Title: Risk aggregation and collateral in longevity swaps

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Abstract: The market for longevity swaps has experienced considerable growth in the last few months. Although it is clear how these transactions can allow pension schemes to swap out longevity uncertainty, there remains the challenge of dealing effectively with counterparty default risk. We study the effects of risk aggregation on marking to market of longevity swaps, and on optimal rules for posting collateral during the life of the swap. We then use our findings to examine how counterparty risk affects the relative attractiveness of bespoke solutions vs. swaps predicated on an index from the point of view of a hedger.