

# Longevity hedging: A solution for longevity risk?



For the Association of Consulting Actuaries

- ◆ Andrew Gaches
- ◆ 20 October 2010

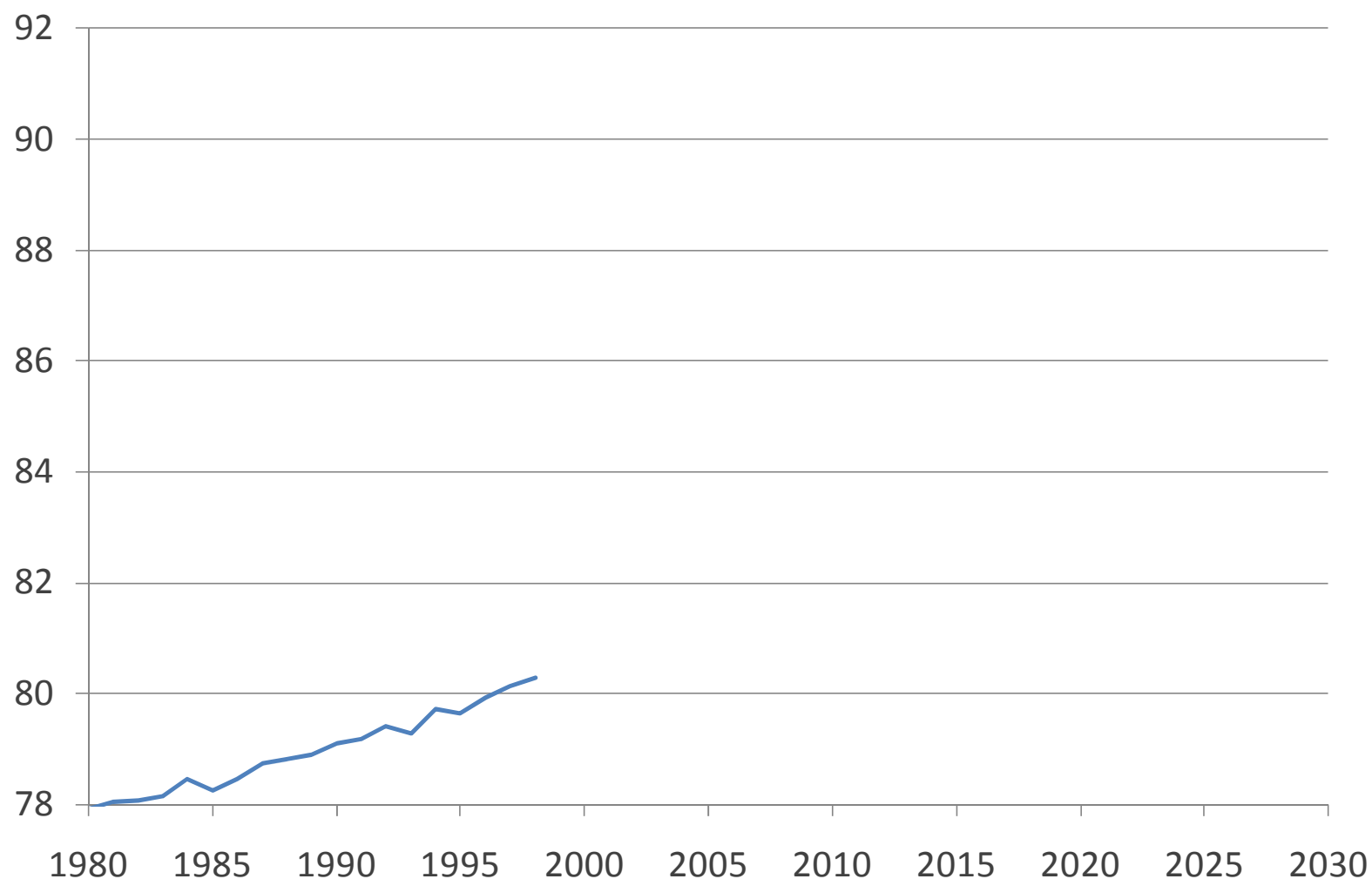
**Longevity is a big issue...**

**£30,000,000,000**

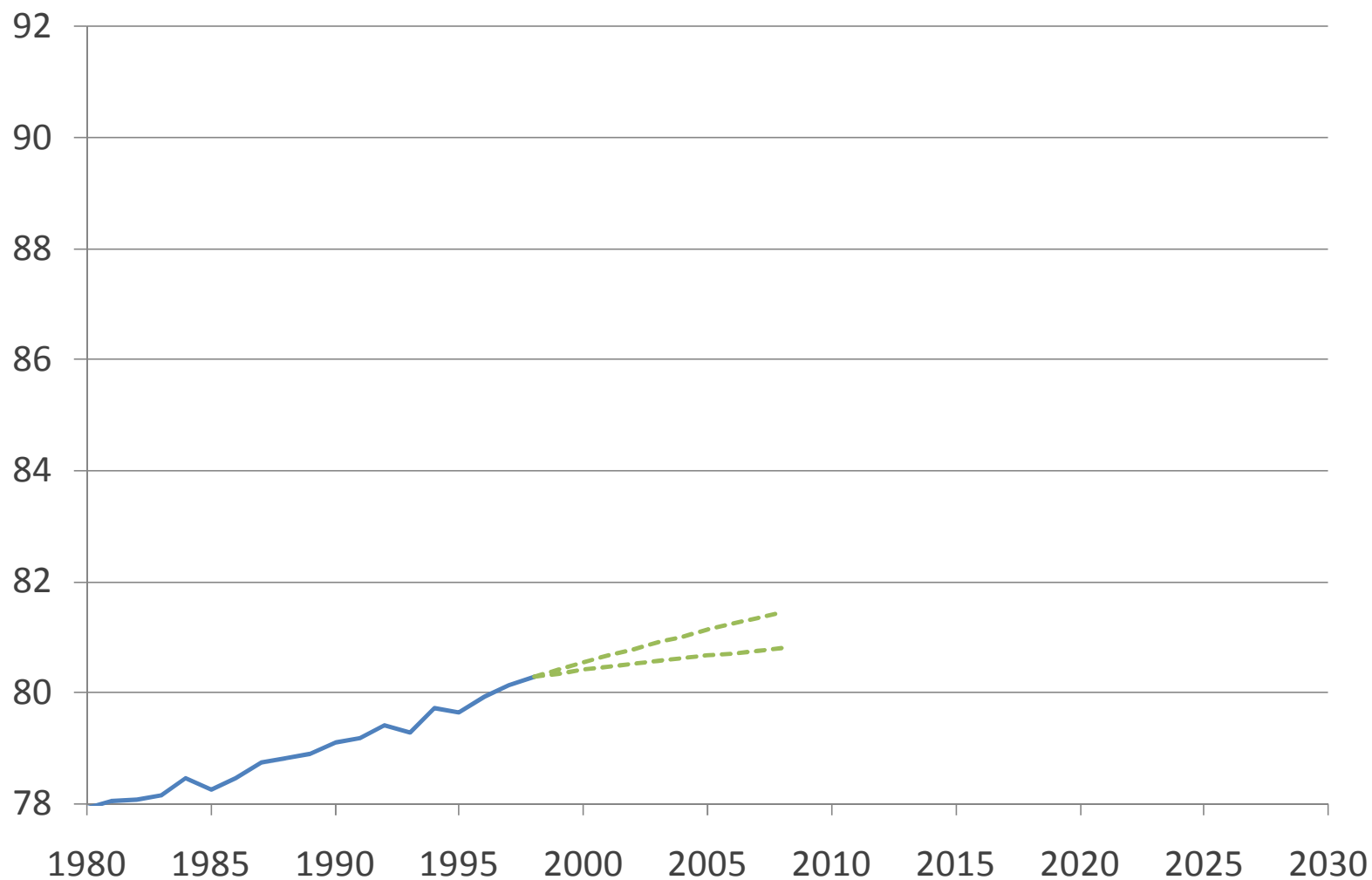
**5 days earnings**

**7 years variation**

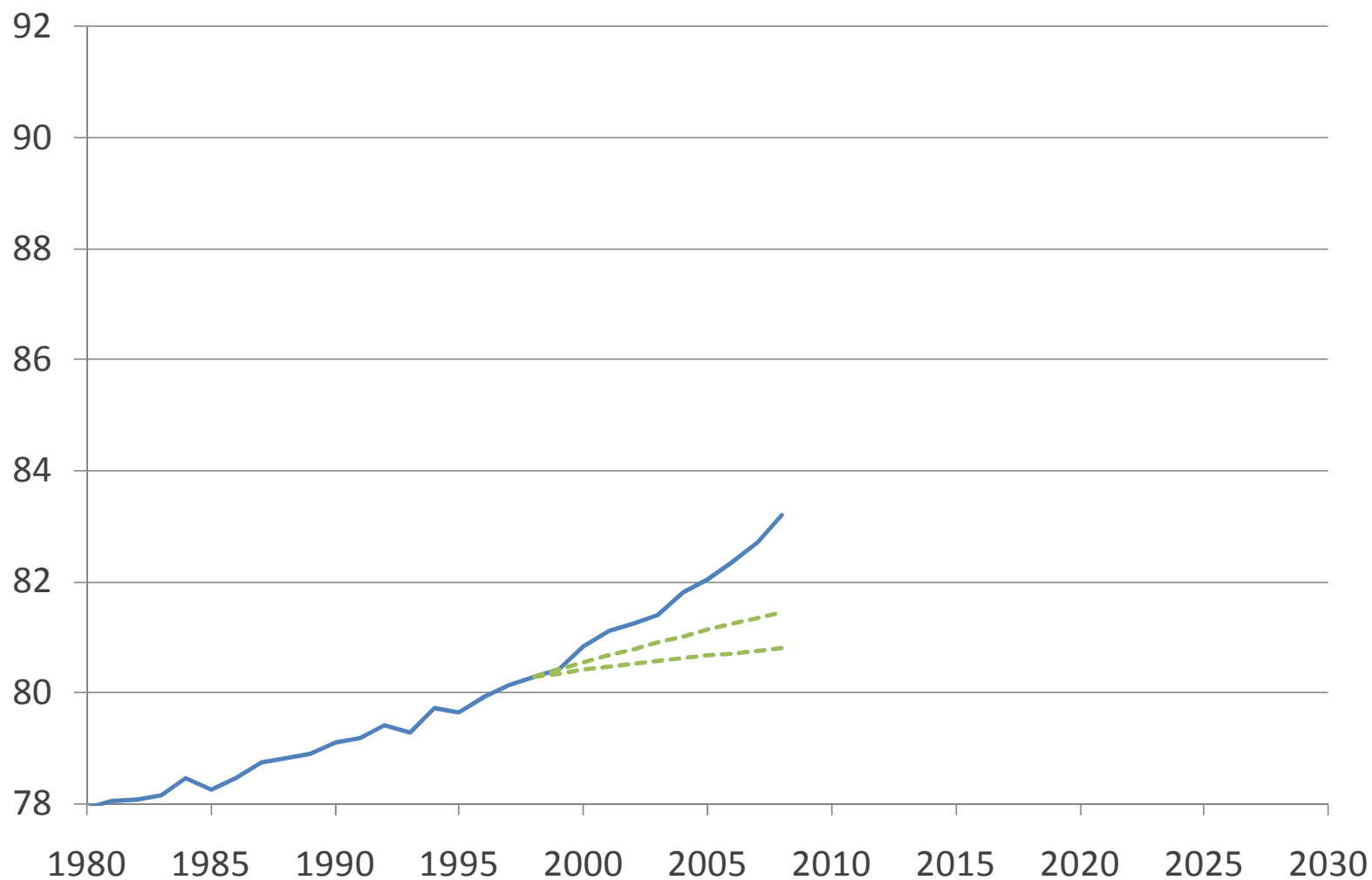
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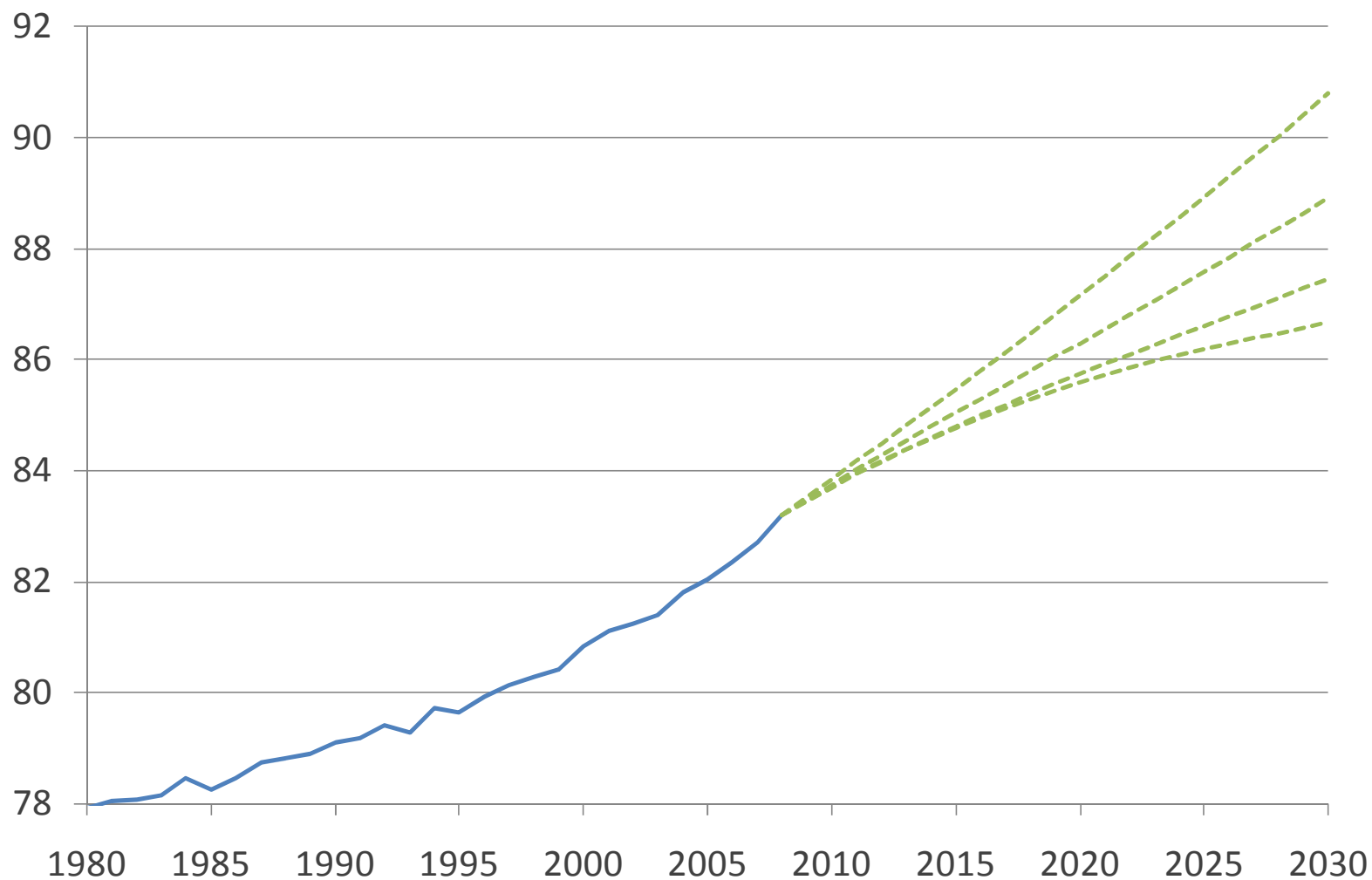
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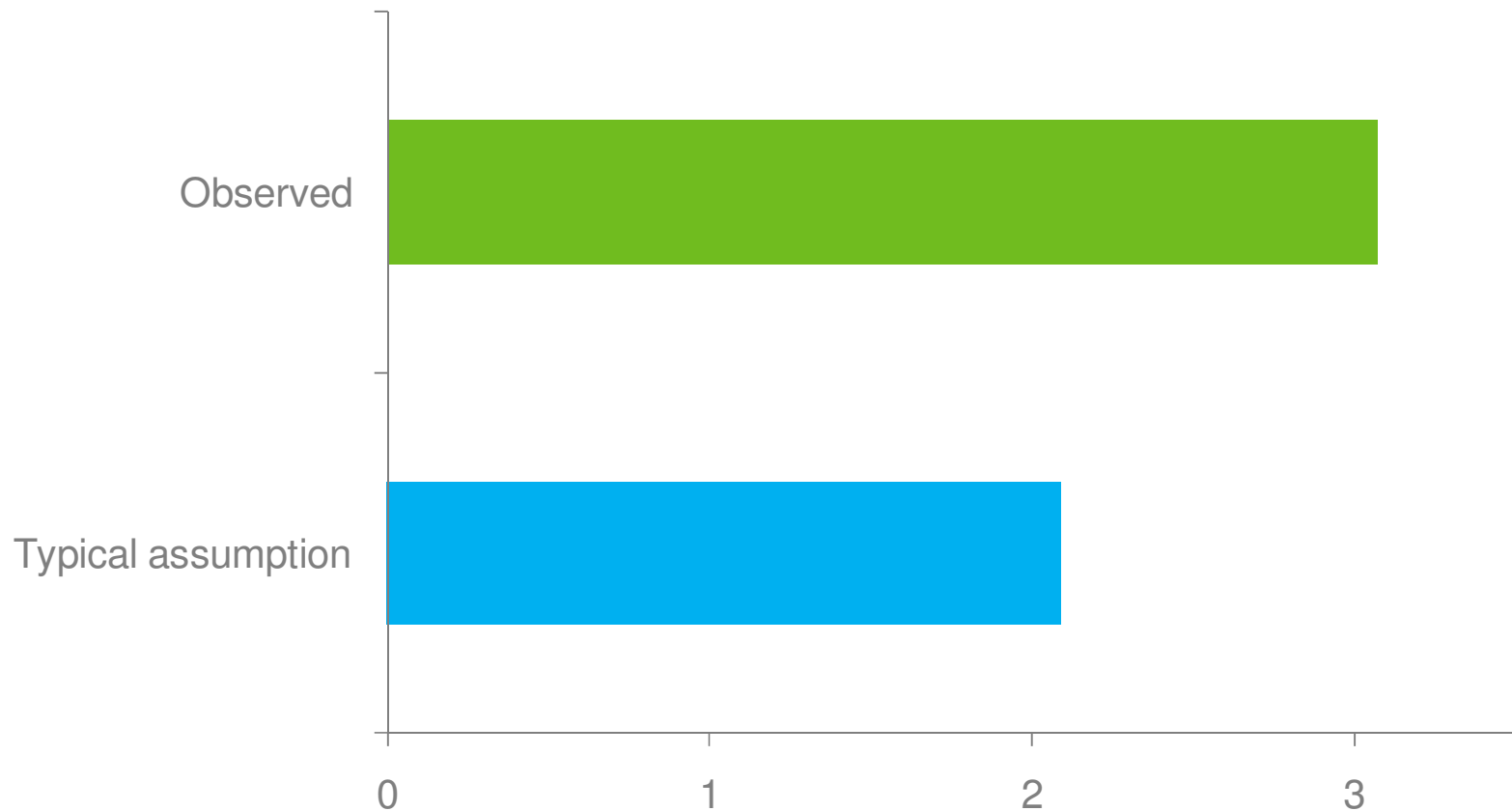


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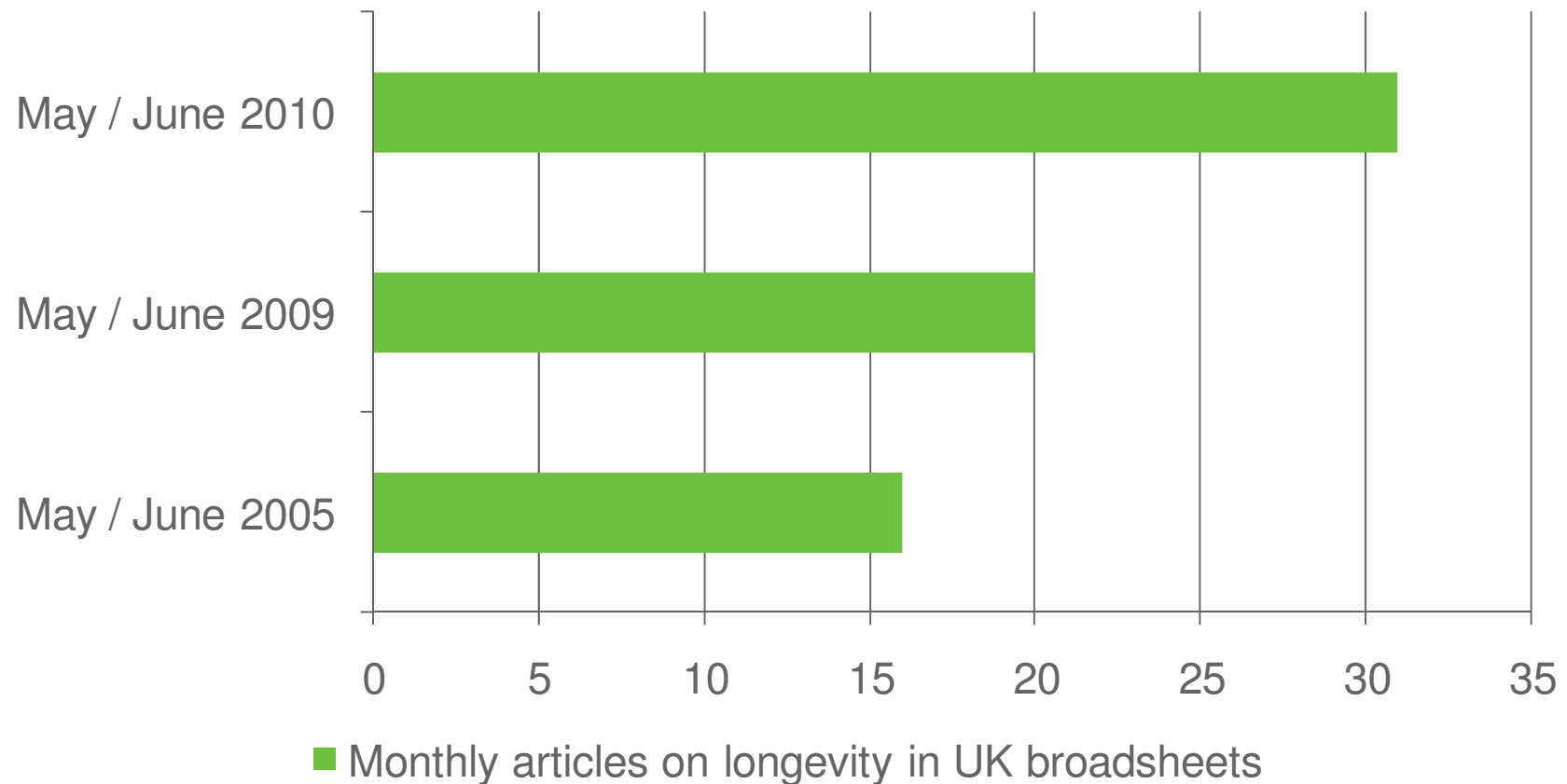


# Longevity is a big issue...

Current rates of increase in male life expectancy  
(years per decade)



## ...and the world seems to agree



Source: Hill & Knowlton

# The appeal of being seen to take action

## **BA pensions deal moves Iberia merger closer**

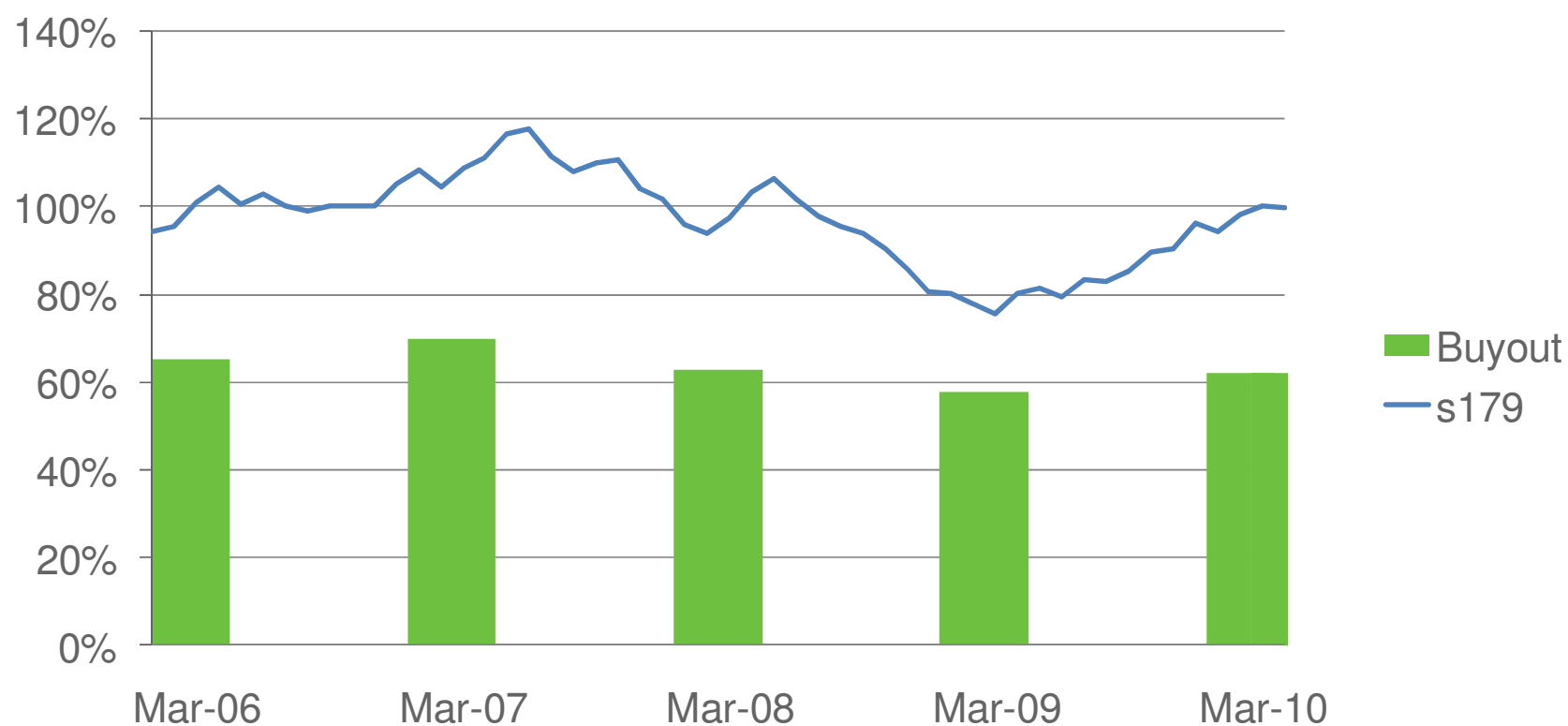
British Airways has moved a step closer to sealing its planned £4.5bn merger

Investors shun Taylor Wimpey over  
pensions debt

Pension warning over postal  
privatisation bid

Leap in life expectancy brings a scare for  
pension forecasters

## Buyout is unaffordable (for most)



Source: Pensions Regulator / own calculations

# Longevity swaps: The highs



## Babcock pension to hedge risk of longevity

First scheme to offset  
costs of long lifespans  
More company plans  
prepare to follow suit

By Norma Cohen and  
Jeremy Lemer

with aggregate liabilities of  
£10bn, about similar hedges.  
Jerome Melcer, partner at con-  
sultants Lane Clark and Peacock,  
which said it was advising six big  
companies on similar transac-  
tions, said companies had been  
trying to reduce risk by paying a  
life insurer to in effect take lon-  
gevity risks on to their own



## Longevity swaps: The lows

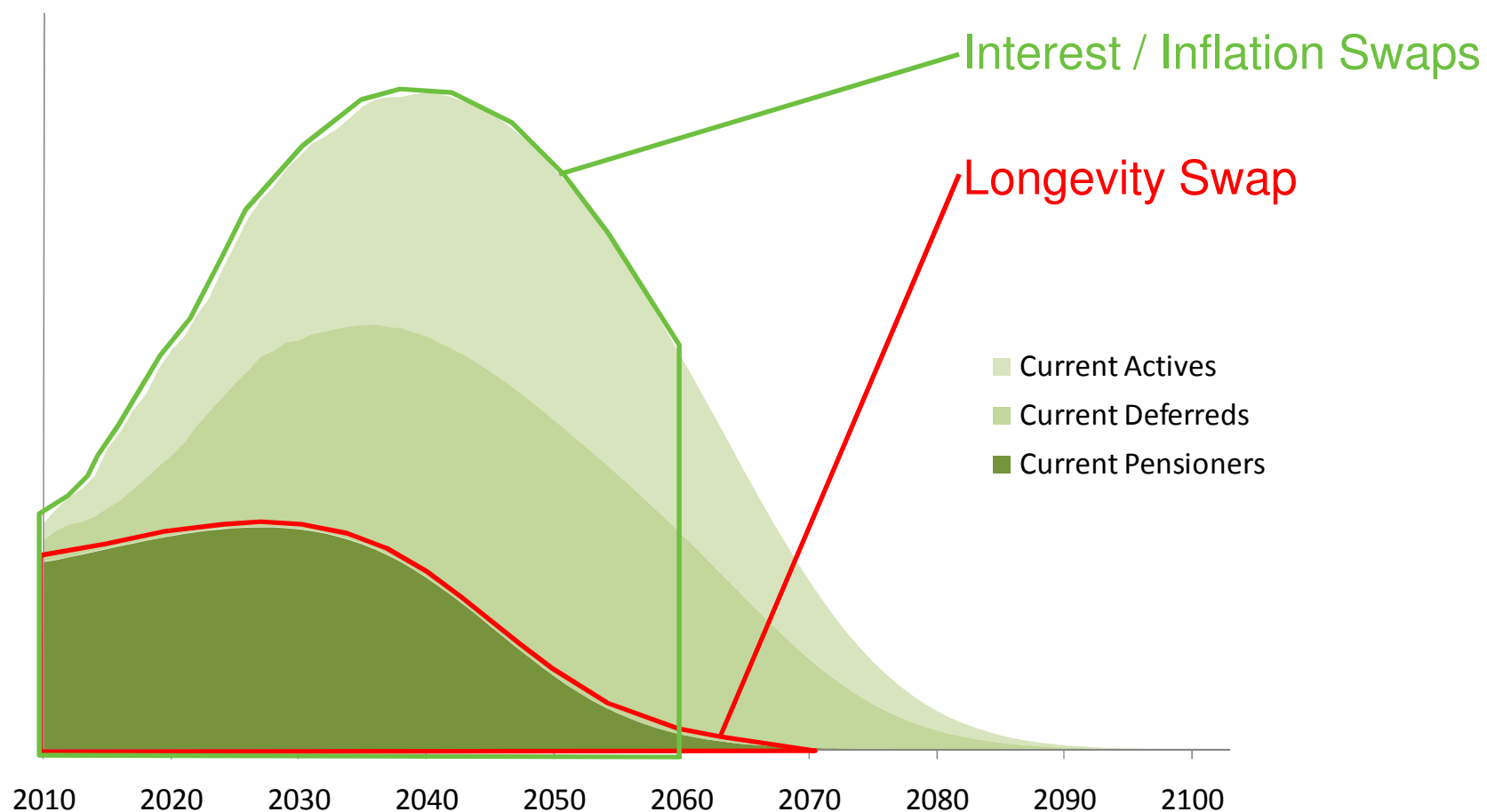


**THE**   
**INDEPENDENT**

Premier ditches pension swap plans and  
takes on risk of long-lived members

Co-operative is second firm to ditch  
longevity swap deal

# Which cashflows can be (sensibly) hedged?



## Who's left holding the baby?



**Thank you**

◆ Any Questions?

