AXA’s UK pension fund uses longevity swap

By Editorial Staff *Thu, Jul 16, 2015*

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In a swap deal with The Reinsurance Group of America (RGA), French insurance group AXA has insured the longevity risk on about half its UK defined benefit (DB) pension fund’s liabilities, *IPE.com* reported.

RGA will now take on £2.8bn ($3.9bn) worth of longevity in a swap deal arranged via the pension fund’s sponsoring insurer employer.

Reinsurance companies only deal with banks and insurance firms, with the pension fund able to leverage against its sponsor’s place in the market.

The longevity swap will now form part of the £3.6bn pension fund’s asset portfolio, with RGA providing income to the fund to protect it from the risk that its 11,000 participants will live longer than expected.

AXA becomes the fifth UK insurer to arrange longevity swaps for its own DB plan, as the UK market as a whole has hedged £53.4bn worth of longevity liabilities.

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The AXA longevity swap is the first of 2015 after the £25.4bn record level of swaps seen in 2014. Last year also saw the first scheme access the reinsurance market without an intermediary firm – with Aviva aiding its pension fund to access the market directly.

This allows pension funds to save on costs and benefit from better pricing by avoiding price averaging, which occurs when intermediary insurers or banks engage with several reinsurers to spread credit and counterparty risks, as well as exposure limits. Four of the five deals in 2014 used this process.

Last July, the BT Pension Scheme dealt directly with the Prudential Insurance Company of America by setting up its own insurance company in a £16bn longevity swap.

Towers Watson, which advised the BT scheme and went on to create an insurance cell for smaller pension funds to access the market, also advised the AXA pension fund.