits received by each victim group
- Issues that should be addressed in developing compensation policies in the event of a future terrorist attack.

## 9/11 Compensation: The Big Picture

The compensation system comprises four basic mechanisms that are used to recover economic damages and other kinds of losses—insurance, the tort (or liability) system, government programs, and charity. The 9/11 attacks immediately created difficulties for the system because of the magnitude of the losses and the nature of the parties primarily responsible for those losses. In response to the attacks, the federal government limited the liability of airlines, airports, and certain government bodies.

### Abstract

A unique combination of insurance payments, government programs, and charitable distributions provided benefits to individuals and businesses affected by the 9/11 terrorist attacks. This research quantifies the benefits received by the various victim groups from each compensation mechanism. It examines how the benefits stack up against various measures of equity and assesses outcomes based in part on interviews with stakeholders in New York City. Issues are identified that policymakers should consider as they formulate policies for compensation and assistance in the event of a future attack.

It established the September 11th Victim Compensation Fund (VCF) to compensate families of the deceased and to compensate victims for their injuries, and it funded a major economic revitalization program for New York City.

The RAND study found that the majority of the \$38.1 billion in total payouts to individuals and businesses that could be quantified came from insurers (\$19.6 billion). Another substantial piece (\$15.8 billion) came from government programs. The remaining amount (\$2.7 billion) came from charitable organizations (see Figure 1). To date, no compensation has been awarded through the tort system, although some wrongful death and financial injury cases are still being pursued in the courts.

### How Different Types of Victims Fared

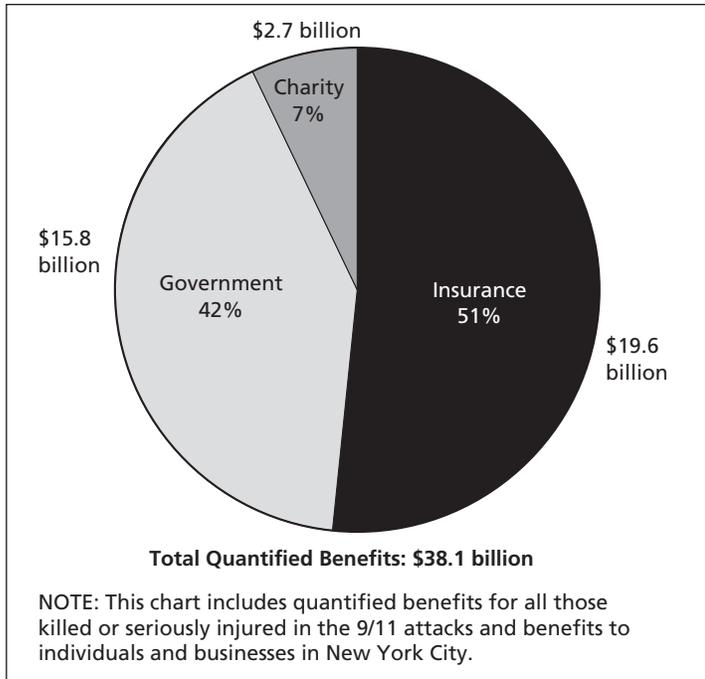
The RAND study also examined the compensation received by various categories of victims. As Figure 2 illustrates, deaths of and serious injuries to civilians and damage to businesses accounted for the overwhelming majority of the quantified benefits paid out after 9/11 (more than \$32 billion of the total \$38.1 billion).

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**Figure 1. Quantified Benefits by Compensation Mechanism**



**Killed or Seriously Injured Civilians.** The attacks killed 2,551 civilians (i.e., non-emergency-response personnel) and seriously injured another 215. The vast majority of these victims and their families sought compensation through the VCF. This group received a total of \$8.7 billion in benefits, or an average of \$3.1 million per recipient. Sixty-nine percent of the benefits came from the government, 23 percent from insurance, and 8 percent from charities.

**Emergency Responders.** The attacks killed or seriously injured approximately 425 emergency responders. This group received a total of \$1.9 billion in benefits, or about \$1.1 million more on average than a civilian with similar economic loss. Most of these funds (about three-quarters) came from the government, and the remainder came from charities.

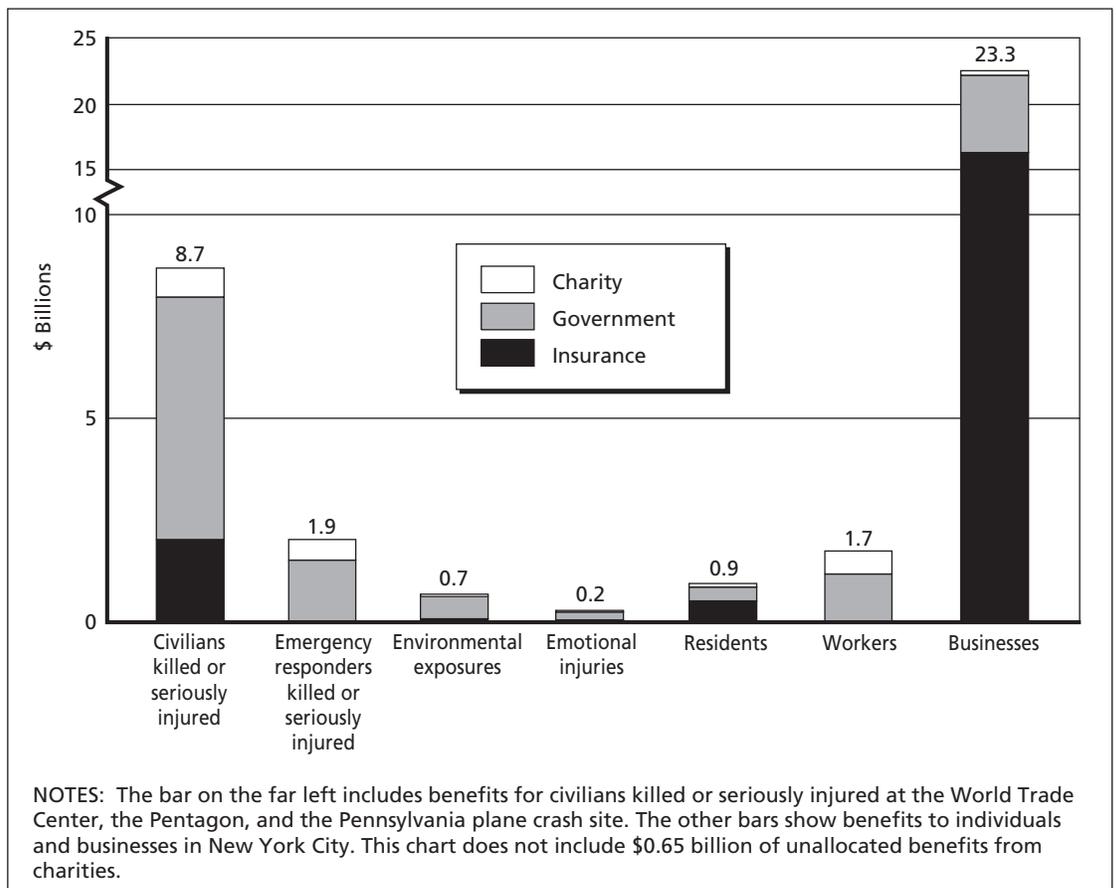
**Businesses.** Businesses in New York City, and especially those in Lower Manhattan, suffered major property damage, disrupted operations, and loss of customers. Businesses received a

total of \$23.3 billion in compensation, about 75 percent of which came from insurance.

**Other Categories.** Residents of Lower Manhattan, workers, those who suffered from emotional trauma, and those who were injured from exposure to smoke, dust, and debris released during the collapse and cleanup of the World Trade Center also received compensation. The benefits that could be quantified for these groups total approximately \$3.5 billion, most of which came from government programs. Total compensation for mental health care and for respiratory injuries due to environmental exposure would be higher if the benefits paid by employer-provided health plans or employee-assistance plans could be quantified.

The distribution of these payments across groups caused some of those who were interviewed for this study to raise questions regarding equity. Because the VCF based its benefit amounts on projected lifetime earnings, award sizes were higher for those with higher projected lifetime incomes. Some victims' family members wondered why the lives of those who made less money were less valued than those who made more. Other stakeholders wondered why the victims of the 9/11 attacks received awards that far exceeded those paid out after previous incidents, such as the 1995 Oklahoma City bombing. Interviewees did not dispute the tragic losses of those families whose loved ones died in the attacks, but some felt that a higher share of resources should have gone to other victim groups, such as workers and small businesses.

**Figure 2. 9/11 Compensation by Victim Group**



## Policy Issues for the Future

The benefits received by individuals and businesses affected by the 9/11 attacks were the result of a unique combination of insurance, the tort system, government programs, and charity. There is no guarantee that a similar mix of resources will be available for the victims of a future terrorist attack, and there is no general agreement in the policy community on the role that insurance, tort, government, and charity should play in providing compensation in such a case. Drawing on the experience of 9/11, the authors of this study identified a number of issues that policymakers should consider as they formulate policies for compensation and assistance in the event of a future attack:

- Should victims of terrorist attacks receive greater benefits than victims of other crimes and adverse events, and, if so, how should the responsibility for providing compensation be split between individuals and the government? A fixed, flat amount of government compensation, for example, would place responsibility on high-income earners to purchase life insurance to cover losses above those covered by the government.
- To what extent should the existing social safety net provided by government programs be augmented for workers who are either directly or indirectly affected by a terrorist attack?
- To what extent should government programs strive to restore economic activity in affected areas to pre-event levels? Domestic security should be factored into an analysis of the costs and benefits of revitalization efforts. For example, dispersing economic activity may reduce the number of attractive targets for terrorists but may also result in lower economic productivity.
- How can the coordination between government programs and charitable organizations be improved?
- What is the appropriate role of each benefit mechanism in a terrorism compensation system, particularly the respective roles of government and the insurance markets? For example, should businesses be required to purchase terrorism insurance, or should government programs have primary responsibility for providing compensation to businesses after terrorist attacks?

Policy analysis can contribute to decisionmaking on these issues by assessing how various options measure up against goals for equity, economic productivity, and domestic security in a system for compensating losses from terrorist events. ■

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This research brief describes work done for the RAND Institute for Civil Justice documented in *Compensation for Losses from the 9/11 Terrorist Attacks*, by Lloyd Dixon and Rachel Kaganoff Stern, MG-264-ICJ, 2004, 212 pages, \$30, available online at <http://www.rand.org/publications/MG/MG264>. Related RAND research: *Issues and Options for Government Intervention in the Market for Terrorism Insurance*, by Lloyd Dixon, John Arlington, Stephen Carroll, Darius Lakdawalla, Robert Reville, and David Adamson, OP-135-ICJ, 2004, 52 pages, \$18, available online at <http://www.rand.org/publications/OP/OP135>. These documents are also available from RAND Distribution Services (phone: 310-451-7002; toll free 877-584-8642; or email: [order@rand.org](mailto:order@rand.org)). The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.

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