

Latest Developments in Longevity Hedging Andrew Birkett, Babcock International Group PLC

12 October 2010

Babcock's perspective

What did we do?

- Trustees of 3 schemes transacted longevity swaps
- 50 year deals with Credit Suisse hedging longevity risk on
 - current pensioners
 - their spouses and dependents
- Also hedged age difference and proportion married
- Deals are fully collateralised

Babcock's perspective

Why did we do it?

- Pension liabilities large in relation to market cap of Group
- Part of much wider risk mitigation programme
- Did not wish to do a buy in
- Unable to hedge investment risk consistently at the time

Babcock's perspective

How did we do it?

- Carried out detailed exposed to risk on pensioners
- Provided this plus pensioner data to providers
- Reviewed quotes-series of cashflows over different periods against our expected cashflows
- Reviewed terms and flexibility
- Chose preferred provider
- Issued proposal to trustees
- Agreed complex contract

Babcock's perspective

Key issues

- Funding implications
- Accounting implications
- Security
- Contract terms including flexibility