THE IMPACT OF THE OGDEN TABLES ON UK PERSONAL INJURY AWARDS

by Craig Pettengell

Summary:

Certain classes of insurance, including Motor, Employers Liability and Public Liability, potentially face a dramatic increase in the cost of large claims due to the widespread adoption of the Ogden tables in the assessment of *UK Personal Injury* Awards. This is likely to affect reserves as well as the profitability of ongoing business.

The workshop will include a presentation of the historical development of this issue, including an update of the current debate, an analysis that was performed to quantify the impact of the tables and a lead in to a discussion.

Workshop Outline:-

What are the Ogden Tables?
Why are they Important?
Historical Background
Current Debate

Analysis: Why the Ogden Approach is Different
Scope and Data
Calculations
Results
Limitations
Sensitivities

The results will include the impact on individual ground-up claims, aggregate gound-up claims and excess of loss reinsurance aggregate claim costs.

Discussion: Others' Results and Analysis
Reserving Stance and Difficulties
Pricing Difficulties: Reinsurance and Primary
Structured Settlements
Factors Affecting Yield on Index-Linked Gilts.

THE IMPACT OF THE OGDEN TABLES ON UK PERSONAL INJURY AWARDS

Presented by: Craig Pettengell
Julian Ross

The attached are Appendices to the above paper, to be presented by Craig Pettengell and Julian Ross as a workshop at GISG 1996.

Please read the example Appendix B **before** the session, as it will not be discussed in detail on the day.

Appendix A

Data for 65 UK Motor Claims

Court Award Information (from Kemp & Kemp [1])

Claim Identifier	Gender		Accident Year	Age At Trial	Trial Year	Expectancy (no. years from trial)	Total Settlement	Cost Of Future Care Per Annum	Cost Of Future Care Multiplier	Future Loss Of Earnings Per Annum	Future Loss Of Earnings Multiplier
Brighnnan	F		1981	22	1985	21	573,447	27,300	13	4,500	14
Brittain	F		1984	32	1989	27	950,000	19,480	14	32,611	14
Housecroft	F		1980	21	1985	27	327,917	9,400	13	5,600	10
Fitzgerald	M		1982	26	1986	28	596,553	15,684	15	11,972	15
rancis	F		1981	21	1985	27	411,220	12,299	13	8,500	10
Leon Sen Tang	M		1982	29	1986	30	540,430	16,437	13	10,493	13
Bowden	F		1988	26	1990	30	949,530	43,501	14	11,000	14
Hunt	F		1985	33	1993	25	547,067	17,288	14	11,700	13.5
Wodrup	M		1987	28	1991	Normal	237,000	0	0	10,000	16
Chapman	F		1978	29	1982	23	266,000	9,251	14	2,122	10
Charalambous	M		1980	23	1987	Normal	395,890	7,800	13	10,644	12
Bishop	M		1984	22	1988	Normal	938,801	24,608	13	10,550	15
Duhelon	F		1982	20	1986	10	627,390	36,285	7.5	17,438	8
Hodgeson	F		1982	40	1987	Normal	417,190	11,850	14	3,000	12
Jenkinson	F		1983	22	1986	Normal	296,600	5,950	.18	5,500	16
Pritchard	M		1976	39	1986	29	362,130	6,500	14	9,000	14
Thirtle	M		1979	39	1985	36	342,260	8,381	15	5,857	13
Whiteside	F		1987	25	1994	Normal	1,906,800	62,991	18	14,794	16
Wright	M		1986	40	1993	Normal	301,861	0	0	12,424	12
Mann	M		1981	34	1984	Normal	198,730	0	0	8,757	14
Barden	M		1989	58	1992	Normal	228,350	4,091	11	15,240	5
O'Brien	M		1985	57	1988	Normal	104,040	673	6	8,207	5
Worf	M		1988	45	1992	Normal	120,560	0	0	10,000	8
Ellis	M		1985	27	1989	Normal	963,141	41,347	17	9,348	15
Moore	F		1978	20	1983	Normal	191,250	0	0	8,000	15
Brice	F		1980	45	1983	Normal	63,470	2,600	10	0	0
Murby	M		1989	41	1993	Normal	151,550	0	0	6,500	12
English	M		1980	50	1985	Normal	90,600	0	0	5,900	9
Hall	F		1967	46	1973	Normal	25,750	0	0	938	8
Porter	M		1974	26	1979	Normal	45,500	0	0	1,000	15
Angus	M		1977	57	1979	Normal	37,370	0	0	2,860	6
Dietrich	M		1984	25	1992	Normal	74,180	0	0	2,500	16
Loughran	M		1989	48	1992	Normal	95,750	0	0	10,391	7
Mitcell	M		1985	22	1989	Normal	154,730	0	0	3,920	16
Michalski	M		1987	65	1993	Normal	216,450	11,692	6.5	3,074	6.5
Bird	F		1989	50	1993	Normal	105,070	1,274	14	3,145	4
Baker	M		1985	57	1991	Normal	91,638	0	0	8,528	4
Mellgrew	F		1987	29	1993	Normal	193,233	0	0	8,471	12
Evans	M		1986	37	1994	Normal	177,170	1,000	12	9,091	11
Lal (Harbans)	M		1976	39	1981	Normal	64,510	0	0	4,160	10
Green	M		1986	27	1990	Normal	169,564	0	0	5,000	15
Carrington	M		1982	48	1988	Normal	171,483	1,150	11	8,356	9
Middleton	F		1976	33	1986	Normal	62,990	0	0	366	15
Davies	M		1978	27	1984	Normal	57,360	0	0	1,040	15
Wright	M		1976	25	1981	Normal	65,950	0	0	1,800	16
Thorne	M		1972	16	1975	Normal	43,250	0	0	1,250	13
Jones	M		1976	35	1980	Normal	78,210	0	0	2,723	14
Thomas	M		1977	26	1982	Normal	72,500	0	0	2,375	16
Pettley	M		1982	58	1988	Normal	102,920	580	10	7,015	4.5
Southall	M		1978	47	1981	Normal	32,980	0	0	750	12
Hughes	M		1978	37	1985	Normal	98,030	0	0	2,664	14
Frost	M		1984	38	1991	Normal	166,400	0	0	8,000	10
Eade	M		1982	35	1985	Normal	124,500	0	0	3,000	15
Sharkey	F		1981	43	1988	Normal	54,500	400	15	2,500	10
McDonald	F		1987	38	1994	Normal	54,290	0	0	1,000	10
Tilson	M		1988	44	1993	Normal	134,180	519	13	4,000	11
Cook	M		1989	25	1990	Normal	34,370	200	16	418	14
Weiss-Stoll	F		1981	37	1986	Normal	105,980	0	0	5,769	13
Malone	F		1983	25	1984	Normal	49,180	0	0	3,074	16
Davies	F		1987	31	1990	Normal	51,350	0	0	2,640	15
Phillips	F		1989	21	1991	Normal	22,050	0	0	1,470	15
Coward	F		1983	36	1987	Normal	165,800	0	0	11,843	14
		Total					16,299,045				
Count		62	Average Age Male	37.42		Simple Average	262,888	6,462	6.08	6,529	11.81
% Males		61.29%	Average Age Female	31.04		Pure Average	262,888	13,815	13	6,636	12.01

Appendix B

Example Calculation

This example relates to the plaintiff Housecroft, who was a 16 year old in 1980 at the time of an accident from which she suffered almost complete paralysis. We show the actual award, the estimation of the multipliers for medical care and loss of earnings consistent with the Ogden tables and summarise the impact of this change on the total award.

Whilst we believe this calculation is appropriate given the facts presented in Kemp and Kemp[1] regarding the award, there may be other factors of which we are unaware that should be taken into account in determining the impact of the revised basis for calculating multipliers.

Actual Award

Head of claim	Award (£)
Pain & Suffering	80,000
Loss of Life Expectancy	1,250
Miscellaneous Future Expense	53,600
Cost of Past Care	10,000
Interest	4,867
Total excl. Future Care & Earnings	149,717

Future Care and Earnings			Annual Amount		Multiplier
Cost of Future Care	122,200	=	9,400	*	13
Loss of Future Earnings	56,000	=	5,600	*	10
Total Award	327,917				

Ogden effect on multipliers (all multipliers based on net real return of 2.625%)

Medical Care

Life Expectancy from Trial		27	:	as opposed to 56 years for unimpaired female age 21 at trial
Age for Look Up in Tables		56	:	average age at death of females is 83 - 27 life expectancy
Multiplier in Tables at :	3%	16.5		
	2.5%	17.5		
Ogden Multiplier at 2.625%		17.2	:	compared to award value of 13

Future Cost of Care post Ogden 162,150 = 9400 * 17.2

Appendix B
continued

Future Loss of Earnings

Age for Look Up in Tables		21	age at trial as no impaired life assumed
Multiplier in Tables at :	3%	24.1	
	2.5%	26.2	
Multiplier at 2.625%		25.68	
Discount for Future Employment Contingencies		1.8%	taken from the Ogden ready-reckoner [2] without adjustment for sex, interest rate etc.
Ogden Multiplier		25.21	= 25.68*(1-1.8%) compared to award value of 10
Future Loss of Earnings post-Ogden		141,176	= 5,600 * 25.21

Summary of Ogden Impact

Element of Award	Pre-Ogden	Post-Ogden	% Increase
Costs excluding Care & Earnings	141,717	141,717	0.0%
Future Care	122,220	162,150	32.7%
Future Earnings	56,000	141,176	152.1%
Total	327,937	453,043	38.1%