



Department  
for Work &  
Pensions

# Additional estimates of volumes and costs of expanding the scope of the proposed Diffuse Mesothelioma Payment Scheme

July 2013

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# Introduction

1. The Department for Work and Pensions (DWP) published an Impact Assessment (IA) on 7 May 2013<sup>1</sup> outlining the costs and benefits to affected groups of the proposed Diffuse Mesothelioma Payment Scheme (DMPS).
2. This publication will present analysis around changing the base assumptions using the methodology used in the published Mesothelioma Bill Impact Assessment as well as average civil compensation by age. The purpose of this publication is to support discussions during the Report stage of the Mesothelioma Bill in the House of Lords.

## Queries about the content of this document

Please direct any queries to:

Shaun Donaghy

Department for Work and Pensions

2nd Floor Caxton House

Tothill Street

London

SW1H 9NA

Phone: 020 7449 7631

Email: [Shaun.donaghy@dwp.gsi.gov.uk](mailto:Shaun.donaghy@dwp.gsi.gov.uk)

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<sup>1</sup> <https://www.gov.uk/government/publications/impact-assessment-mesothelioma-payment-scheme-and-mandatory-membership-of-employer-liability-tracing-office-elto>

## Background

3. The Department for Work and Pensions (DWP) published an impact assessment (IA) on 7 May 2013<sup>2</sup> outlining the costs and benefits to affected groups of the proposed Diffuse Mesothelioma Payment Scheme (DMPS). Here we are providing additional analysis using the methodology and assumptions used in this published IA<sup>3</sup>, to provide analysis to support discussion during the Report stage of the Mesothelioma Bill in the House of Lords.
4. Average civil compensation is based upon a survey of civil compensation awarded in cases registered with the Compensation Recovery Unit between 2007 and 2012. Each civil case is decided upon its own merits, with a wide range of factors being taken into account. Therefore this average should not be taken as indicative of what any particular individual might expect to receive.

## Treatment of Legal Fees

5. The published IA used a figure of £7,000 per individual for legal fees; here we have moved that assumption to £2,000 per individual (unless otherwise stated). Parliament has discussed the details of the Scheme; the final amount of fixed legal fees that will be made alongside each Scheme payment will be determined by the time the Scheme and the Scheme rules are laid in regulations.
6. We are currently looking at establishing the best working assumption and will update our analysis once we have more data. In the interim we have used the lower figure of £2,000 per individual, as this is a lower estimate of legal costs based on a relatively straightforward process we expect to operate for individuals making applications to the Scheme.

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<sup>2</sup> <https://www.gov.uk/government/publications/impact-assessment-mesothelioma-payment-scheme-and-mandatory-membership-of-employer-liability-tracing-office-elto>

<sup>3</sup> The estimates presented in the published IA were based on 70% of Average Civil Compensation.

# Results

## Average Civil Compensation

7. The DMPS payment is proposed to be set at a tariff based on 75% of average civil compensation, as calculated in the 2013 published National Institute of Economic and Social Research (NIESR) survey of average civil compensation<sup>4</sup> by one-year age bands.
8. Table 1 in the attached Excel spreadsheet presents average civil compensation by 1-year age bands (40 to 89) for both 100% and 75% of average civil compensation.

## Estimated volumes and costs as a result of changing the starting date of the scheme

9. We can estimate how many people would have been eligible for payment under the DMPS, how much they would have received, and what the total cost of the levy would be if the scheme was backdated to 1968, the first year for which we have data on deaths from mesothelioma<sup>5</sup>.
10. Table 2 in the attached Excel spreadsheet presents estimates of volumes and costs by ten-year period on a financial year (April to March) basis, where possible. The scheme payments and cost of the levy are based on 75% of average civil compensation.
11. Table 3 in the attached Excel spreadsheet presents estimates for one-year periods for the financial years 2008/09 to 2011/12 and the second quarter of 2012. Estimates for 2008 to 2010 are based on HSE death certificates mentioning mesothelioma. The table provides figures on the total number of deaths from mesothelioma, with the payments and costs if eligibility for the scheme was extended to victims diagnosed before the current starting date. Where actual data is not available, forecasts have been used. The scheme payments and cost of the levy are based on 75% of average civil compensation.
12. If the scheme was in existence from April 1968, it is estimated that between April 1968 and June 2012 6,612 individuals would have been eligible to apply to the

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<sup>4</sup> NIESR 2013, Study into average civil compensation in mesothelioma cases: statistical note. Available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/203431/20130501-niesr-meso-statistical-report-final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203431/20130501-niesr-meso-statistical-report-final.pdf)

<sup>5</sup> <http://www.hse.gov.uk/statistics/tables/meso01.xls>

scheme. An estimated 5,951 individuals would have been successful in receiving a payment from the scheme. Individuals would have received<sup>6</sup> £605 million from the scheme and the total levy<sup>7</sup> on insurers would have been £788 million.

13. If the scheme accepted applicants from April 2010<sup>8</sup> it is estimated that an additional 727 individuals would apply, with 654 individuals who would be successful. This would increase the levy on insurers in this first four years of the scheme from 2.79% to 4.02% of their Gross Written Premium

## **Scenario 1: Estimates of tariff payments and levy costs if the levy on insurers was set at 3% of Gross Written Premium, capped at 100% of average civil compensation in each year from 2018/19 onwards**

14. This scenario assumes that the tariff and levy remain unchanged over the first four years of the scheme. In each subsequent year, the levy is set at 3% of Gross Written Premium unless this means that the tariff payment is higher than 100% of average civil compensation. If the tariff payment is higher than 100% of average civil compensation then the tariff is set at 100% of average civil compensation and these amounts are then used to determine the levy on insurers.
15. Table 4a in the attached Excel spreadsheet presents the baseline estimates of the tariff payments and levy costs before the scenario assumptions are applied. Based on 75% of average civil compensation and a £2,000 contribution towards legal fees, individuals will receive<sup>9</sup> an estimated £260 million and the total levy<sup>10</sup> on insurers is estimated at £343 million over the 10 years, 2014/15 to 2023/24.
16. Table 4b in the attached Excel spreadsheet presents the impacts of the scenario assumptions on the baseline estimates. Based on 100% of average civil compensation from 2018/19<sup>11</sup> onwards, individuals will receive<sup>12</sup> an estimated £312 million (£52 million more) and the total levy<sup>13</sup> on insurers is estimated at £395 million over the 10 years, 2014/15 to 2023/24.

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<sup>6</sup> The amount individuals receive directly from scheme (scheme payment and amount to cover legal fees, minus government social security benefit and lump sum payment recoveries)

<sup>7</sup> Total levy if no government funding.

<sup>8</sup> The start of the quarter closest to the publication of the government consultation in February 2010.

<sup>9</sup> *ibid* 5

<sup>10</sup> Total levy (including smoothing and minus government funding, smoothed over the years 2014/15 to 2017/18)

<sup>11</sup> In earlier years we continue to use 75% of average civil compensation and hence estimates for these years are the same in tables 4a and 4b in the attached Excel spreadsheet.

<sup>12</sup> *ibid* 5

<sup>13</sup> *ibid* 6

## **Scenario 2: Estimates of tariff payments and levy costs if the levy on insurers was set at 3% of Gross Written Premium, capped at 100% of average civil compensation in each year**

17. This scenario assumes that for each year of the scheme the levy is set at 3% of Gross Written Premium where payments do not exceed 100% of average civil compensation.
18. Table 4c in the attached Excel spreadsheet presents the impacts of the scenario assumptions on the baseline estimates. Individuals will receive<sup>14</sup> an estimated £325 million (£65 million more compared to the baseline in Table 4a) and the total levy<sup>15</sup> on insurers is estimated at £408 million over the 10 years 2014/15 to 2023/24.

**Shaun Donaghy**

**Department for Work and Pensions**

**July 2013**

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<sup>14</sup> ibid 5

<sup>15</sup> ibid 6