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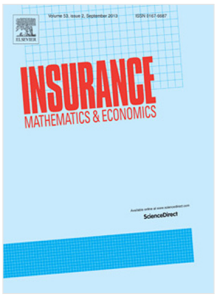

Longevity-linked assets and pre-retirement consumption/portfolio decisions

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Longevity-linked assets and pre-retirement consumption/portfolio decisions*

Francesco Menoncin,†Luca Regis‡

Abstract

We solve the consumption/investment problem of an agent facing a stochastic mortality intensity. The investment set includes a longevity-linked asset, as a derivative on the force of mortality. In a complete and frictionless market, we derive a closed form solution when the agent has Hyperbolic Absolute Risk Aversion preferences and a fixed financial horizon. Our calibrated numerical analysis on US data shows that individuals optimally invest a large fraction of their wealth in longevity-linked assets in the pre-retirement phase, because of their need to hedge against stochastic fluctuations in their remaining life-time at retirement.

Keywords: longevity risk, pre-retirement savings, portfolio choice, HARA preferences.

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