Supply Challenges to the Provision of Annuities

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This document represents work on a project examining the supply constraints faced by life insurance companies when offering annuity products. Special emphasis is given to the risk management issues involved with this line of business.

We begin by examining the relevant literature on the challenging issues faced by annuity suppliers. The various types of annuities are described, as well as the basics of pricing an annuity. Risk management issues are then treated, exploring the risks posed by interest rates, human longevity and other factors, and their possible solutions. Finally, the literature review examines some of the alternatives to annuities.

We then present four case studies of annuity providers, treating life insurers in Australia, the U.S., the U.K. and Germany. These studies address the following issues:

1. A description of the companies' involvement in the domestic annuities market, including the type of products offered, their costs and benefits.

2. A description and evaluation of the risk management structures annuity providers have in place, addressing issues such as asset-liability structure and interest rate, currency and mortality risk.

3. A qualitative assessment of the supply challenges faced by the annuity provider based on conversations with company executives.

The final section of the report draws implications for policymakers and notes various issues within the regulatory framework which could be improved.

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