

# Discount Rate and Managing Client Expectations



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# What is the Discount Rate?

Client needs a posturepedic bed in 10 years time

Cost is £3,500 – what is the present value?

INFLATION

INVESTMENT

## How is the Discount Rate calculated?

### INFLATION

RPI at 2.9% per year  
Expected cost of bed would be £4,660

### INVESTMENT

Client can invest money for 10 years  
Will get a return on that investment

# Investment Rate of Return?

Assumptions for the investment of settlement

Current

No risk – use ILGS  
Return of -0.75% below RPI

Proposed

MOJ Consultation Response  
7<sup>th</sup> September 2017

# The move from ILGS

Proposed

Expert panel

Claimant investment strategy

To be set within 90 days following legislation

Reviewed no later than 3 years

180 day review period

Opportunity for alternative rates

duration

type of loss

# Investment Strategy – GAD Analysis

<b>Asset class</b>	<b>Portfolio A</b>	<b>Portfolio B</b>
UK Equities	13%	29%
Overseas Equities	15%	28%
Fixed Interest Gilts	15%	7%
Index-linked gilts	5%	3%
Corporate Bonds	21%	14%
Cash	10%	5%
Property	4%	5%
Hedge Funds	18%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Rates based on duration

Ontario Discount Rate, Canada

Initial rate for losses in first 15 years

Changes each year

2010	1.25%
2013	-0.5%
2017	0.0%
After 15 years	2.5%

# Rates based on loss type

Quebec Discount Rate, Canada  
Rate dependant on loss type

Loss of Income	2.0%
Care (goods)	3.25%
Care (services)	2.0%



# The potential effect

Assumptions for the investment of settlement

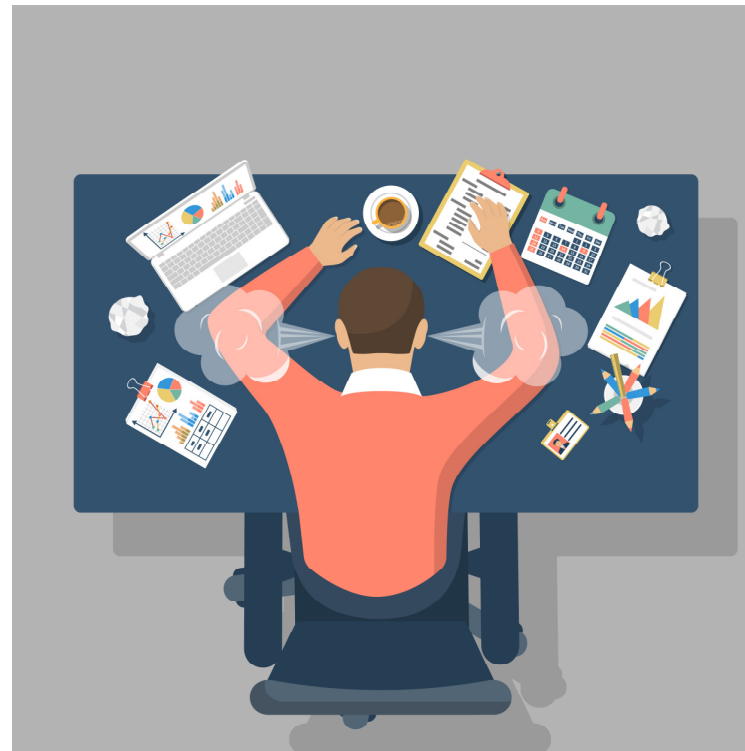
Current

10 years at  $-0.75\%$  = 1.0782  
Requires £3,774

Proposed

10 years at  $1.0\%$  = 0.9053  
Requires £3,169

# What is the expected settlement value?



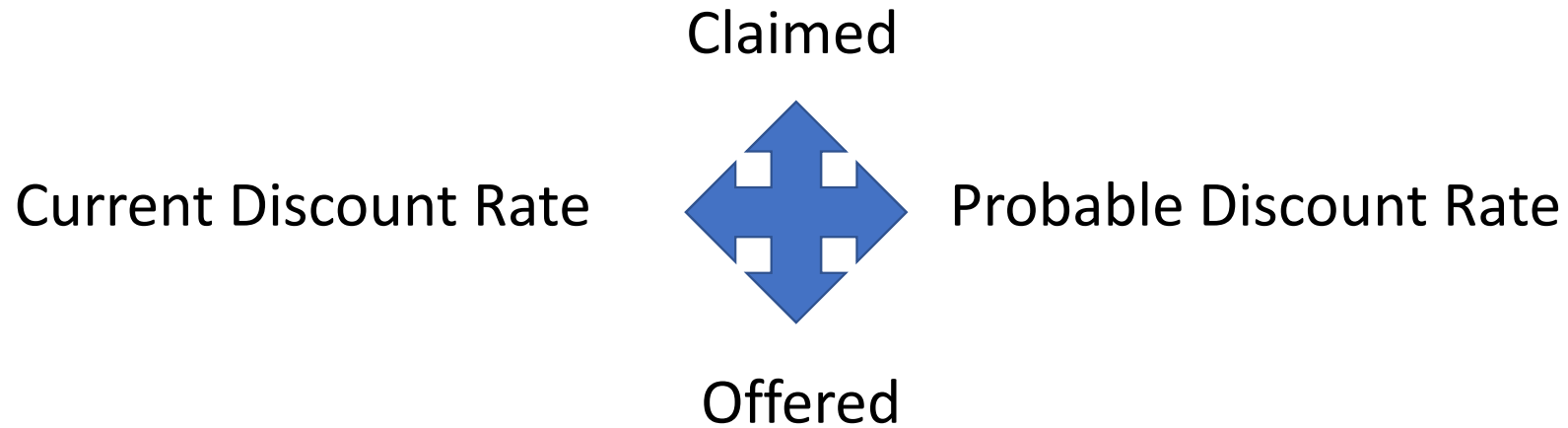
It's not just about the high – low

Claimed



Offered

It's not just about the high – low



# How can that work in practice?

Back to our £3,500 posturepedic bed in 10 years time

Current

Probable

Claimed

£3,774

£3,169

# The counter-offer

Insurer offers £2,500 for this item

Current

Probable

Offered

£2,695

£2,263

# The spread of values

Claimed at £3,500 – offered £2,500

Current

Probable

Claimed

£3,774

£3,169

Offered

£2,695

£2,263

# The revised Scott Schedule

Loss	Claimant		Compromise		Offered	
	Current	Possible	Current	Possible	Current	Possible
Care for Rest of Life	£ 37,500	£ 37,500			£ 32,000	£ 32,000
Multiplier	53.12	34.97			53.12	34.97
Value	£ 1,992,000	£ 1,311,375			£ 1,699,840	£ 1,119,040