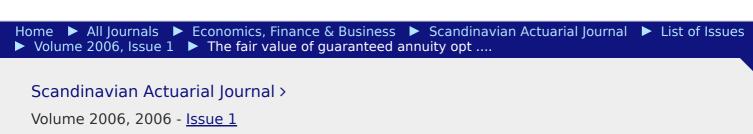








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Original Article

The fair value of guaranteed annuity options

Enrico Biffis & & Pietro Millossovich & Pages 23-41 | Published online: 18 Feb 2007 **66** Cite this article https://doi.org/10.1080/03461230500462204



Abstract

We discuss the fair valuation of Guaranteed Annuity Options, i.e. options providing the right to convert deferred survival benefits into annuities at fixed conversion rates. The use of doubly stochastic stopping times and of affine processes provides great computational and analytical tractability, while enabling to set up a very general valuation framework. For example, the valuation of options on traditional, unit-linked or indexed annuities is encompassed. Moreover, security and reference fund prices may feature stochastic volatility or discontinuous dynamics. The longevity risk is also taken into account, by letting the evolution of mortality present stochastic dynamics subject not only to random fluctuations but also to systematic deviations.

Keywords:

Fair value Options to annuitize Stochastic mortality Longevity risk Financial risk Doubly stochastic stopping times Affine processes

We thank the participants to the 27th AMASES Conference in Cagliari (Italy), the 8th IME Conference in Rome, the 7th Spanish-Italian Meeting on Financial Mathematics in Cuenca (Spain) and the 3 Conference in Actuarial Science and Finance in Samos (Greece), where earlier versions of this paper were presented, and the people at the University of Trieste (Department of Applied Mathematics), ETH Zürich (Department of Mathematics) and Bocconi University (IMQ) for helpful comments and suggestions. All errors are ours. We acknowledge financial support from the Italian MIUR.

Notes

¹We are grateful to Freddy Delbaen for clarifying these points.

Related Research Data

DEFAULT RISK INSURANCE AND INCOMPLETE MARKETS¹

Source: Mathematical Finance Guaranteed Annuity Options

Source: Astin Bulletin

Stochastic Duration and Fast Coupon Bond Option Pricing in Multi-Factor Models

Source: SSRN Electronic Journal

A General Version of the Fundamental Theorem of Asset Pricing (1994)

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A YIELD-FACTOR MODEL OF INTEREST RATES

Source: Mathematical Finance

Recursive valuation of defaultable securities and the timing of resolution of uncertainty

Source: The Annals of Applied Probability

On the optimality of equilibrium when the market structure is incomplete

Source: Journal of Economic Theory
Applied Mathematical Demography



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