A Numerical Scheme for Guaranteed Minimum Withdrawal Benefit (GMWB) Variable Annuities

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*University of Waterloo, †Morgan Stanley

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"They have stumbled onto a killer app for the financial needs of today’s boomers. It’s called a GMWB. The deal is that for a half-percentage point per year, you can invest with a guarantee that your entire principal will be returned to you, provided you do not withdraw at a rate greater than 7% annually."
Consider an investor with a retirement account, which is invested in the stock market.

Over the long run (before retirement), it does not matter if

- the market first drops by 10% per year over several years and then goes up by 20% per year for several years; or
- the market first goes up by 20% per year and then drops by 10% per year

\[
(0.9)(0.9)...(1.2)(1.2)... = (1.2)(1.2)...(0.9)(0.9)...
\]
The Retirement Risk Zone II

This is not the case once the investor retires, and begins to make withdrawals from the retirement account.

The outcomes will be very different in the cases:

- in the first few years after retirement, the market has losses, and the account is further depleted by withdrawals, followed by some years of good market returns; compared to
- a few years of good market returns, after retirement (including withdrawals), followed by some years of losses

Losses in the early years of retirement can be devastating in the long run! Early bad returns can cause complete depletion of the account.
A Typical GMWB Example

Investor pays $100 to an insurance company, which is invested in a risky asset.

Denote amount in risky asset sub-account by $W = 100$.

The investor also has a virtual guarantee account $A = 100$.

Suppose that the contract runs for 10 years, and the guaranteed withdrawal rate is $10 per year.
A Typical GMWB Example II

At the end of each year, the investor can choose to withdraw up to $10 from the account. If \( \gamma \in [0, 10] \) is withdrawn, then

\[
W_{new} = \max(W_{old} - \gamma, 0) \quad ; \quad \text{Actual investment}
\]

\[
A_{new} = A_{old} - \gamma \quad ; \quad \text{Virtual account}
\]

This continues for 10 years. At the end of 10 years, the investor can withdraw anything left, i.e. \( \max(W_{new}, A_{new}) \).

Note: the investor can continue to withdraw cash as long as \( A > 0 \), even if \( W = 0 \) (recall that \( W \) is invested in a risky asset).
**Example: Order of Random Returns**

Good Returns at Start

<table>
<thead>
<tr>
<th>Time</th>
<th>Return (%)</th>
<th>W Balance ($)</th>
<th>Withdrawal ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>41.65</td>
<td>141.65</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>31.12</td>
<td>172.62</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>20.15</td>
<td>195.39</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>-30.25</td>
<td>129.31</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>18.05</td>
<td>140.85</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>16.82</td>
<td>152.86</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>20.12</td>
<td>171.60</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>7.44</td>
<td>173.62</td>
<td>10</td>
</tr>
<tr>
<td>9</td>
<td>-40.90</td>
<td>96.70</td>
<td>10</td>
</tr>
<tr>
<td>10</td>
<td>-7.5</td>
<td>80.20</td>
<td>10</td>
</tr>
</tbody>
</table>

Total Withdrawal Amount ($)  170.20
Ten year balance if no withdrawal ($)  151.37
Introduction

### Same Random Returns: Different Order

No GMWB

<table>
<thead>
<tr>
<th>Time</th>
<th>Return (%)</th>
<th>W Balance ($)</th>
<th>Withdrawal ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-30.25</td>
<td>69.75</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>-40.90</td>
<td>35.31</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>16.82</td>
<td>29.57</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>7.44</td>
<td>21.03</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>41.65</td>
<td>15.62</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>20.12</td>
<td>6.75</td>
<td>6.75</td>
</tr>
<tr>
<td>7</td>
<td>31.12</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>18.05</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>20.15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>-7.5</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Total Withdrawal Amount ($) 56.75

Ten year balance if no withdrawal ($) 151.37
Introduction

**Unlucky Order of Returns: With GMWB**

GMWB Protection

<table>
<thead>
<tr>
<th>Time</th>
<th>Return (%)</th>
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<th>Withdrawal ($)</th>
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<td>10</td>
</tr>
<tr>
<td>10</td>
<td>-7.5</td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

Total Withdrawal Amount ($) \[100\]

Ten year balance if no withdrawal ($) \[151.37\]
Introduction

Why is this useful

The investor can participate in market gains, but still has a guaranteed cash flow, in the case of market losses.

This insulates pensioners from losses in the early years of retirement.

This protection is paid for by deducting a yearly fee $\alpha$ from the amount in the risky account $W$ each year.

In 2007, 43% of all variable annuities sold in the US included a GMWB type option (including lifetime benefit).
Some More Details

The investor can choose to withdraw up to the specified contract rate $G_r$ without penalty.

Usually, a penalty ($\kappa > 0$) is charged for withdrawals above $G_r$. Let $\hat{\gamma}$ be the rate of withdrawal selected by the holder.

Then, the rate of actual cash received by the holder of the GMWB is

\[
\hat{f}(\hat{\gamma}) = \begin{cases} 
\hat{\gamma} & \text{if } 0 \leq \hat{\gamma} \leq G_r, \\
\hat{\gamma} - \kappa (\hat{\gamma} - G_r) & \text{if } \hat{\gamma} > G_r.
\end{cases}
\]
**Stochastic Process**

Let $S$ denote the value of the risky asset, we assume that the risk neutral process followed by $S$ is

$$
dS = rSdt + \sigma SdZ
$$

$r =$ risk free rate; $\sigma =$ volatility

$$
dZ = \phi \sqrt{dt} \; ; \; \phi \sim \mathcal{N}(0, 1)
$$

The risk neutral process followed by $W$ is then (including withdrawals $dA$).

$$
dW = (r - \alpha)Wdt + \sigma WdZ + dA, \quad \text{if } W > 0
$$

$$
dW = 0, \quad \text{if } W = 0
$$

$\alpha =$ fee paid for guarantee ; $A =$ guarantee account
No-arbitrage Value

Let \( V(W, A, \tau) \) (\( \tau = T - t \), \( T \) is contract expiry) be the no-arbitrage value of the GMWB contract (i.e. the cost of hedging).

At contract expiry (\( \tau = 0 \)) we have (payoff = withdrawal)

\[
V(W, A, \tau = 0) = \max(W, A(1 - \kappa))
\]

It turns out that it is optimal to withdraw at a rate \( \hat{\gamma} \)

- \( \hat{\gamma} \in [0, G_r] \), or
- \( \hat{\gamma} = \infty \) (instantaneously withdraw a finite amount)
Let

\[ \mathcal{L}V = \frac{1}{2} \sigma^2 W^2 V_{WW} + (r - \alpha)WW - rV. \]

Since we have the option of withdrawing at a finite rate at each point in \((W, A, \tau)\), Ito’s Lemma and no-arbitrage arguments give

\[ V_\tau - \mathcal{L}V - \max_{\hat{\gamma} \in [0, G_r]} (\hat{\gamma} - \hat{\gamma}VV - \hat{\gamma}VA) \geq 0 \]

Note that \(\hat{\gamma}\) is a finite withdrawal rate. Withdrawals only allowed if \(A > 0\).
We also have the option of withdrawing a finite amount instantaneously (withdrawing at an infinite rate) at each point in \((W, A, \tau)\)

\[
V(W, A, \tau) - \sup_{\gamma \in (0, A]} [V(\max(W - \gamma, 0), A - \gamma, \tau) + (1 - \kappa)\gamma - c] \geq 0.
\]

where \(\gamma\) is a finite withdrawal amount. Note that \(c > 0\) is a fixed cost (which can be very small).

- \(V(\max(W - \gamma, 0), A - \gamma, \tau)\) is the contract value after a withdrawal.
- \((1 - \kappa)\gamma - c\) is the cash received by the holder.

Note that this equation specifies that any amount in the remaining guarantee account can be withdrawn instantaneously.
HJB Variational Inequality

Since it must be optimal to either withdraw at a finite rate (including zero) or withdraw a finite amount at each point, then this can all be written compactly as a Hamilton Jacobi Bellman Variational Inequality

\[
\min \left\{ V_\tau - \mathcal{L}V - \max_{\hat{\gamma} \in [0,G_\tau]} (\hat{\gamma} - \hat{\gamma}V_W - \hat{\gamma}V_A), \right. \\
\left. V - \sup_{\gamma \in (0,A]} \left[ V(\max(W - \gamma, 0), A - \gamma, \tau) + (1 - \kappa)\gamma - c \right] \right\} = 0
\]
Previous Work on Pricing GMWBs

These papers use no-arbitrage approach, and handle optimal withdrawal.

  - Formulated as a singular control problem
  - No details about computation
  - Apply optimal control at discrete withdrawal times
  - Analytic solution between discrete withdrawal times. Uses Green’s function integration.
- Dai, Kwok, Zong (to appear, Math. Finance)
  - Singular control formulation, solved numerically using a penalty method.
A Simpler Problem

**Discrete Withdrawal Time Approximation**

Rather than attempt to solve the HJB Impulse Control problem directly, let’s replace this problem by a *discrete withdrawal* problem

- Assume that the holder can only withdraw at discrete withdrawal times \( \tau_1, \ldots, \tau_N \), with \( \tau_{i+1} - \tau_i = \Delta t_w \)
- Use dynamic programming idea, work backwards from \( t = T(\tau = 0) \), so that \( V(W, A, 0) = \max(W, A(1 - \kappa)) \)
- During the interval from \( \tau = 0 \) to \( \tau = \tau_1 \) (the first withdrawal time going backwards) we solve

\[
V_{\tau} - \mathcal{L}V = 0 \quad ; \quad \mathcal{L}V = \frac{1}{2} \sigma^2 W^2 V_{WW} + (r - \alpha) WV_W - rV.
\]
Optimum Strategy: Discrete Withdrawals

At $\tau_1$, we assume that the holder withdraws the optimum amount $\gamma$

$$V(W, A, \tau_1^+) = \max_{\gamma \in [0, A]} \left[ V(\max(W - \gamma, 0), A - \gamma, \tau_1) + f(\gamma) \right],$$

where now the cash flow term is

$$f(\gamma) = \begin{cases} 
\gamma & \text{if } 0 \leq \gamma \leq G, \\
\gamma - \kappa(\gamma - G) - c & \text{if } \gamma > G.
\end{cases}$$

$$G = G_r \Delta t_w \quad (G = \text{contract amount in } \Delta t_w)$$
Discrete Withdrawal Problem

**Discrete Withdrawals**

Then, from $\tau_1^+$ to $\tau_2$, we solve

$$V_\tau - \mathcal{L}V = 0 ; \quad \text{No A dependence in } \mathcal{L}V$$

Then, we determine the optimum withdrawal at $\tau_2^+$, and so on, back down to $\tau = T(t = 0)$ today.

This would appear to be a reasonable approximation to reality.

In fact, most real contracts allow only discrete withdrawals.
Numerical Method

**Discrete Withdrawal: A Numerical Scheme**

Define nodes in the $W$ direction $[W_0, W_1, \ldots, W_{i_{\text{max}}}]$, and in the $A$ direction $[A_0, A_1, \ldots, A_{j_{\text{max}}}]$.

Let $V(W_i, A_j, \tau^n) = V_{i,j}^n$.

Let $(\mathcal{L}_h V)_{i,j}^n$ be a discrete form of the operator $\mathcal{L}V$.

Away from withdrawal times, we solve

$$
\frac{V_{i,j}^{n+1} - V_{i,j}^n}{\Delta \tau} = (\mathcal{L}_h V)_{i,j}^{n+1}
$$
A Numerical Scheme II

At withdrawal time $\tau_n$, we then solve the optimization problem

$$V_{i,j}^{n+} = \max_{\gamma_{i,j}^n \in [0,A_j]} \left[ \mathcal{I}_{i,j}(\gamma_{i,j}^n) V^n + f(\gamma_{i,j}^n) \right],$$

where $\mathcal{I}$ is a linear interpolation operator.

- we use a linear interpolant of $V_{i,j}^n$ to determine the optimum withdrawal at each node $\gamma_{i,j}^n$. 
Away from withdrawal times, we solve a decoupled set of 1-d PDEs.

At withdrawal times, we solve a set of decoupled optimization problems.
Obvious Question

If we let $\Delta \tau_w \to 0$, does this discrete withdrawal approximation converge to the solution of the Impulse Control HJB equation?

Solutions of HJB equations not smooth in general.

What does it mean to solve a differential equation where the solution is not differentiable?

We need to look for the viscosity solution of the Impulse Control HJB equation.
Viscosity Solution

Briefly, a viscosity solution is defined in terms of smooth test functions.

These smooth test functions touch the *viscosity* solution at a single point, and are always *above* or *below* the solution elsewhere.

The viscosity solution is *squeezed* between these nearby test functions.

The viscosity solution does not necessarily satisfy the PDE in any conventional sense.
Basic Result

Theorem 1 (Convergence to the Viscosity Solution (Barles, Souganidis (1993))). Any numerical scheme which is consistent, $l_\infty$ stable, and monotone, converges to the viscosity solution.

Consistent Discrete scheme applied to smooth test function converges to HJB equation as mesh, timestep $\rightarrow 0$ (smooth test functions squeeze the solution)

Stability ($l_\infty$) Solution bounded in $l_\infty$ as mesh, timestep $\rightarrow 0$. 
Monotone Scheme

**Monotonicity: What does it mean?**

Let $V_{i,j}^n$, $Q_{i,j}^n$ be two discrete solutions to the same HJB equation.

**Lemma 1** (Discrete Arbitrage Inequality). If $V_{i,j}^n$, $Q_{i,j}^n$ are generated using a monotone scheme, and $\forall i, j, Q_{i,j}^0 \geq V_{i,j}^0$, then

$$Q_{i,j}^n \geq V_{i,j}^n ; \ \forall i, j; \forall n$$

In other words, if the payoff $Q(W, A, 0) \geq V(W, A, 0)$, then this inequality must hold at all earlier times, for the discrete solution, regardless of the timestep or meshsize.
Convergence: Basic Idea

If we allow discrete withdrawals every timestep, then our numerical method is

\[
V_{i,j}^{n+1} - \max_{\gamma_{i,j}^n \in [0,A_j]} \left[ \mathcal{I}_{i,j}(\gamma_{i,j}^n)V^n + f(\gamma_{i,j}^n) \right] - \Delta\tau \left( \mathcal{L}_h V \right)_{i,j}^{n+1} = 0 .
\]

where the cash flow term \( f(\gamma_{i,j}^n) \) is

\[
f(\gamma) = \begin{cases} 
\gamma & \text{if } 0 \leq \gamma \leq G, \\
\gamma - \kappa(\gamma - G) - c & \text{if } \gamma > G.
\end{cases}
\]

\[
G = G_r \Delta\tau
\]

and \( \mathcal{I} \) is a linear interpolation operator.
Does it Converge?

We want to show that this scheme converges as $\Delta \tau, \Delta A, \Delta W \to 0$ to the viscosity solution of

$$
\min \left\{ V_\tau - \mathcal{L}V - \max_{\hat{\gamma} \in [0, G_r]} (\hat{\gamma} - \hat{\gamma}V_W - \hat{\gamma}V_A),
\right.
$$

$$
V - \sup_{\gamma \in (0, A]} \left[ V(\max(W - \gamma, 0), A - \gamma, \tau) + (1 - \kappa)\gamma - c \right]
\right\} = 0
$$

This seems intuitively obvious, but takes some work.
Convergence

**Theorem 2** (Strong Comparison Result). The GMWB Impulse Control problem satisfies the Strong Comparison Result, i.e. there is a unique, continuous viscosity solution to the Impulse Control Problem. (Seydel, 2008)

**Theorem 3** (Convergence to the Viscosity Solution). The discrete withdrawal numerical method, with withdrawal interval $\Delta t_w \to 0$ converges to the unique viscosity solution of the Impulse Control problem.

*Proof*. This scheme is consistent, stable, and monotone, hence converges to the viscosity solution. (I will spare you the details). □
So, we now have a single scheme which

- Can be used to price GMWB contracts with finite withdrawal intervals (the usual case in real contracts, i.e. withdrawals only allowed once or twice a year)
- We can also price GMWB contracts in the limit as the withdrawal interval $\to 0$
  $\to$ Convergence to the Impulse Control problem guaranteed
- No need for different method for these two cases!
Examples

Recall that the investor pays no extra up-front fee for the guarantee (only the initial premium $w_0$).

The insurance company deducts an annual fee $\alpha$ from the balance in the sub-account $W$.

Problem: let $V(\alpha, W, A, \tau)$ be the value of the GMWB contract, for given yearly guarantee fee $\alpha$.

Assume that the investor pays an initial premium $w_0$ at $t = 0$ ($\tau = T$).

Find the no-arbitrage fee $\alpha$ such that $V(\alpha, w_0, w_0, T) = w_0$ (we do this by a Newton iteration).
### Examples

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiry time $T$</td>
<td>10.0 years</td>
</tr>
<tr>
<td>Interest rate $r$</td>
<td>.05</td>
</tr>
<tr>
<td>Maximum withdrawal rate $G_r$</td>
<td>10/year</td>
</tr>
<tr>
<td>Withdrawal penalty $\kappa$</td>
<td>.10</td>
</tr>
<tr>
<td>Volatility $\sigma$</td>
<td>.30</td>
</tr>
<tr>
<td>Initial Lump-sum premium $w_0$</td>
<td>100</td>
</tr>
<tr>
<td>Initial guarantee account balance</td>
<td>100</td>
</tr>
<tr>
<td>Initial sub-account value</td>
<td>100</td>
</tr>
<tr>
<td>Continuous Withdrawal</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Example

**The No-arbitrage Fee \((t = 0, A = 100)\)**

\[
\alpha = 0.0 \\
\alpha = 0.01 \\
\alpha = 0.02 \\
\alpha = 0.03126
\]
Example

Optimal Withdrawal Strategy

\[ t = 0, \text{ fair fee charged for } w_0 = 100. \text{ Indeterminate region: appears to converge to optimal withdrawal rate } \hat{\gamma} = 0 ? \]
In the continuous withdrawal region, we have

\[ V_\tau = \mathcal{L}V + \max_{\hat{\gamma} \in [0, G_r]} \left[ \hat{\gamma}(1 - V_W - V_A) \right] \]  \hfill (1)

In the *indeterminate* region, we observe that (mesh, timestep → 0)

\[
\left[ 1 - V_W(W_i, A_j, \Delta \tau) - V_A(W_i, A_j, \Delta \tau) \right]_{i,j} \rightarrow 0^-
\]

If \(1 - V_W - V_A \rightarrow 0\), then any withdrawal rate in \([0, G_r]\) is optimal.

Control may not be unique (but value is unique).
### No-arbitrage Fee (Varying Volatility)

<table>
<thead>
<tr>
<th></th>
<th>$\sigma = .15$</th>
<th>$\sigma = .20$</th>
<th>$\sigma = .30$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee (bps)</td>
<td>70</td>
<td>139</td>
<td>313</td>
</tr>
</tbody>
</table>

- Current volatility of $S&P \simeq ??$
- Typical fees charged: 50 bps, too low for current market conditions.
- Insurance companies seem to be charging fees based on marketing considerations, not hedging costs.
- Fee should be even higher if other (typical) contract options considered
Discrete Withdrawal

**Discrete vs. Continuous Withdrawal**

Most contracts allow only withdrawals at discrete times (i.e. twice a year). What is the effect of allowing only discrete withdrawals?

<table>
<thead>
<tr>
<th>Withdrawal Frequency (number per year)</th>
<th>Fee (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>129</td>
</tr>
<tr>
<td>2</td>
<td>133</td>
</tr>
<tr>
<td>$\infty$</td>
<td>139</td>
</tr>
</tbody>
</table>

| $\sigma = .20$ | 293 |
| $\sigma = .30$ | 302 | 313 |

Allowing two withdrawals/year $\rightarrow$ same fee to within 10 bps as continuous withdrawal (much cheaper computation).
Alternative Model: Jump Process for Asset $S$

\[ \frac{dS}{S} = (r - \lambda \kappa)dt + \sigma dZ + (J - 1)dq \]

$\sigma =$ volatility, $\kappa =$ $E^{Q}[J - 1]$,

$dZ =$ increment of a Wiener process,

$dq = \begin{cases} 
0 & \text{with probability } 1 - \lambda dt \\
1 & \text{with probability } \lambda dt,
\end{cases}$

$\lambda =$ mean arrival rate of Poisson jumps; $S \rightarrow JS$.

→ Impulse control problem with a Partial Integro Differential Equation (PIDE)
Jump Process for Underlying Asset $S$


<table>
<thead>
<tr>
<th>$T = 10$, $G_r = 10/\text{year}$</th>
<th>Fee (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\sigma = .15$ (no jump)</td>
<td>70</td>
</tr>
<tr>
<td>$\sigma = .15 + \text{jumps}$</td>
<td>310</td>
</tr>
</tbody>
</table>

- If we have *normal* markets with $\sigma = .15$ and occasional large drops (jumps).
  $\rightarrow$ No-arbitrage fee increases substantially!

- Better model for long-term guarantees?
Suboptimal Withdrawal

“Your model assumes optimal withdrawals. Consumers never act optimally.”

- Let $U_d(W, A, \tau)$ be the guarantee value obtained by always withdrawing at the contract rate (the default strategy for a passive consumer).
- Let $U_o(W, A, \tau)$ be the value obtained from the optimal strategy.
- We price the guarantee by assuming that the consumer will not bother to optimally withdraw, unless it is sufficiently worthwhile to do so.
Let $V(W, A, \tau)$ be the value of the guarantee ($U_o =$ optimal; $U_d =$ default).

If $U_o(W, A, \tau) - U_d(W, A, \tau) \geq \beta W_0$ Then
$$V(W, A, \tau) = U_o(W, A, \tau)$$

Else
$$V(W, A, \tau) = U_d(W, A, \tau)$$

$\beta W_0$ is a fraction $\beta$ of the initial investment $W_0$. 
Suboptimal Withdrawal Results

- If $\beta = 0 \rightarrow$ always withdraw optimally.
- If $\beta = \infty \rightarrow$ (always withdraw at default rate).

$\beta = \infty$

$\rightarrow$ No-arbitrage fee about 50% of optimal withdrawal fee.

More reasonable assumption: $\beta = .05$, i.e. investors will withdraw optimally if it increases the value of the guarantee by $\.05W_0$.

$\rightarrow$ No-arbitrage fee about 75% of optimal withdrawal fee.
Other Modelling Issues

- Fee splitting: management fee for underlying mutual fund, trailer fee for sales agents, separate from fee for guarantee
- Time dependent surrender charges
- Sub-optimal withdrawals
- Reset features
Conclusions

• We have developed a single scheme which can be used to price GMWB contracts with finite withdrawal intervals, and the limiting case of infinitesimal withdrawal intervals.

• In case of infinitesimal withdrawal intervals, we have proven convergence to the viscosity solution of the Impulse Control problem.

• Insurance companies seem to be charging fees which are too low to cover hedging costs.

  ↝ Similar story for Segregated Funds in Canada (2000)
  ↝ Comment from actuary in 2001, “We take a long term view: hedging Segregated Fund guarantees is unnecessary.”
  ↝ In 2002, regulators required insurance companies selling Segregated Funds in Canada to have large reserve requirements, or put in place a hedging strategy.