The Ogden discount rate and you

Jackie Hyde explains why a change to the little-known Ogden discount rate could cause major disruption in the insurance sector – at great potential cost to nurseries

On 20 March 2017 the Ogden discount rate changed from 2.5 per cent to minus 0.75 per cent, - a move described by Huw Evans of the Association of British Insurers (ABI) as "a crazy decision".

This might not mean much to you, but the Ogden discount rate is what insurers use to calculate how much people suffering life-changing injuries should be paid to cover their predicted future losses. The compensation they're awarded should put the individual in the same financial position as they would have been had they not been injured. So, it reflects future loss of earnings plus the cost of any care required.

As the amount awarded is usually paid as a lump sum and invested, the rate is used to adjust their compensation, taking into account any interest investing it would earn.

Escalating settlements

Unchanged since 2011, the new Ogden discount rate means payments will be considerably higher than before, costing insurers millions. One insurer recently explained how the change would affect individual settlements using actual cases like the one below.

A 47-year old factory worker suffers a brain injury at work. Unable to return to his job, he now requires 24-hour care and aids of £100,000 per year. The table below shows what he'd be awarded based on the old and new rates.

Impact on your nursery

So what does the new Ogden discount rate mean to your nursery?

First, it's inevitable that premiums will start to increase for motor and liability insurance. This is because all new claims - and existing ones that are not already settled - will have the new rate applied. For some insurers, the introduction of the new Ogden discount rate has also meant delaying profit announcements as they work out the impact this significant change will have.

But this isn't the only factor affecting compensation awards and the knock-on effect on insurance premiums. Average life expectancy is increasing and, by 2030, most people will be living for 90 years.

That means insurers will have to cover care costs for longer, which could be a particular concern for nursery businesses. That's because if a child suffered a life-changing injury that the nursery was held liable for, the compensation awarded to support them for the rest of their life could be considerable.

Be prepared

With this in mind and considering the settlement costs awarded in the example above, nurseries would be wise to review their current liability protection.

Add in the fact that Insurance Premium Tax (IPT) will rise from 10 per cent to 12 per cent from 1 June, affecting all policies and premiums, the need for taking a closer look at your cover becomes increasingly clear.

For nurseries already under considerable financial pressures, this won't be welcome news. However, while the need to find savings and best value is understandable, it's vital that you have the right insurance should a life-changing incident occur.

By talking to your insurance expert, you can give yourself the peace of mind that comes from knowing that both your business and those in your care are properly protected. ■

Discount Rate	**2.5% £**	**Minus 0.75% £**
Pain & Suffering	200,000	200,000
Loss of Earnings	241,000	391,800
Care	2,598,000	4,997,000
Others	400,000	400,000
Costs	600,000	600,000
Total	**4,039,000**	**6,588,800**

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