

Hedge Effectiveness for Longevity Risk in the Presence of Basis Risk and Parameter Uncertainty

We consider the effectiveness under static hedging of both simple cashflows and also liability values such as the future purchase of an annuity. A key aspect of the study will be an analysis of the impact of the choice of hedging instrument, basis risk between the hedgers and the reference populations, and parameter uncertainty. We will also focus on robustness of the static hedge relative to the choice of reference age and maturity of the hedging instrument.

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