

The Fasano Longevity Index:
Using a Longevity Index to Develop Liquidity
in the U.S. Cash and Synthetic Life Settlement Markets

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Introduction

Despite extremely attractive risk/return characteristics, the cash market for U.S. life settlements has, to date, failed to develop a reasonable level of liquidity. Similarly, the synthetic market for related longevity risk has failed to develop a reasonable level of liquidity as the two largest players that dominate the market will not bid on each other's swaps on termination.

In order to address the lack of liquidity in the cash and synthetic longevity markets for life settlements, Fasano Associates has developed the Fasano Longevity Index. Although previous attempts at developing an index for this market have proven unsuccessful, we believe that there are some important differences in our approach. The Fasano Longevity Index:

- is based upon the most accurate medical underwriting track record for this market (96% actual/expected in separate studies conducted by three independent actuarial consulting firms based upon performance for different time periods between 2001 and 2008); and
- links cash policy returns to the index by referencing a synthetic policy for each of the 45,000 unique lives in the Fasano Associates database (in this manner, the attractive risk/return characteristics of the cash market are captured by the index).