TITLE  Where Less is More: Reducing Variable Annuity Fees to Benefit Policyholder and Insurer

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Key words: Variable annuities, pricing, GMDB, fees, commissions, surrender behavior.

Purpose of your paper: Show how insurers can use product design to nudge VA policyholders into not lapsing

Synopsis: We propose and analyze a new fee structure for variable annuity (VA) policies, whereby the VA base fee is reduced after a certain number of policy years in order to discourage policy lapses. We show that—when taking into account financially optimal lapse decisions—this time-dependent fee structure increases the policy value for both the policyholder and the VA provider.

We determine the optimal timing and rate of the fee reduction for a competitive as well as for an innovative VA provider. An important characteristic of this new feature is that it can be implemented easily and effectively to both new and existing VA policies.

Note: If you are not presenting a paper for this Colloquium, please include as much detail as possible in your Synopsis (maximum three pages) to enable delegates to prepare for your session.