# Changes to the personal injury discount rate and how it affects you

You may have heard about the controversy created by the government's recent change to the personal injury discount rate for insurance (known as the Ogden rate). It is a significant change which will have a substantial impact on the insurance market. We hope this brief explanation will give you an insight into the issues and the consequences, and how they might affect you.

### What is the Ogden Rate?

Sadly, people have accidents where their injuries mean they are unable to work again and will spend the rest of their lives receiving treatment and care. The insurance settlement for this is complex. It has to take into account the cost of ongoing treatment and nursing, plus the loss of earnings. Around nine out of 10 people opt for their claim to be paid via a single upfront lump sum. The size of this sum is determined by how much it is expected to earn annually when invested. The basis for the investment calculation is the discount or Ogden rate.

Since 2001 the Ogden rate has been 2.5%. However, in the intervening period, interest rates have fallen and campaigners have been lobbying the government to recognise this, because they feel the existing Ogden rate assumes a far greater return than people are in reality able to achieve. In response, the government has announced that from 20th March it will lower the rate to –0.75%. Others now believe that things have tipped too far in the opposite direction. They argue that with the help of a financial advisor one should easily be able to beat the returns for index-linked government securities on which the government's computations were based. This debate will no doubt continue, but what is the actual effect of the change?

### How does the change work in practice?

A simplified example of a claim may help to bring the key issue into focus. Robert is aged 30 and at the time of his accident was earning £35,000 a year. The annual cost of his care is £60,000. The Ogden rate enables actuaries to work out a multiplier for these annual costs that will determine the final lump sum settlement.

At 2.5%, the multiplier for a 30-year old for lifelong care is 29.60. 29.60 x £60,000 = £1,776,000. The multiplier for loss of earnings to age 65 is 22.84. 22.84 x £35,000 = £799,400. Thus, the total lump sum payable is **£2,575,400**.

At –0.75%, the multiplier for a 30-year old for lifelong care is 71.43. 71.43 x £60,000 = £4,285,800. The multiplier for loss of earnings to age 65 is 38.71. 38.71 x £35,000 = £1,354,850. Thus, the total lump sum payable is **£5,640,650.**

In this example the consequence of reducing the Ogden rate from 2.5% to –0.75% is to more than double the size of the lump sum.

### What is the effect on my insurance?

Clearly the change in the Ogden rate will significantly increase the cost of claims. This will impact on insurers' claims reserves, and in turn they are likely to raise premiums. Insurers price risk. So, those policyholders who present the most risk are likely to face the biggest increases – for example, younger and older drivers.

### How can Centor help?

At Centor we aim to give our clients the best of both sides of the equation. Obviously, in the unhappy event of an accident we, at Centor, are committed to securing the most advantageous settlement we can for you. We have made it a rule that we only work with insurers who are financially secure, with strong reserves, and an outstanding claims service.

On the other hand, we also endeavour to keep our clients' premiums at a reasonable level. We do this by working with you to reduce risk where we can, and by working with our wide panel of insurers to find the insurer and negotiate the policy that is most cost-effective for you.

**If you would like more information about the Ogden rate or to discuss the Centor approach as it relates to your circumstances, please call Richard Grainger on 0207 256 7300.**