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BySophia Grene (FT Fund Management)

Courtesy of the Financial Times, the latest news on the financial sector's most self-allegorizing activity: death hedging. Or more prosaically, the develpment of 'longevity derivatives' and associated indices, through which fund managers can hedge against the risk that people (not to speak of broker-dealers) might not die soon enough. In this update, Deutsche Börse has introduced live (so to speak) data feeds from undertakers to find out the age of the bodies they bury.

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The development of longevity indices is helping pension funds assess risk, says Sophia Grene.

Deutsche Börse, the German stock exchange, has set up live data feeds from undertakers to find out what age people are when they die. It is using the data, along with official mortality statistics, in its new Xpect data and index package, designed to help insurers and pension funds calculate their longevity and mortality risks.

The stock exchange is the latest entrant to the nascent **[sic!]** longevity market. Not knowing how long people can expect to live represents a large risk to pension schemes that promise to pay members benefits for the rest of their lives.

Until recently, there was little a pension fund could do to manage this risk apart from relying on its actuaries to get it right, which they have repeatedly failed to do.

Now there are other options available, including a slew of longevity indices that should help pensions funds both monitor and possibly hedge the risk.

JP Morgan **[yes, the merchant bank which recently devoured the still warm corpse of Bear Stearns]** last year launched LifeMetrics, the index that provides annual data for England and Wales, and Credit Suisse has provided an American longevity index since 2006. Goldman Sachs has also entered the market, with an index based on figures from a sample of US pensioners with life insurance.

Last month, UK insureance company Lucida announced the first longevity swap based on the LifeMetrics index, agreeing to pay JP Morgan **[yes, the robber baron of the US railways]** an income stream based on current longevity expectations in return for JP Morgan's promise to pay an income stream based on how long people actually live for.

"It's a very embryonic **[sic!]** market", said Gordon Fletcher, an actuary at Mercer. [...] Rob Gardner of investment consultancy Redington Partners agreed: "there is a fledgeling market, but we're still very much at the Blue Ray/HD stage".

[...]

People's life expectancy can depend on geography, occupation and even the size of their pension.

[...]

JP Morgan is attempting to encourage the development of a longevity derivatives market, for which a standardised index is necessary.

Pension funds and insurance companies that want to hedge their longevity risk need to find counterparties – investors who are happy to take on the risk.

This is difficult, becuase there is nobody whose risks are prescisely the inverse of pension funds', who would benefit from increased longevity in the same measure as pension funds suffer.

[...]