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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 households in an age window in which reverse mortgages have potential appeal. Increasing prices for residential real estate over the last decade have further stimulated interest.

Reverse mortgages involve various risks from the provider-s perspective that may hinder th ... esses one method ... ts through the form ... ve alternati ... e how to cons ... e applied in traditio...

Specifica ... rvivor swaps for rever ... 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.