Jeff Mulholland

"Micro vs. macro longevity indices"

Abstract*

Both the micro-longevity and macro-longevity markets provide investors with the opportunity to earn attractive risk-adjusted returns on a buy and hold basis. Currently, the micro-longevity market can be accessed via a market index (in a manner that shields investors from the legal and reputational risks of the cash life settlements market) that provides an unleveraged expected return in US dollars that is higher than that achievable through the macro-longevity market. Additionally, one can argue that spreads may tighten in the micro-longevity market due to market forces, providing the opportunity for potential mark-to-market gains through time. Separately, the macro-longevity market currently provides lower unleveraged returns, and the amount of pension risk that needs to be hedged globally suggests that spreads may need to widen through time to clear the market. The opportunity to relative value trade these markets may prove attractive as liquidity develops over time.

*These are personal views of the author and are not necessarily views of my employer, Societe Generale.