In UK, BMW Is "Ultimate Pension Machine"

By Editor Test *Tue, Feb 23, 2010*

The BMW pension plan adds to the still-new use of longevity swaps to control risk.

The largest longevity insurance deal seen yet by a pension fund has been completed by the UK pension fund of BMW, the German automaker, with Deutsche Bank unit Abbey Life and Paternoster, IPE.com reported.

BMW confirmed it has agreed to a customized longevity swap that will provide the BMW (UK) Operations Pension Scheme with a hedge for life expectancy risks. The sum protects nearly £3bn (€3.4bn, $4.6bn) of pension scheme liabilities related to approximately 60,000 pensioners and contingent benefits such as spouse's pensions.

The announcement came a week after Hymans Robertson estimated the longevity swap market could reach £10bn (€11.3bn) in 2010. (See earlier IPE article: Longevity swap market to hit £10bn in 2010)

Abbey Life will insure the longevity risk of the scheme for the whole of life (until the last pensioner or their spouse dies) but has already reinsured part of the risk with a consortium of reinsurers including Hannover Re, Pacific Life Re and Partner Re. Abbey Life has also used the structuring expertise and longevity modeling techniques of Paternoster, which is also partly-owned by Deutsche Bank.

BMW was revealed to be considering its options for a longevity deal earlier this month, as part of a risk reduction strategy, and "chose to insure this risk in order to protect the sponsor against a financial risk in its UK pension scheme". Latest figures from the 2007 actuarial valuation of the scheme showed the pension fund at that time had a deficit of £584m and a funding ratio of 87%.

Martin Bird, principal and head of longevity & risk solutions at Hewitt Associates, the consultancy which advised scheme trustees on the transaction, said:

"Entering into a bespoke longevity hedge to mitigate against continued improvements in member life expectancy is a natural extension to the scheme's current liability-matching investment strategy and is designed to enhance further the security of members' benefit."

The policy is a named life policy, which means rather than being referenced against an index, the transaction actually covers the longevity exposure of the members in the BMW scheme, so it is bespoke and customized in a manner similar to the Babcock longevity deals. The transaction is also fully collaterized, despite being written as an insurance-regulated policy.

Bird said the hedge has also been constructed to provide flexibility, which "has not been done before", so the hedge can be realigned over time to adjust the specific benefit structure and better match the longevity risk of the scheme.

Nardeep Sangha, CEO of Abbey Life said: “In bringing this leading solution to BMW and its UK pension scheme, we have demonstrated our ability to combine our balance sheet strength and internal expertise with the specialist pensions and longevity know-how at Paternoster to bring about a landmark transaction. As this market develops, we are committed to providing innovative solutions to UK pension schemes.”