Mortality in the Nordic countries – Sweden

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Ellinor Forslund
Outline

- Background
- Methodology
- Data
- Results
- Conclusions
The need of a new common mortality investigation

- Legislation
  - IOPR-directive
  - Solvency II
  - IFRS Phase II
- Include mortality trends in life insurance reserves
- Latest common mortality investigation in 1989
M90

- Traditionally, the Makeham formula has been used
  \[ \mu(x) = a + b \cdot 10^{c(x-f)} \]

- Latest, public mortality investigation 1989-1990 resulted in the M90-parameters
  \[ a = 0.001 \]
  \[ b = 0.000012 \]
  \[ c = 0.044 \]
  \[ f = \begin{cases} 6 & \text{females} \\ 0 & \text{males} \end{cases} \]

- “Flip” around age 60
  - Higher mortality in younger ages
  - Lower mortality in older ages
The Lee-Carter model

- Developed by Lee and Carter in 1992
- The method is "extrapolative and makes no effort to incorporate knowledge about medical, behavioral, or social influences on mortality change"

\[ \mu_t(x) = e^{\alpha_x + \kappa(t) \cdot \beta_x} \]
The Lee-carter model - $\alpha_x$

\[ \mu_t(x) = e^{\alpha_x + \kappa(t) \cdot \beta_x} \]

- The average of the logarithm of the force of mortality over the observed period of time
- The general shape of the mortality
The Lee-carter model - $\kappa(t)$

$$\mu_t(x) = e^{\alpha_x + \kappa(t) \cdot \beta_x}$$

- The time trend
The Lee-carter model - $\beta_x$

- The age-specific patterns of the mortality change
- Shows the sensitivity of the logarithm of the force of mortality at age $x$ to the time trend
- The higher value, the higher response of the time trend
Estimating the parameters – Basic concepts

- Exposure
  \[ R_x(t) = \frac{N_{x-1}(t-1) + N_x(t)}{2} \]

- Number of deaths
  \[ D_x(t) \]

- Force of mortality
  \[ \mu_x(t) = \frac{D_x(t)}{R_x(t)} \]

- Assume that the number of deaths are approximately Poisson distributed, i.e.
  \[ D_x(t) \text{ is } Po(R_x(t) \cdot \mu_x(t)) \implies E[D_x(t)] = R_x(t) \cdot \mu_x(t) \]
Estimating the parameters – Maximum Likelihood Method I

• Estimating the parameter vectors

\[ \bar{\alpha} = (\alpha_x, \alpha_{x+1}, \alpha_{x+2}, \alpha_{x+3}, \ldots) \]
\[ \bar{\kappa} = (\kappa(t), \kappa(t + 1), \kappa(t + 2), \kappa(t + 3), \ldots) \]
\[ \bar{\beta} = (\beta_x, \beta_{x+1}, \beta_{x+2}, \beta_{x+3}, \ldots) \]

• Setting up and maximizing the likelihood sum:

\[ L(\alpha, \kappa, \beta) = \prod_x \prod_t P(D_x(t) = d_x(t)) \]
Estimating the parameters – Maximum Likelihood Method II

- The maximization is done by the following three steps
  - Taking the logarithm of the likelihood sum
  - Taking the derivative of the logarithmed likelihood sum
  - Solving the equation by using a Newton-Raphson method, iterating one term at a time
Estimating the parameters – Iteration

\[ a_{x}^{(v+1)} = a_{x}^{(v)} + h \cdot \frac{\sum_{t} (d_{x}(t) - \lambda_{x}^{(v)}(t))}{\sum_{t} \lambda_{x}^{(v)}(t)} \]

\[ \kappa_{t}^{(v+1)}(t) = \kappa_{t}^{(v)}(t) + h \cdot \frac{\sum_{t} \left[ (d_{x}(t) - \lambda_{x}^{(v)}(t)) \cdot \beta_{x}^{(v)} \right]}{\sum_{t} \left[ \lambda_{x}^{(v)}(t) \cdot \left( \beta_{x}^{(v)} \right)^{2} \right]} \]

\[ \beta_{x}^{(v+1)} = \beta_{x}^{(v)} + h \cdot \frac{\sum_{t} \left[ (d_{x}(t) - \lambda_{x}^{(v)}(t)) \cdot \kappa^{(v)}(t) \right]}{\sum_{t} \left[ \lambda_{x}^{(v)}(t) \cdot \left( \kappa^{(v)}(t) \right)^{2} \right]} \]

\[ \lambda_{x}(t) = E\left[ D_{x}(t) = d_{x}(t) \right] = R_{x}(t) \cdot \mu_{x}(t) = R_{x}(t) \cdot e^{\alpha_{x} + \kappa(t) \cdot \beta_{x}} \]
Estimating the parameters – Contains

- The following constraints are used

\[ \sum_t \kappa(t) = 1 \]
\[ \sum_x b_x = 1 \]

- The constraints are used in each iteration

\[ a'_x = a_x + \frac{1}{n} \sum_t \kappa(t) \]
\[ \kappa'(t) = \sum_x \beta_x \cdot \left( \kappa(t) - \frac{1}{n} \sum_t \kappa(t) \right) \]
\[ \beta'_x = \frac{\beta_x}{\sum_x \beta_x} \]
Trend estimation data

- Long, homogeneous time series need to estimate trends in mortality
- Changes in mortality among insured individuals due to
  - The mortality has actually changed?
  - The characteristics of the insured has changed and therefor also the mortality?
- Only homogeneous time serie available for trend estimation is the mortality of the entire Swedish population
Swedish population data
Insurance data

Number of insured

Voluntarily insured

Number of deceased

Compulsory insured

part of Associations of Swedish Insurers
Classification of insurance data

Swedish population

Female | Male

The insured

Voluntarily insured

Female | Male

Compulsory insured

Female | Male

Insured professional employees

Female | Male
Data specifics

- Both mortality and longevity risks
- Health examination/able-bodied
- Insurance based and not individual based, i.e. individuals can be found in more than one group
Lee-Carter parameters - $\alpha_x$
Lee-Carter parameters - $\kappa(t)$
Lee-Carter parameters - $\beta_x$
Population mortality - by calendar year

![Graph showing population mortality by calendar year with 2007 and 2080 data points.](image)
Population mortality - by birth cohort
Conversion from population to insurance mortality

- Ration between population and insurance force of mortality 2001-2005

\[ k_x^{i,P} = \frac{\mu_x^i}{\mu_x^P} \]

- Smoothing

- The smoothed ratio is applied to the projected population force of mortality 2007-2080

\[ \mu_x^i(t) = k_x^{i,P} \cdot \mu_x(t) \]
Conversion from population to insurance mortality - ratios

Voluntarily insured

Compulsory insured
Expected remaining life time – all ages, voluntarily insured
Expected remaining life time – all ages, compulsory insured
Expected remaining life time – at age 65
Makeham formula

- Makeham formula for each cohort

\[
\mu_x^*(F) = \begin{cases} 
  a + b \cdot 10^{c \cdot x}, & x \leq \omega \\
  \mu_\omega + k \cdot (x - \omega), & x \geq \omega 
\end{cases}
\]

- Manual adjustments for better fit in high and low ages
Cohort Makeham formulas – voluntarily insured
Conclusions

- Expected remaining life time depends on age, sex, year of birth and group of insured
- The later year of birth, the longer expected remaining life time
- Voluntarily insured individuals live longer than compulsory insured individuals born in the same in year
- Makeham is no good approximation at all ages at the same time