

Individual Survivor Fund Account: The Impact of Bequest Motive on Tontine Participation

Tak Wa Ng and Thai Nguyen

Université Laval, École d'Actuariat

Email: tak-wa.ng.1@ulaval.ca; thai.nguyen@act.ulaval.ca

Abstract: We investigate a new model for an individual survivor fund account with a bequest, allowing participants to leave inheritances to their heirs while considering the perspective of individual accounts. This design is examined through the lens of an individual account, addressing optimal investment and bequest proportions. Applying the dynamic programming principle, we derive a closed-form solution for the optimal bequest proportion. Numerical illustrations show that adopting an optimal constant bequest proportion does not lead to a significant loss of utility compared to scenarios with an optimal variable bequest proportion. We explore how the strength of the bequest motive influences tontine participation within our proposed design, providing insights into how individual preferences regarding bequests impact overall engagement in the tontine model.

Keywords and phrases: Tontines, Longevity credit, Survivor funds, Bequest motive, Dynamic programming principle.

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