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Securitization of Longevity Risk in Reverse Mortgages

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Abstract

The reverse mortgage market has been expanding rapidly in developed economies in recent years. The onset of demographic transition places a rapidly rising number of househo ... peal. Increasi ... er stimulated interest.

Reverse ... at may hinder th ... esses one meth ... ts through the f ... ve alternati ... e how to construc ... e applied in tradition

Specifica ... rvivor swaps for reverse mortgage products. In the case of survivor bonds, for example, we are able to compute premiums, both analytically and numerically through simulations, and to examine how the longevity risk may be transferred to the financial investors. Our numerical calculations provide an indication of the economic benefits derived from developing survivor bonds to securitize the "longevity risk component" of reverse mortgage products. Moreover, some sensitivity analysis of these economic benefits indicates that these survivor bonds provide for a promising tool for investment diversification.