

## Briefing Note

### ASHE 2011

The Office for National Statistics published the 2011 ASHE data on 23<sup>rd</sup> November. Median gross weekly earnings for all full-time employees was up 0.4% over the year to April 2011.

However, 'care assistants and home carers' (ASHE 6115) earnings are down slightly over the same period. The results for the most frequently used percentiles are:

#### Hourly Rate

Percentile	2011	2010	Change
70	£9.32	£9.45	-1.38%
75	£9.80	£9.91	-1.11%
80	£10.33	£10.44	-1.05%
90	£12.03	£12.16	-1.07%

The revised 2010 data has also been published. The only alteration to the percentiles shown above is the 90<sup>th</sup>, revised downwards from £12.18 to £12.16.

The number of employees included in ASHE 6115 has increased from 753,000 to 831,000, up by 10%. The implication is, therefore, that new employees (or employees on new contracts) have been hired at lower rates than existing employees. It would be expected that actual care regimes will experience a similar change with natural turnover of staff.

Does the fact that earnings have fallen mean that periodical payments are somehow less attractive, and therefore a lump sum is more attractive? Since the objective of the indexation is to preserve the real spending power of the income, the answer must be "no". It ought to be a matter of indifference to claimants whether their income rises or falls, since that is just a reflection of the likely change in their expenditure, although the perception may well be different, since we all tend to feel the pain of a reduction more than the pleasure of an increase.

Over the year to April 2011, the RPI increased by 5.21% (the RPI was negative during some months in 2009). Therefore, in real terms, carers' earnings have dropped by more than 6%.

Does this have any relevance to the discount rate used in assessing a lump sum for future losses, which is still under review more than one year on from the Lord Chancellor's announcement?

The discount rate is of course net of 'inflation'. In the case of care costs, 'earnings growth' is substituted for inflation. In normal times, earnings grow in real terms, so the sum of inflation and earnings growth would have to be added to the discount rate in order to find the required level of investment return, net of tax and charges.

However, in these exceptional circumstances, the same figure would be arrived at by deducting the reduction in earnings from the discount rate. Inflation can be ignored in this exercise, although it is of course highly relevant to individual carers, whose real earnings have shrunk considerably.

Taking the 80<sup>th</sup> percentile as an example, the required return would be 1.45% (2.50% minus 1.05%), net of tax and charges. Does this mean the discount rate is too high in relation to an award for future care?

Between 1997 (when ASHE data was first collected) and 2010 the hourly rate for the 80<sup>th</sup> percentile of ASHE 6115 rose from £6.11 to £10.44, i.e. by 71%. In the same period, the RPI rose by 43%. Therefore earnings have risen by 28% in real terms between 1997 and 2010. Taking account of the higher inflation and lower earnings in 2011, the cumulative real earnings growth has fallen to 19% (69% - 50%).

Therefore, the discount rate would only be affected if the long run trend of earnings to rise faster than prices is now expected to go into reverse. For example, if retiring high wage 'baby boomers' are replaced by young workers on a lower rate.

However, unpredictable variables such as inflation and earnings growth would be expected to revert to the mean (average) over time. For the period 1997 to 2011, mean earnings growth for the 80<sup>th</sup> percentile is 3.78%, as compared with 2.95% for the RPI.

It would of course be dangerous to try and read too much into a single year's statistics. However, it will be interesting to see whether this data has any bearing on the Lord Chancellor's decision.

Revised tables to enable calculation of the 2011 escalated periodical payments have been published on the INDEXATION page on our website.

An updated guide to finding and using the data will be published soon.

Ian Gunn  
November 2011

The contents of this document are © Personal Financial Planning Limited 2011 and all rights are reserved. No liability is accepted by PFP Limited or by any of the authors of the contents for any loss or damage caused to any person relying on any statement or omission in this briefing. You should seek case specific independent legal and financial advice if it is of sufficient importance for you to do so.