Stochastic Life Annuities
Daniel Dufresne
University of Melbourne, Australia

Abstract: This paper gives analytic approximations for the distribution of a stochastic life annuity. It is assumed that returns follow a geometric Brownian motion. The distribution of the stochastic annuity may be used to answer questions such as "What is the probability that an amount $F$ is sufficient to fund a pension with annual amount $y$ to a pensioner aged $x$?" The main idea is to approximate the future lifetime distribution with a combination of exponentials, and then apply a known formula (due to Y or) related to the integral of geometric Brownian motion. The approximations are very accurate in the cases studied.