



# Ogden Rates

The **Ogden Tables** will be almost unheard of outside of the legal industry, insurance profession and related areas. They are a set of statistical tables and other information for use by the UK Courts to calculate future losses in personal injury and fatal accident cases.

The Tables are used to determine the lump sum awarded from which rest of life care is paid to a claimant. The award calculation includes an assumed rate of investment return that the monies awarded will yield. The Lord Chancellor announced in March 2017 that following a review, the rate used must be reduced from

positive 2.5% to negative 0.75% reflecting the poor long-term investment returns in recent years, and for the foreseeable future.

As a consequence of this decision, compensation being awarded or reserved for long term losses increased substantially. This impacted insurers as under regulatory requirements, for an insurer to be classed as solvent they must have the ability to meet their claims reserves two times over.

A subsequent review has since taken place and with effect from 5<sup>TH</sup> August 2019 that the Ogden discount rate shall be marginally increased from negative 0.75% to negative 0.25%.

## Illustration of Calculation

The table below is provided by a major UK insurer and illustrates how compensation payments would be calculated at the current rate of -0.25% - and previous rates for comparison - for a 36-year-old male paraplegic unable to return to work:

Consideration	Discount Rate				
	-0.75%	-0.25%	0%	1.0%	+2.5%
Pain, Suffering & Loss of Amenity	£200,000	£200,000	£200,000	£200,000	£200,000
Loss of Earnings	£1,282,400	£1,180,000	£1,132,800	£969,600	£782,000
Care Package	£12,050,000	£10,468,000	£9,786,000	£7,614,000	£5,506,000
Rehabilitation	£301,250	£261,700	£244,650	£190,350	£137,650
Aids & Appliances	£903,750	£785,100	£733,950	£571,050	£412,950
Legal Costs	£400,000	£400,000	£400,000	£400,000	£400,000
<b>Total Compensation</b>	<b>£14,987,400</b>	<b>£13,144,800</b>	<b>£12,347,500</b>	<b>£9,795,000</b>	<b>£7,288,600</b>



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During the past two-year period when the rate was set at -0.75%, uncertainty regarding both the timing of a further discount rate change plus the rate to be determined, have created opportunities to negotiate claims at rates other than -0.75%. The new rate of -0.25% removes this uncertainty, meaning it will not be possible to negotiate claims at rates other than -0.25%.

This will impact all policies which include cover for liability for personal injury including Motor Insurance, Employers' Liability Insurance and Public & Products Liability Insurance. Insurers across the market have warned that they must increase the rates used to calculate premiums in order to ensure they have sufficient reserves to meet the revisions to current claims and those of future losses.

There are no indications currently that insurers will be considering this as a *one-off* increase, and it may be a continuing process over coming years as they seek to correct their reserves.