2. Mitigating longevity risk

For the country of your choice you are asked to provide a policy advice on how to mitigate longevity *risk* in the old-age pension system. Assume therefore, for simplicity, that your country has a state-provided *non-means-tested* (that is, independent of an individual's personal wealth) old age pension available for everyone as of a certain retirement age. In this system, as of retirement age, you're entitled to a certain indexed amount of monthly pension.

We propose two ways of mitigating longevity risks in the state pension system. Firstly, the retirement age could be made dependent on the life-expectancy of individuals. Secondly, several countries could enter into a risk-sharing contract to reduce the idiosyncratic longevity risk of each individual country.

Deliverables:

1. A general discussion on the advantages, disadvantages of both mechanisms suggested, and possibly a third of your own choice.
2. A quantitative analysis of the welfare gains possible from implementing the system of your choice.