Government Actuary's Department

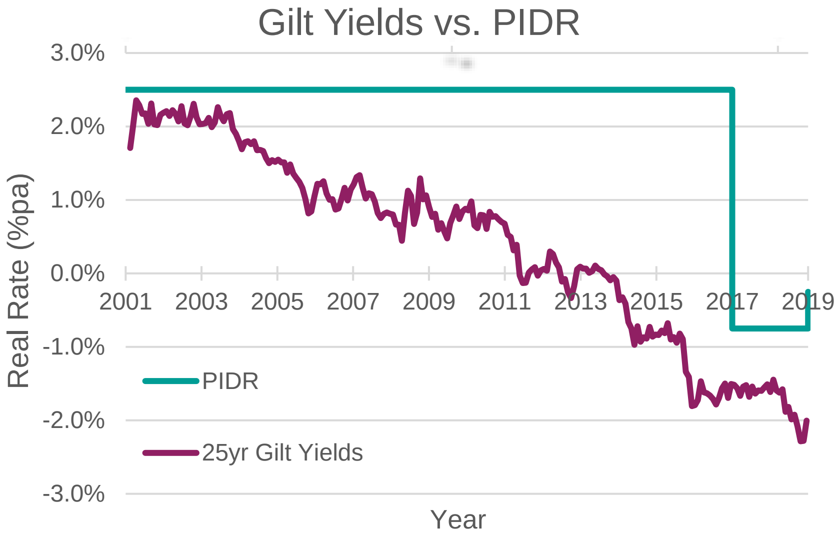
Issue 11 - November 2019

Investment Bulletin

The Personal Injury Discount Rate changed in July 2019 for England and Wales, and in this bulletin we discuss the rate's history and the potential impacts of the change.

Background

It is an unfortunate reality that accidents happen, resulting in injuries, and that sometimes it can be so serious as to warrant financial compensation. It is reasonable to expect that this compensation will be available for investment to earn a return, but how do we allow for this gain? Enter: the Personal Injury Discount Rate (PIDR), reflecting the investment return that a claimant is expected to earn on settlements received following an accident and so used to determine the level of compensation.



PIDR and the Ogden tables

The PIDR is applied through actuarial tables, often coloquially refered to as "Ogden tables" after the first chair of the committee who published them. Ogden tables were first published in 1984 and the tables provide multipliers which convert the lost earnings or costs that arise from an accident into a present value. The tables reflect the period over which such costs are payable (for example linked to the life expectancy of the injured party) and the investment return that a claimant might earn on their settlement (the PIDR).

The PIDR used with reference to these tables was previously set with reference to index-linked gilt yields and was set at 2.5% (above inflation) from 2001 before the rate was reduced to -0.75% in March 2017 to reflect the significant fall in gilt yields (see chart). The Civil Liability Act 2018 brought a change in the way in which the PIDR is set, such that it is now set to reflect the expected return on a diversified low risk portfolio. In consultation with the Government Actuary and HM Treasury, the Lord Chancellor increased the rate to -0.25% in July 2019.

Impact of the PIDR

When a lower rate is set, the injured party is given a larger settlement which, all else being equal, increases the chances of claimants being able to meet the costs that arise from the accident. For defendants with large Personal Injury liabilities, including insurance companies and public sector bodies, a lower rate increases the cost of meeting its obligations and hence can put financial pressure on insurance premiums.

Whilst the PIDR influences the size of a claimant's settlement, their ability to meet their needs will depend critically on other factors – for example on how long they live, their evolving needs and their ultimate investment returns. In many senses the investment challenge claimants face is similar to those faced by members of Defined Contribution pension schemes at retirement. For further details: See our report.

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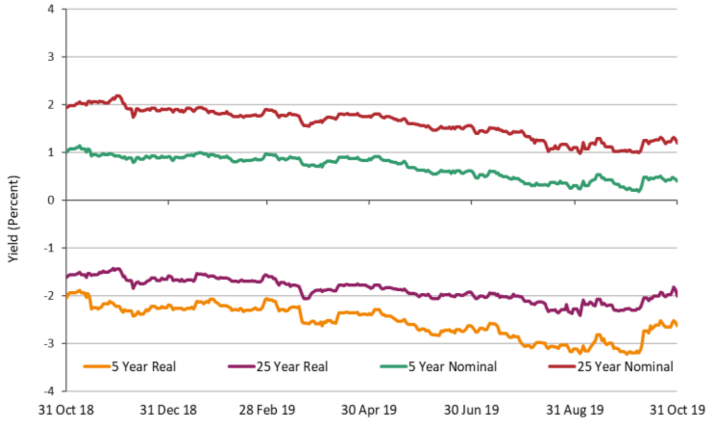
This month in brief

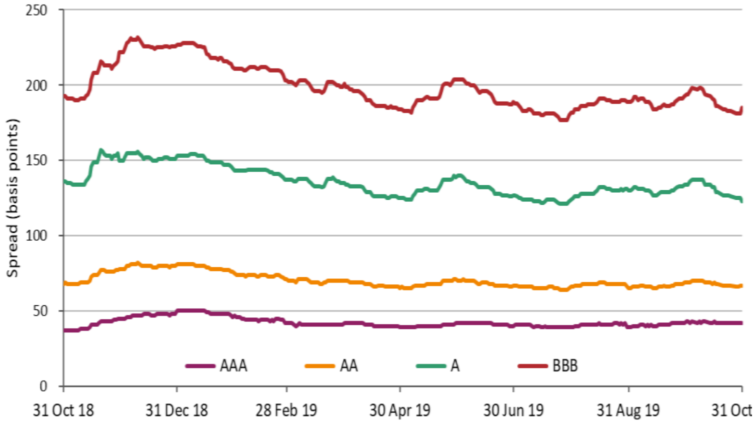
The Pound rose against the Dollar and Euro over the course of October, ending at an exchange rate of $1.29 and €1.16. This could be attributed to the decreased chance of a no-deal Brexit. However, GDP growth has slowed across the last quarter, with annual rates seeing an increase of 1.9%. While this is ahead of economist predictions (1.6%) it is still the slowest quarter of growth the UK has seen this year. House prices remained marginally flat with a 0.2% rise on September. Residential properties are now also taking, on average, one month longer to sell then 3 years ago. It is worth noting that emphasis should be placed on the fact that markedly different regional trends are leading to differing local pictures.

Unemployment saw an increase, rising from 3.8% to 3.9%. This fall in employment is the largest drop, over the course of a single month, in four years. Much of these job loses come from high street retailers and redundancies across the manufacturing sector. Alongside this, the growth in average weekly earnings has slowed down, dropping from 4% to 3.8%. In real terms, earnings are still below the level seen before the 2008/09 recession, but, excluding bonuses, have increased 2% since this time last year.

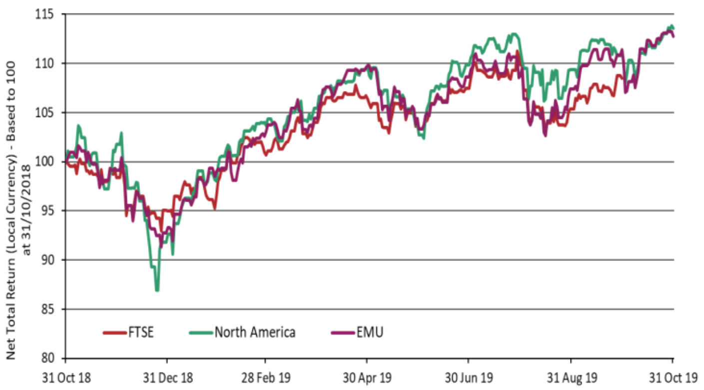
Nominal yields ended the month at a slightly higher level. Real yields have increased.



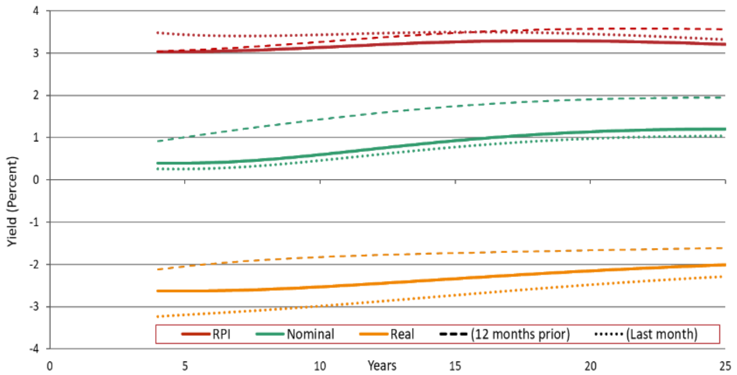
Credit spreads of lower rated bonds fell over the month.



All equity markets rose slightly over the month.



Real and Nominal yields are slightly higher than last month.



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