

## Longevity swaps



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## 2009 – first longevity swap deals

**Babcock confirms longevity deal with Credit Suisse**

**RSA insures against staff on pension scheme living longer**

**Deutsche Bank to take on longevity risks of BMW UK pension liabilities**

**Berkshire's pension fund undertakes longevity risk transfer**

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## Why bother with longevity swaps?

Longevity is a future unknown



Key reason for increase in liabilities

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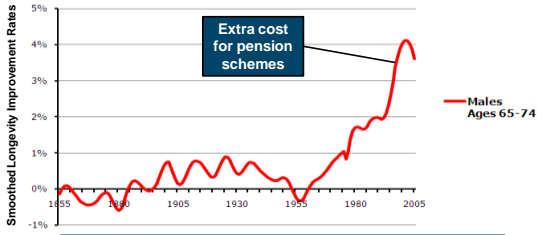
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## Why bother with longevity swaps?

Annual Rate of Improvement in Longevity



Future life expectancy is uncertain

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## Longevity swaps

Only a handful of deals  
completed so far

Deals completed  
Mainly for pensioner liabilities only  
Liabilities of several £100m  
Track actual scheme experience

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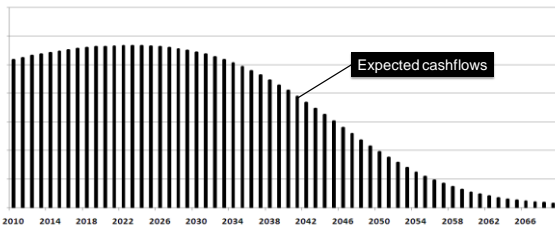
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## Scheme experience swaps

For pensioner members or older deferreds



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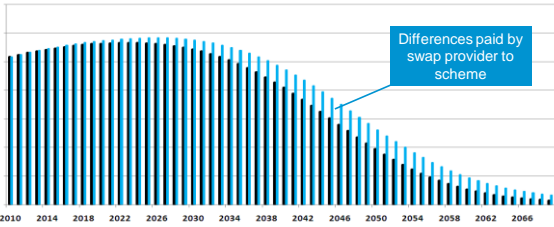
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### Scheme experience swaps

For pensioner members or older deferreds

If members live longer than expected



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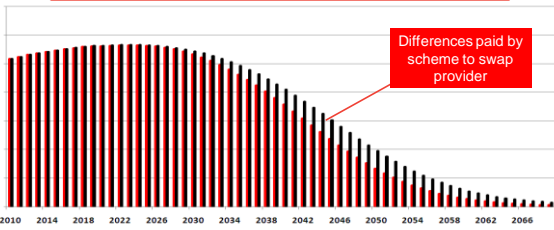
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### Scheme experience swaps

For pensioner members or older deferreds

If members die more quickly than expected



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### Net result

If members live longer than expected

Liabilities increase but Scheme receives payments equal to the value of the increase

If members die more quickly than expected

Liabilities decrease but Scheme makes payments equal to the value of the decrease

Cashflows are fixed

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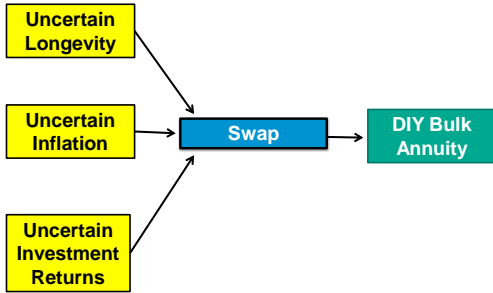
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### Combining swaps



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### Other issues to consider

Scheme experience swaps – 50 years or more



Will your scheme last this long?

Will the swap be accepted by buy-out insurers?

How will conditions change over 50 years?

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### Other issues to consider

Longevity swap contracts take time



Collateral	Termination agreements	Administration
Data errors	Notification of deaths	Disputes
Changes in law	Data protection	etc.....

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## Who offers longevity swaps?

### Insurance Companies

Insurance contract

Backed by  
Financial Services  
Authority capital  
requirements

Re-insurance may  
occur

### Investment Banks

Swap contract

Backed by  
counterparties

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## The future?

### Swaps for smaller schemes

In the pipeline  
No deals completed yet

### Swaps for non-pensioner members

Population index swaps on offer  
Scheme experience swaps being created

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## Summary

- A developing market
- Fixes longevity at expected rates
- Only swaps for large schemes completed so far
  - For pensioners and older deferreds
- Long-term contract
- Legal issues - will take time
- In future, swaps for younger deferreds and smaller schemes

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## Important Information

The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.

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