
Longevity swaps attract increasing level of interest in Europe: Aon Hewitt

By Editor Test *Tue, Jun 19, 2012*

The Dutch pensions industry is waiting to learn whether plan sponsors can cut benefits to reflect increases in life expectancy. The result is critical in determining whether the country's €1.2 trillion market opens up to risk settlement, the consulting firm said.

A consultant at Aon Hewitt said that pension funds in the Netherlands, Germany and Switzerland are considering longevity swaps, buyouts and buy-ins to prevent losses that might arise from increased life expectancy, according a report in IPE.com.

The de-risking trend, already evident in the United Kingdom, will lead to significant growth in the risk settlement market, predicted Matt Wilmington, principal consultant at Aon Hewitt on the firm's international retirement and investment team.

Local and multinational companies that sponsor major defined benefit plans in Switzerland, Germany and the Netherlands were also very concerned about the liabilities on their books, he said.

Cash funding and accounting figures were already a concern for the businesses, Wilmington said, particularly with equity analysts worried about volatility on the balance sheet.

"Where we've been a bit slower in Europe is in recognizing the changes in life expectancy," he said. "Over the last four or five years, that has been reason why risk settlement opportunities haven't really taken off in Europe."

But this is now starting to change. The Netherlands revised longevity assumptions twice in the last five years. Meanwhile, Switzerland has changed its assumptions in 2011 to a more realistic level and Ireland has now started to use longevity tables similar to those used in the UK.

Aon Hewitt said the Dutch pensions industry was awaiting the outcome of the new pensions agreement, to learn whether sponsors will be able to cut benefits to reflect increases in life expectancy. The result is critical in determining whether the country's €1.2 trillion market opens up to risk settlement, the firm said.

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