A Study on the Diversification of Annuity Product in Korea

Since the retirement income is further noted due to the fast increasing life expectancy of Koreans, the demand on annuity products has been gradually increased. Korea life insurance industry need to take advantage of this demand change to cope with low interest rate and low economic growth.

Providing life annuity option is the unique feature of annuity product in life insurance company. However life annuity options in Korea mostly focus on the lifetime income protection, and their competitive edge could be weakened in low interest and high life expectancy environment.

We suggest that life annuity option need to reflect variety consumer's needs such as maintaining living standard, flexibility to cash, pursuit of profits. To achieve this objective, Korea life insurance company need to develop variety cost of living adjustment annuity product, inflation indexed annuity product, flexible annuity product, ALDA(Advanced Life Deferred Annuity) product, and vitalize variable annuity with GLWB option. Life insurance companies are also required to provide detailed information about life annuity options and the possibility to mix various options to customer.

This report employs the expected present value of the shortfall concept to evaluate new annuity products. The results show that new annuity products serve well for the customers who have various needs than typical annuity products in Korea.