Cass Business School
City of London

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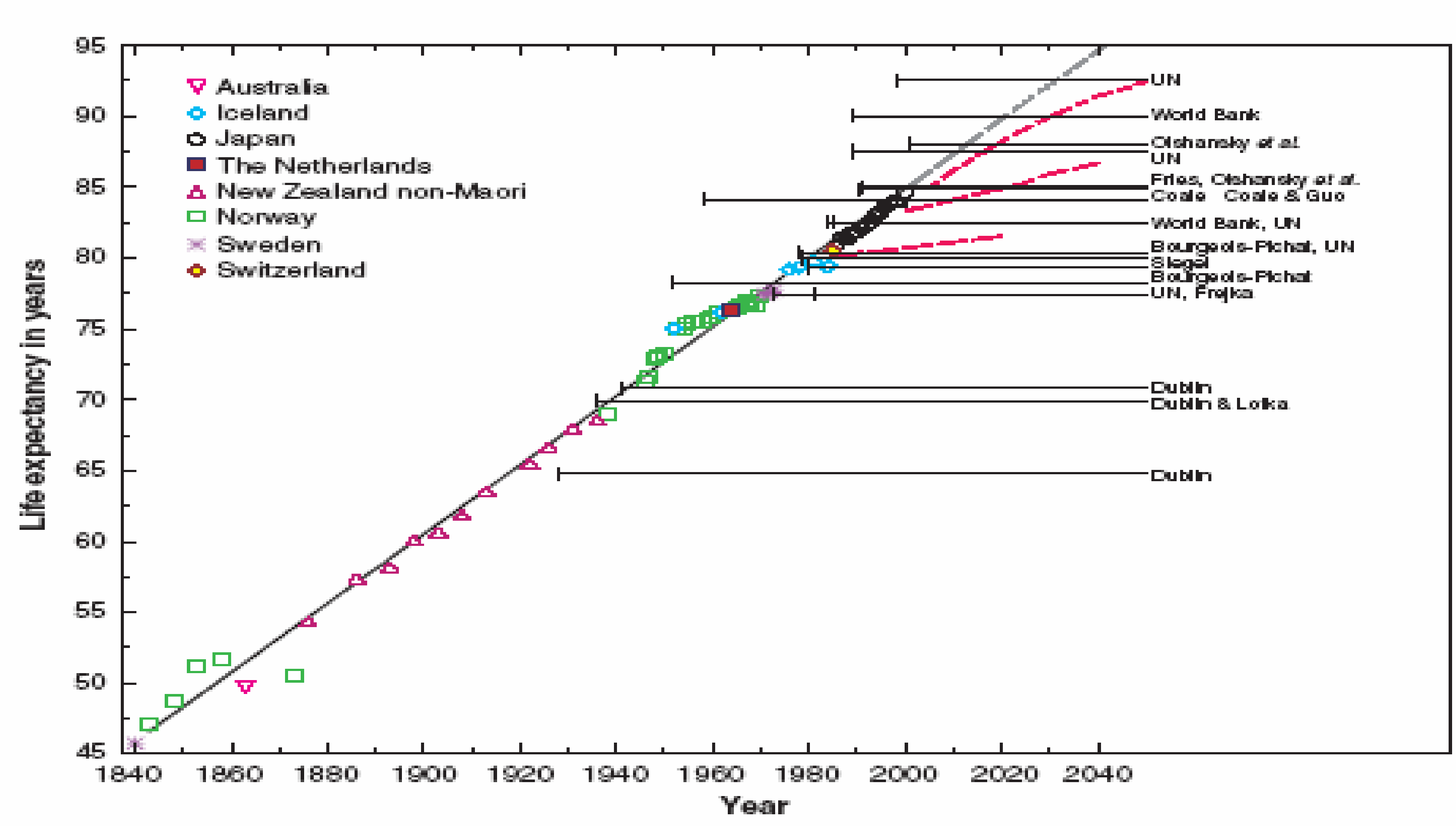
First International Conference on Longevity Risk & Capital Market Solutions

18 February 2005

Pensions Institute

What is longevity risk?

(Broken limits to life expectancy – Oeppen & Vaupel)



Why is longevity risk important?

- Pension plans:
  - To provide lifetime income security in retirement for however long the pensioner lives
- Companies hold masses of it via their pension plans and it impacts on their main businesses
- Governments bear it as society's Insurer of Last Resort

Can it be hedged in the capital markets?

- Need new financial instruments and derivatives to do so
- Need counterparties to assume the risk in size on the basis of natural hedges in their own balance sheets:
  - Pharmaceutical companies?

Kick starting the market?

- Longevity bond issued by company to its underfunded pension scheme:
  - Reduces deficit
  - Formalises company's commitment to bear longevity risk in its own scheme
- Trustees could trade this bond for that of another company to diversify credit risk
- A traded market begins to emerge

Can it be hedged at all?

- Is this a risk too big to be completely hedged in the private sector?
- Can it be partially hedged at least?
- Will the private sector 'solutions' merely lead to wealth transfers to those better at forecasting future mortality?
- Will the state end up assuming this risk willingly or unwilling?

Conference Schedule

- How big a problem is longevity risk?
  - The implications of longevity risk for society
- Current solutions
- Potential solutions and remaining problems
- Current modelling frameworks
- Round table discussion and summing up: What now needs to be done?

Scoping conference

- What do we know?
- What do we need to know?
- Defining the research agenda over the next 18 months
- In preparation for the Second Conference in Atlanta in April 2006

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