

LETTERS TO THE EDITOR: Derivatives can relieve the gloom

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By Paul Dawson

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From Dr Paul Dawson.

Sir, Derivatives, so often regarded as the loose cannon in finance, can do much to alleviate the pension fund problems raised by Stefan Stern and John Plender (January 23).

Mr Plender ("A bubble sadly lacking in irrational exuberance") highlights the absurdly low levels available in the index-linked bonds market. Inflation swaps (a relatively new product) can help fund managers hedge inflation without soaking up the meagre liquidity in the index-linked market. Mr Stern ("Wanted: a pensions model for the new century") highlights the problem of former employees not dying quickly enough. Longevity derivatives (a very recent development) can render long life compatible with happy chief executives.

Greater understanding by fund managers and pension fund trustees would reduce the gloom surrounding their tasks.

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