



# **ICEAA Cost Challenge 2023:**

*What is the cost of a human?*

**June 29, 2023**

# AGENDA

- Team & Task Introduction
- WBS & GR&A
- Direct Costs Approach
- Indirect Costs Approach
- Results & Crosschecks
- Takeaways & Lessons Learned

# TEAM INTRODUCTION



**Andrew Shober**

*Lead Analyst*

Andrew has a B.S. in Supply Chain & Information Systems from Penn State. He has worked at Technomics for four years, providing cost estimates for numerous USCG and US Navy ship programs. He currently supports the Columbia Class Submarine Program Office and works within Technomics' Cost Analysis & Acquisition Support (CAAS) Service Area.



**Sydney Kacek**

*Lead Analyst*

Syd has a B.S. in Business Management from Clemson University and an MBA in Marketing Analytics from Penn State. She joined Technomics in September 2022 after working for NAVAIR and NAVSEA. She currently provides cost/acquisition support to the PEO IWS X Program Office and resides in Technomics' Cost Analysis & Acquisition Support (CAAS) Service Area.



**Brandon Schwark**

*Lead Analyst*

Brandon has a B.S. in Economics from Penn State and a Masters in Applied Economics from the University of Maryland. He primarily supports the National Nuclear Security Administration (NNSA) providing cost analysis, modeling, and analytical support. He currently works within the Program, Portfolio and Performance Management (P3M) Service Area.



**Ben Bergen**

*Senior Associate*

Ben has a B.S. in Industrial and Systems Engineering from Virginia Tech. Since joining Technomics in March 2021, he has provided Cost and financial planning support to multiple Navy programs in IWS 2.0. He currently works within the Program, Portfolio, and Performance Management (P3M) Service Area.



**Harry Smith**

*Senior Associate*

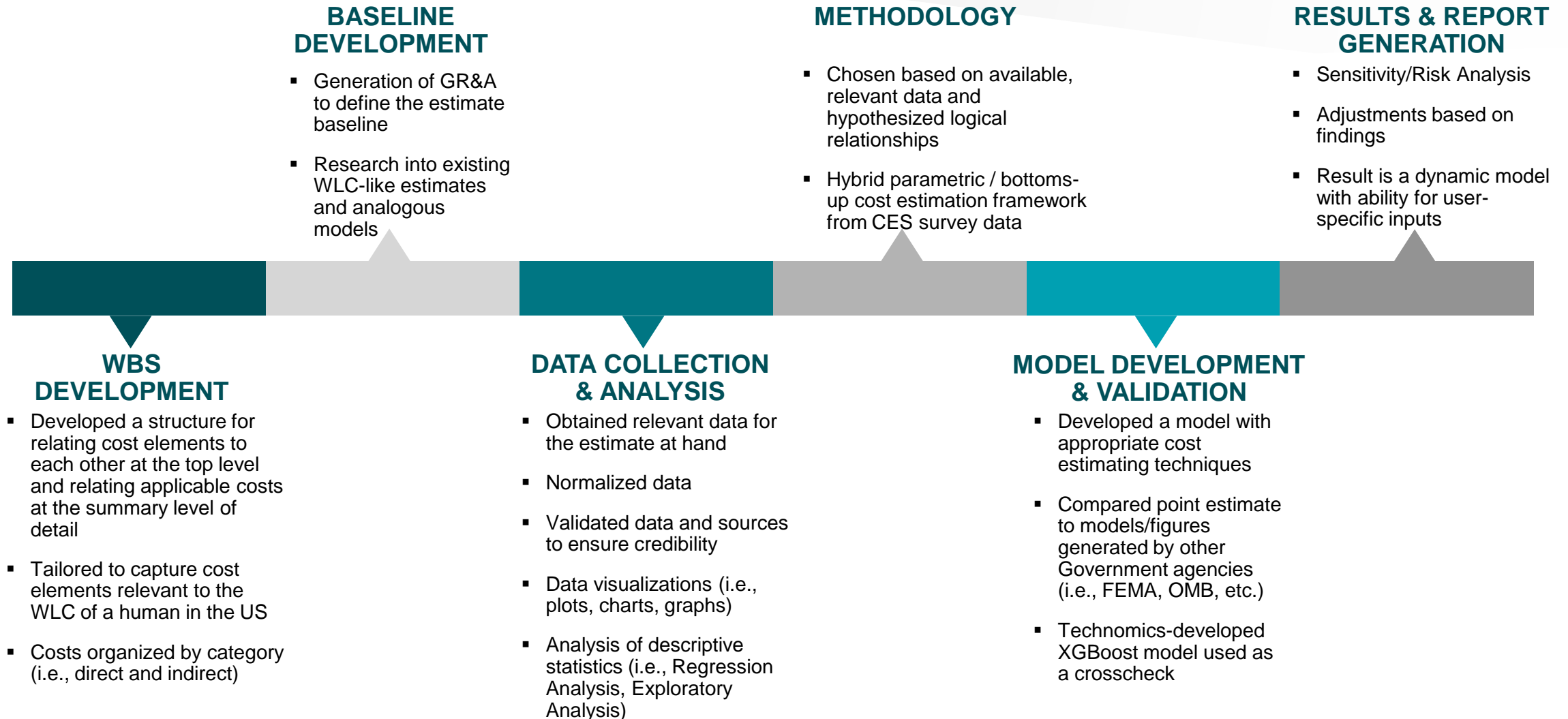
Harry has a B.S. in Environmental Engineering from the University of Virginia. He joined Technomics in March 2022 after 1.5 years in the Environmental Engineering field and now supports the Defense Cost and Resource Center (DCARC) while residing in Technomics' Professional Development Pathway (PDP).

# PURPOSE AND SCOPE

- **General Guideline:** Gather data pertinent to estimate the Whole Life Cost (WLC) of a human within the US
- **Defining WLC:**
  - WLC is commonly defined as the total cost of ownership over the life of an asset
  - Often used in economic appraisal and asset management
  - Similar to a Life Cycle Cost (LCC), but also considers externalities, such as economic and societal impacts
- **Understanding the problem space:**
  - How do we define the person we're estimating?
  - How do we account for costs of dependents?
  - Should we account for intangible, secondary, or tertiary costs?
  - What data sources are available?
  - How might data constrain the estimate?

# ESTIMATING PROCESS OVERVIEW

The Technomics Team followed ICEAA's structured cost estimating process, as defined in Module 1 of the CEBok.



# WORK BREAKDOWN STRUCTURE (WBS)

1. **Direct Costs: Costs directly paid for by the person**
  - Quantifies costs of expenditures
  - Lower-level categories consistent with data source
2. **Indirect Costs: Costs not directly paid for by the person**
  - **Environmental Costs:** Captures environmental externalities that one human being may impose on other human beings
  - **Government Expenditures:** Amount of government expenditures allotted to the person
  - Exclusions:
    - Other environmental costs with limited data available, such as overpopulation, deforestation, other pollutants
    - Secondary occupational costs such as energy costs at work, tools, work uniforms

WLC of a Human within the US	
<b>1.0</b>	<b>Direct</b>
1.1	Food
1.2	Alcoholic Beverages
1.3	Housing
1.4	Apparel and Services
1.5	Transportation
1.6	Healthcare
1.7	Entertainment
1.8	Personal Care Products and Services
1.9	Reading
1.10	Education
1.11	Tobacco Products and Smoking Supplies
1.12	Miscellaneous
1.13	Cash Contributions
1.14	Personal Insurance and Pensions
<b>2.0</b>	<b>Indirect</b>
2.1	Environmental – Greenhouse Emissions
2.2	Government Expenditures

# GROUND RULES & ASSUMPTIONS

- **Defining the human:**
  - Point estimate reflects the cost for the average US human
  - Impact of demographic characteristics analyzed, and can be dynamically altered in the model
  - Person lives in the US for entirety of life
- **Defining the phasing:**
  - Start of estimate = Start of base legal independence (18 years old)
  - End of estimate = US median life expectancy (77 years old)
- **Cost Estimating GR&A:**
  - Estimate presented in CY23\$
  - Estimate reflects recent spending trends



# **DIRECT COSTS**



# DATA SOURCE

- **Data Source: Consumer Expenditure Survey (CES)**
  - Program conducted by the US Bureau of Labor Statistics (BLS) that provides data on expenditures, income, and demographics of consumers in the US
  - Focused data collection on Interview Surveys, which captures expenditures at a high-level, quarterly

Limitations	Advantages
<ul style="list-style-type: none"><li>• Sampling error: Sample may be unrepresentative of the entire population (missing high-income individuals)</li><li>• Non-Sampling error: Human errors (data entry errors and underestimation of expenses)</li></ul>	<ul style="list-style-type: none"><li>• Data available in raw format via Public Use Microdata (PUMD)</li><li>• Substantial amount of data – allowing for multiple variable regressions</li><li>• Highly documented</li></ul>

# CES DATA PREPARATION

## 1. Collect & Merge

- Tool Utilization: R programming language
- Set bounds: collected data from 2017-2022
- Identified appropriate data: Summary expenditures, income, characteristics by family and family members
- Downloaded raw CSV files: 2 files per quarter, 24 files total
- Merged into one data table: Over 115k observations, and over 900 variables

## 2. Consolidate

- Researched variable definitions and codes with CES Data Dictionary
- Filtered out irrelevant variables
- Impact: reduced data table to about 100 variables

## 3. Normalize

- Inflation: All dollars converted to CY23\$ using the Personal Consumption Expenditures Price (PCE) Index
  - PCE tracks the change in prices of goods and services purchased by consumers
- Content: Adjusted end items for homogeneity
  - Filtered out missing or absent elements (I.e. zero and negative values for quarterly expenditures)

# RAW DATA

Portion of raw data (actual data consisted of over 900 columns)

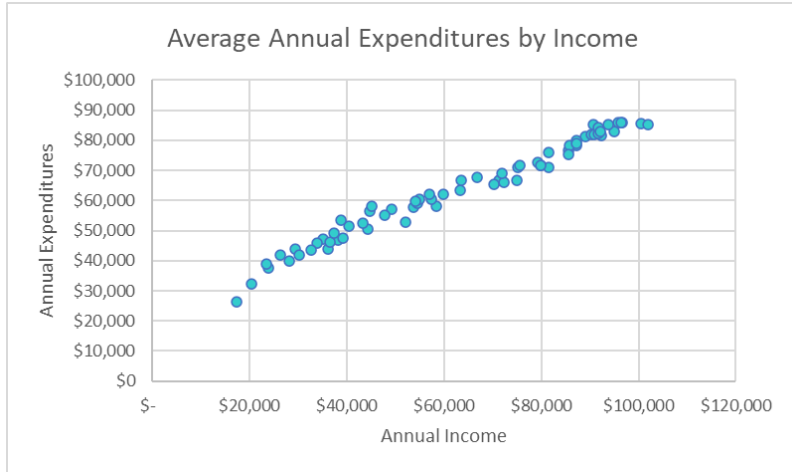
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3639434		1 D	36 D		36 D		1 D		1 D		200 D		0 D		21782.77	0 D		0 D		0 D		0 D		0
3639444		1 D	57 D		57 D		2 D		1 D		24000 D		0 D		16063.55	1836 D		0 D		0 D		0 D		24000
3639454		1 D	57 D			A	1 D		0 D		3684 D		0 D		11251.54	0 D		0 D		0 D		0 D		0
3639504		1 D	22 D		27 D		1 D		1 D		41105 D		0 D		27474.56	3145 D		0 D		0 D		0 D		41105
3639544		1 D	71 D			A	0 D		1 D		18300 D		0 D		14165.96	0 D		0 D		0 D		18300 D		0
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3639614		A	72 D			A	0 D		1 D		36902 D		0 D		14309.3	0 D		0 D		0 D		22704 D		0
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3639774		1 D	88 T		68 D		1 D		1 D		0 D		0 D		21235.73	0 D		0 D		0 D		0 D		0
3639794		1 D	52 D		46 D		1 D		1 D		302776 T		126545 T		33803.69	17082 T		0 D		0 D		0 D		302776
3639814		1 D	30 D		29 D		1 D		1 D		46000 D		0 D		17481.19	3519 D		462 D		0 D		0 D		46000
3639854		1 D	25 D			A	0 D		1 D		15000 D		0 D		34061.39	1148 D		0 D		0 D		0 D		15000
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3640044		1 D	74 D			A	0 D		1 D		1608 D		0 D		24867.89	0 D		0 D		0 D		1608 D		0

# NORMALIZED DATA

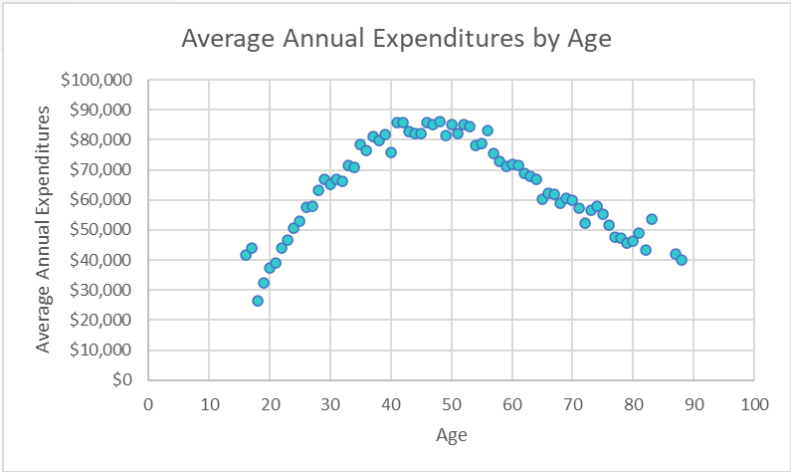
Observation	ID	Demographics					Expenditures (CY23\$)						Income (CY23\$)	
		Age	Marital Status	Number of Children	Race	State	Total	Food	Alcohol	Housing	Apparal	Transportation	Salary	Salary of Spouse
2	3386774	65	3	0	2	39	4,891.4	390.0	-	2,352.0	92.0	696.0	16,000.0	-
3	3386804	26	5	0	2	36	10,513.3	1,859.0	90.0	5,490.0	75.0	290.0	25,000.0	40,000.0
8	3386924	29	1	0	1	37	29,113.8	4,305.0	900.0	5,899.0	894.0	2,613.0	131,000.0	81,000.0
10	3386964	41	1	2	1	17	36,529.5	3,707.0	53.0	8,531.0	249.0	2,553.0	-	264,386.0
13	3387004	24	5	2	1	NA	45,797.5	1,300.0	30.0	3,002.0	373.0	36,173.0	30,000.0	1,600.0
14	3387034	24	1	0	1	NA	6,821.3	2,080.0	30.0	1,436.0	-	845.0	40,000.0	9,000.0
15	3387054	42	1	2	1	42	27,951.2	3,725.0	135.0	11,943.0	-	3,108.0	90,000.0	140,000.0
16	3387084	31	1	2	1	48	9,454.9	1,481.0	-	3,374.0	130.0	1,448.0	12,000.0	20,000.0
17	3387094	53	1	0	1	21	6,043.5	1,105.0	-	1,550.0	-	825.0	9,000.0	-
18	3387104	55	1	0	1	37	71,634.6	5,199.0	536.0	9,876.0	506.0	23,683.0	264,386.0	70,000.0
19	3387114	40	1	0	1	41	19,374.6	2,195.0	565.0	3,717.0	83.0	1,564.0	-	59,000.0
21	3387154	53	5	0	1	15	16,085.8	2,190.0	-	7,460.0	141.0	1,996.0	78,000.0	-
22	3387164	68	3	0	1	25	13,888.8	2,145.0	-	1,846.0	481.0	1,530.0	118,000.0	-
30	3387354	53	3	0	1	42	7,038.8	2,119.0	-	1,978.0	20.0	640.0	70,000.0	-
32	3387404	57	1	0	1	NA	22,032.2	1,495.0	120.0	8,708.0	300.0	1,608.0	100,000.0	-
34	3387424	52	1	1	1	42	24,116.6	2,620.0	20.0	7,161.0	1,682.0	4,442.0	264,386.0	5,000.0
36	3387474	28	1	0	2	48	5,925.0	1,430.0	300.0	2,940.0	-	644.0	15,000.0	-
37	3387514	29	1	1	1	21	5,487.0	1,820.0	-	2,035.0	357.0	-	-	24,000.0
38	3387544	19	5	0	1	4	5,277.0	1,186.0	4.0	2,307.0	-	1,260.0	23,000.0	-
39	3387574	39	1	2	1	36	22,519.3	3,240.0	425.0	8,632.0	250.0	2,532.0	147,000.0	50,000.0
40	3387584	51	1	0	2	40	34,452.6	3,666.0	495.0	12,126.0	600.0	2,872.0	65,000.0	50,000.0

# EXPLORATORY / TREND ANALYSIS

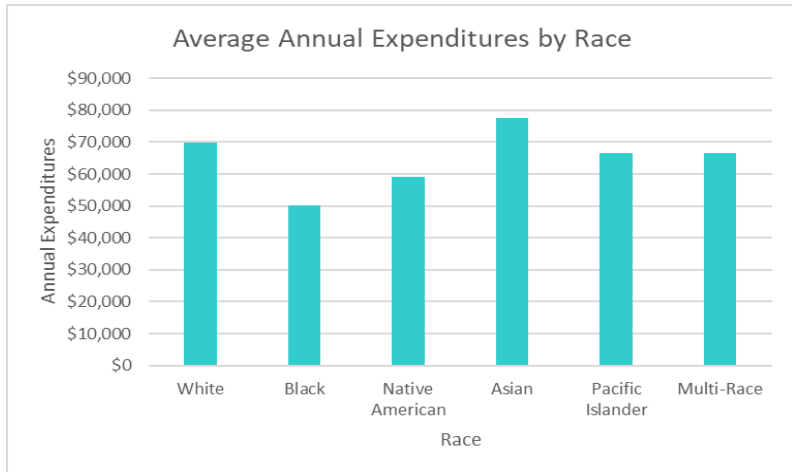
The Technomics team analyzed various data trends before developing a method to calculating expenditures and income



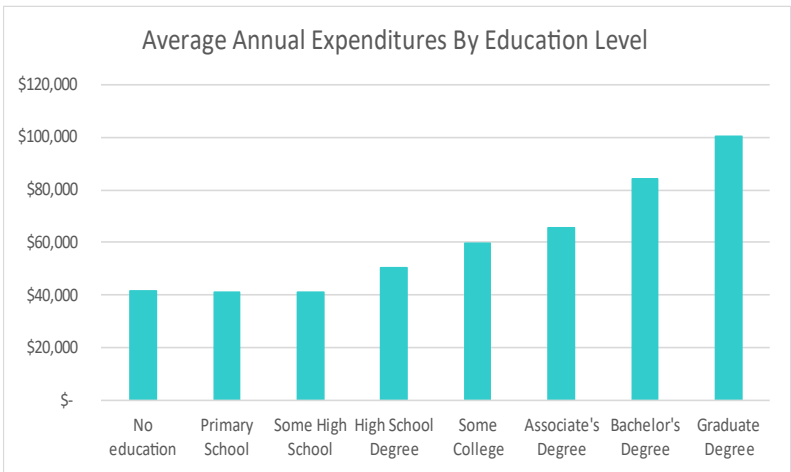
**Linear**



**Polynomial**



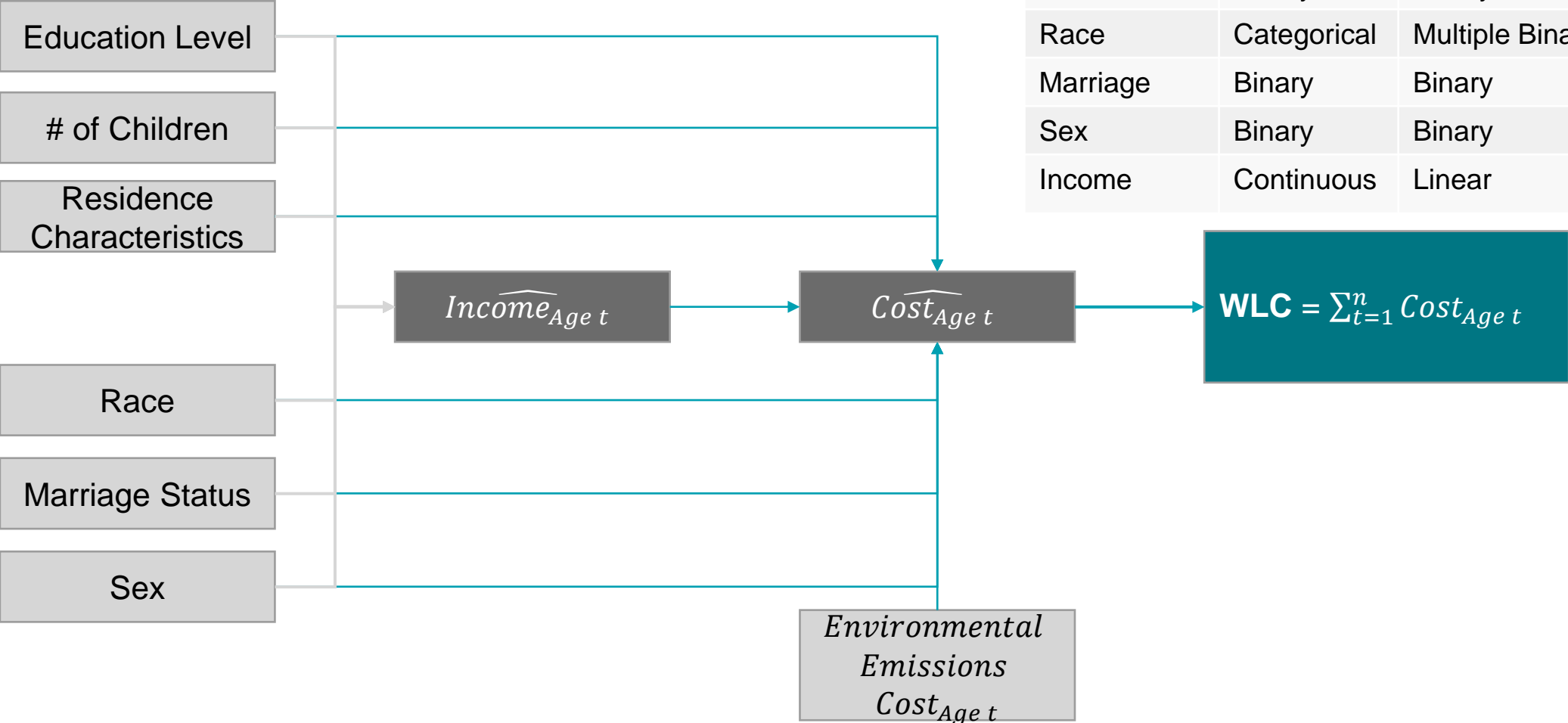
**Categorical**



**Exponential**

# MODELING FRAMEWORK

Variable	Type	Modeling Method
Education	Discrete	Polynomial
Age	Discrete	Polynomial
NumKids	Discrete	Linear Approximation
Urban	Binary	Binary
Race	Categorical	Multiple Binary
Marriage	Binary	Binary
Sex	Binary	Binary
Income	Continuous	Linear



# APPROACH

- **Approach:** Develop multivariate regressions to predict yearly individual income and expenditures at different ages
- **Model Specification Rationale:**
  - Trend analysis results informed most appropriate model structure
  - Used XGBoost machine learning algorithm to identify highest impact independent variables to include in regression

Income	Expenses
R <sup>2</sup> = .215	R <sup>2</sup> = .266
SER = 84,172	SER = 40,133

Income	Intercept	Educ	Age	NumKids	Female	Urban	White	Black	Native American	Asian	Pacific Islander	Multi-Race	Married	Educ <sup>2</sup>	Age <sup>2</sup>	-
Coefficient (Standard Error)	-66,902.8 (6,093.24)	-12,116.3 (688.02)	3,857.6 (84.90)	3,668.22 (281.48)	-10,198.5 (504.88)	17,047.2 (1,020.99)	2,849.57 (3,370.16)	-14,566.9 (3,443.33)	Omit	1,732.27 (3,529.57)	3,379.93 (4,998.76)	-367.56 (3,921.06)	40,519.35 (538.31)	1,053.80 (27.23)	-39.79 (0.786)	-
Expenses	Intercept	Educ	Age	NumKids	Female	Urban	White	Black	Native American	Asian	Pacific Islander	Multi-Race	Married	Educ <sup>2</sup>	Age <sup>2</sup>	PTax Income
Coefficient (Standard Error)	-12,458.8 (2,906.8)	-1,534.41 (328.49)	701.08 (40.84)	2,970.41 (134.31)	-636.8 (241.15)	4,439.56 (487.40)	3,509.67 (1,606.90)	-528.63 (1,641.92)	Omit	1,639.05 (1,682.92)	749.79 (2,383.43)	2,055.95 (1,869.58)	10,443.98 (262.913)	175.51 (13.07)	-6.47 (0.379)	0.19 (0.001)

P-value < .01

P-value < .05

P-value > .1



# **INDIRECT COSTS**

## ***Environmental***



# PLANNING & RESEARCH

## Planning & Research:

- **Objective:** Capture numerous environmental cost externalities that one human being may impose on other human beings
- **Measurement Method:** Utilize EPA's Social Cost of Greenhouse Gases (SCGHG) as a proxy for environmental externality costs
- **SCGHG Definition:** A monetized, discounted value of the stream of future, worldwide economic damages from a one-ton change in CO2 emissions released **in a particular year**

## Data Sources:

- **Environmental Protection Agency (EPA):**
  - Data estimating social cost of carbon
  - 150,000+ unique monte-carlo simulations
  - Includes low, moderate, high, and extreme estimates
- **Energy Information Agency:**
  - Data on CO2 emissions broken out over time by geographic region
  - Includes per-capita historic emissions rates and emissions projections through 2050
- **Personal Consumption Expenditure (PCE) Index:**
  - Utilized to normalize data to CY23\$

# ANALYSIS & RESULTS

- Customizable estimates of environmental cost, based on:
  - Individual's geographic location
  - Expected impacts of emissions on environment
- Default model logic (highlighted):
  - US average CO2 emissions per-person
  - Moderate SCGHG assumption

**Yearly Environmental Cost Estimate by Region & Emissions Impact**

Region	CO2 Per Person: 2023	Emissions Impact			
		Low	Moderate	High	Extreme
		<b>\$18.16</b>	<b>\$61.87</b>	<b>\$91.56</b>	<b>\$184.79</b>
US Average	14.1	\$256.12	<b>\$872.17</b>	\$1,290.72	\$2,604.90
New England	9.3	\$168.46	\$573.64	\$848.92	\$1,713.28
Mid-Atlantic	11.4	\$207.65	\$707.11	\$1,046.45	\$2,111.93
East North Central	15.6	\$283.94	\$966.88	\$1,430.88	\$2,887.78
West North Central	19.3	\$350.35	\$1,193.04	\$1,765.58	\$3,563.26
South Atlantic	11.5	\$208.88	\$711.31	\$1,052.66	\$2,124.46
East South Central	19.3	\$351.16	\$1,195.79	\$1,769.64	\$3,571.46
West South Central	22.2	\$403.61	\$1,374.39	\$2,033.96	\$4,104.91
Mountain	15.2	\$276.57	\$941.78	\$1,393.74	\$2,812.82
Pacific	8.7	\$157.90	\$537.69	\$795.72	\$1,605.91

- Expected whole-life cost: \$52,330.20



# **INDIRECT COSTS**

## ***Government Expenditures***

# GOVERNMENT EXPENDITURES

## Rationale:

- Apart from the costs that each person pays for themselves over lifetime, each of us benefits from money that the government pays for various public services (roads, parks, Medicare, defense, etc.)
- Source of funding for federal expenditures is taxes, borrowed money, alternative revenue streams
- Assumptions:
  - All federal dollars spent in some way indirectly benefit each American
  - All Americans benefit equally from government spending on largest expenditures

## Outcome:

- Federal spending from 2022 discounted to 2023 dollars equal \$6.499 trillion
- Average cost per person across the US is \$19,416



# **RESULTS & CROSSCHECKS**

# POINT ESTIMATE

		Education	Children	Race	Sex	Marital Status	Urban	Region	Emissions Impact
<b>Input Selection</b>						Not Married		US Average	Moderate
<b>Income</b>	<b>Input Value</b>	13.5	0.52	851.3	-5320.4	0.0	15949.7	-	
	<b>Marginal Effect (Yearly)</b>	\$28,915.1	\$1,890.9	\$851.3	-\$5,320.4	\$0.0	\$15,949.7	-	
<b>Expenditures</b>	<b>Input Value</b>	13.5	0.52	2919.5	-332.2	0.0	4153.7	872.2	
	<b>Marginal Effect (Yearly)</b>	\$11,356.7	\$1,531.2	\$2,919.5	-\$332.2	\$0.0	\$4,153.7	\$872.2	

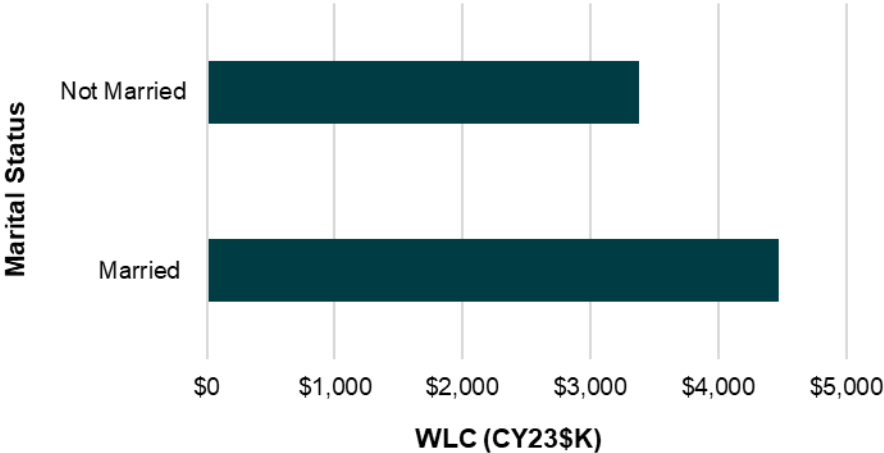
- Point Estimate is driven by statistical averages
  - I.e., no input = default to statistical average in the data set
- Fixed Inputs
  - Children: PE utilizes average number of children input (0.52), as children are your legal responsibility
  - Marital Status: PE utilizes a '0' input (or unmarried) to isolate the cost of one independent
- Model is beneficial for predicting values for people that align to averages; Less useful for special circumstances where people deviate from the 'norm'

## Total Point Estimate Breakout:

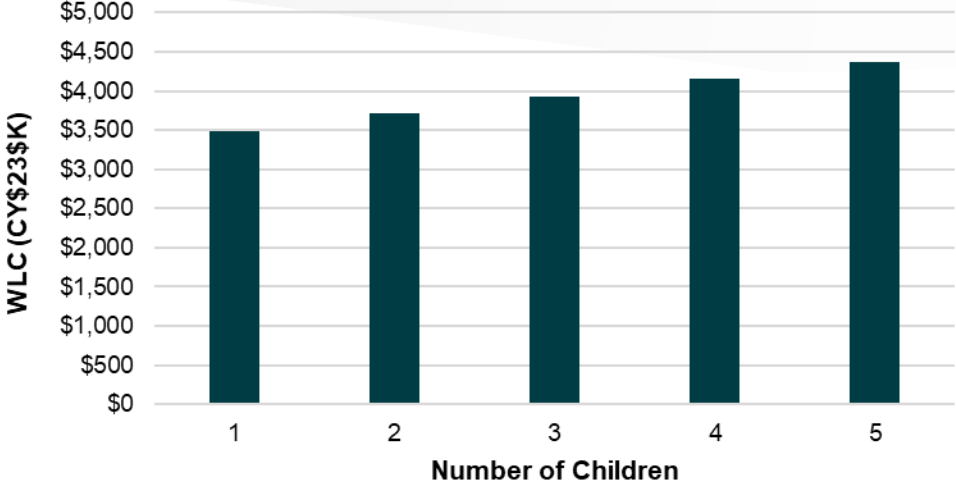
Element		CY23\$K
<b>Total WLC</b>		<b>\$3,329</b>
<b>1.0</b>	<b>Direct</b>	<b>\$2,112</b>
1.1	Food	\$246
1.2	Alcoholic Beverages	\$16
1.3	Housing	\$672
1.4	Apparel and Services	\$53
1.5	Transportation	\$328
1.6	Healthcare	\$154
1.7	Entertainment	\$104
1.8	Personal Care Products and Services	\$22
1.9	Reading	\$3
1.10	Education	\$39
1.11	Tobacco Products and Smoking Supplies	\$10
1.12	Miscellaneous	\$28
1.13	Cash Contributions	\$68
1.14	Personal Insurance and Pensions	\$230
<b>2.0</b>	<b>Indirect</b>	<b>\$1,217</b>
2.1	Environmental – Greenhouse Emissions	\$52
2.2	Government Expenditures	\$1,165

# SENSITIVITY ANALYSIS – MALE

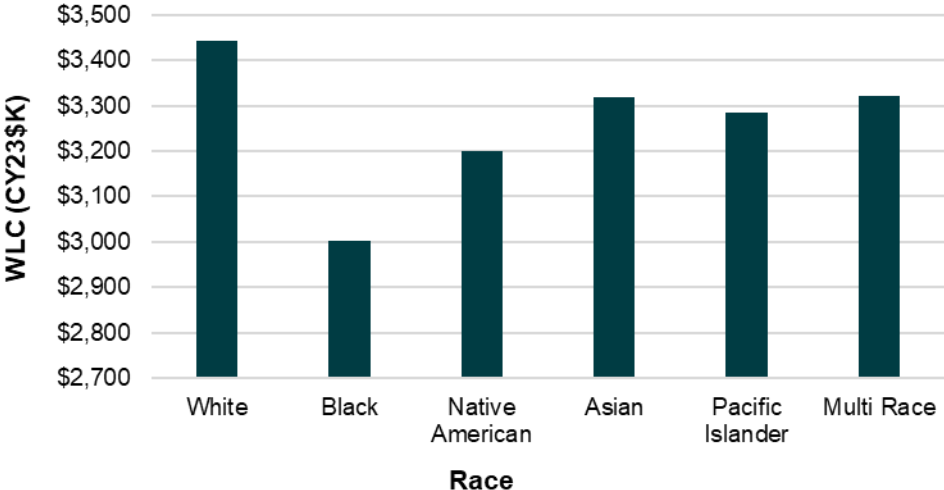
WLC as a Function of Marital Status



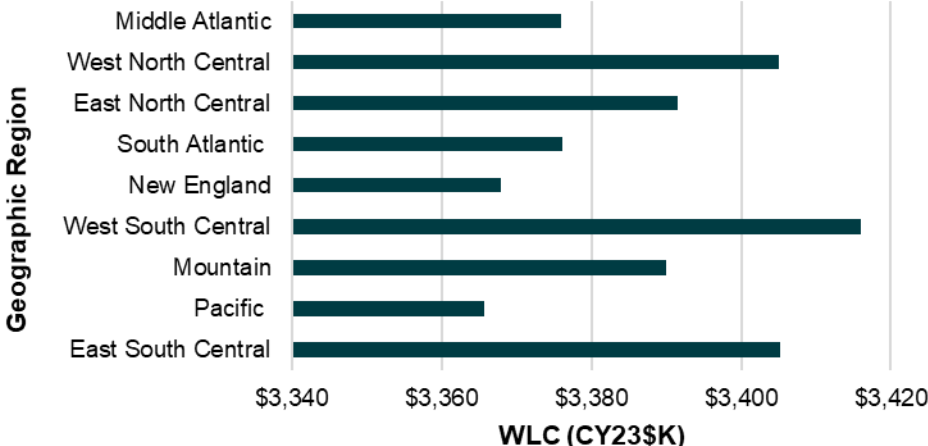
WLC as a Function of Children



WLC as a Function of Race

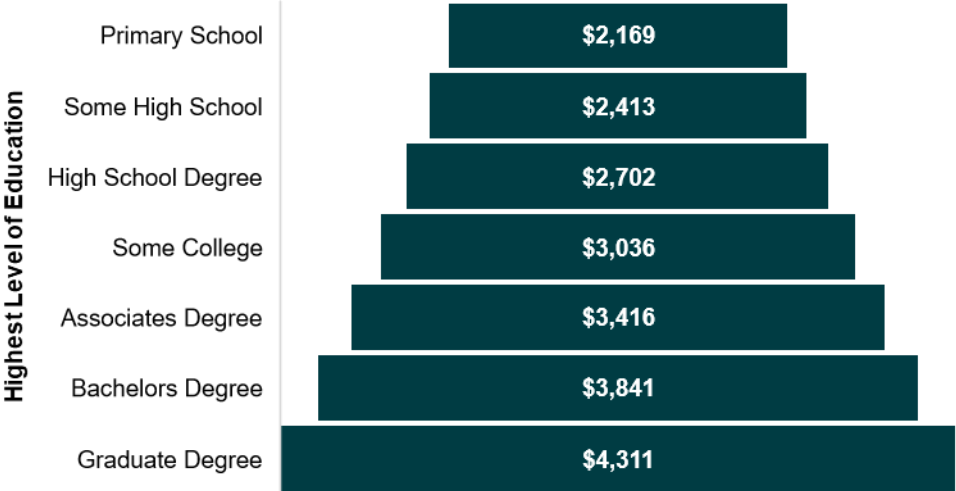


WLC as a Function of Geographic Region

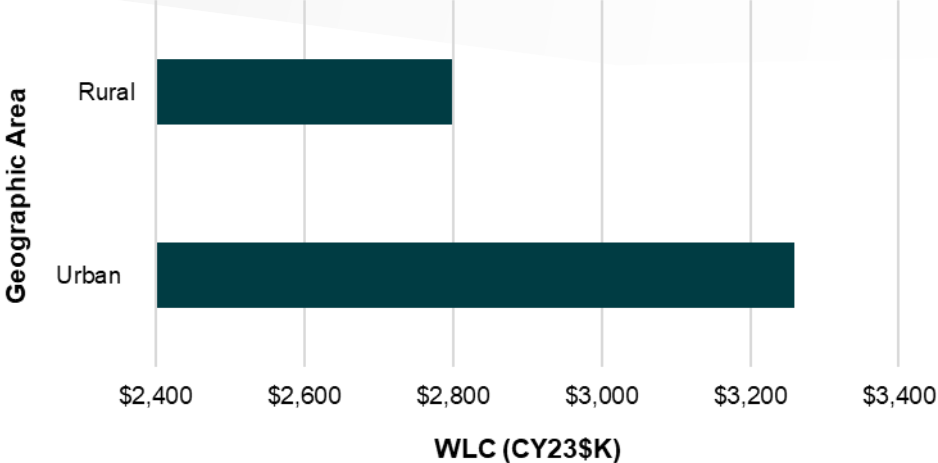


# SENSITIVITY ANALYSIS - FEMALE

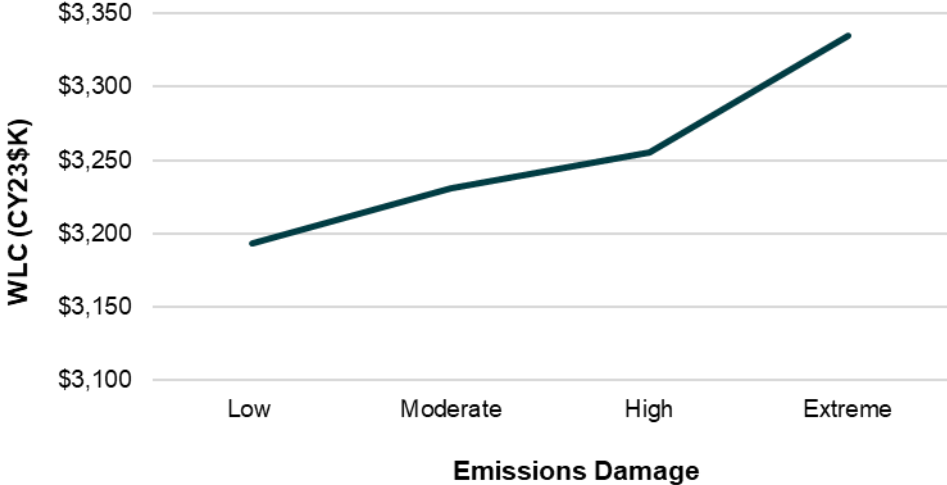
WLC as a Function of Education Level (CY23\$K)



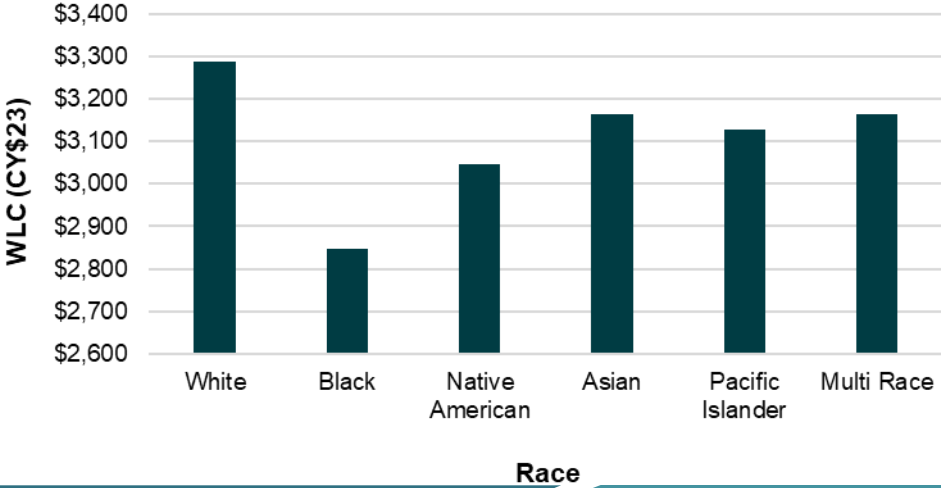
WLC as a Function of Geographic Area



WLC by Predicted Emissions Damage



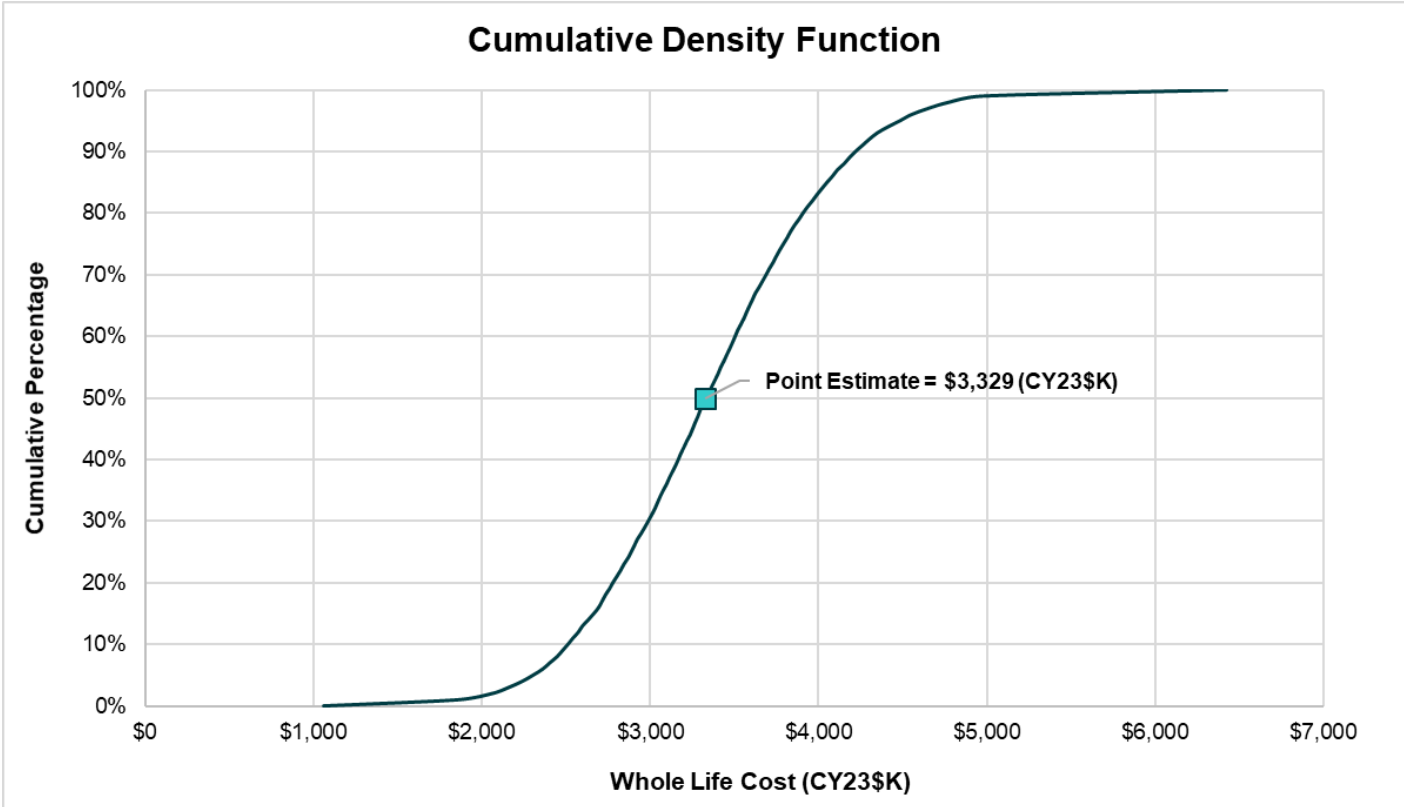
WLC as a Function of Race





# UNCERTAINTY ANALYSIS

- The Technomics Team conducted a Monte Carlo Simulation to quantify the estimate uncertainty
- Each distribution was derived based on the regressions and data sources the team collected
- The figure below reflects the S-Curve, or cumulative density function, of the estimate WLC of a human

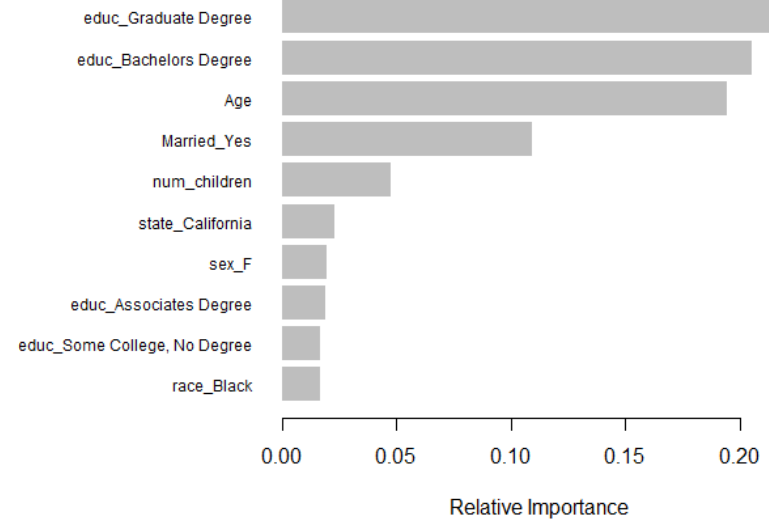


CY23\$K	
Percentile	WLC
90%	\$4,221
80%	\$3,909
70%	\$3,690
60%	\$3,506
50%	\$3,337
40%	\$3,168
30%	\$2,990
20%	\$2,779
10%	\$2,513

# CROSSCHECKS

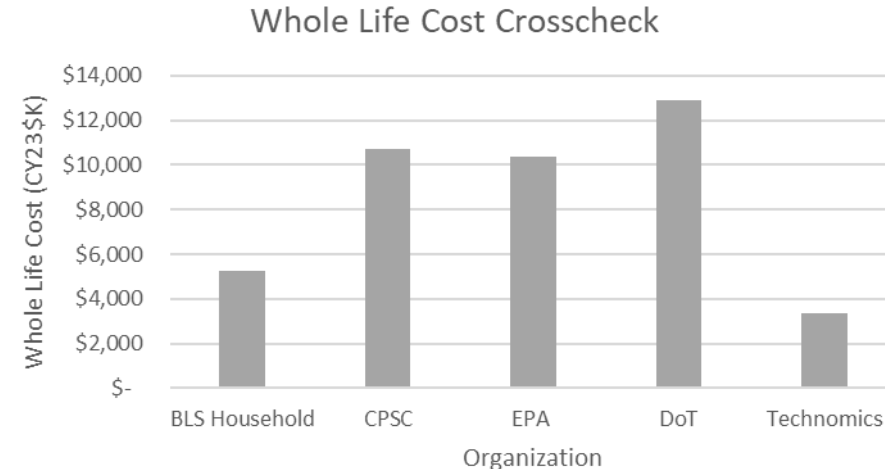
## Multivariate Regression Crosscheck

- From the relative importance scheme derived by XGBoost, most important categorical factors are:
  - Education – Graduate degree
  - Marital status – Married
  - State – California
  - Sex – Female
  - Race – Black
  - Residence – Urban
- This allows separation of causal factors independent of influence on one another



## Whole Life Cost Crosscheck

- Whole Life Cost estimates vary across organizations depending on methodology and assumptions



# TAKEAWAYS & LESSONS LEARNED

## Key Takeaways:

- **Complexity:**
  - Inability to properly control for all interdependencies between variables
  - Relationships exist between every single independent variable, and can create positive feedback loops
- **Exogeneity Issues:**
  - Cannot account for *everything* that drives cost or income, causing inaccuracy in model and high standard error of the regression

## Areas for Future Improvement:

- **Interaction Variables:**
  - This could help tease out some of the interdependency issues
- **Leveraging Advanced Machine Learning Algorithms:**
  - # of drivers of expenditures is astronomical; with sufficient data, ML can help narrow down key drivers much faster
- **Greater Customizability:**
  - Simplifying assumptions in model structure were made due to time & resource constraints
  - Sans constraints, further efforts can allow for even more specific predictions, or more appropriate modeling assumptions. Example – utility theory modeling



**THANK YOU**

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# SOURCES

- Consumer Expenditure Survey (CES) Data – Bureau of Labor Statistics (BLS)
- Life Expectancy Data – Centers for Disease Control & Prevention (CDC) via the National Vital Statistics System (NVSS)
- Social Cost of Carbon Data – Environmental Protection Agency (EPA) via the Social Cost of Greenhouse Gases (SCGHG)

# Correlation Between Regressors

	<i>fincbtax(CY23)</i>	<i>educ_ref</i>	<i>age_ref</i>	<i>num_children</i>	<i>Urban</i>	<i>White</i>	<i>Black</i>	<i>Native American</i>	<i>Asian</i>	<i>Pacific Islander</i>	<i>Multi-Race</i>	<i>Married</i>	<i>Educ_ref_sq</i>	<i>Age_ref_sq</i>	<i>Sex</i>
<i>fincbtax(CY23)</i>	1														
<i>educ_ref</i>	0.314186939	1													
<i>age_ref</i>	-0.109718695	-0.07784	1												
<i>num_children</i>	0.117774215	-0.0248	-0.36657	1											
<i>Urban</i>	0.067202898	0.085756	-0.05453	0.005341465	1										
<i>White</i>	0.050893599	-0.00154	0.080108	-0.02860344	-0.08574	1									
<i>Black</i>	-0.102518852	-0.06389	-0.02139	0.002540198	0.059616	-0.72409	1								
<i>Native American</i>	-0.006089228	-0.02044	-0.01692	0.017014433	-0.01897	-0.1545	-0.02576	1							
<i>Asian</i>	0.055784218	0.098475	-0.07363	0.024484427	0.057151	-0.49996	-0.08334	-0.017783523	1						
<i>Pacific Islander</i>	0.002502797	-0.01436	-0.02713	0.027263464	0.012328	-0.14001	-0.02334	-0.004980063	-0.01611	1					
<i>Multi-Race</i>	-0.003611961	0.004421	-0.0398	0.014261963	0.021098	-0.2577	-0.04296	-0.009166551	-0.02966	-0.008306413	1				
<i>Married</i>	0.300078474	0.106289	-0.00644	0.235238039	-0.02247	0.090264	-0.14113	-0.005736715	0.050893	0.003396162	-0.02299	1			
<i>Educ_ref_sq</i>	0.3334175	0.97982	-0.07604	-0.019283307	0.091577	-0.00241	-0.0704	-0.021812204	0.109807	-0.013868787	0.003213	0.117716	1		
<i>Age_ref_sq</i>	-0.143340798	-0.08944	0.985403	-0.374158875	-0.05405	0.081674	-0.0259	-0.018571572	-0.07133	-0.026637285	-0.03689	-0.04155	-0.088841341	1	
<i>Sex</i>	-0.102544866	-0.03801	0.035745	0.050477603	-0.00814	-0.02663	0.057668	0.006573364	-0.03526	-0.005647411	0.003274	-0.1325	-0.042729794	0.03968238	1

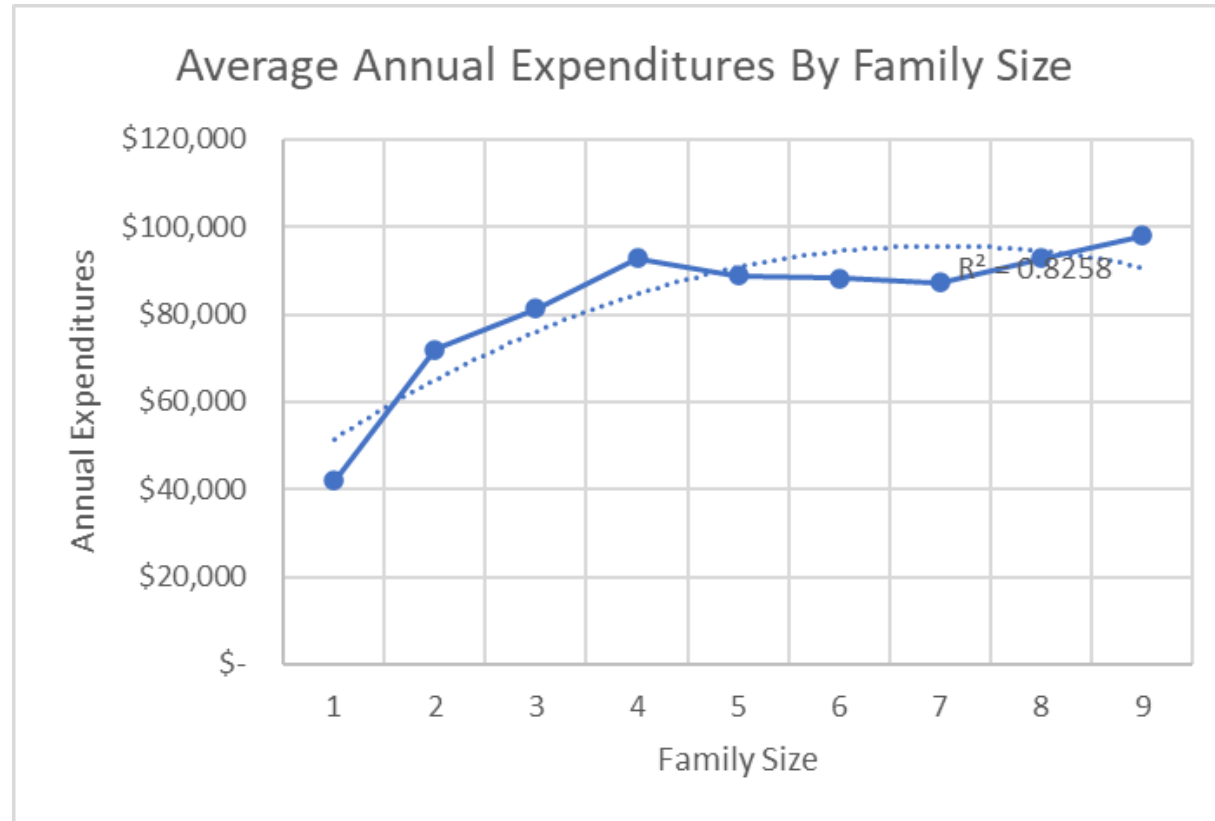
Correlation is generally low between independent variables, suggesting that multicollinearity may not be particularly problematic

# Multicollinearity Tests

- **Goal:** Test for multicollinearity within multivariate regression
- **Approach:** Calculate Variance Inflation Factor (VIF) for each regressor in both the income and the expenditure regressions
- **Method:** Iteratively regress each independent variable on all other independent variables, calculate VIF
- **Results:** VIF coefficients are all close to 1, suggesting very low multicollinearity in multivariate regressions

Dependent Variable:	R <sup>2</sup>	VIF
Education	0.119612	1.135863
Age	0.165778	1.198722
NumKids	0.20666	1.260494
Income	0.21556	1.274794
Urban	0.021909	1.022399
White	0.025301	1.025958
Black	0.03725	1.038691
Native American	0.001519	1.001521
Asian	0.02299	1.023531
Pacific Islander	0.001524	1.001527
Multi-Race	0.002622	1.002629
Married	0.189572	1.233915
Sex	0.035516	1.036823

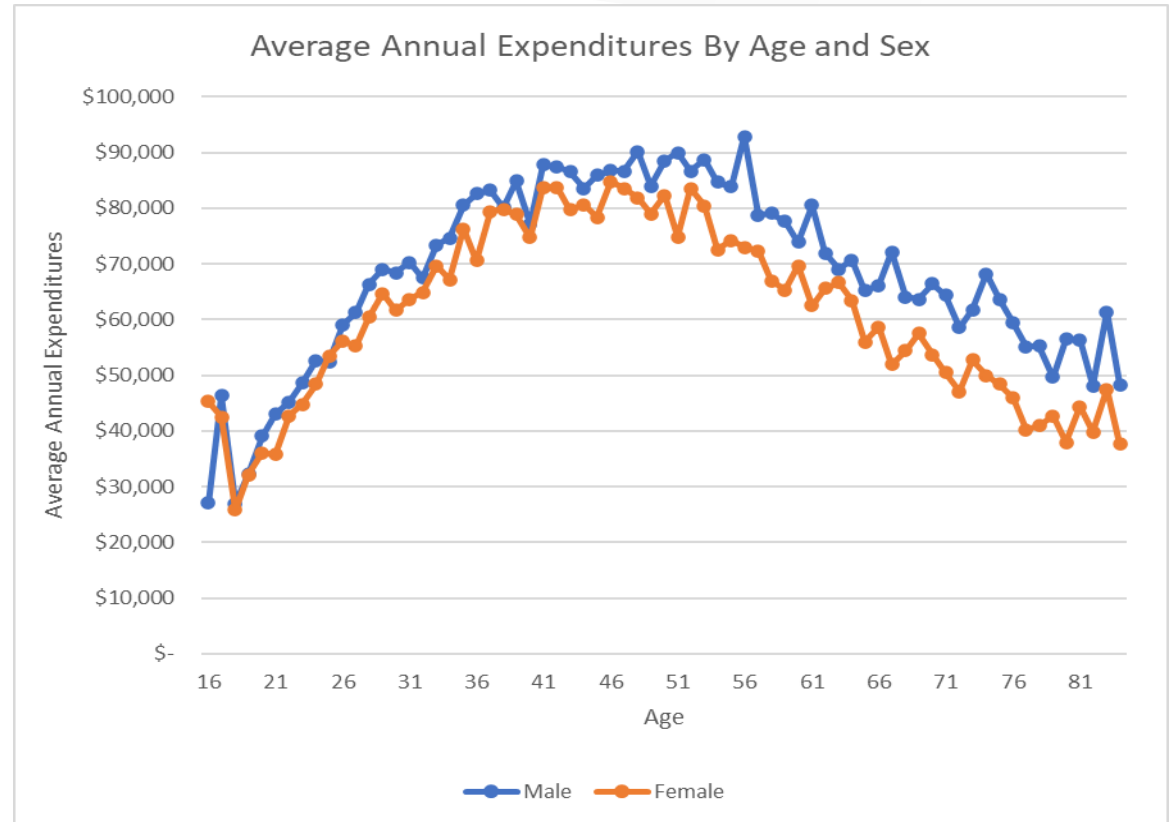
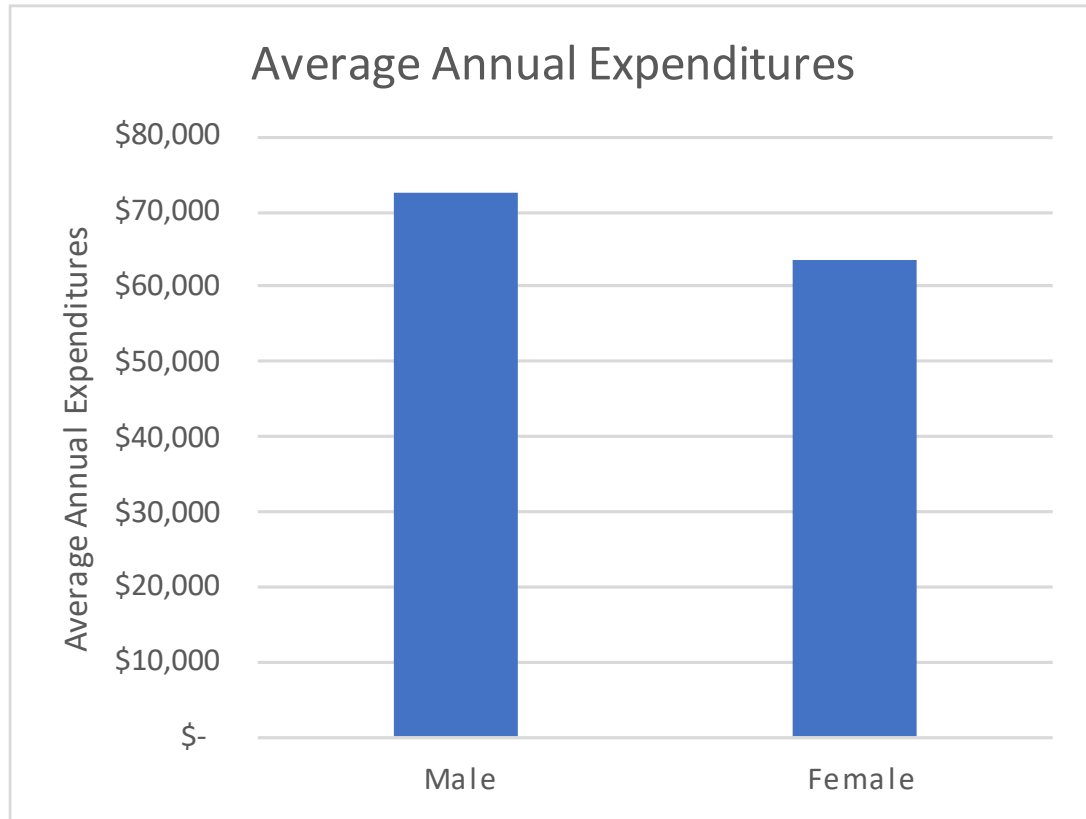
# Expenditures and Family Size



Marginal costs associated with an additional family member increase at a decreasing rate - i.e. logarithmically

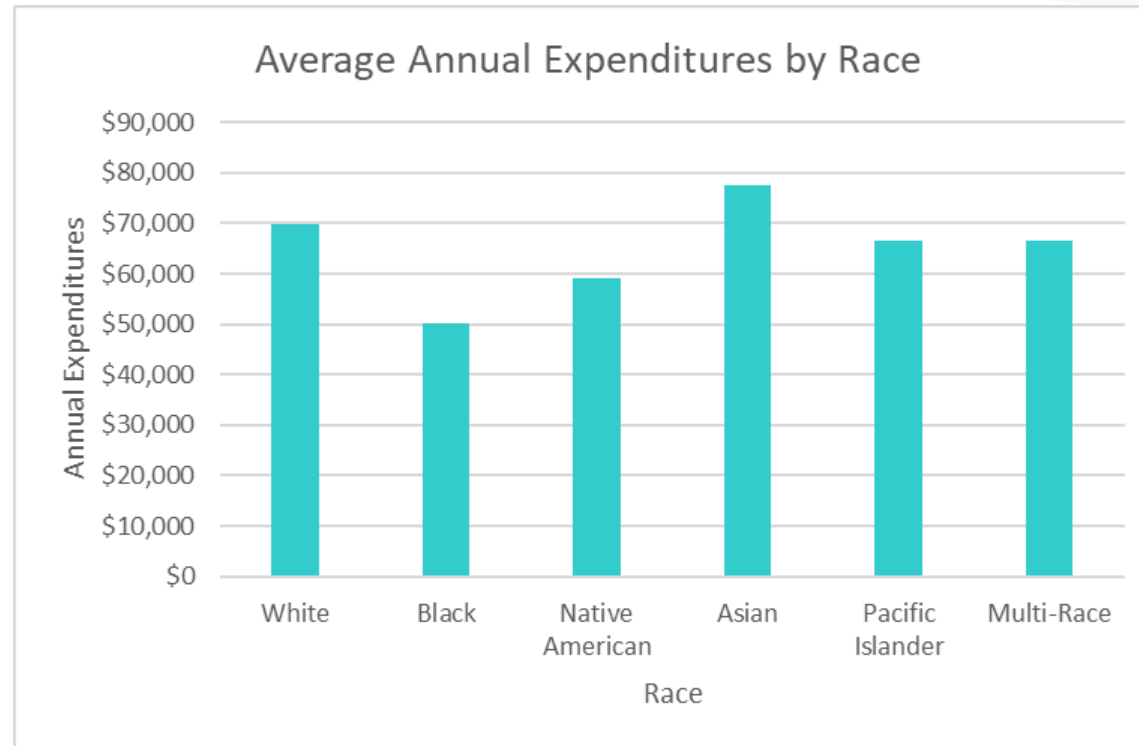


# Expenditures and Sex

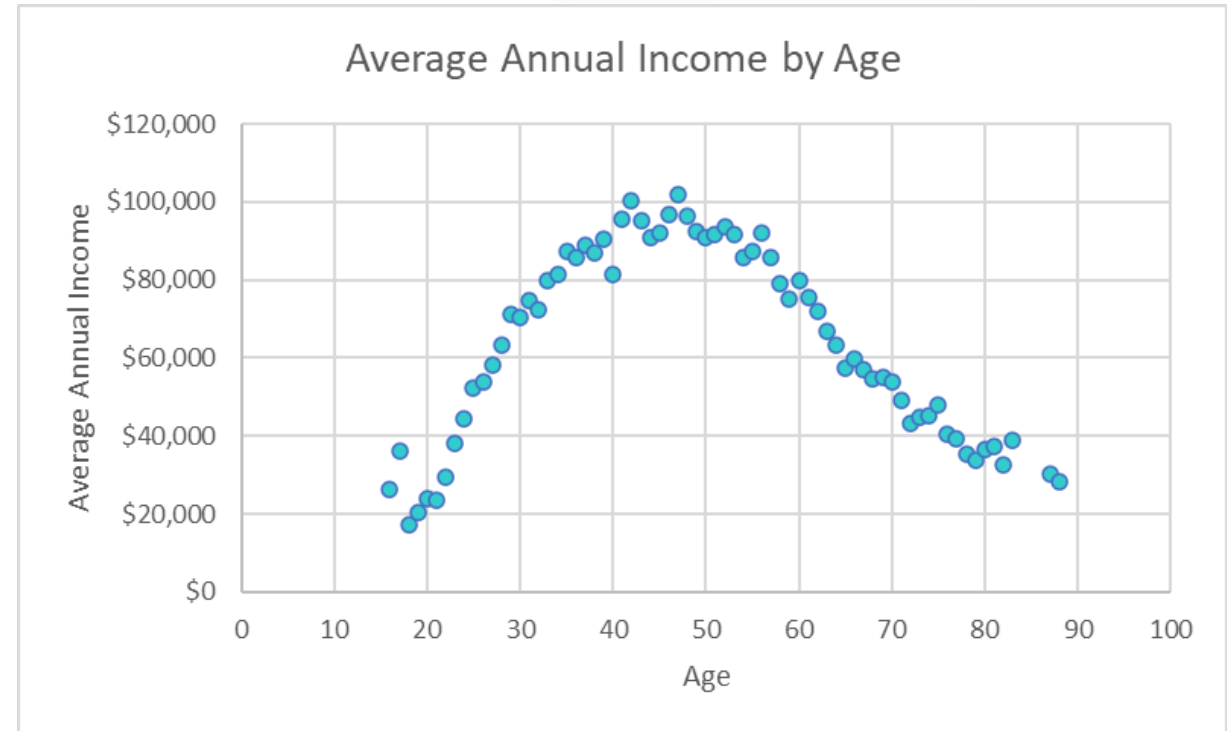
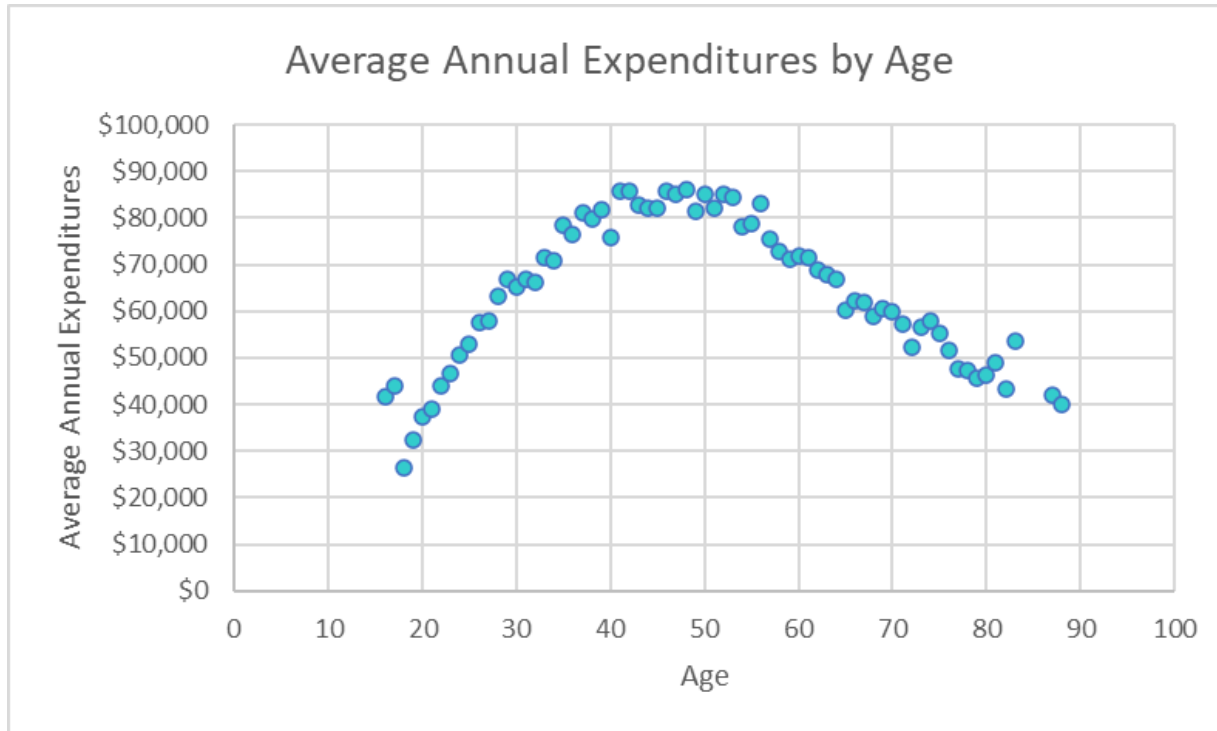


Men spend more than women – but that disparity is also variable at different ages

# Expenditures and Race

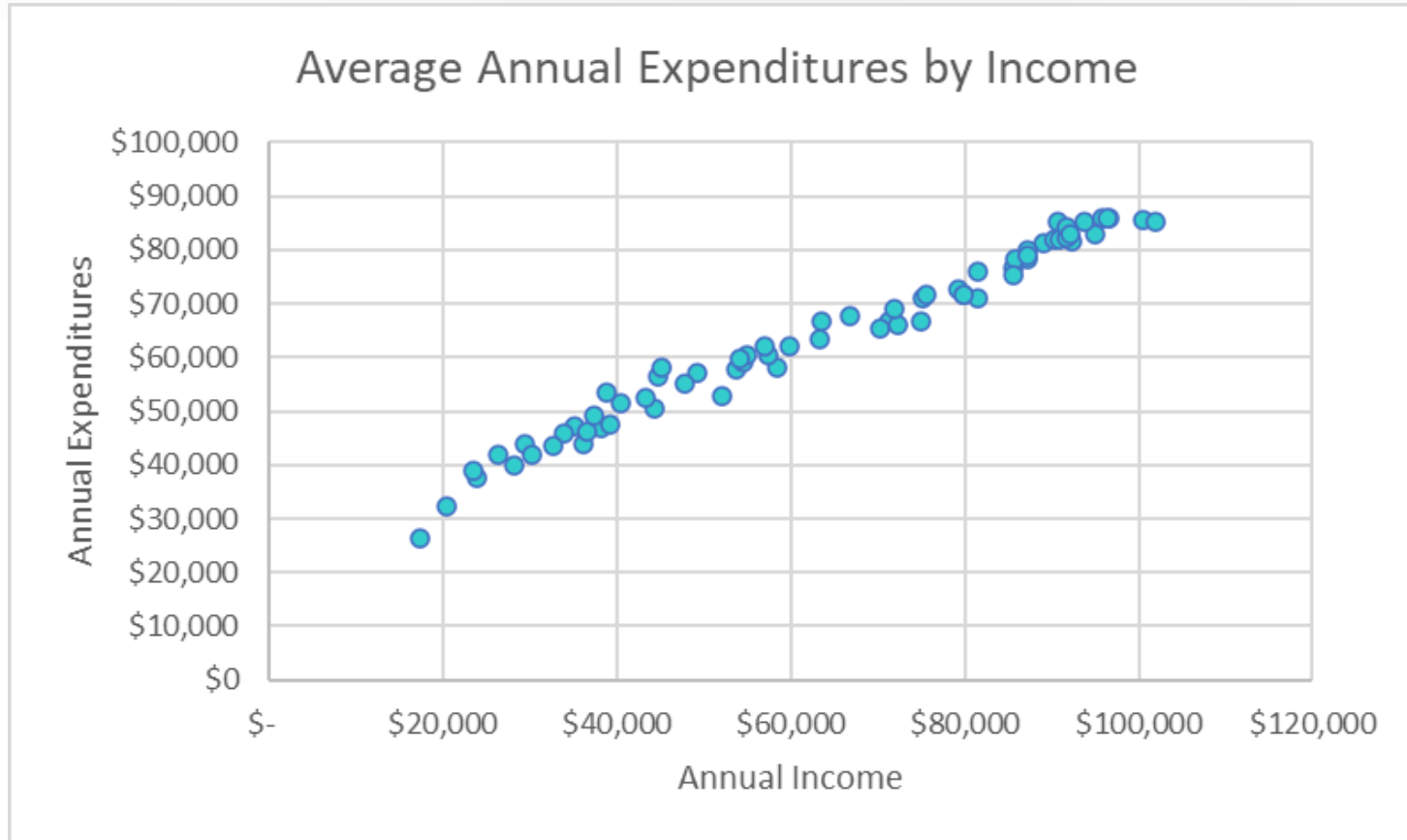


# Expenditures, Income and Age



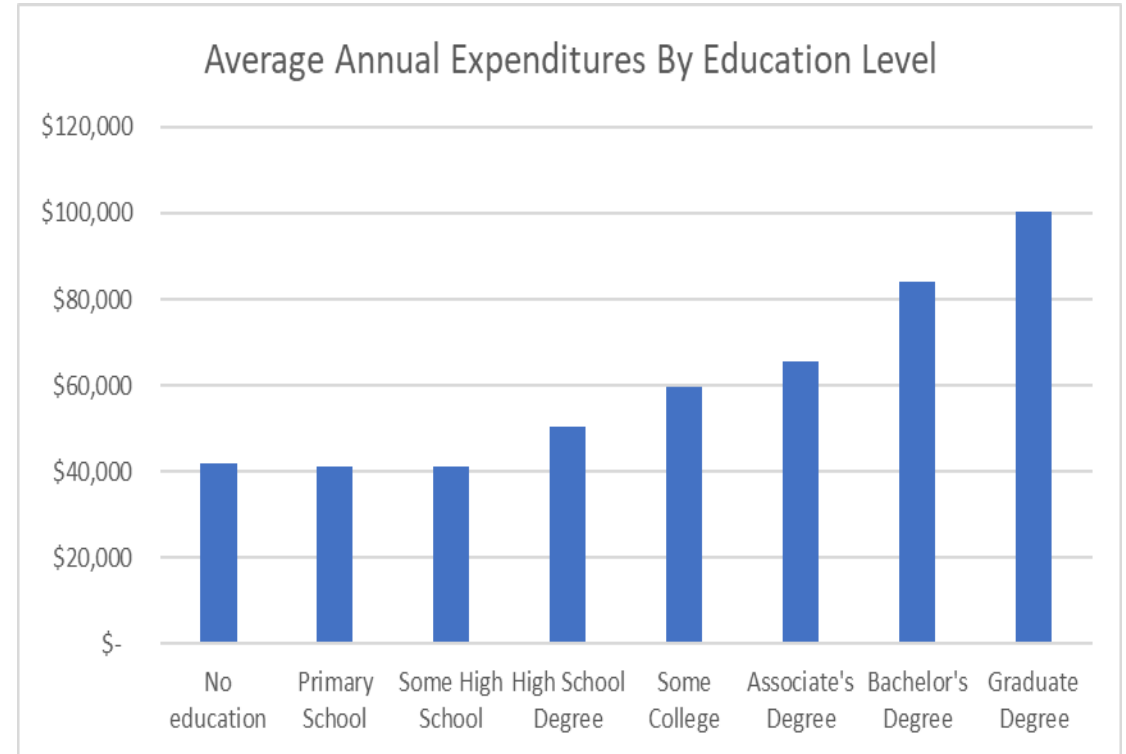
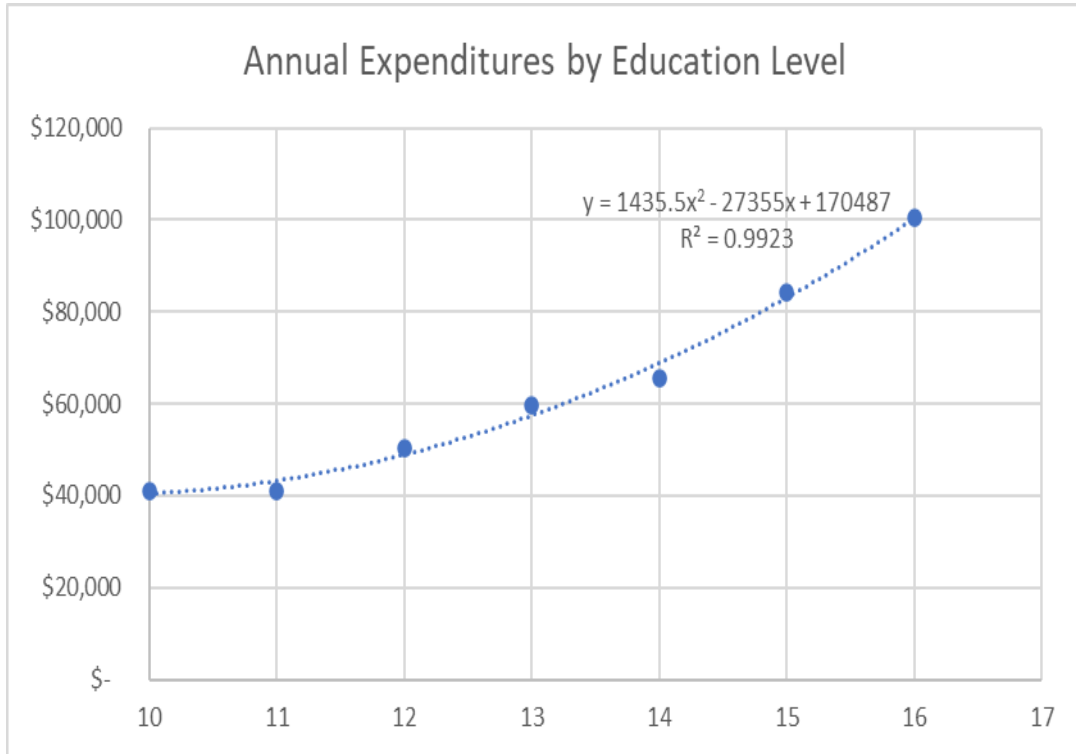
Income and expenditures over time exhibits a quadratic relationship

# Income and Expenditures



Income and expenditures seem linearly related – suggesting the marginal propensity to consume is independent of income

# Expenditures and Education



Additional education yields exponential increases to expenditures. Because our categorical variable on education generally increases education years by 2 from category-to-category, we can interpret the coefficient as a marginal return on an additional 2 years of education

# Social Cost of Greenhouse Gases – Overview

- What is SCGHG? Why is it relevant to our estimate?
- What does it capture? What does it not capture?
- What cost value should we use?
- How can we tie that back to our model?

# What is SCGHG? Why is it Relevant to Our Estimate?

- **Definition:** It is a monetized, discounted value of the stream of future, worldwide economic damages from a one-ton change in CO<sub>2</sub> emissions released **in a particular year**
- **Relevancy:** Allows us to capture **numerous** cost externalities that one human being may impose on other human beings
  - If we can estimate how much a specific person emits year-over-year, we can estimate how those emissions affect others
  - The corollary statement is also true – I can infer the costs others are imposing upon the specific individual

# What Does it Capture? What Does it Not Capture?

## ▪ **Included in Damage Function:**

- Human health impacts
  - Changes in mortality
- Damage to ecosystems
  - Animals & climates becoming less resilient to weather, causing costs to build & maintain capital to rise
- Coastal Damages
  - Damage to capital from floods & other environmental disasters (indirectly)
- Energy Consumption
  - How energy consumption costs will change due to additional CO2 emissions
- Change in agricultural output
  - Higher costs of making food due to poorer growing conditions, driving up costs
- Effects on Labor Productivity
  - How emissions affect worker productivity, which can drive additional costs such as lost wages, higher healthcare costs, etc
  - Example: Higher temperatures' effect on workers who work outside all day – less hours, more damage to human

## ▪ **Excluded from Damage Function:**

- Ocean acidification costs
- Species & wildlife costs – too difficult to monetize
  - How much is the life of a wild animal worth?



# What Cost Value Is Most Appropriate?

## ■ Current Value:

- \$62 a metric ton of CO<sub>2</sub> emitted in 2023
- However, the dollar value changes based on when the emission occurs
- Since individual emissions occur over time, we must dollarize emissions based on year they occur

## ■ Other Alternatives:

- \$190 estimate from EPA in 2022 could be used instead
- Benefit – The costs are extrapolated into 2080 instead of 2050
- Cost – These are not the official Whitehouse numbers

**Conclusion:** Using White House official numbers is preferred to draft 2023 EPA estimates since the draft numbers are not official. Draft EPA numbers can be used during sensitivity analysis

# How Should We Tie this Back to Our Model?

## ■ Integration Logic:

- **Objective:** Tie emissions back to some key input parameters in our cost model
- **Value:** “dollarize” emissions and all the indirect impacts they have on others

## ■ Integration Options:

- **EIA Data:** Use EIA data on average per-capita emissions by state as an estimate of individual’s emissions, and dollarize those emissions based on those averages
  - [Energy-Related Carbon Dioxide Emissions by State, 2005–2016 \(eia.gov\)](https://www.eia.gov/state/emissions/)
- **GDP Per Capita Parametric Equation:** Calculate effect of GDP per capita on CO2 emissions, scale emissions and subsequent cost based on how much individual produces / spends
  - Research body seems mixed on this – is this relationship actually statistically significant?

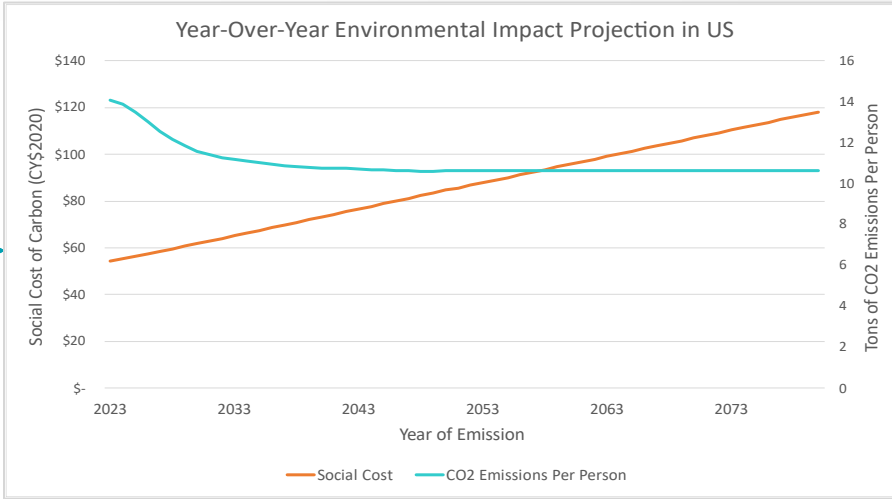
**Conclusion:** Use EIA data over GDP per capita parametric equation

# MODELING APPROACH

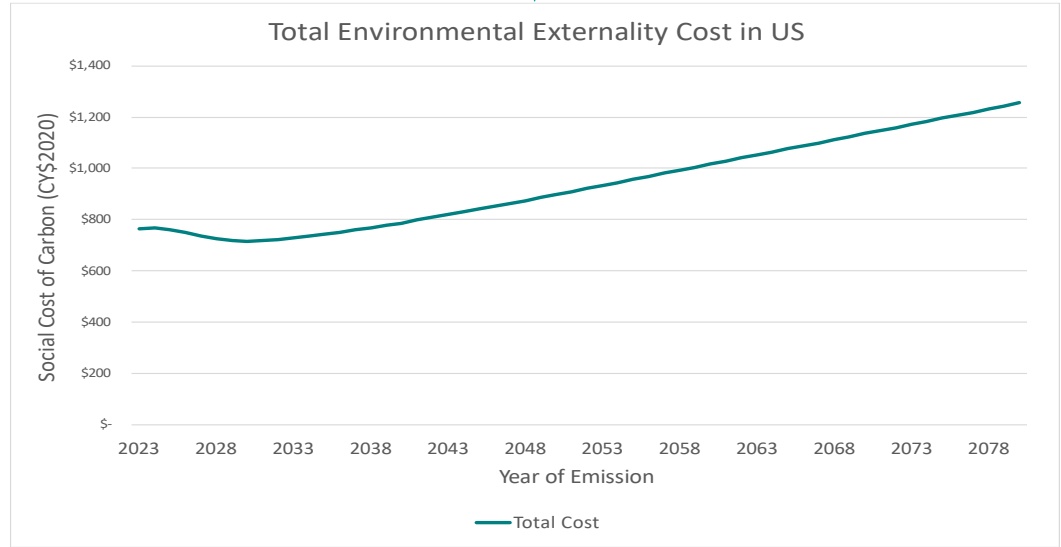
CO2 Emissions Per Person in Region y: Year t



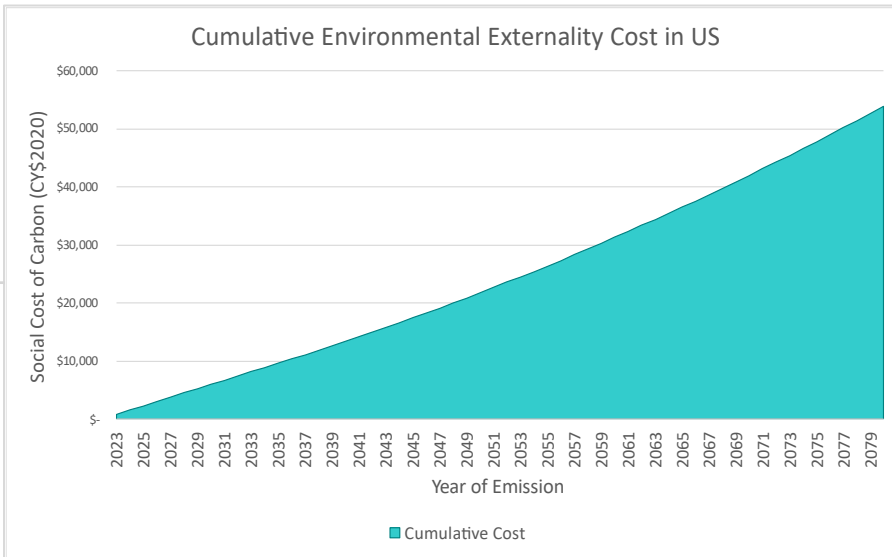
SCGHG Estimate: Year t



Total Environmental Externality Cost (EEC): Year t

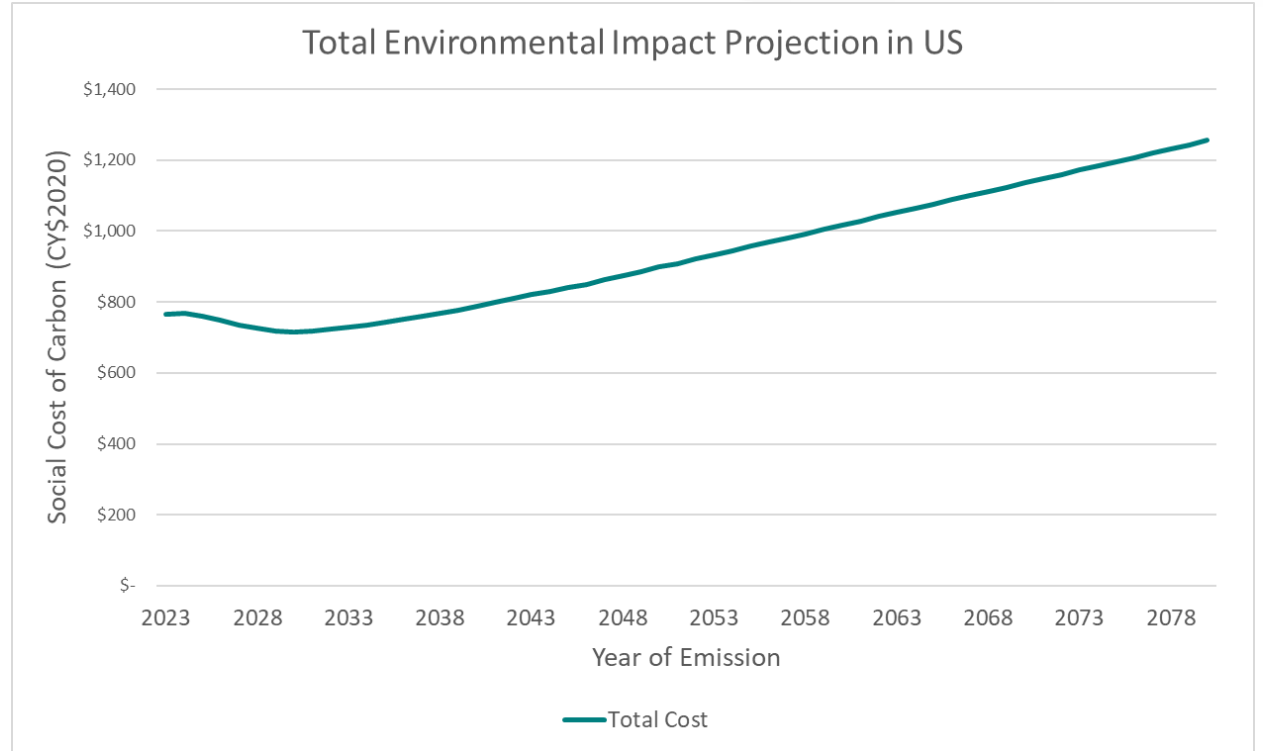
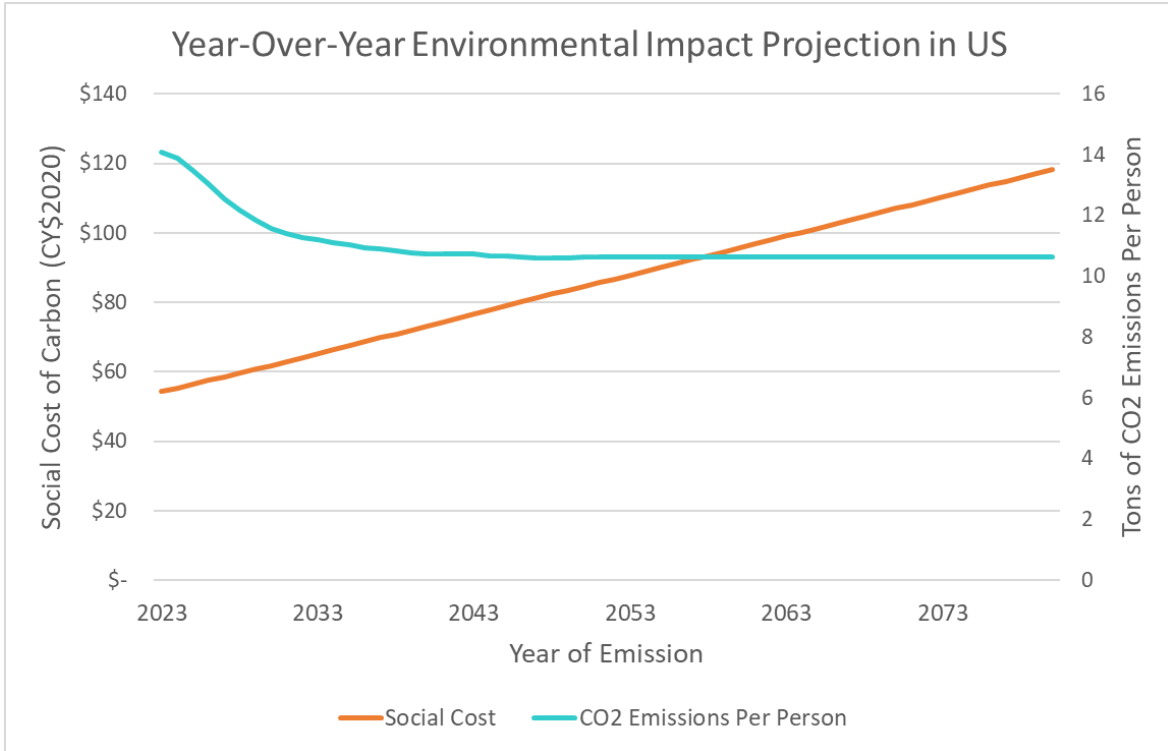


Cumulative EEC  
\$54,000



$$\text{Cumulative EEC} = \sum_{t=1}^n EEC_{Year t}$$

# Graphical Representation of Environmental Impact Analysis



# SCGHG Values over Time – Official WH Numbers

Table A-1: Annual SC-CO<sub>2</sub>, 2020 – 2050 (in 2020 dollars per metric ton of CO<sub>2</sub>)

Emissions Year	Discount Rate and Statistic			
	5% Average	3% Average	2.5% Average	3% 95 <sup>th</sup> Percentile
2020	14	51	76	152
2021	15	52	78	155
2022	15	53	79	159
2023	16	54	80	162
2024	16	55	82	166
2025	17	56	83	169
2026	17	57	84	173
2027	18	59	86	176
2028	18	60	87	180
2029	19	61	88	183
2030	19	62	89	187
2031	20	63	91	191
2032	21	64	92	194
2033	21	65	94	198
2034	22	66	95	202
2035	22	67	96	206
2036	23	69	98	210
2037	23	70	99	213
2038	24	71	100	217
2039	25	72	102	221
2040	25	73	103	225
2041	26	74	104	228
2042	26	75	106	232
2043	27	77	107	235
2044	28	78	108	239
2045	28	79	110	242
2046	29	80	111	246
2047	30	81	112	249
2048	30	82	114	253
2049	31	84	115	256
2050	32	85	116	260

[Technical Support Document: Social Cost of Carbon, Methane, \(whitehouse.gov\)](https://www.whitehouse.gov)

# SCGHG Values over Time – Updated 2022 Numbers

EXTERNAL REVIEW DRAFT

## A.4. Annual Unrounded SC-CO<sub>2</sub>, SC-CH<sub>4</sub>, and SC-N<sub>2</sub>O Values, 2020-2080

Table 4.2.1: Unrounded SC-CO<sub>2</sub>, SC-CH<sub>4</sub>, and SC-N<sub>2</sub>O Values, 2020-2080

Emission Year	SC-GHG and Near-term Ramsey Discount Rate								
	SC-CO <sub>2</sub> (2020 dollars per metric ton of CO <sub>2</sub> )			SC-CH <sub>4</sub> (2020 dollars per metric ton of CH <sub>4</sub> )			SC-N <sub>2</sub> O (2020 dollars per metric ton of N <sub>2</sub> O)		
	2.5%	2.0%	1.5%	2.5%	2.0%	1.5%	2.5%	2.0%	1.5%
2020	117	193	337	1,257	1,648	2,305	35,232	54,139	87,284
2021	119	197	341	1,324	1,723	2,391	36,180	55,364	88,869
2022	122	200	346	1,390	1,799	2,478	37,128	56,590	90,454
2023	125	204	351	1,457	1,874	2,564	38,076	57,816	92,040
2024	128	208	356	1,524	1,950	2,650	39,024	59,041	93,625
2025	130	212	360	1,590	2,025	2,737	39,972	60,267	95,210
2026	133	215	365	1,657	2,101	2,823	40,920	61,492	96,796
2027	136	219	370	1,724	2,176	2,910	41,868	62,718	98,381
2028	139	223	375	1,791	2,252	2,996	42,816	63,944	99,966
2029	141	226	380	1,857	2,327	3,083	43,764	65,169	101,552
2030	144	230	384	1,924	2,403	3,169	44,712	66,395	103,137
2031	147	234	389	2,002	2,490	3,270	45,693	67,645	104,727
2032	150	237	394	2,080	2,578	3,371	46,674	68,895	106,316
2033	153	241	398	2,157	2,666	3,471	47,655	70,145	107,906
2034	155	245	403	2,235	2,754	3,572	48,636	71,394	109,495
2035	158	248	408	2,313	2,842	3,673	49,617	72,644	111,085
2036	161	252	412	2,391	2,929	3,774	50,598	73,894	112,674
2037	164	256	417	2,468	3,017	3,875	51,578	75,144	114,264
2038	167	259	422	2,546	3,105	3,975	52,559	76,394	115,853
2039	170	263	426	2,624	3,193	4,076	53,540	77,644	117,443
2040	173	267	431	2,702	3,280	4,177	54,521	78,894	119,032
2041	176	271	436	2,786	3,375	4,285	55,632	80,304	120,809
2042	179	275	441	2,871	3,471	4,394	56,744	81,714	122,586
2043	182	279	446	2,955	3,566	4,502	57,855	83,124	124,362
2044	186	283	451	3,040	3,661	4,610	58,966	84,535	126,139
2045	189	287	456	3,124	3,756	4,718	60,078	85,945	127,916
2046	192	291	462	3,209	3,851	4,827	61,189	87,355	129,693
2047	195	296	467	3,293	3,946	4,935	62,301	88,765	131,469
2048	199	300	472	3,378	4,041	5,043	63,412	90,176	133,246
2049	202	304	477	3,462	4,136	5,151	64,523	91,586	135,023
2050	205	308	482	3,547	4,231	5,260	65,635	92,996	136,799

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EXTERNAL REVIEW DRAFT

Table 4.2.2: Unrounded SC-CO<sub>2</sub>, SC-CH<sub>4</sub>, and SC-N<sub>2</sub>O Values, 2020-2080 (continued...)

Emission Year	SC-GHG and Near-term Ramsey Discount Rate								
	SC-CO <sub>2</sub> (2020 dollars per metric ton of CO <sub>2</sub> )			SC-CH <sub>4</sub> (2020 dollars per metric ton of CH <sub>4</sub> )			SC-N <sub>2</sub> O (2020 dollars per metric ton of N <sub>2</sub> O)		
	2.5%	2.0%	1.5%	2.5%	2.0%	1.5%	2.5%	2.0%	1.5%
2050	205	308	482	3,547	4,231	5,260	65,635	92,996	136,799
2051	208	312	487	3,624	4,320	5,363	66,673	94,319	138,479
2052	211	315	491	3,701	4,409	5,466	67,712	95,642	140,158
2053	214	319	496	3,779	4,497	5,569	68,750	96,965	141,838
2054	217	323	500	3,856	4,586	5,672	69,789	98,288	143,517
2055	220	326	505	3,933	4,675	5,774	70,827	99,612	145,196
2056	222	330	510	4,011	4,763	5,877	71,866	100,935	146,876
2057	225	334	514	4,088	4,852	5,980	72,904	102,258	148,555
2058	228	338	519	4,165	4,941	6,083	73,943	103,581	150,235
2059	231	341	523	4,243	5,029	6,186	74,981	104,904	151,914
2060	234	345	528	4,320	5,118	6,289	76,020	106,227	153,594
2061	236	348	532	4,399	5,199	6,385	76,920	107,385	155,085
2062	239	351	535	4,458	5,280	6,480	77,820	108,542	156,576
2063	241	354	539	4,527	5,361	6,576	78,720	109,700	158,066
2064	244	357	543	4,596	5,442	6,671	79,620	110,857	159,557
2065	246	360	547	4,666	5,523	6,767	80,520	112,015	161,048
2066	248	363	550	4,735	5,604	6,862	81,419	113,172	162,539
2067	251	366	554	4,804	5,685	6,958	82,319	114,330	164,030
2068	253	369	558	4,873	5,765	7,053	83,219	115,487	165,521
2069	256	372	562	4,942	5,846	7,149	84,119	116,645	167,012
2070	258	375	565	5,011	5,927	7,244	85,019	117,802	168,503
2071	261	378	569	5,085	6,013	7,344	86,012	119,027	170,013
2072	263	382	573	5,160	6,099	7,444	87,006	120,252	171,523
2073	266	385	576	5,234	6,184	7,545	87,999	121,477	173,033
2074	269	388	580	5,309	6,270	7,645	88,992	122,702	174,543
2075	271	391	583	5,383	6,355	7,745	89,985	123,926	176,053
2076	274	394	587	5,458	6,441	7,845	90,978	125,151	177,563
2077	276	398	591	5,532	6,527	7,946	91,971	126,376	179,073
2078	279	401	594	5,607	6,612	8,046	92,964	127,601	180,582
2079	282	404	598	5,681	6,698	8,146	93,958	128,826	182,092
2080	284	407	601	5,756	6,783	8,246	94,951	130,050	183,602

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Using the draft 2022 numbers, enables extrapolation of SCGHG to 2080, unlike 2021 estimates which end in 2050. However the cost estimate is much higher, which will have a huge impact on results

[Supplementary Material for the Regulatory Impact Analysis for the Supplemental Proposed Rulemaking, "Standards of Performance for New, Reconstructed, and Modified Sources and Emissions Guidelines for Existing Sources: Oil and Natural Gas Sector Climate Review": EPA External Review Draft of Report on the Social Cost of Greenhouse Gases: Estimates Incorporating Recent Scientific Advances](#)

# US States by Region and Division

State	Abbreviation	Region	Division
Alabama	AL	East South Central	South
Alaska	AK	Pacific	West
Arizona	AZ	Mountain	West
Arkansas	AR	West South Central	South
California	CA	Pacific	West
Colorado	CO	Mountain	West
Connecticut	CT	New England	Northeast
Delaware	DE	South Atlantic	South
District of Columbia	DC	South Atlantic	South
Florida	FL	South Atlantic	South
Georgia	GA	South Atlantic	South
Hawaii	HI	Pacific	West
Idaho	ID	Mountain	West
Illinois	IL	East North Central	Midwest
Indiana	IN	East North Central	Midwest
Iowa	IA	West North Central	Midwest
Kansas	KS	West North Central	Midwest
Kentucky	KY	East South Central	South
Louisiana	LA	West South Central	South
Maine	ME	New England	Northeast
Maryland	MD	South Atlantic	South
Massachusetts	MA	New England	Northeast
Michigan	MI	East North Central	Midwest
Minnesota	MN	West North Central	Midwest
Mississippi	MS	East South Central	South
Missouri	MO	West North Central	Midwest

State	Abbreviation	Region	Division
Montana	MT	Mountain	West
Nebraska	NE	West North Central	Midwest
Nevada	NV	Mountain	West
New Hampshire	NH	New England	Northeast
New Jersey	NJ	Middle Atlantic	Northeast
New Mexico	NM	Mountain	West
New York	NY	Middle Atlantic	Northeast
North Carolina	NC	South Atlantic	South
North Dakota	ND	West North Central	Midwest
Ohio	OH	East North Central	Midwest
Oklahoma	OK	West South Central	South
Oregon	OR	Pacific	West
Pennsylvania	PA	Middle Atlantic	Northeast
Rhode Island	RI	New England	Northeast
South Carolina	SC	South Atlantic	South
South Dakota	SD	West North Central	Midwest
Tennessee	TN	East South Central	South
Texas	TX	West South Central	South
Utah	UT	Mountain	West
Vermont	VT	New England	Northeast
Virginia	VA	South Atlantic	South
Washington	WA	Pacific	West
West Virginia	WV	South Atlantic	South
Wisconsin	WI	East North Central	Midwest
Wyoming	WY	Mountain	West