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# Periodic payment orders and the uncertainty around them – update from the IFoA PPO Working Party

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**IFoA India Conference 2024**

# Who are we?



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Acorn Group, UK  
Chair, IFoA PPO Working Party

# What is a PPO?

*'A PPO is a contingent, deferred, whole-life, wage-inflation-linked, guaranteed, impaired-life annuity, where the identity of the annuitant and the size of the annual payments are unknown at policy inception.'*

*Sounds complicated? Let's simplify this!*

# What is a PPO?

- PPO (standing for Periodic Payment Order) is a form of claim settlement introduced under the Courts Act 2003, under which a judge could impose a series of annuity payments for an injury claim (with or without the agreement from the parties involved) in lieu of a lumpsum settlement of the claim.
- Theoretically, PPO awards can be made against any regularly recurring head of damage. However, most PPOs awarded to date cover future care costs with case management costs frequently included in the annual payments.
- So the introduction of PPOs brought in life contingencies into general insurance framework!

# Example

50 year old claimant, spinal injury:

- Usually, Unimpaired Life Expectancy of 84 years old
- But 10 year Life Expectancy Impairment due to the injuries, so 74 years old

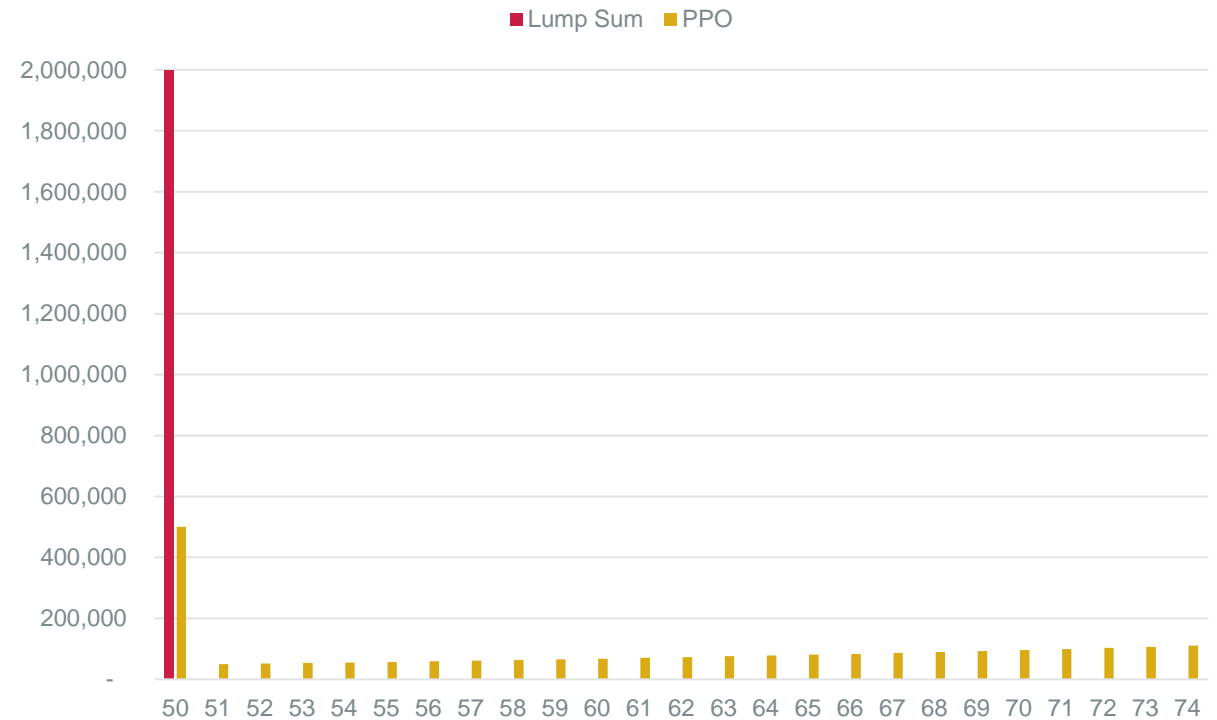
## PPO:

- Initial Lump Sum
- Agreement to pay annual cashflows for rest of life (including indexing)

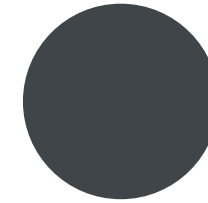
## Lump Sum:

- Based on similar NPV of the expected future cashflows
- But is usually a negotiated amount

Expected Cashflows to Claimant



# PPO vs Lumpsum



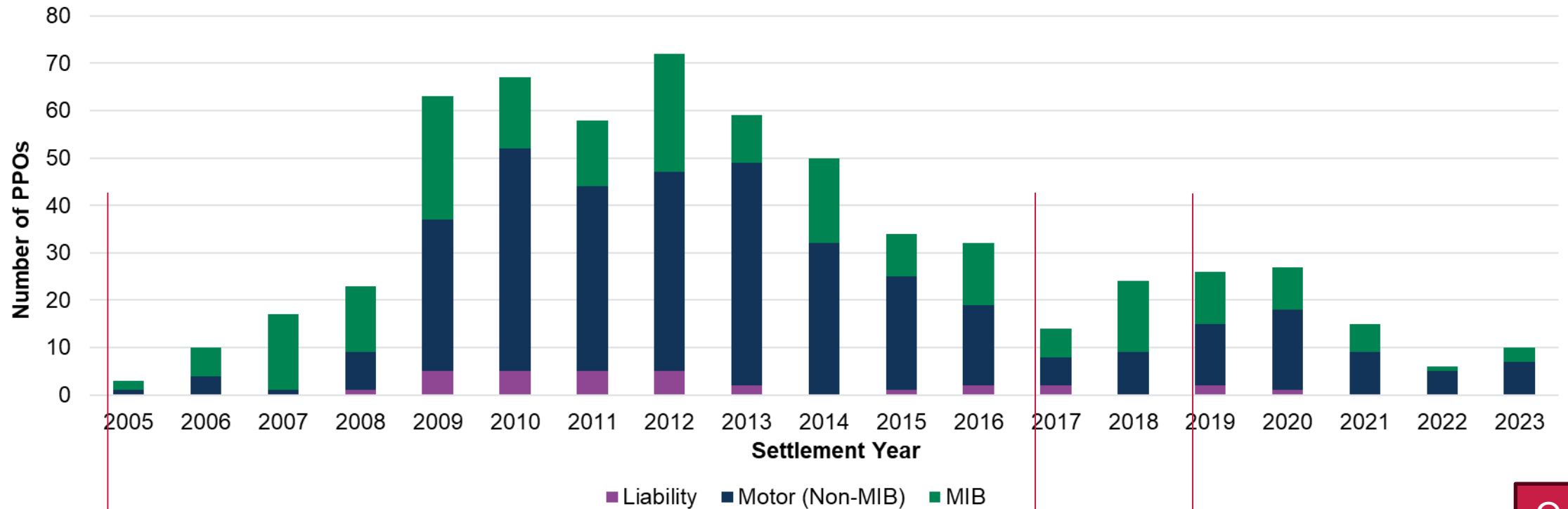
Each grey box indicates the risk with claimant in case of lumpsum settlement

# Quantitative Analysis

- Data taken as at 31 December 2023
  - 9 participants (including MIB) with combined earned premium of £7 billion for accident year 2023.
  - The participants aren't consistent between surveys so please do not compare results to previous years' analysis.
- None of the following results contain Liability PPOs, MIB PPOs or non-PPO large claims, unless explicitly stated.
- Definition for large claims presented is > £1 million in 2011, using a 7% inflation rate. For PPOs, we have used the equivalent Ogden value as if the claim had settled as a non-PPO.
- We have presented our results on various bases, similar to recent surveys.
  - Information on the adjustments can be found in the appendix of our industry report:  
<https://www.actuaries.org.uk/practice-areas/general-insurance/research-working-parties/periodical-payment-orders-ppos>



# Timelines of PPOs



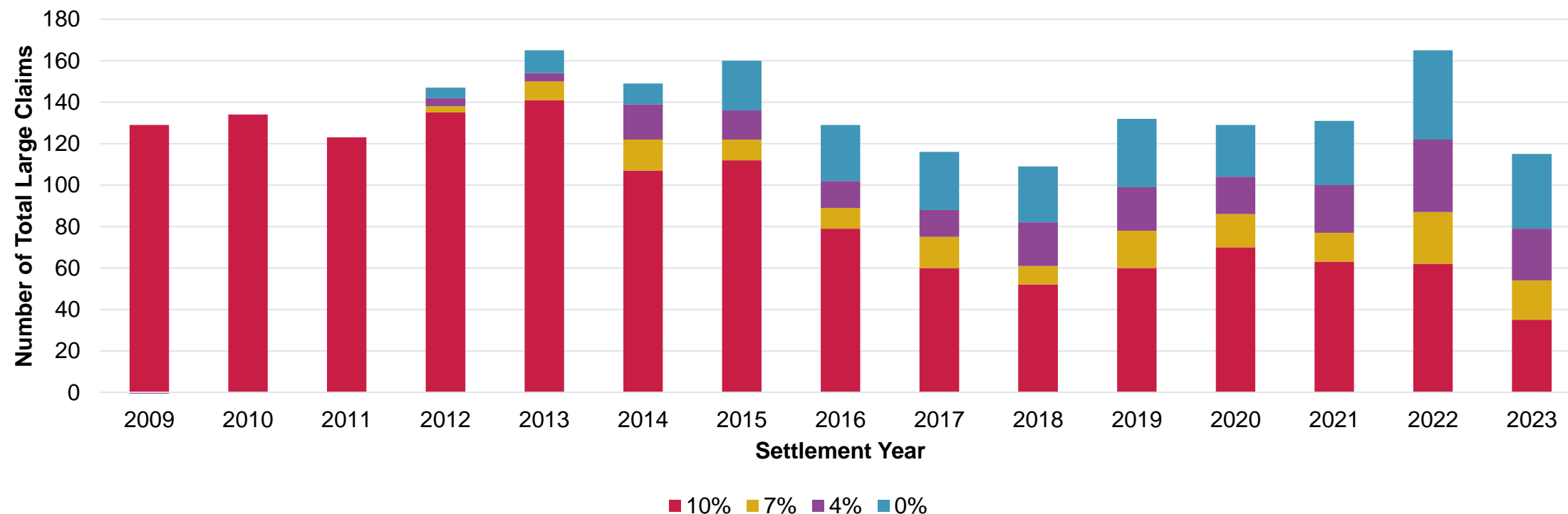
Courts Act  
2003

Ogden  
-0.75%

Ogden  
-0.25%

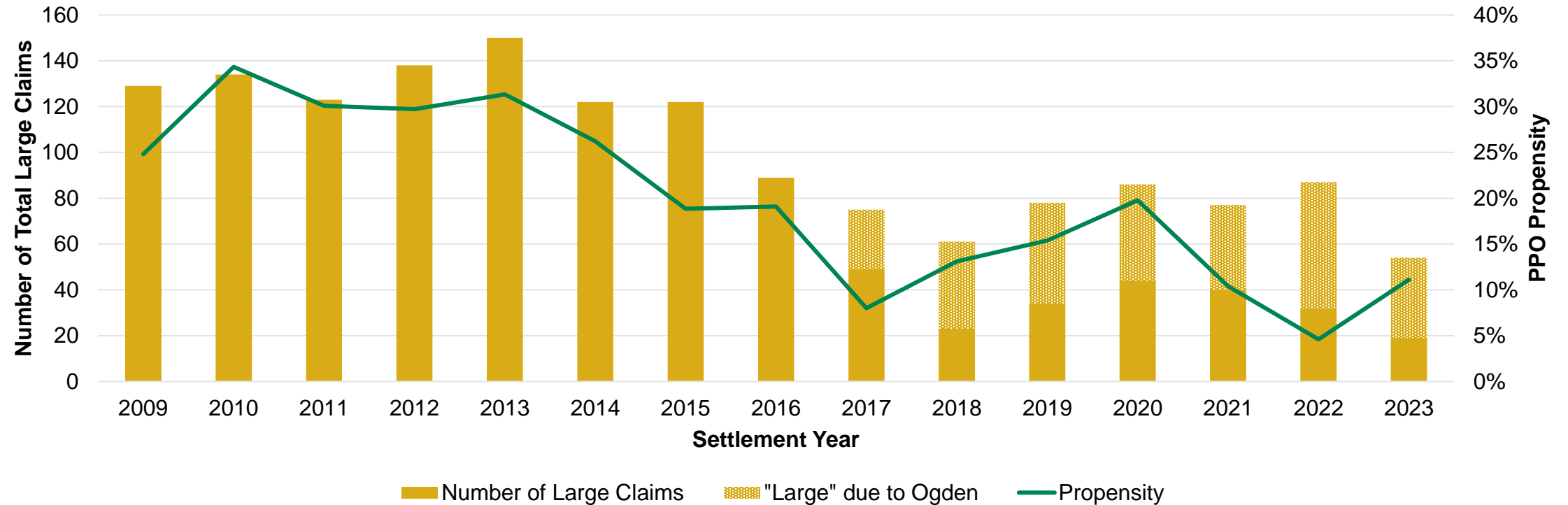
Ogden  
2025  
?

# Large Claims Settlements – by Inflation assumption



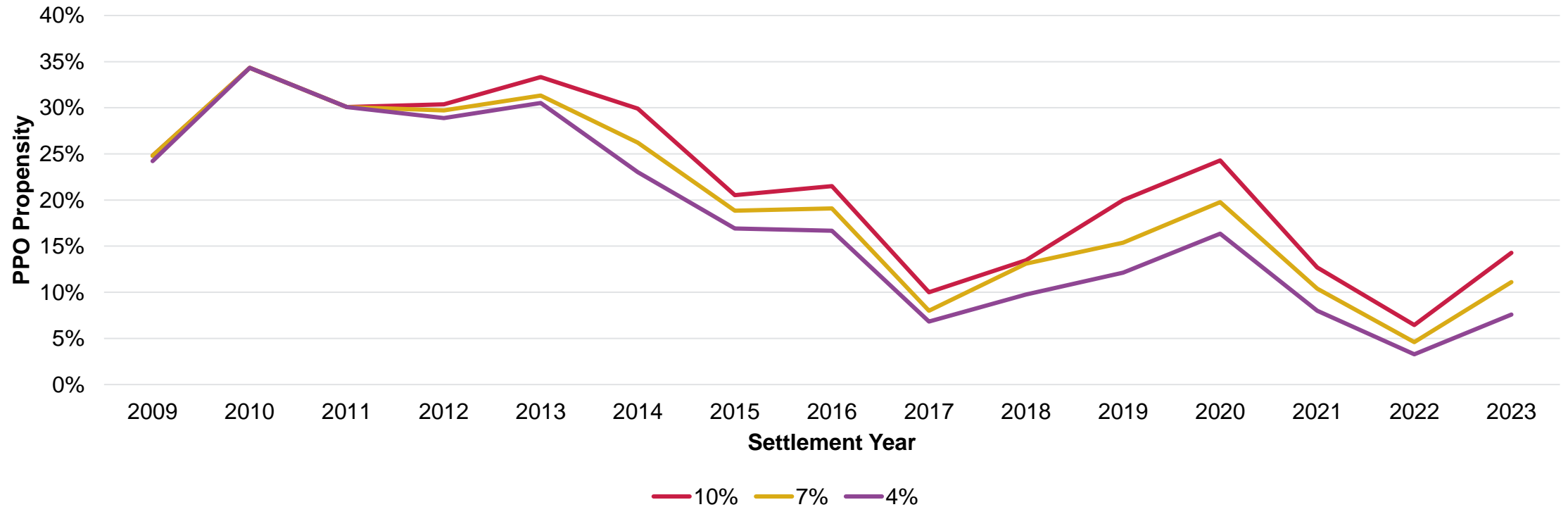
- Total number of large claims defined as > £1 million in 2011, under varying inflation rate indices.
- Reducing trend, even when no index applied.
- Larger reductions seen around years impacted by changes in the ODR, with potential settlement speed impacts.

# PPO Propensity



- Reduction in number of large claims settling since 2015.
- Ogden Discount Rate (“ODR”) changes in 2017 and 2019 increasing the number of “large” claims.
- Propensity remains at a lower level, with 12% average in -0.25% ODR environment (2019-2023).

# PPO Propensity – Index Scenarios



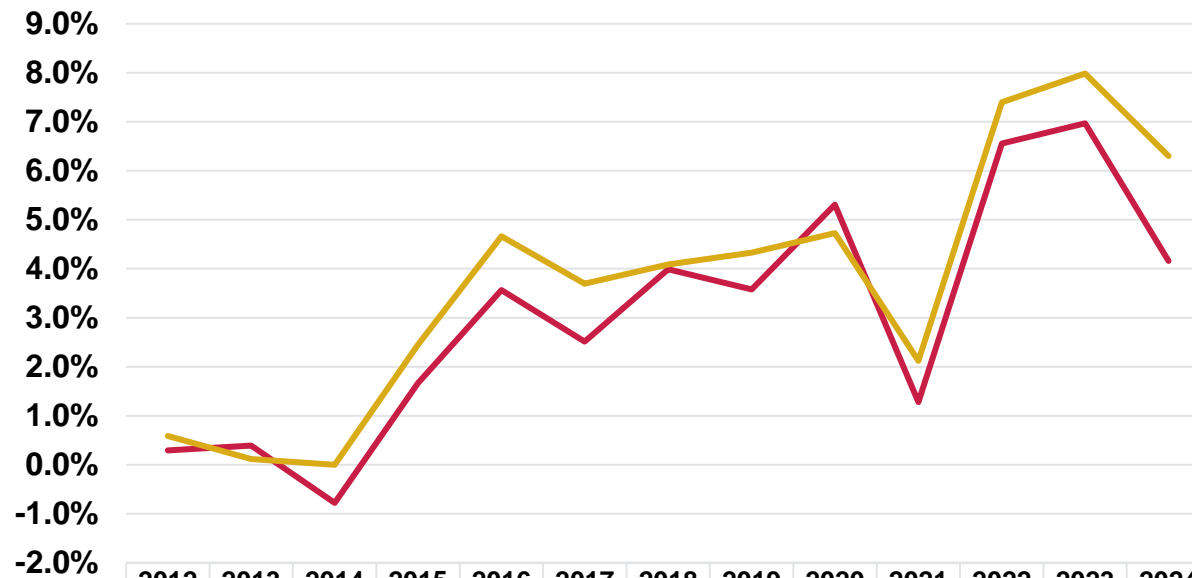
- Reducing propensity trend, under all index scenarios.
- -0.25% ODR environment (2019-2023) average ranging from 9% to 16%.

# Inflation: ASHE

- Annual Survey for Hours and Earnings (ASHE) is an annual publication by the Office for National Statistics (ONS) which provides an employee's measure of earnings.
- Published on 1<sup>st</sup> November this year, based on data as at 5<sup>th</sup> April.
- The survey is based on employer responses for a 1% sample of employee jobs, using HM Revenue and Customs' PAYE records.
- ASHE 6115 80<sup>th</sup> percentile is most relevant to PPOs. This is the 80<sup>th</sup> percentile of responses from the subset of the survey that relates to care workers.
  - ASHE is most typically used for PPO indexation since 2006 Thompstone vs Tameside Glossop Acute Services NHS Trust.
  - Previously RPI was typically used to index the annual payments of structured settlements.

# Latest ASHE

## ASHE 80th percentile and Mean



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ASHE 80th Percentile	0.3%	0.4%	-0.8%	1.7%	3.6%	2.5%	4.0%	3.6%	5.3%	1.3%	6.6%	7.0%	4.2%
ASHE Mean	0.6%	0.1%	0.0%	2.4%	4.7%	3.7%	4.1%	4.3%	4.7%	2.1%	7.4%	8.0%	6.3%

— ASHE 80th Percentile — ASHE Mean

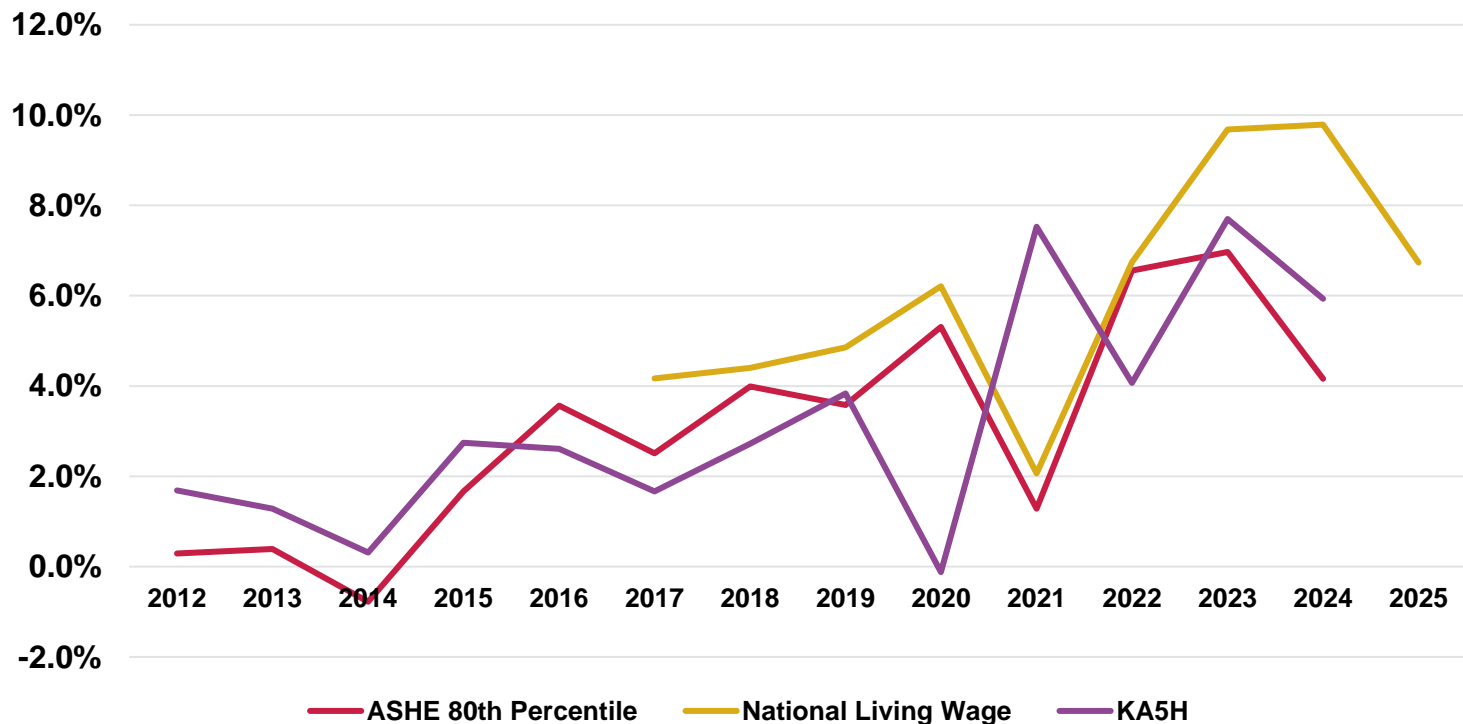
- Exhibit shows percentage annual change in ASHE 6115 since 2012
- Data filters applied:
  - Working Pattern: All
  - Sex: All
  - Hourly Pay Gross
- 2024 ASHE 6115 figures are:
  - 80th percentile: +4.2%
  - Mean: +6.3%

Source: ONS [Earnings and hours worked, care workers: ASHE Table 26 - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earnings-and-hours-worked-care-workers/ashe-table-26)

Data filters applied: Working Pattern (All), Sex (All), Hours and Earnings (Hourly Pay Gross), Statistics – Mean, and 80<sup>th</sup> Percentile

# ASHE vs. Wage Indices

## ASHE 80th percentile vs general wage inflation (KA5H)



- The chart shows general wage inflation (KA5H) and the National Living Wage (NLW) as at April of each year to 2024/25, compared to ASHE 6115 80<sup>th</sup> percentile.
- As well as general economic factors, ASHE is influenced by competing wages in other sectors, as well as the introduction of the National Living Wage in 2016.
- NLW will increase by 6.7% on 1<sup>st</sup> April 2025, to £12.21 for workers aged 21 and over.

**ASHE:** ONS [Earnings and hours worked, care workers: ASHE Table 26 - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/earnings/working-pattern/all/sex/all/hours-and-earnings/hourly-pay-gross)  
Working Pattern (All), Sex (All), Hours and Earnings (Hourly Pay Gross), Statistics – 80<sup>th</sup> Percentile  
**AWE KA5H:** [EARN02: Average weekly earnings by sector - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/earnings/average-weekly-earnings-by-sector)  
**National Living Wage:** <https://www.gov.uk/national-minimum-wage-rates>

# PPOs from the Insurer's perspective

Several aspects of volatility and mitigation:

- Mortality
  - Inflation
  - Investment Return
  - Capital
  - Reinsurance
- } Real Rate of Return

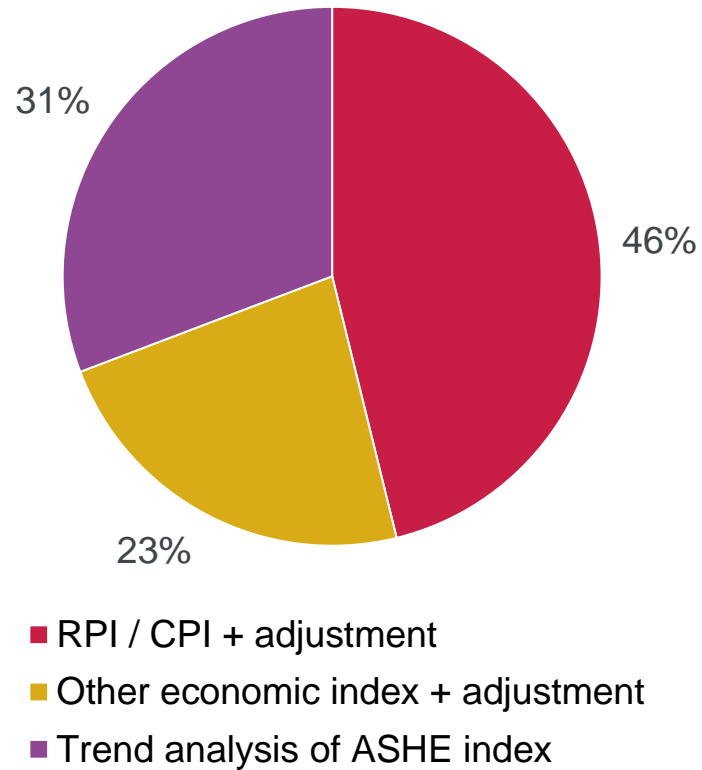
Expected Cashflows to Claimant



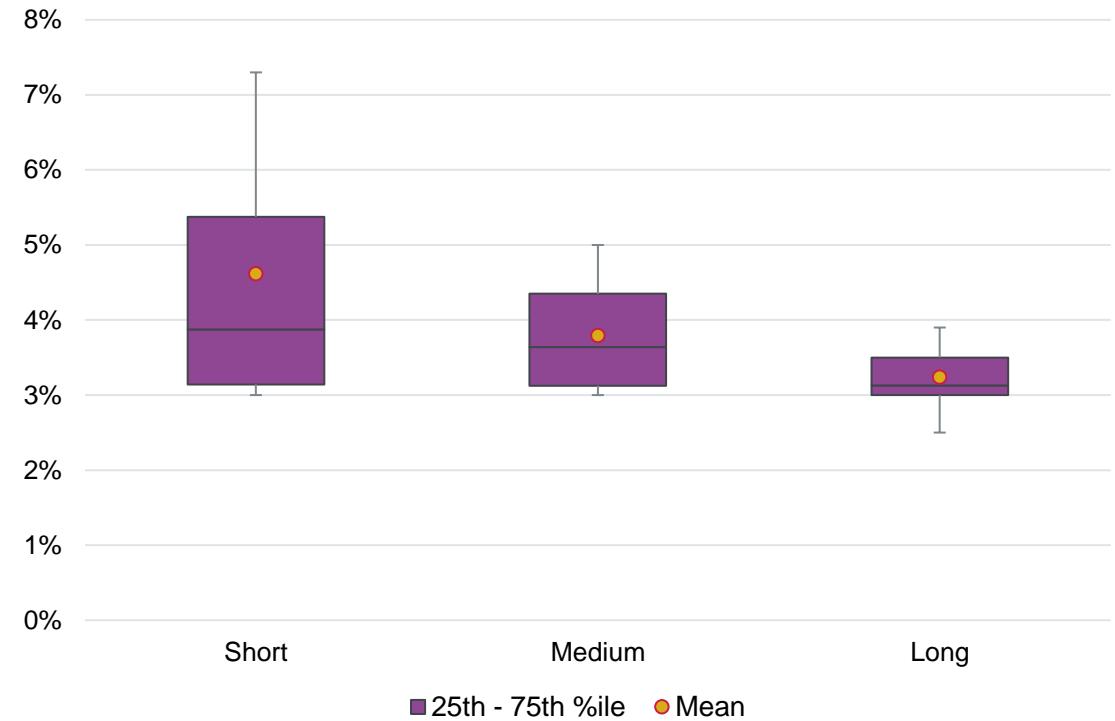


# ASHE Survey

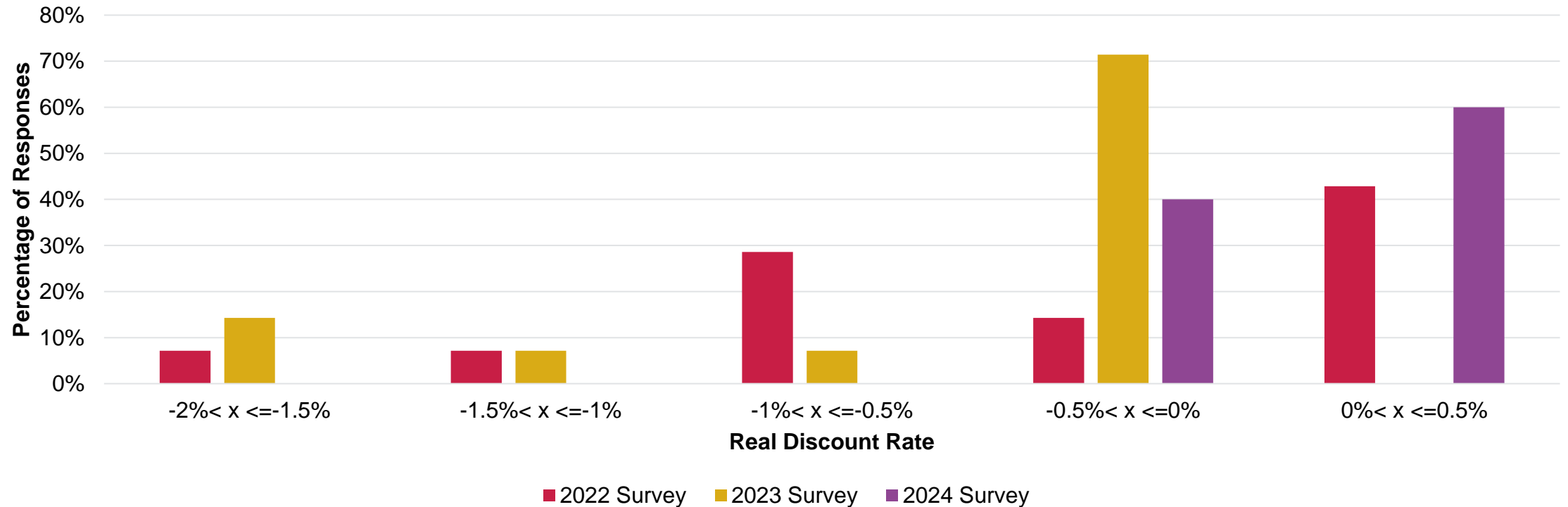
## Approach to Modelling Future Inflation



## Distribution of Views of ASHE



# PPO Real Rate of Return Assumptions



- An approximate equivalent flat rate has been used where respondents are using a non-fixed rate.
- 2024 survey, all respondents using a real discount rate between -0.5% and +0.5%.
- Increase since 2022 and 2023 surveys.

# Comparatives with India

- While the concept of PPO is based in UK, PPOs hold some similarities in certain areas in other geographies.
- In particular, India has the following:
  - Investment products where proceeds from lumpsum motor accidental claim settlements can be invested in an annuity
  - Accident insurance products where the option to choose lumpsum or annuity can be made at the onset
  - Increasing annuity products

# Questions

# Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.