

Royal Borough of Windsor and Maidenhead

News Release

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Innovative contract for Royal County of Berkshire Pension Fund

The Royal Borough of Windsor and Maidenhead, acting as the administering authority for the Royal County of Berkshire Pension Fund, has entered into an innovative longevity hedging insurance contract with Swiss Re.

Royal Borough councillor, Cllr John Lenton, chairman of the Berkshire Pension Fund Panel and the Berkshire Pension Fund Advisory Panel, said: "On 11 November the contract was approved unanimously by both panels.

He added: "Average life expectation continues to increase by at least one year every five years and the panels had become increasingly concerned at the consequent cost to the pension fund. For more than a year the fund had been seeking a means of meeting this growing cost."

The preferred solution was found in the life insurance industry which has the opposite risk profile in that falling longevity results in earlier and expensive life policy maturities.

Cllr Lenton said: "Simply put, the contractual arrangements are that the pension fund makes approximately the same payments as if there was no change from longevity assumptions used in the 2007 triennial valuation. In return Swiss Re bears any future positive or negative variation caused by longevity changes resulting in the Berkshire Fund effectively outsourcing to Swiss Re the financial risk of pensioners living longer than anticipated. Only the difference between these payments is settled between the fund and Swiss Re."

Nick Greenwood, the Royal Borough's pension fund manager, explained that the transaction was the fruit of more than 12 months of intensive negotiation.

He said: "I am now looking forward to the challenge of covering the longevity risk associated with deferred and active members, but this would have to be on acceptable terms."

The present contract covers approximately 11,000 pensions in payment as at 31 July 2009 and the insurance protection extends until the last individual dies. The contract also covers contingent beneficiaries but excludes child beneficiaries.

The actuarial valuation placed on these liabilities using the fund's 2007 actuarial valuation assumptions is approximately £750 million and represents about 43% of the fund's total liabilities. It is not anticipated that actuarial liabilities as at the 2010 valuation will be increased by this contract and in the long-term the cover extended should lead to a reduction in the fund's liabilities in respect of this group of pensioners.

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Contacts:

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Notes:

The Royal County of Berkshire Pension Fund is part of the Local Government Pension Scheme and is administered by the Royal Borough of Windsor and Maidenhead. The fund has approximately 45,000 members of whom 11,000 are in receipt of pensions, 15,000 are deferred beneficiaries and 19,000 are active contributing members employed by the six unitary local authorities in Berkshire and approximately 100 other admitted bodies.

The Berkshire Pension Fund Panel consists of five Royal Borough councillors and is supported by the Berkshire Pension Fund Advisory Panel consisting of representatives from the other five unitary local authorities in Berkshire and representatives from other admitted bodies and trade unions. The advisory panel will be expanded in 2010 with the election of two member representatives. Both panels are chaired by Cllr John Lenton.

The Royal Borough received legal advice from Osborne Clarke and actuarial advice from Barnett Waddingham LLP.