


IMPACT OF CHANGES TO DISCOUNT RATE

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EXPERTS IN FORENSIC ACCOUNTING

INTRODUCTION



WE HAVE A HEAD FOR NUMB3RS

INTRODUCTION

The previous revision of the discount rate took place on 25 June 2001, when a discount rate of 2.5% per annum was advised to reflect the change in the average redemption yields on Index-Linked Government Stock (ILGS) at that time.

INTRODUCTION

An important factor in determining multipliers is the net rate of return (discount rate) the Claimant might expect to receive from a reasonably prudent investment of the lump sum compensation.

INTRODUCTION

The current discount rate of -0.75 has been effective since 20 March 2017.

WORKED EXAMPLES



WE UNDERSTAND
NUMB3RS

BACKGROUND FOR EXAMPLES

Accident date	1 July 2017
Date of trial	1 July 2020
Age at date of trial	40
Retiring at age	60

Annual loss of earnings £20,000

PAST LOSS OF EARNINGS

Past loss of earnings

Annual loss	20,000
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Period - 3 YEARS

Total past loss	<u>60,000</u>
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FUTURE LOSS OF EARNINGS

Annual loss	20,000	Annual loss	20,000
Multiplier 2.5%	15.44	Multiplier -.75%	21.05
Total Loss	<u>308,800</u>	Total Loss	<u>421,000</u>

Table 7

DIFFERENCE

At 2.5%	368,800
At -0.75%	481,000
Difference	<u>112,200</u>

CAN THE LOSSES BE REDUCED?

Longer past loss period – trial is 1 July 2025

Age at date of trial: 45

PAST LOSS OF EARNINGS

Past loss of earnings

Annual loss 20,000

Period – 8 YEARS

Total past loss 160,000

FUTURE LOSS OF EARNINGS

Annual loss	20,000	Annual loss	20,000
Multiplier 2.5%	12.26	Multiplier -.75%	15.49
Total Loss	<u>245,200</u>	Total Loss	<u>309,800</u>

TOTAL LOSS OF EARNINGS

At 2.5%		At -.75%	
Past loss	160,000	Past loss	160,000
Future loss	245,200	Future loss	309,800
Total loss	<u>405,200</u>	Total loss	<u>469,800</u>

TOTAL LOSS OF EARNINGS

At 2.5%		At -.75%	
Trial age 40	<u>368,800</u>	Trial at age 40	<u>481,000</u>
Trial age 45	<u>405,200</u>	Trial age 45	<u>469,800</u>
Increase	<u>36,400</u>	Decrease	<u>11,200</u>

RETIREMENT AGE

Age at trial	40	40	40	40
Retirement age	50	60	70	75
Loss of earnings	10.29	21.05	31.94	37.23
Loss of annual pension	45.37	34.61	23.72	18.43
Total multiplier	55.66	55.66	55.66	55.66

MULTIPLIER SPLIT

Age at trial	40	40	40	40
Retirement age	50	60	70	75
Earnings multiplier	18%	38%	57%	67%
Pension multiplier	82%	62%	43%	33%

ADJUSTMENT FOR EARLY RECEIPT

Age at trial	40	40	40
Retirement age	50	60	70
Early receipt - years	10	20	30
Adjustment for early receipt	1.2534	1.3514	1.457

TOTAL LOSSES – SCENARIO 1

		Retire at 50	Retire at 70
Annual pension	10,000	453,700	237,200
Lump sum	5,000	6,267	7,285
Loss of earnings	20,000	205,800	638,800
		<u>665,767</u>	<u>883,285</u>

TOTAL LOSSES – SCENARIO 2

		Retire at 50	Retire at 70
Annual pension	20,000	907,400	474,400
Lump sum	5,000	6,267	7,285
Loss of earnings	10,000	102,900	319,400
		<u>1,016,567</u>	<u>801,085</u>

TOTAL LOSSES

	Retire at 50	Retire at 70
Higher pension	1,016,567	801,085
Higher earnings	665,767	883,285
Difference	<u>350,800</u>	<u>(82,200)</u>



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OTHER ADJUSTMENTS



WE MAKE SURE THE
NUMB3RS STACK UP

DON'T FORGET!

- Discounts for factors other than mortality – reduces the multiplier
- Beware the disabled v not disabled – may increase the loss

DEFINITION OF EMPLOYED/SELF EMPLOYED

Employed Those who at the time of the accident are employed, self-employed or on a government training scheme.

Not employed All others (including those temporarily out of work, full-time students and unpaid family workers).

DISABLED/NOT DISABLED

Disabled A person is classified as being disabled if all three of the following conditions in relation to the ill-health or disability are met:

DISABLED/NOT DISABLED

(i) has either a progressive illness or an illness which has lasted or is expected to last for over a year,

DISABLED / NOT DISABLED

(ii) satisfies the Disability Discrimination Act definition that the impact of the disability substantially limits the person's ability to carry out normal day-to-day activities

And

DISABLED / NOT DISABLED

(iii) their condition affects either the kind or the amount of paid work they can do.

Not disabled All others.

ALL BAD NEWS?

- Reviews of the rate every 3 years – it is possible with the recent increase in interest rates that the discount rate will be revised upwards.
- Make Periodical Payments Orders to the Claimant, rather than a single lump sum compensation award.

QUESTIONS ?

Disclaimer

This seminar is of a general nature and is not a substitute for professional advice.

No responsibility can be accepted for the consequences of any action taken or refrained from as a result of what is said

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