

Financial Impact of Longevity Risk

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Although governments and private pension providers have been preparing for the financial consequences of aging, these preparations are based on baseline population forecasts that in the past have consistently underestimated how long people live. Unexpected longevity beyond those baseline forecasts, while clearly beneficial for individuals and society as a whole, is a financial risk for governments and defined-benefit pension providers. These risks build slowly over time, but if they are not addressed soon, already weakened public and private sector balance sheets will be more vulnerable to other shocks. This paper explores the ways in which longevity risk can be mitigated.