



**INSURANCE STUDIES INSTITUTE**

Creating knowledge, enhancing understanding

New York Athletic Club, September 25, 2008

# Has Investing In Life Insurance Settlements Come of Age?

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## Low correlation...

- Attractive in current environment
- Some may provide attractive returns
- Intermediaries fees trending down



## ...or not so low correlation

- For pensions: doubling down or CDO-squared!
- Underwriting (hard data) unproven
- Contagion risk

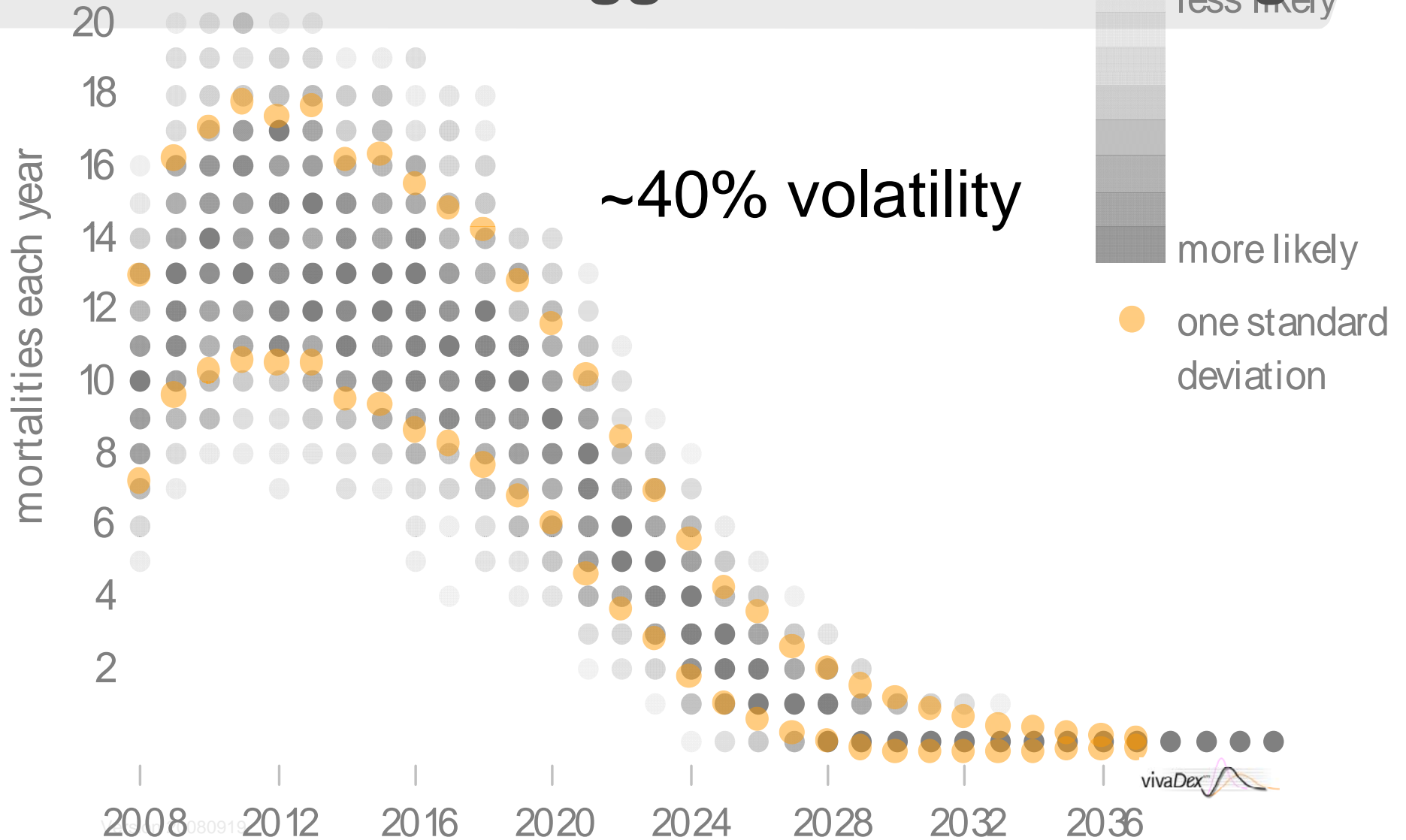


## Sources of volatility

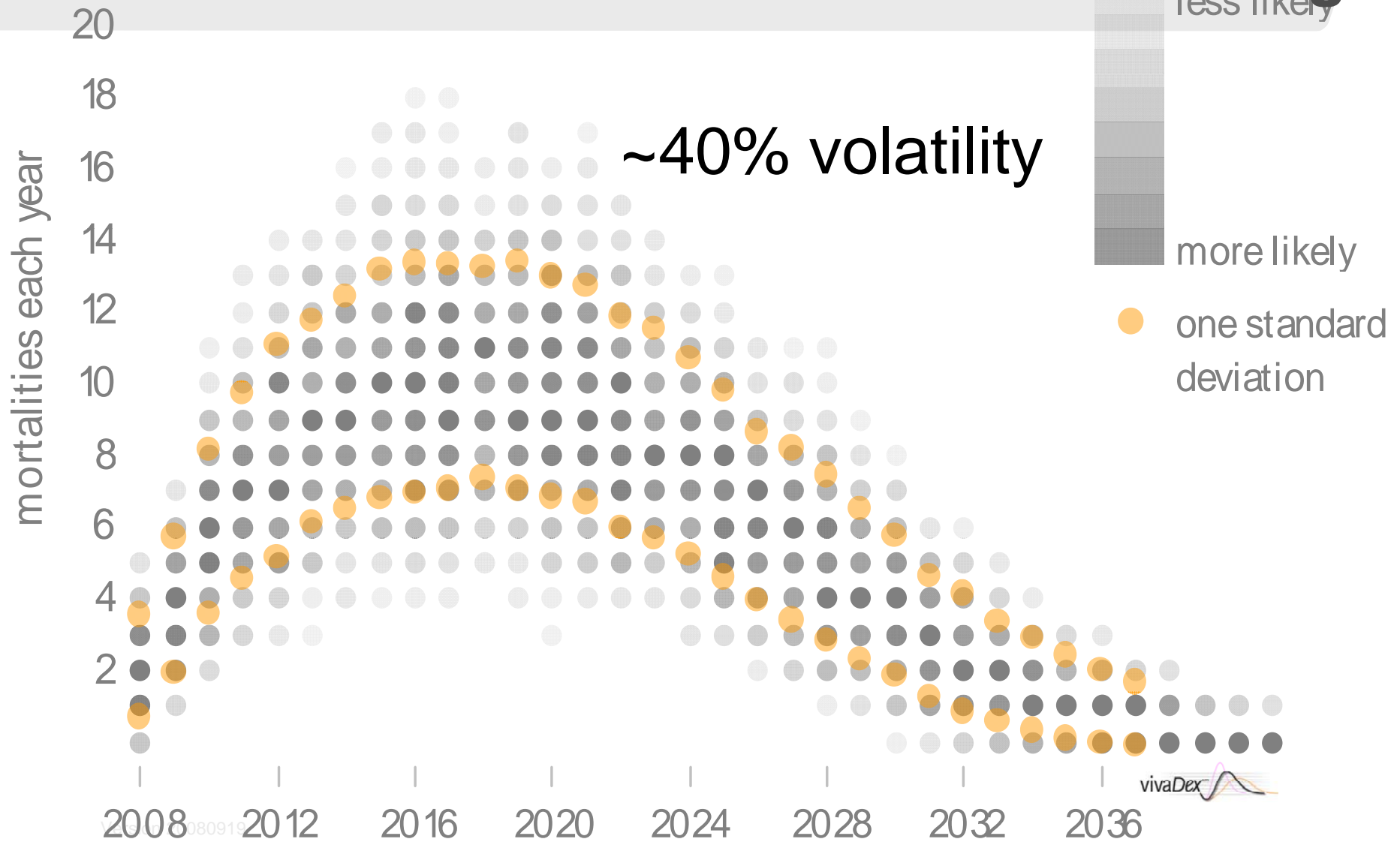
- Impairment between individuals
- Unsystematic & systematic underwriting error
- Seller's market: gaming of underwriting

# uncertainty of impairment

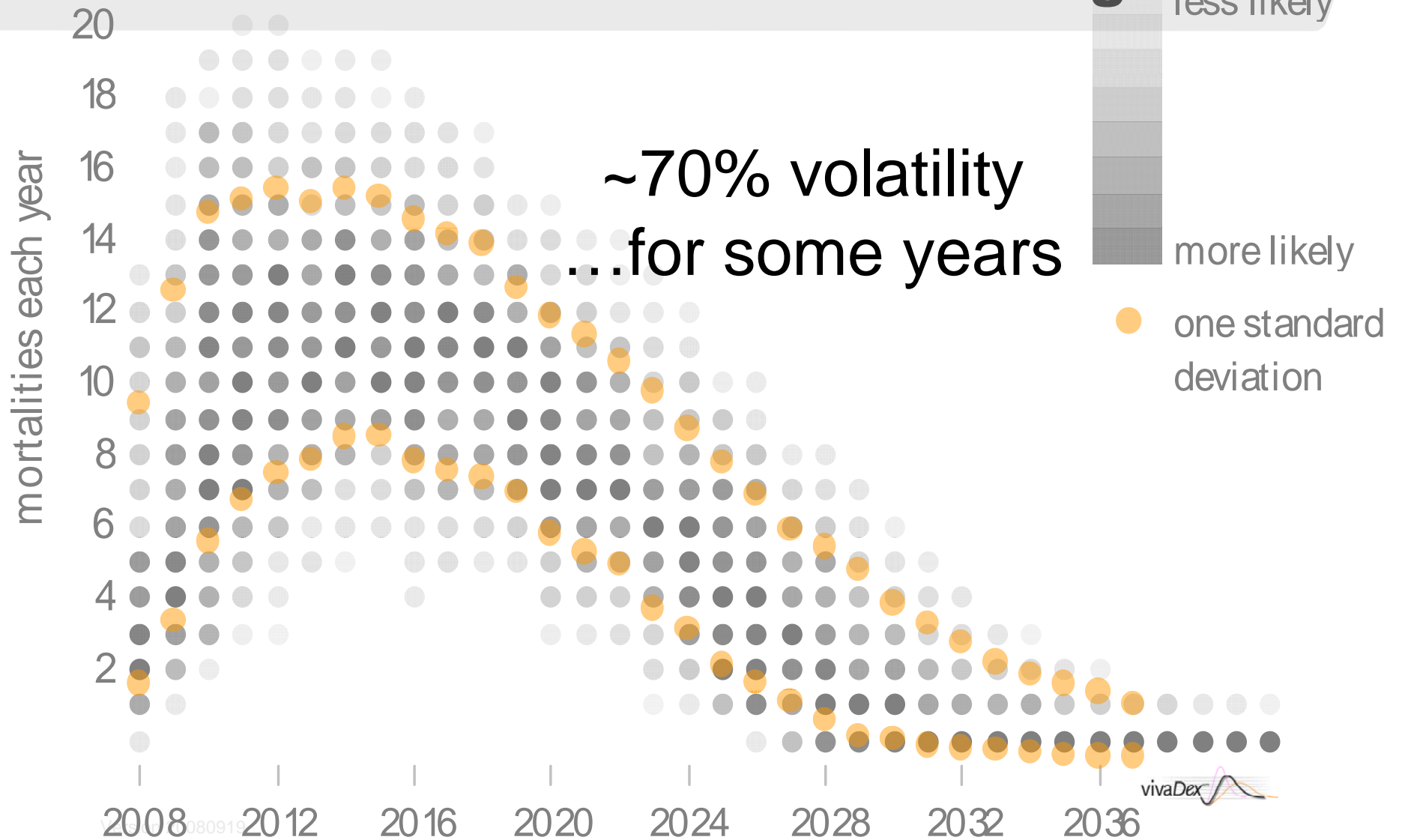
# 200 insured: aggressive underwriting



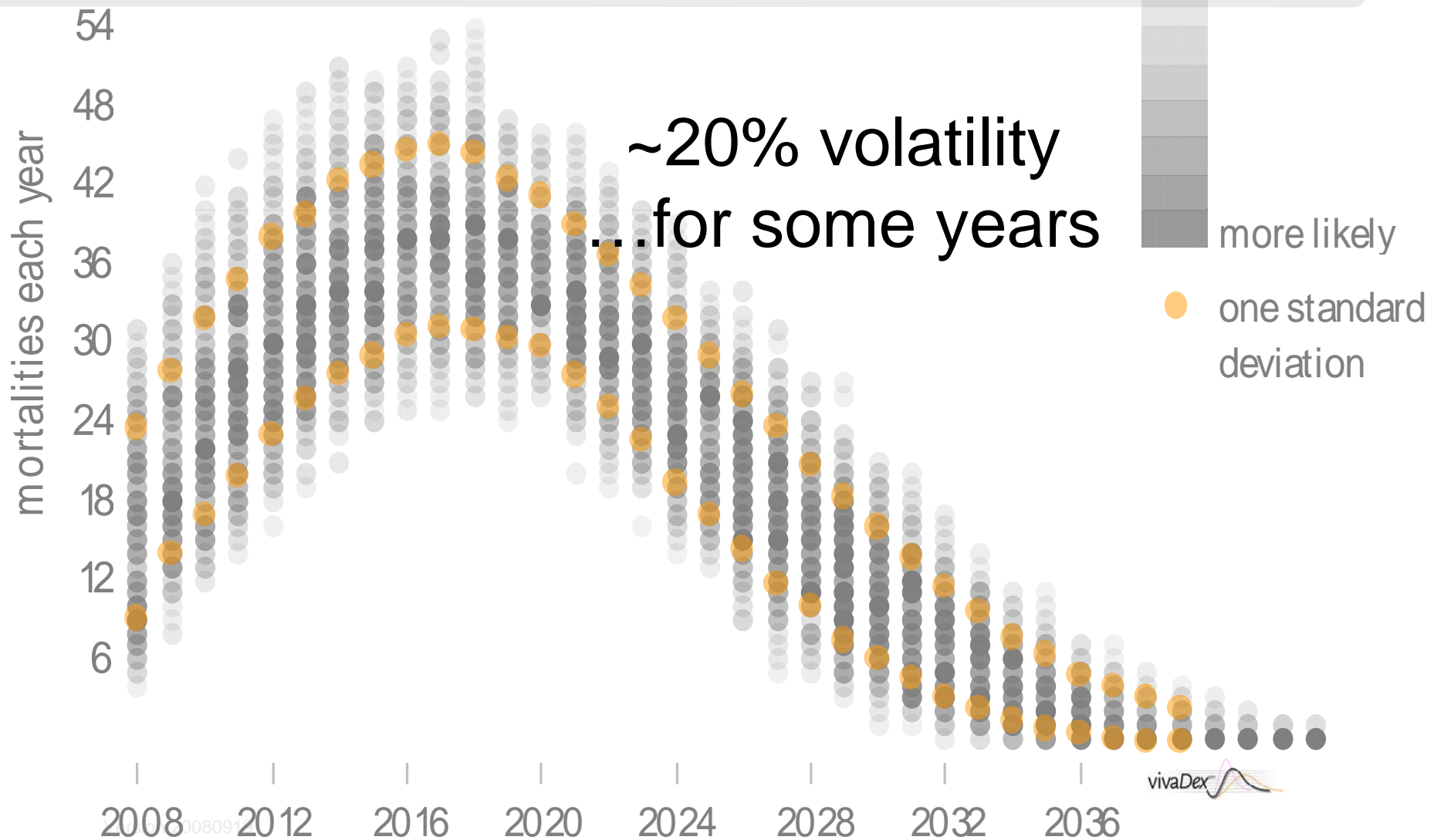
# 200 insured: conservative underwriting



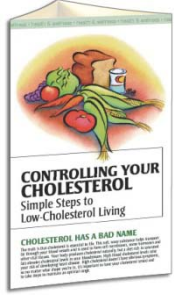
# 200 insured: either underwriting



# 700 insured: either underwriting



# Alpha-longevity ↑ sources



- Low blood pressure<sup>1</sup>: 4 years
- Low cholesterol<sup>1</sup>: 4 years
- Healthy weight<sup>1</sup>: 1 to 3 years
- Not smoking<sup>1</sup>: up to 14 years
- Regular exercise<sup>1</sup>: 1 to 3 years
- Married (happily)<sup>1</sup>: 4 to 10 years
- Own a dog<sup>1</sup>: 3 years...more with walking
- Changes in wealth<sup>1</sup>: 5 or more years
- Red wine (resveratrol<sup>2</sup> from grape skin)

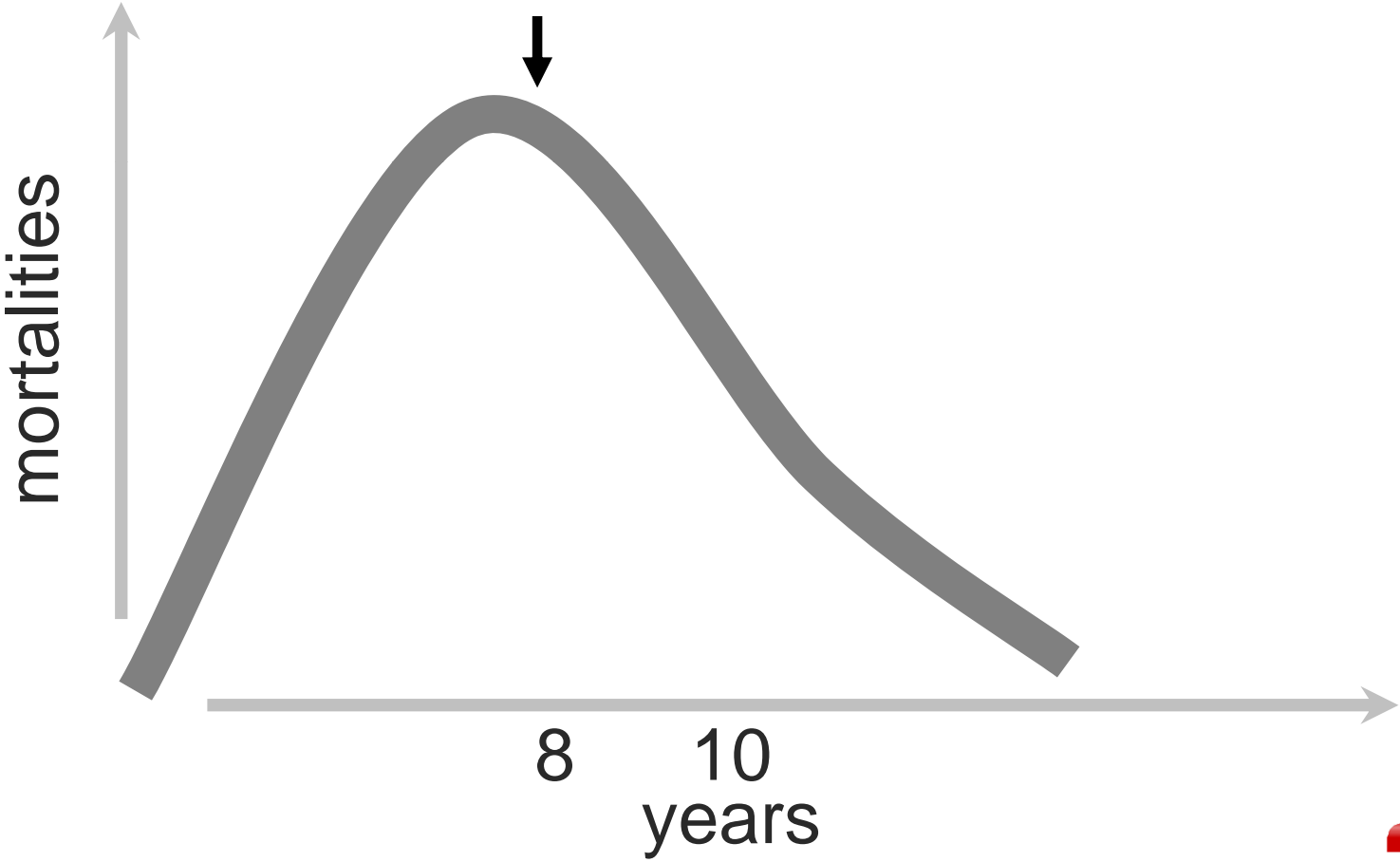
<sup>1</sup>Source: Levy BR, et al. Longevity increased by positive self-perceptions of aging. Journal of Personality and Social Psychology. 2002 Aug; 83(2): 261-70

<sup>2</sup>Seung-Hoi Koo & Marc Montminy, In Vino Veritas: A Tale of Two Sirt1s?. Cell 127, December 15, 2006: 1091-1093



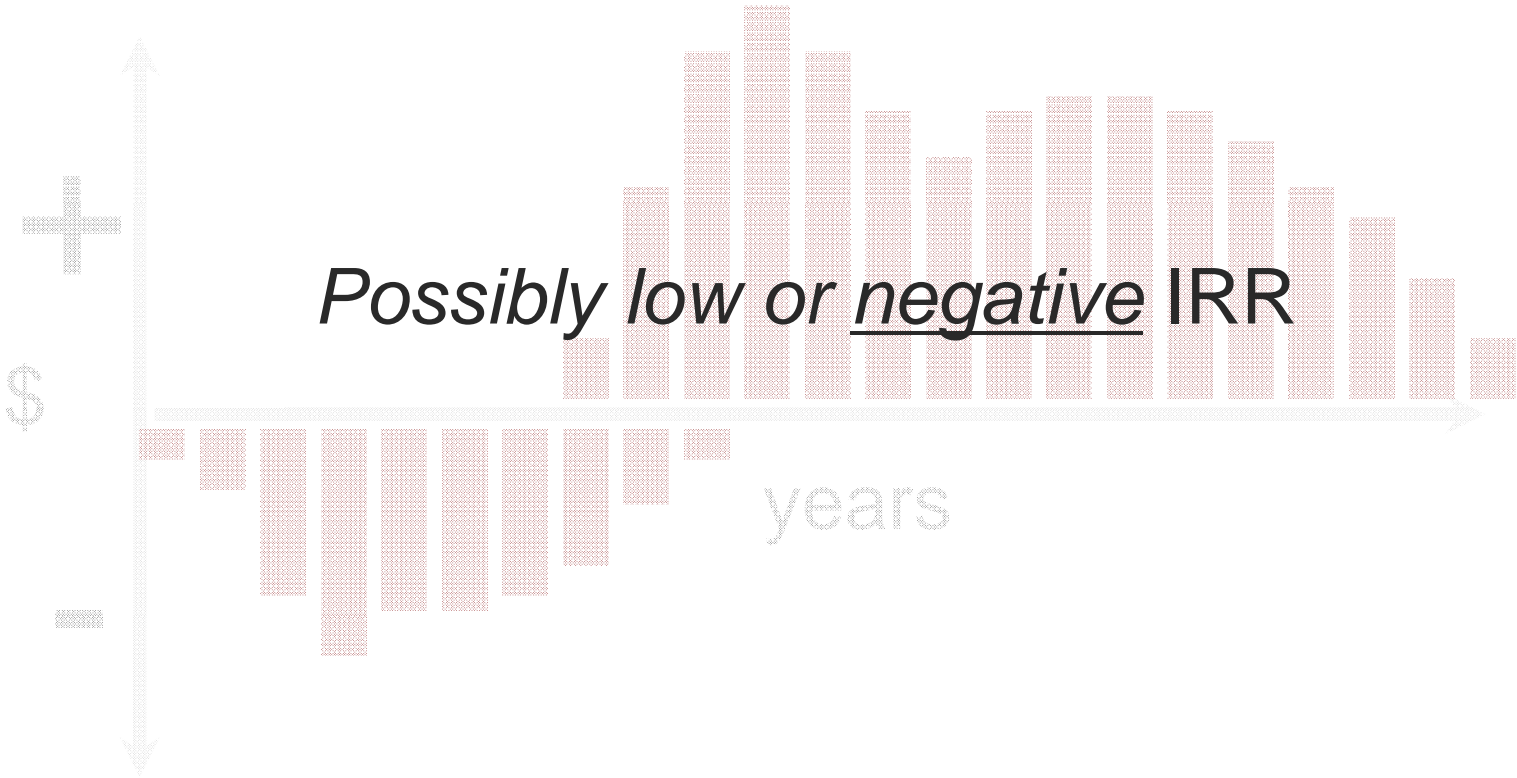
# Underwriting accuracy may vary


half still alive





# Cash flows for unexpected increase in life expectancy (Texas published recent results)



vivaDex  projected forward values (10% discount rate, continuously compounded)



**Forward sales help investors  
make current purchases**



# Non-correlation: what's it worth?

expected return

13%  
11%  
9%

- purchase using conservative underwriting: price like an annuity
- hundreds, or preferably thousands, of reference lives
- well managed: flat or near-flat premiums to maturity)

5% 20%

return volatility





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