ALLEN & OVERY

PENSION RISK – PROVIDING SOLUTIONS

Longevity swaps

Our Pension Risk group has completed several high-profile longevity swaps, and has acted on all sides of these transactions: for trustees, for sponsors and for providers.

What is a longevity swap?

A longevity swap transfers the risk of pension scheme members living longer than expected from pension schemes to an insurer or bank provider.

The trustees of the pension scheme agree to pay a fixed series of payments, representing the expected benefits payable under the pension scheme plus a fee, in return for the swap provider paying the benefits that in fact fall due, based on actual scheme mortality. The trustees therefore have certainty over the payments that they are expected to make, even if scheme members live longer than expected.

Why use a longevity swap?

Longevity is one of the biggest risks faced by defined benefit pension schemes. While many schemes have implemented liability matching investment strategies to reduce their investment risk, they remain exposed to the risk that members live longer than is currently expected. In turn, sponsors are exposed to this risk, as the ultimate funders of the pension schemes. Longevity swaps can be used in conjunction with other risk mitigation strategies to effectively achieve a synthetic buy-in, or on their own as a way of minimising risk without the cost of a full buy-in or buy-out.

CONTACTS

Neil Bowden
Partner
Corporate Pensions
Tel +44 20 3088 3431
neil.bowden@allenovery.com

Phillip Jarvis
Partner
Corporate
Tel +44 20 3088 3381
philip.jarvis@allenovery.com

Kate McInerney
Senior Associate
Corporate
Tel +44 20 3088 4459
kate.mcinerney@allenovery.com

Emma Dwyer
Partner
ICM
Tel +44 20 3088 3754
emma.dwyer@allenovery.com

"Its cross-disciplinary approach provides clients with an impressively broad service, allowing them access to banking, restructuring, derivatives and regulatory and corporate expertise."

Chambers UK 2010, Pensions

© Allen & Overy LLP 2013

Our specialist experience

Longevity swaps are typically structured either as a derivative – using standard ISDA documentation – or an insurance contract, depending on the counterparty. Whichever route is used, Allen & Overy's Pension Risk group has the expertise to efficiently manage the transaction and expertly negotiate terms. Our integrated team delivers a seamless service covering all aspects of the deal from pensions investment restrictions to collateral requirements.

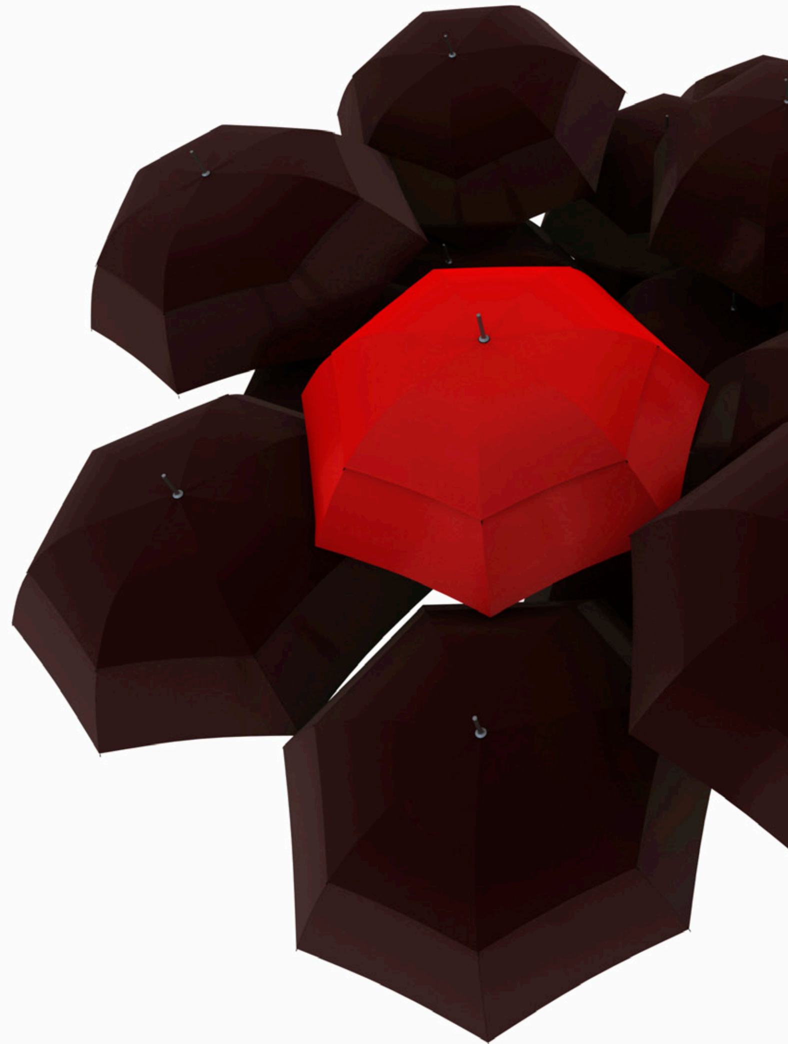
With experience in acting for providers as well as for trustees and sponsors, our insurance and derivatives teams have the experience and capability to negotiate market-leading deals, taking account of developments in the longevity swaps market as they happen. In addition, our pensions team routinely advises trustees on liability management exercises and can give trustees and employers the comfort they need that an appropriate deal has been negotiated.

Recent deals

Our Pension Risk group has advised:

- Legal & General Group plc on its longevity swap in relation to the Pilkington Glass Pension Scheme. This contract insured against the risk of 11,500 pensioners living longer than expected, with around £1billion of associated liabilities. We also advised on Legal & General's simultaneous longevity reinsurance agreement with Hannover Re.
- the trustee of the Liverpool Victoria Friendly Society pension scheme on its longevity swap with ReAssure (a member of the Swiss Re group) covering 5,000 members with around £800 million of associated liabilities. This is the first longevity swap with a pension fund that includes insurance for members who have not yet retired – a significant expansion in the world of longevity swaps.
- BAE Systems plc on the largest longevity swap concluded to date, involving the transfer of longevity risk relating to around 31,000 pensioners of the BAE Systems 2000 Pension Plan to Legal & General, with simultaneous reinsurance by Hannover Re.

We are presently advising a number of other trustees and sponsoring employers on pipeline transactions, structured as both insurance and swap contracts.



"Allen & Overy LLP's pensions team advises on cutting edge contingent asset and funding work and has a growing longevity swap practice."

Legal 500 2012