A Practitioner’s Guide to Statistical Mortality Graduation
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Abstract

Mathematicians and actuaries have been applying relatively simple mathematical formulae to model mortality since de Moivre in 1725. Some of these “mortality laws” have stood the test of time and even today allow mortality experience to be captured across a wide range of ages. In fact, in the United Kingdom standard mortality tables have long been graduated according to such laws. In this paper, a statistical modelling framework from first principles is outlined that readily permits mortality laws to be fitted to mortality experience data. The dataset underlying the 2014 Canadian Pensioners’ Mortality study (CPM2014) is invoked as a case study relevant to North American actuaries. Parametric mortality laws readily allow risk factors to be incorporated that describe the mortality of different groups within the experience data in an intuitive and precise manner. The practitioner can thus graduate mortality tables from heterogeneous datasets and gain an understanding of the drivers of mortality. The incorporation of risk factors is explored in general, and in particular in the context of reflecting amounts such as pensions-in-pay, annuity payments, policy face amount, or other benefit amounts, which are financially significant. The concepts discussed in this paper permit any actuary concerned with life contingencies to implement a statistical graduation framework in a simple, accessible manner.

1 Introduction

Any mortality basis used in the valuation of employee pensions and other benefit plans or the pricing or reserving of life insurance products is a model. It is a model whether calibrated directly to the experience of the particular group of interest or to that of other relevant populations. A mortality model generally comprises two main components: (1) the current (baseline) mortality, and (2) the improvement trend. This paper is concerned with modelling the former, and its purpose is to provide practitioners access to simple but powerful tools to graduate mortality tables and in the process discover more about the drivers of mortality.

As in any other modelling exercise, the best model for baseline mortality is the simplest that can produce predictions that are sufficiently accurate for the intended application. We therefore need to be able to measure the quality and applicability of the model’s predictions. In addition, the model should be built making as few assumptions about the outcome of the analysis as possible, with the impact of each decision made along the way measured and documented. To ensure that no bias is introduced, the experience data to which the model is fitted should not be adjusted, or any data discarded, without good cause.

In what follows, a framework is built up following these principles. Very few, if any, of the methods are new or original, as the methodology explored is largely the same as that used by the Continuous Mortality Investigation (CMI) in the United Kingdom in the graduation of their standard baseline tables for the past thirty years. The majority of the CMI’s methodology is comprehensively documented in Forfar et al. (1988), with other considerations explored over a number of CMI working papers (CMI WP), some of which are referenced below.

However, despite the prevalence of such statistical models in the United Kingdom, many practitioners in Canada and the United States still gravitate to more traditional, restrictive approaches. The authors believe that the application of statistical concepts to Canadian and American mortality experience will illustrate how statistical methods can improve understanding of mortality.

The main focus of this paper is a method known as graduation by mathematical formula, where rela-
Relatively simple and intuitive formulae with only 2 to 5 parameters are fitted to mortality experience through a statistical model. Figure 1 demonstrates how such a 3-parameter model can capture the shape and level of a standard mortality table that was constructed by “traditional” means, including the use of Whittaker-Henderson smoothing at core ages. The standard table invoked is the lives-weighted version of the RP-2014 table for males from the Society of Actuaries (RPH-2014)\(^2\)

Figure 1: Fitting a 3-Parameter Formula to the RPH-2014 Table for Males

![Graph showing fitting of 3-parameter formula to RPH-2014 table](image)

Clearly, the 3-parameter formula allows for a very simple model that still captures the same information in the 51 rates of RPH-2014 table.

The dataset used for the CPM2014 tables from the Canadian Pensioners Mortality study released in 2014

\(^2\)See SOA (2014). For purposes of this illustration, the Makeham-Perks mortality law found in Table 3 is “fitted” to the logarithm of the graduated RPH-2014 probabilities of death (converted to approximate central rates via \(m_x \approx -\log (1 - q_x)\)) using ordinary least-squares regression with no weightings over the entire 60 to 110 age range. The estimated parameter values, fitting Makeham-Perks directly to \(m_x\), are \(-13.2042\) for the “intercept” (\(\alpha\)), \(0.1269\) for the “slope” (\(\beta\)), and \(-5.1565\) for the “Makeham” parameter (\(c\)). It should be noted that the RP-2014 family of tables were extended to the higher ages with a logistic function (Kannisto) consistent with the Makeham-Perks shape at those same ages, and thus the good fit at higher ages is not itself unexpected.
(see CIA [2014]) will be employed as a case study to illustrate the application of the concepts to be examined below. The grouped data is publicly available and the main subsets of the CPM2014 dataset used in this paper can be found in Appendix A.

All graphs below were created with R (R Core Team [2017]), as was the case for the majority of the statistical modelling. A version of the R code used for most of the modelling is made freely available as Appendix B. Typesetting was done in \LaTeX. References to the logarithm \( \log \) are to be taken to refer to the natural logarithm \( \log_e \) unless otherwise stated.
2  Mortality Experience Data

The data typically available for mortality analysis at a grouped level includes the following:

- Deaths counts at each age $x$ (denoted $d_x$)
- Population exposed-to-risk at each age $x$, or time lived, ideally the central (as opposed to initial) exposure (denoted $E_x$)
- Benefit/policy amounts
- Additional attributes to allow analysis by risk factors, including gender, product, duration since commencement of benefit or policy, coverage (pensioner or surviving spouse, etc.), health status, smoking status where available, geographical and socio-economic information, etc.

For grouped data, the crude experience can be expressed in terms of the central death rate $m_x = \frac{d_x}{E_x}$ if the central exposure is used. The central death rate $m_x$ is closely related to the force of mortality $\mu_x$, and thus models for $m_x$ can be considered to be ones in continuous time. The relationships between the various rates, probabilities, and quantities, as well as other considerations regarding central exposure and the force of mortality, are provided in Appendix C.

It is crucial that the experience be as free of systematic bias as possible. In terms of the basic experience such as the deaths counts and exposure measures, that mainly means ensuring that certain individuals are not systematically excluded, particularly those who died during the observation period. The potential bias introduced into the risk factors can be especially problematic and subtle. For instance, a low pension amount may well indicate low service, such as may be the case for professionals changing employers frequently, as opposed to lower salary. Also, the place of residence (the postal code or ZIP code) may be more likely to be missing for deceased individuals than for survivors.

Addressing potential bias in the experience data is particularly important in relation to risk differentiators as the mortality differentials between various risk groupings are rarely proportional across all ages. The impact of nearly every risk differential lessens over age. For example, consider the central death rates $m_x$ for males and females in Canada in 2011 that are provided in Figure 2.

The difference between the two sexes lessens over age. As age is too vital a factor to ignore, we must account for the age shape of the impact of a risk factor. In this case, gender and age can either be modelled separately by splitting the experience data into separate parts for males and females (stratified) or modelled simultaneously using a multivariate approach. Otherwise, any conclusions drawn from the resulting model will be systematically flawed. The age structure across risk factors is one of the key motivations for developing a statistical modelling framework for mortality graduation.

---

3 Central exposure is often denoted $E^c_x$ to distinguish it from initial exposure. The superscript will generally be excluded in this paper, but references to $E_x$ should be taken to mean the central exposure unless stated otherwise.

4 Note that the crude experience would be modelled through the probability of death $q_x$ if the initial exposure was instead used.

5 Source: [CHMD] 2014
Figure 2: Crude Male and Female Mortality for Canadians in 2011
3 Introduction to Graduation

The main example in this and subsequent sections draws upon the male CPM2014 dataset, on a lives basis with no further stratification (i.e., across both public and private sectors and any of the other risk factors available). The crude central deaths rates \( m_x \) for ages 50 through 100 are provided as Figure 3.

The crude central deaths rates \( m_x \) for ages 50 through 100 are provided as Figure 3.

Figure 3: Crude Central Mortality Rates under the CPM2014 Dataset on a Lives Basis

The crude experience appears best behaved between ages 55 and 95, so analysis will be restricted to that range. To start, we fit the simple model

\[
m_x = e^{\alpha + \beta x}
\]

where \( \alpha \) is the “intercept” and \( \beta \) the “slope” by age. The data available with respect to the CPM2014 dataset was tabulated on an age nearest birthday (ANB) basis and only the initial exposure is available. For purposes of this paper, the age definition is effectively ignored, and the central exposure estimated from the initial exposure and deaths according to equation (C.4).
Figure 4: Crude Central Mortality Rates under the CPM2014 Dataset on Logarithmic Scale

linear model by least-squares regression without any weightings, which results in \( \log(m_x) = -11.6253 + 0.1102x \), as provided in Figure 5.

Even though it is a very simple model, the straight line appears to fit reasonably well. So, for this set of crude mortality experience, we appear to have a workable model. However, there is a major drawback to the least-squares approach; no allowance has been made for the fact that greater statistical credibility applies to those ages with a larger death count and more exposure.

As the aim is to push the limits of mortality analysis and find methods to measure the reliability of our results, the following sections will generalize the modelling beyond simple linear regression and introduce a fully developed statistical framework.

\[^{7}\text{In this case, minimizing the following function with respect to the parameters } \alpha \text{ and } (\beta): \sum_x \left[ \log \left( \frac{d_x}{E_x} \right) - (\alpha + \beta x) \right]^2 \]
Figure 5: Unweighted Linear Regression Applied to CPM2014 Dataset
4 A Statistical Approach to Graduation

In the preceding section, the least-squares linear regression was unweighted. However, conceptually it would make sense to place more weight on ages where more experience is available. Critically, with unweighted least-squares the variance of the mortality process is assumed to be constant across all ages (homoscedasticity), which is not realistic as there will be different levels of deaths and exposures at each age, each suggesting a different variance.

To allow for differing variances by age and achieve a more appropriate fit, the least-squares regression could be modified to weight the squared differences at each age. In a least-squares context, such a weight would ideally be greatest where the variance of the quantity under measurement is smallest, which can be achieved by using a function of exposures or observed deaths. Another approach is to determine natural weightings following from an assumption regarding the distribution of deaths at a given age, which is developed in what follows.

The random variable of interest is that for the deaths count at each age, which we will denote $D_x$. So long as the lives are independent over an age $x$, we can assume that the deaths count at each age is Poisson-distributed, where the expected value (and variance) in terms of the estimator of $m_x$, $\hat{m}_x$, is $\lambda = E_x\hat{m}_x$.

$$D_x \sim \text{Poisson} (E_x \hat{m}_x) \tag{1}$$

Under the Poisson assumption, the probability mass function with expected value $\lambda$ is as follows:

$$\Pr (K = k) = e^{-\lambda} \frac{\lambda^k}{k!} \tag{2}$$

The above holds for each age $x$. Therefore, if we can assume that the observed deaths counts are independent, multiplying the probability for observing the age-specific deaths count for each age yields the (conditional) likelihood function, where $\hat{m}_x (\theta)$ is a function of parameters $\theta$:

$$L (\theta) \propto \prod_x e^{-E_x \hat{m}_x (\theta)} \frac{(E_x \hat{m}_x (\theta))^{d_x}}{d_x!} \tag{3}$$

To obtain the optimal estimates of the parameters $\theta$ given the observations and model form, we determine the parameter set that maximizes the value of the above likelihood function, i.e., maximum likelihood estimation (MLE). Maximizing generally entails taking derivatives, and as the sum rule for derivatives is much simpler than the product rule, it is almost always more straightforward to maximize the log-likelihood function:

$$l (\theta) = \sum_x \left[ -E_x \hat{m}_x (\theta) + d_x \log (E_x \hat{m}_x (\theta)) - \log (d_x!) \right] \tag{4}$$

8 Also see Forfar et al. [1988] for discussion of some additional considerations. There are a number of situations where the basic Poisson model may potentially be insufficient, particularly when the variance of $D_x$ is greater than the mean, which violates the Poisson assumption. Refer to Appendix C for a brief discussion of how to handle such overdispersion.

9 In this paper, $m_x$ is effectively a convenient shorthand for $\mu_x + \frac{1}{2}$. Alternatively, the ratio $m_x = \frac{d_x}{E_x}$ could be assumed to refer to the integrated hazard: $\int_0^1 \mu_{x+t} \, dt$. Refer to Appendix C for additional details.

10 Since the logarithm is a strictly monotonic function, the set of parameters that maximizes the log-likelihood also maximizes the likelihood function itself.
The above can be simplified even further, as \( d_x \) does not depend on \( \hat{m}_x \) and disappears when you take the derivative, and the \( \log (E_x \hat{m}_x (\theta)) \) can be replaced by \( \log (\hat{m}_x (\theta)) \) for the same reason.\(^{11}\)

The Poisson assumption automatically weights based on how much experience is available at each age of observation and allows the variance to vary across the age range, which is a distinct improvement over the simple least squares approach.

We continue to use the simple log-linear model for \( m_x \) and estimate the parameters by maximizing equation (4). The resulting death rates are shown in Figure 6 and the corresponding deviance residuals in Figure 7. Deviance residuals represent the deviations between the observed and modelled deaths.\(^{12}\) If the residuals are randomly distributed according to a standard normal distribution, the residuals will be randomly scattered about zero, with only 1-in-20 falling outside \( \pm 1.96 \).

The deviance residuals in Figure 7 appear to be fairly random. Any clear patterns would imply that a more complex model is necessary to capture the information not explained by our model. However, for the case at hand this does not appear necessary, and so the simple log-linear model already provides a good fit.

Beyond visual inspection of the fit and residuals, operating under a statistical framework permits us to apply statistical tests, such as:

- **Pearson’s \( \chi^2 \) Test**: A goodness-of-fit test with the test statistic\(^{13}\) assumed to follow a \( \chi^2 \) distribution with degrees of freedom equal to the number of observations (number of ages in our case) less the number of parameters.
- **Sign Test**: Residuals should be equally likely to be above or below zero. The sign test involves calculating the probability that the observed split between positive and negative residuals follows a binomial distribution. If that probability is low, say below 0.05 or 0.10, then the residuals potentially would be considered to be insufficiently random.
- **Runs Test**: Involves calculating the probability of observing a number of runs of positive or negative residuals given the counts of positive and negative residuals. If the resulting probability of observing a particular number of runs or fewer in the residuals is quite low (suggesting the presence of too few runs) or high (suggesting too many runs), the randomness of the residuals might be called into question.
- **Information Criteria**: As mentioned in the introduction, our aim is to retain the simplest possible model that captures the optimal amount of information from the experience and provides us with reliable predictions. One measure of “simplicity” is the number of parameters within a model. For

---

\(^{11}\)In this paper, the “full” log-likelihood function defined by equation (4) is employed as it is generally more conveniently scaled, and introduces no computational issues. However, the simplified log-likelihood function, which is given by \( l (\theta) \propto \sum [-E_x \hat{m}_x (\theta) + d_x \log (\hat{m}_x (\theta))] \) is sufficient in most cases, and also is equivalent to assuming a constant force of mortality within individual ages \( x \), as illustrated in Forfar et al. (1988).

\(^{12}\) Under the Poisson assumption, with \( d_x \) the observed deaths and \( f_x \) the deaths fitted under the model at a given age, the deviance residual at that age is calculated as follows, with 0 \( \log (0) \) taken to be zero:

\[
\text{sign} (d_x - f_x) \sqrt{2 \left( d_x \log \left( \frac{d_x}{f_x} \right) - (d_x - f_x) \right)}
\]

\(^{13}\)\( \chi^2 = \sum \frac{(d_x - f_x)^2}{f_x} \), where \( d_x \) are the observed deaths (assumed to be independent of each other) and \( f_x \) the deaths expected (fitted) under the model.
instance, a mortality table from ages 55 to 95 years based on the crude death rates themselves would consist of 41 parameters, one for each age. Our log-linear model, which appears to capture all the same information, requires only two parameters. Thus, the simple straight line “wins” easily.

A more general way of quantifying the preference for simple models with the fewest parameters (i.e., parsimonious models), is to balance the goodness-of-fit as expressed through the log-likelihood with the number of parameters in the model. That is precisely what various information criteria do:

- **Akaike’s Information Criterion (AIC):** 
  \[-2l + 2K\]
  where \(l\) is the maximum of the log-likelihood under the model and \(K\) is the number of parameters.

- **Bayesian Information Criterion (BIC):** 
  \[-2l + \log(N)K\]
  where \(l\) and \(K\) are as above and \(N\) is the number of observations (number of ages in our context).

With both the AIC and BIC, the lower the score, the better the relative fit of the model, balanced against the number of parameters. The BIC penalizes complex models to a greater degree than the AIC so long...
as there are more than seven observations.

Table 1 provides the values for the above measures and tests for the linear models. The Poisson-based model yields a much higher p-value under the $\chi^2$ test and a non-significant one under the runs test, suggesting a better fit.

The significance legend herein is the same as used by R Core Team (2017) (*** for 0.1%, ** for 1%, * for 5%, and · for 10%).

It is important to ensure that extraneous parameters are not included in the models to avoid overfitting or misleading conclusions. The AIC, BIC, and similar criteria help greatly in that respect, but at the same time we have to ensure that each individual parameter estimate is statistically significant, which means we have not just fitted to random fluctuations. That can be determined by calculating the standard errors for the parameters, calculating the two-way Z statistic and determining the resulting p-values. The relevant quantities with respect to the log-linear model under the Poisson distribution assumption are provided in Table 2. Unsurprisingly, both parameters are found to be highly significant.

But what happens if the simple straight line does not capture all the information? The following section
Table 1: Model Fit under Log-Linear Modelling

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Log-Linear Least-Squares</th>
<th>Log-Linear Poisson Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept (log scale)</td>
<td>−11.6253</td>
<td>−11.7109</td>
</tr>
<tr>
<td>Slope (log scale)</td>
<td>0.1102</td>
<td>0.1113</td>
</tr>
<tr>
<td>Log-Likelihood</td>
<td>−204.60</td>
<td></td>
</tr>
<tr>
<td>AIC</td>
<td>413.20</td>
<td></td>
</tr>
<tr>
<td>BIC</td>
<td>416.63</td>
<td></td>
</tr>
<tr>
<td>$\chi^2$ Statistic</td>
<td>51.39</td>
<td>44.99</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>$\chi^2$ p-value</td>
<td>0.0885</td>
<td>0.2355</td>
</tr>
<tr>
<td>$\chi^2$ Significance</td>
<td>·</td>
<td>not significant</td>
</tr>
<tr>
<td>Positive Residuals</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Negative Residuals</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Sign Test p-value</td>
<td>0.5000</td>
<td>0.5000</td>
</tr>
<tr>
<td>Signs Test Significance</td>
<td>not significant</td>
<td>not significant</td>
</tr>
<tr>
<td>Runs</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Runs Test p-value</td>
<td>0.0130</td>
<td>0.3789</td>
</tr>
<tr>
<td>Runs Test Significance</td>
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<td>not significant</td>
</tr>
</tbody>
</table>

Table 2: Parameters under Log-Linear Poisson Model

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Estimate</th>
<th>Standard Error</th>
<th>Z</th>
<th>p-value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept ($\alpha$)</td>
<td>−11.7109</td>
<td>0.0377</td>
<td>−310.61</td>
<td>0</td>
<td>* * *</td>
</tr>
<tr>
<td>Slope ($\beta$)</td>
<td>0.1113</td>
<td>0.0005</td>
<td>235.51</td>
<td>0</td>
<td>* * *</td>
</tr>
</tbody>
</table>

will generalize the form of $\mu_x$ or $m_x$ beyond a log-linear model.
5 Generalizing the Functional Form

As illustrated in the two preceding sections, a log-linear form already fits the experience of Canadian male pensioners. However, there are many situations where a more complex age shape is warranted, and we may even be able to do better than the log-linear form for the dataset at hand. It is important to get the general age shape right before including parameters to describe additional risk factors. As age is such an important risk factor, any systematic bias that might be present if the age shape is not captured accurately will confound the impact of other risk factors.

The log-linear form explored above assumes that mortality increases at an exponential rate with age. That assumption is equivalent to the mortality law put forth in Gompertz (1825):

\[ \mu_x = e^{\alpha + \beta x} \]  

(5)

The mortality laws explored in this paper are properly expressed directly in terms of the force of mortality \( \mu_x \). However, for simplicity we are applying the relevant law to \( m_x \) instead. The results would not have been materially different had an approach applying the relevant law to \( \mu_x \) had been employed. Refer to Appendix C for details on how \( \mu_x \) and \( m_x \) relate.

Makeham (1860) and Makeham (1867) describe an extension to Gompertz’ law that involves adding a positive constant to better capture mid-age mortality:

\[ \mu_x = e^\epsilon + e^{\alpha + \beta x} \]

(6)

In Perks (1932), a logistic extension to Makeham’s law is first presented, with a very insightful heterogeneity/frailty argument for the resulting form conceived subsequently in Beard (1959). This quite general mortality law is referred to as “Makeham-Beard” in Richards (2012) and in what follows, and is described by the intercept and slope parameters \( \alpha \) and \( \beta \), the “Makeham” parameter \( \epsilon \), and the “Beard” parameter \( \rho \):

\[ \mu_x = \frac{e^\epsilon + e^{\alpha + \beta x}}{1 + e^{\alpha + \rho + \beta x}} \]

(7)

In Richards (2012), the key mortality laws employed are Gompertz, Makeham, and the simplifications of the Makeham-Beard law where \( \rho = 0 \) (the “Makeham-Perks” law), \( \epsilon \to -\infty \) (the “Beard” law), and where \( \rho = 0 \) and \( \epsilon \to -\infty \) (the “Perks” law). A comparison of the force of mortality \( \mu_x \) under certain laws from Richards (2012) is given in Figure 8, where in the relevant laws \( \alpha = -12, \beta = 0.12, \epsilon = -6 \), and the Beard parameter \( \rho \) set to 1 or \(-1\) as indicated.

The laws shown in Figure 8 are particularly well-behaved and suitable for extrapolation to the higher and lower ages. However, if the practitioner suspects further structure in the mortality experience data, it is possible to generalize by replacing the additive Makeham constant and Gompertz linear form with higher-order polynomials, described in Forfar et al. (1988) as the generalized Gompertz-Makeham family of laws \( GM(r, s) \). 

\(^{14}\)Gompertz’ original, equivalent expression was more similar to \( \mu_x = Bc^x \), with \( B \) and \( c \) being positive constants. We adopt the convention in Richards (2012) where when a parameter \( \theta \) must be positive, \( e^{\theta'} = \theta \) is used instead. That aids in fitting the parameters as they are then free to vary over the entire real line and need not be explicitly constrained. It is also convenient, where possible, to have the parameters on a logarithmic scale.

\(^{15}\)See Appendix E for details on how the \( GM(r, s) \) family is generally fit in practice, which includes fitting to a polynomial function of a transformation of \( x \) as opposed to \( x^k \) directly.

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Figure 8: Comparison of Main Mortality Laws under Richards (2012)

\[ \mu_x = GM(r, s) = \sum_{i=0}^{r-1} a_i x^i + e^{s \sum_{j=0}^{s-1} b_j x^j} \]  

Note that the Gompertz law under Richards (2012) is equivalent to a \( GM(0, 2) \), and the Makeham law is equivalent to a \( GM(1, 2) \). Additionally, Makeham’s second law described in Makeham (1890) is the same as a \( GM(2, 2) \). Table 3 summarizes the various laws.

The CMI has utilized some form of the \( GM(r, s) \) family in the graduation of mortality tables over key ages for many years. The most recent standard tables constructed from the experience of employer-sponsored pension plans in the United Kingdom (the “S2” Series) mainly relied upon \( GM(1, 3) \) or \( GM(0, 4) \) forms (see CMI WP 071 (2014)). The most recent annuitant standard tables (the “08” Series) opted for simpler forms, effectively \( GM(0, 3) \), \( GM(0, 4) \), or \( GM(0, 5) \), as found in CMI WP 078 (2015). In all cases, relatively few parameters are involved.
Table 3: Selected Mortality Laws

<table>
<thead>
<tr>
<th>Richards (2012)</th>
<th>$GM(r, s)$</th>
<th>Force of Mortality $\mu_x$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gompertz</td>
<td>$GM(0, 2)$</td>
<td>$e^{\alpha + \beta x}$</td>
</tr>
<tr>
<td>Makeham</td>
<td>$GM(1, 2)$</td>
<td>$e^\alpha + e^{\alpha + \beta x}$</td>
</tr>
<tr>
<td>Perks</td>
<td></td>
<td>$\frac{e^{\alpha + \beta x}}{1 + e^{\alpha + \beta x}}$</td>
</tr>
<tr>
<td>Beard</td>
<td></td>
<td>$\frac{e^\alpha}{1 + e^{\alpha + \beta x}}$</td>
</tr>
<tr>
<td>Makeham-Perks</td>
<td></td>
<td>$\frac{e^{\alpha + \beta x}}{1 + e^{\alpha + \beta x}}$</td>
</tr>
<tr>
<td>Makeham-Beard</td>
<td></td>
<td>$\frac{e^\alpha}{1 + e^{\alpha + \beta + \rho x}}$</td>
</tr>
</tbody>
</table>

$GM(r, s) = \sum_{i=0}^{r-1} a_i x^i + e^{\sum_{j=0}^{s-1} b_j x^j}$

In North America, while graduations based on Makeham's original laws were once common, graduation by mathematical formula has fallen out of favour. One relatively recent example is found in Panjer and Tan (1995) for Canadian insured mortality for the period from 1986 to 1992. Makeham's second law (i.e., a $GM(2, 2)$) is invoked to graduate the experience over ages 40 to 99 for males and 44 to 99 for females. However, the fit is made using least-squares regression weighted with the exposure at the relevant age as opposed to maximum likelihood estimation.

Continuing the North American perspective, Chan and Panjer (1979) describe a method of employing maximum likelihood estimation to graduate mortality according to laws such as Gompertz and Makeham. The Poisson assumption is not invoked, as the paper focuses on building the likelihood function up from the level of the individual. As shown in Forfar et al. (1988), maximizing the likelihood function developed for grouped data in that paper results in equivalent parameterizations to maximizing the Poisson likelihood. Tenenbein and Vanderhoof (1980) suggest that there are many advantages of working with mathematical models of mortality and presents some extensions of Gompertz and Makeham.

To determine whether one of the model forms in Table 3 may perform better than the Gompertz model that we have already examined, we fit each law one-by-one, and find values of the AIC and BIC. The results are tabulated in Table 4.

There is not much to separate the “top” models, but the 4-parameter $GM(1, 3)$ slightly edges out the others under both measures. The parameter estimates under the $GM(1, 3)$ model (as provided through equation (8)) are provided in Table 5 along with the standard errors, the Z score, the p-value, and the significance.

The fit and residuals are not shown as there is little change from that of the Gompertz. However, given that the $GM(1, 3)$ does appear to result in a slightly better-fitting model with parameter estimates all significant, we can consider it as the final model for fitting the CPM2014 male dataset on a lives basis.

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Table 4: Measures of Model Fit for Males in the CPM2014 Dataset under Various Laws

<table>
<thead>
<tr>
<th>Law</th>
<th>Parameters</th>
<th>AIC</th>
<th>BIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gompertz / GM (0, 2)</td>
<td>2</td>
<td>413.20</td>
<td>416.63</td>
</tr>
<tr>
<td>Makeham / GM (1, 2)</td>
<td>3</td>
<td>415.03</td>
<td>420.17</td>
</tr>
<tr>
<td>Perks</td>
<td>2</td>
<td>453.30</td>
<td>456.73</td>
</tr>
<tr>
<td>Beard</td>
<td>3</td>
<td>412.40</td>
<td>417.54</td>
</tr>
<tr>
<td>Makeham-Perks</td>
<td>3</td>
<td>411.64</td>
<td>416.78</td>
</tr>
<tr>
<td>Makeham-Beard</td>
<td>4</td>
<td>407.47</td>
<td>414.32</td>
</tr>
<tr>
<td>GM (0, 3)</td>
<td>3</td>
<td>414.62</td>
<td>419.76</td>
</tr>
<tr>
<td>GM (0, 4)</td>
<td>4</td>
<td>407.86</td>
<td>414.72</td>
</tr>
<tr>
<td>GM (0, 5)</td>
<td>5</td>
<td>409.65</td>
<td>418.21</td>
</tr>
<tr>
<td>GM (1, 3)</td>
<td>4</td>
<td>407.34</td>
<td>414.20</td>
</tr>
<tr>
<td>GM (1, 4)</td>
<td>5</td>
<td>409.34</td>
<td>417.91</td>
</tr>
<tr>
<td>GM (2, 2)</td>
<td>4</td>
<td>407.61</td>
<td>414.47</td>
</tr>
<tr>
<td>GM (2, 3)</td>
<td>5</td>
<td>409.23</td>
<td>417.80</td>
</tr>
</tbody>
</table>

Table 5: Parameters under GM (1, 3) Model for CPM2014 Males

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Estimate</th>
<th>Standard Error</th>
<th>Z</th>
<th>p-value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$a_0$</td>
<td>0.001440</td>
<td>0.000412</td>
<td>3.4944</td>
<td>4.7506e−04</td>
<td>***</td>
</tr>
<tr>
<td>$b_0$</td>
<td>−4.474429</td>
<td>0.172141</td>
<td>−25.9928</td>
<td>0</td>
<td>***</td>
</tr>
<tr>
<td>$b_1$</td>
<td>6.129081</td>
<td>0.173795</td>
<td>35.2662</td>
<td>0</td>
<td>***</td>
</tr>
<tr>
<td>$b_2$</td>
<td>−0.466494</td>
<td>0.146658</td>
<td>−3.1808</td>
<td>1.4686e−03</td>
<td>**</td>
</tr>
</tbody>
</table>

It should be noted that logistic formulae tend to become the better fitting models at higher ages and this is especially so if the underlying population is particularly heterogeneous. To illustrate, we can invoke the frailty arguments explored in [Beard (1959)] and [Richards (2008)]. Assume three risk groups are represented in the population, the mortality for each being captured through Makeham’s law with $\beta = 0.13$ and $\epsilon = -5$, and with the “intercept” $\alpha$ being $-12$, $-13$, and $-14$ for the high, middle, and low mortality groups, respectively. Now, we simulate a process where 50,000 individuals commence a benefit or policy at exact age 50 at the
beginning of each year, where 15,000 (30%), 27,500 (55%), and 7,500 (15%) are assumed to fall within the high, middle, and low mortality groups, respectively. For each individual the remaining lifetime is simulated directly using the cumulative distribution function, as described in Richards (2012). The simulated experience in the 61st year of this process in then tabulated and treated as “crude experience” in Figure 9.

Figure 9: Illustration of the Frailty Argument

The simulated experience resulting from combining the three risk groups is clearly not well explained by any of the Makeham laws. In fact, the best fitting model is a Makeham-Beard (with parameters for the force of mortality $\mu_x$ of $\alpha = -12.0251$, $\beta = 0.1213$, $\epsilon = -5.0800$, and $\rho = 0.7588$ with the particular set of simulated data). This is a basic illustration of the frailty argument for the Beard parameter. Effectively, with advancing age the survivors tend more and more towards lower mortality groups, creating the Beard shape.\[16\]

\[16\]The frailty result is developed mathematically in Richards (2008), where it is demonstrated that a Makeham-Beard form at the population level is obtained in a scenario where the underlying individuals’ mortality patterns follow a Makeham form where $e^{\alpha x}$ is drawn from a gamma distribution.
The illustrative simulation described above provides a useful intuition for the Beard parameter and shape. A positive value of the Beard parameter thus can be directly associated with heterogeneity within a pool of mortality experience data. In some applications, it will not be possible to identify the different risk groups that are contributing different mortality patterns to the overall experience, such as the study of population level mortality or aggregated within an industry experience study. However, in instances where the practitioner has access to additional information on the lives in question and where it is possible to model the different risk classes within the overall model, this will be preferable to the aggregate model with the accompanying heterogeneity. Using an aggregate model without accounting for the heterogeneity always introduces distribution risk, i.e. the risk that the distribution of the group being modelled is different from the group which supplied the experience data. In addition, capturing the shape of the heterogeneous experience may require a complex functional form, if a suitable one can be found at all. Incorporating differentials into the model or stratifying the dataset according to key risk classes will often allow a simpler underlying structure to be employed. Section 8 introduces risk factors in the context of our case study.
6 Extension to Higher & Lower Ages

It is often necessary to extend the graduated rates to older and younger ages where there is insufficient experience. Extending mortality rates to higher ages is especially important for annuitant and pensioner tables. Methods for extending the tables to higher ages include the logistic extension, akin to the Perks or Beard laws in Table 3, a polynomial extension (usually cubic), or to gradually converge towards a population table. Along a different vein, Li et al. (2008) applies extreme value theory to model mortality at the highest ages.

CMI WP 085 (2015) and CMI WP 100 (2017) provide an excellent overview of the various approaches available for extension to higher ages, including a summary of which approaches have been used in standard tables in the UK, the United States, and Canada. Those working papers also provide a summary of recent research into mortality patterns at high ages. Both are publicly and freely available.

Ages below those at which there is ample experience can actually pose even greater problems than the ages above. In some cases, it may not make sense to extrapolate to younger ages as the younger age mortality applies to a different population. For example, pensioner mortality rates in the 50s and early 60s only capture the portion of the pension plan’s membership who have retired. The portion still in active service are likely to be in better health than their counterparts who have already retired. Therefore, extending the mortality rates to the younger ages based solely on the experience of retired members may not be appropriate. In such a situation, a separate mortality table would ideally be graduated for the active members, as was the case for the RP-2014 tables. The large differences between the active and healthy annuitant (approximate) central mortality rates under the lives-weighted versions of the RP-2014 tables for males (i.e., RPH-2014) are illustrated under Figure 10.

If the rates are to be extended to the lower ages, some version of Makeham’s law (or a \( GM(r, s) \) law), or otherwise some form of polynomial, will likely prove satisfactory in many situations. For instance, extensions using \( GM(r, s) \) forms were adopted for the “S2” series of pensioner tables in the UK (see CMI WP 071 (2014)).

One of the advantages of graduating mortality tables by mathematical formula is that certain laws such as Makeham-Perks or Makeham-Beard in Table 3 automatically extend to both younger and higher ages in a manner consistent with the underlying experience (assuming that the populations to which the extended rates will be applied are consistent with the population included in the graduation). For example, the Makeham-Perks law can be applied to the lives-based (unweighted) CPM2014 dataset for males explored above across the 55 to 95 age range and the resulting function allowed to naturally extend over the 50 to 110 range. The fit of the Makeham-Perks law over 55 to 95 is good, and provides for a particularly clean and smooth extension.

The fit and extension is provided in Figure 11 with the parameters estimated as \( \alpha = -12.6846 \), \( \beta = 0.1242 \), and \( \epsilon = -6.6287 \). The 97.5\(^{th}\) and 2.5\(^{th}\) percentiles (i.e., the higher and lower bounds of the 95% confidence intervals) for the central mortality rates at each age based on the raw data are also provided for context. The fit appears more than adequate at all ages, including the extensions at the lower and higher ages, and thus the Makeham-Perks model could be considered as an alternative to the \( GM(1, 3) \) model.

\(^{17}\)See SOA 2014

\(^{18}\)The percentiles are calculated directly, by determining the corresponding percentile from the inverse of the Poisson cumulative distribution function for the deaths count. The mean of the Poisson is equal to the observed deaths (the \( d_x \) for that age), and the result is then divided by the exposure \( E_x \) at the age.
selected above where simple, reasonable extensions are desired.

A disadvantage of employing $GM(r, s)$ forms involving higher-order (i.e., greater than first degree) polynomials is that extrapolations outside the age range graduated are generally poorly behaved. Thus, when such higher-order polynomials are invoked, extensions must be made in subsequent steps following graduation.
Figure 11: Graduation and Extension of CPM2014 Male Experience Using Makeham-Perks

![Graph showing graduation and extension of CPM2014 male experience using Makeham-Perks](image)
7 Smoothing through P-splines and Similar

The mortality laws discussed above are indeed very flexible and powerful, but there may be instances where the practitioner desires even greater flexibility. There are many smoothing techniques available. One which has become very popular in actuarial applications uses B-splines (basis splines) with difference penalties, referred to as P-splines. P-splines were introduced by Eilers and Marx (1996) and were extended to modelling two-dimensional mortality data by Currie et al. (2004). The basic concept is to carry out a regression to generate a smooth function by “splicing together” piecewise polynomials at certain intervals, with the meeting points called knots.

We can find an expression for $\log(\mu_x)$ using B-splines $B_i(x)$ with coefficients $\theta_i$ as follows:

$$log(\mu_x) = \sum_{i=1}^{s} \theta_i B_i(x) \quad (9)$$

The number of splines required ($s$) is determined by the knot-spacing chosen and the age range under consideration. The B-splines $B_i(x)$ are usually piecewise cubic polynomials.

By adding a penalty function to the log-likelihood we can force the splines into a chosen level of smoothness. That penalty function can be defined in terms of finite differences of order $N$ with respect to the coefficients $\theta_i$ as:

$$P(\theta) = \sum_{i=1}^{s-N} (\Delta^N \theta_i)^2$$

$$= \sum_{i=1}^{s-N} \left( \sum_{j=0}^{N} \binom{N}{j} (-1)^{N-j} \theta_{i+j} \right)^2 \quad (10)$$

For example, with the common choice of finite differences of order two ($N = 2$) the penalty function takes this form:

$$P(\theta) = (\theta_1 - 2\theta_2 + \theta_3)^2 + ... + (\theta_{s-2} - 2\theta_{s-1} + \theta_s)^2$$

The penalized log-likelihood function in terms of $\theta$ can then be expressed by a base log-likelihood function $l(\theta)$ (say as determined under equation (4)) and a smoothing parameter $\lambda$:

$$l_\lambda(\theta) = l(\theta) - \frac{1}{2} \lambda P(\theta) \quad (11)$$

The system of B-splines returned by maximizing equation (11) is referred to as a penalized B-spline, or a P-spline. The $\lambda$ parameter can be selected arbitrarily or with reference to a measure that balances the absolute log-likelihood with the effective number of parameters in the model such as the AIC or BIC.

With P-splines, the key modelling decisions are with respect to the knot-spacing, the finite difference order, and the smoothing parameter $\lambda$.

---

19 In this paper, the knots are constrained to be equidistant apart, which simplifies the required calculations. However, the knot spacing need not be equidistant. Early work involving applying splines to mortality experience focused on attempts to determine the optimal number of splines and corresponding spacing, which the use of P-splines effectively circumvents at the cost of the introduction of the penalty term to the log-likelihood function.

20 Note that by introducing the penalty function, we are reducing the degrees of freedom. This means that the greater the penalty, the lower the “effective” number of parameters.
The mortality (whether the $q_x$, $m_x$, or a logarithm of either) can also be fitted using a “mechanical” method that precedes modern statistics that is usually referred to as Whittaker-Henderson. This method of graduation was first presented in Whittaker [1923]. Retaining much of the parameterization above, the Whittaker-Henderson smoothing of the crude values $y_x$ (whether those be $m_x$, the $q_x$, or other) over $k$ ages, subject to smoothing parameter $\lambda$, optional weights $w_x$, and finite difference order $N$, are those $\theta_x$ that minimize the following expression:

$$
\sum_{x=1}^{k} w_x (y_x - \theta_x)^2 + \lambda \sum_{x=1}^{k-N} (\Delta^N \theta_x)^2
$$

Equation (12) is reminiscent of the penalized log-likelihood function under equation (11). Indeed, as discussed in Currie (2015), if the knot-spacing in a P-spline is set equal to a single year-of-age, the order of the underlying B-splines is set to zero, and the Poisson log-likelihood function replaced with the (potentially weighted) least-squares difference, the Whittaker-Henderson result is equivalent to this special case of P-splines.

Let us compare the graduations obtained through the graduation by the mathematical formula process above to what we would get using other approaches. Figure 12 compares the resulting graduations under three methods for the CPM2014 male dataset with no further stratification on a lives basis:

- **Mathematical Formula**: The $GM(1,3)$ curve developed under Section 5.

- **P-splines**: Modelling $log\ (m_x)$, using equidistant knot spacing of 10 years (requiring seven piecewise cubic B-splines over the 55 to 95 age range), a finite difference order ($N$) of 2 for the penalty function, and a smoothing parameter ($\lambda$) of 350. The value for $\lambda$ was chosen as the approximate value of the smoothing parameter found to minimize the BIC under the implementation employed.

- **Whittaker-Henderson**: This is the method that was used to graduate the published CPM2014 tables. For consistency, we will also model $log\ (m_x)$ over ages 55 to 95 with Whittaker-Henderson. The weights are based on the deaths, with the sum of the weights set equal to 41 (the number of ages), the smoothing parameter ($\lambda$) to 500, and the finite difference order ($N$) to 3.

As can be clearly seen, the three approaches result in nearly identical graduations. However, graduating by mathematical formula results in a model with only 4 parameters, as compared to 7 (physical) parameters for the P-splines and 41 “parameters” (being the 41 graduated $m_x$) under Whittaker-Henderson. The smoothing mechanisms under the P-splines and Whittaker-Henderson significantly decrease the effective dimension (or effective degrees of freedom) of the resulting model, but a model with fewer physical pa-

---

21 The P-splines are fitted using the R package MortalitySmooth [Camarda 2012], using the function Mort1Dsmooth with the ndx parameter (the number of internal knots less one) set equal to 4 in order to achieve 10-year knot spacing over the 40 ages.

22 The Whittaker-Henderson method is solved in R code in terms of crude observations $y$, smoothing parameter $L$, and finite difference order $N$. By setting $\text{Id} = \text{diag}(\text{length}(y))$ as the identity matrix, $D = \text{diff}(\text{Id}, \text{diff} = N)$ the finite differencing matrix, and $W$ the vector of weightings, the smoothed results under Whittaker-Henderson are obtained directly through:

$$
\text{solve}(W \times \text{Id} + L \times \text{crossprod}(D), W \times y)
$$

23 Using deaths as the weight is a reasonable approximation to assuming Poisson-distributed deaths counts.

24 Note that although the P-spline and Whittaker-Henderson approaches have a similar penalty term, under the implementations herein a smoothing parameter $\lambda$ of 500 for Whittaker-Henderson represents a significantly higher degree of smoothing than a $\lambda$ of 500 under the Poisson P-spline framework.

25 See Eilers and Marx [1996] and Currie et al. [2004] for details. For example, the effective dimension of the P-splines fitted here is approximately 3.7, while under the Whittaker-Henderson approach it is about 6.1.

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Figure 12: Graduated CPM2014 Central Mortality Rates for Males under Various Methods

RAMeters with some intuitive interpretations provides considerable benefit when desiring to incorporate risk factors. Those advantages will be introduced in the following section.
8 Reflecting Risk Factors

To this point in the paper, we have limited our modelling to the CPM2014 male-only data on a lives-basis. However, age and gender are not the only risk factors that have an influence on mortality. Therefore, we need to be able to analyze the mortality differentials arising from other key risk factors. In general, it is critical to capture factors that are financially significant, which often will include the benefit amount, e.g. pension, annuity, sum insured, etc. As already discussed with respect to gender, the mortality differential will likely depend on age.

One of the potential risk factors available in the CPM2014 dataset is whether a plan covers the employees of corporations in the “private” or the “public” sector. At least in this dataset, the plans considered “private” are mainly blue-collar, while the “public” plans mainly cover public administration and education employees, meaning that the public sector mortality experience is expected to be lighter than the private sector experience. Figure 13 provides the raw central mortality rates for males in the two sectors on a lives basis, with separate Makeham-Perks (chosen for simplicity) curves fitted over ages 55 to 95 and then extended to the lower and higher ages.

The Makeham-Perks parameters for the private, public, and total graduations are provided in Table 6. In all cases, the three parameters are highly significant.

Table 6: Makeham-Perks Parameters for Male Dataset Split by Sector

<table>
<thead>
<tr>
<th>Dataset</th>
<th>$\alpha$</th>
<th>$\beta$</th>
<th>$\epsilon$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>-12.621360</td>
<td>0.123481</td>
<td>-5.395322</td>
</tr>
<tr>
<td>Public</td>
<td>-13.207571</td>
<td>0.129613</td>
<td>-6.577481</td>
</tr>
<tr>
<td>Total</td>
<td>-12.684571</td>
<td>0.124192</td>
<td>-6.628663</td>
</tr>
</tbody>
</table>

The above is an example of stratification, where we split the experience across various classifications (in this case, we split males into “sectors”) and then model the subgroups independently. However, we could instead attempt to model the experience of the risk groupings simultaneously, with certain parameters shared between the groupings but allowing the others to vary. To illustrate that concept, we turn to the female experience in the CPM2014 dataset, the corresponding raw experience split by sector found in Figure 14.

There is much less experience for females in the private sector than the public, particularly at lower ages. However, the experience across the two sectors does appear to converge well. Fundamentally, we have three choices: (a) we could model the total experience, without any distinction between the sectors, (b) we could stratify the female experience by sector and model the experience completely independently as we did above for the males, (c) or, finally, we could model the experience simultaneously, with certain parameters shared between the sectors and the remainder allowed to vary. In this case, if a Makeham-Perks model is again chosen, we could have the Makeham ($\epsilon$) parameter shared between the female private and public experience with the intercept ($\alpha$) and slope ($\beta$) parameters allowed to vary by sector, or have the intercept and slope shared but with the Makeham parameter varying by sector.

For purposes of this analysis, equation 4 must be modified to allow for the female public and private
experience to be separately considered. The resulting AIC and BIC scores under the four options considered are provided as Table 7.

The 4-parameter approach, where the $\alpha$ and $\beta$ parameters are shared but the $\epsilon$ allowed to vary, results in the lowest AIC and BIC. The resulting parameters are shown in Table 8 where $\epsilon$ is the Makeham parameter for public sector females (the baseline) and $\epsilon + \epsilon_{\text{PRIVATE}}$ that for those in the private sector. The fitted curves and extensions are provided as Figure 15. The interaction between the Makeham parameter and sector captures the apparent non-linear convergence between the public and private sector female mortality.

Similar logic as the above allows us to incorporate any risk factor available in a dataset. One of the most important factors is often the benefit amount applicable to an individual. Incorporating amounts in the analysis is discussed in the following section.

---

$^{26}$Specifically, the log-likelihood function in equation 4 is replaced by $l^{\text{PU}}(\theta^{\text{PU}}) + l^{\text{PR}}(\theta^{\text{PR}})$, where the parameter sets, death counts, and exposures relate to the public sector for $l^{\text{PU}}$ and $\theta^{\text{PU}}$ and the private sector for $l^{\text{PR}}$ and $\theta^{\text{PR}}$. 

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Figure 14: CPM2014 Female Crude Experience across the Private & Public Sectors

![Graph showing log (Central Mortality) vs Age for Crude Private and Crude Public](image)

Table 7: Measures of Model Fit for Female CPM2014 Dataset under Four Options

<table>
<thead>
<tr>
<th>Model</th>
<th>Parameters</th>
<th>AIC</th>
<th>BIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Distinction</td>
<td>3</td>
<td>794.34</td>
<td>801.56</td>
</tr>
<tr>
<td>All Parameters Varied</td>
<td>6</td>
<td>697.26</td>
<td>711.70</td>
</tr>
<tr>
<td>All but Makeham Varied</td>
<td>5</td>
<td>704.09</td>
<td>716.12</td>
</tr>
<tr>
<td>All but Makeham Shared</td>
<td>4</td>
<td>696.51</td>
<td>706.13</td>
</tr>
</tbody>
</table>

It should be noted that models applied to grouped data work well only if a small number of risk factors is considered. Incorporating a wider set of risk factors is possible at the level of the individual. For case studies...
Table 8: Makeham-Perks Parameters for Female Dataset

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Estimate</th>
<th>Standard Error</th>
<th>Z</th>
<th>p-value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\alpha$</td>
<td>$-14.763021$</td>
<td>$0.110190$</td>
<td>$-133.9776$</td>
<td>$0$</td>
<td>***</td>
</tr>
<tr>
<td>$\beta$</td>
<td>$0.142683$</td>
<td>$0.001286$</td>
<td>$110.9788$</td>
<td>$0$</td>
<td>***</td>
</tr>
<tr>
<td>$\epsilon$</td>
<td>$-6.290117$</td>
<td>$0.063950$</td>
<td>$-98.3594$</td>
<td>$0$</td>
<td>***</td>
</tr>
<tr>
<td>$\epsilon$:PRIVATE</td>
<td>$1.033823$</td>
<td>$0.078870$</td>
<td>$13.1079$</td>
<td>$2.9658e^{-39}$</td>
<td>***</td>
</tr>
</tbody>
</table>

Figure 15: Graduation and Extension of CPM2014 Female Rates Split by Sector

of applying similar concepts on an individual basis, the reader is referred to Richards (2008) and Richards et al. (2013).
9 Concerning Amounts

In actuarial practice, the aim of mortality analysis is to quantify the financial impact of death or survivorship. Therefore, the mortality rate for an insured life or the survival probability of an annuitant or pensioner will be multiplied by a sum at risk or benefit amount to calculate the resulting payout of a life insurance policy, annuity, or pension.

In addition to this, a correlation is observed between benefit amount or sum insured and mortality. Mortality often is lighter for those with higher of these amounts, and this skew in the mortality by amounts has direct financial implications. To illustrate the point, the experience across the thirteen amounts bands available within the CPM2014 dataset for males will be analyzed.

We apply a lives-based Makeham-Perks model to the CPM2014 male dataset for ages 65 to 95. This constitutes the expected mortality basis for the actual-to-expected (A/E) ratios across all thirteen pension amount bands as provided under Figure 16 along with the corresponding deviance residuals. The deviance residuals are scaled to reflect the amount of experience available under each band, and can effectively be considered standardized or weighted versions of the A/E ratios.

Figure 16 implies that using the average lives-based mortality rates graduated without accounting for mortality differentials by amounts would lead to an underestimation of mortality for lives with lower than average amounts and an overestimation of mortality for lives with higher than average amounts. Considering a financial application such as life insurance or pensions, the lives with the greater amounts also have a greater financial impact. Therefore, on an amounts-weighted basis, the overall impact of mortality is lower than on a lives-weighted basis; in other words, weighting the mortality rates by sum assured or benefit amount leads to a lower average rate of mortality.

As seen in Figure 17, the simple amounts-weighting shifts the average mortality lower, but does not overcome the bias that the mortality of lives with lower than average amounts will be underestimated and overestimated for lives with higher than average amounts. For short-term applications, such a crude approximation may be sufficient. It must always be top of mind that the best model is always the simplest that manages to do the job. However, there are instances in which it will be necessary to improve upon the model and increase its complexity to make it useful.

Consider pensions for example. As stated above, applying an amounts-weighted mortality assumption will overestimate mortality rates for lives with the greatest pensions. Mortality impacts upon pension liabilities, because these signify the amount released to pay ongoing benefits when a pensioner dies. Fewer deaths than expected will lead to a deficit, which means that applying an average mortality assumption leads to a cross-subsidy between pensioners with lower amounts and those with higher amounts. As more and more pensioners with lower pensions and higher than average mortality rates die, the total pension plan gradually accumulates a growing deficit if the basis is not updated frequently.

Such systematic bias can be avoided by grouping lives with similar mortality rates together and applying these different mortality rates in the liability calculation. As long as each group consists of persons with

---

27 The experience data is not republished herein, but is available at the CPM2014 data tool at [http://www.cia-ica.ca/docs/default-source/2014/214013t5.zip](http://www.cia-ica.ca/docs/default-source/2014/214013t5.zip). As the bridging benefits payable to age 65 are unfortunately included while they are in pay, we restrict our analysis to ages 65 and above (see Appendix G for some related details).

28 Reference can be made to Appendix [E](http://www.cia-ica.ca/docs/default-source/2014/214013t5.zip) for details on how to extend the same statistical framework developed above for lives-based data to amounts-weighted experience, including a continuation of the case study with the CPM2014 dataset illustrating the graduation of the corresponding amounts-weighted data.

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sufficiently similar mortality, which we call a homogeneous group with respect to mortality, the threat of a deficit due to inappropriate mortality assumptions is assuaged.

These considerations also give us a method of determining whether the right groupings have been chosen: so long as the residuals for a particular group appear to be randomly distributed, i.e. the observed rates fluctuate randomly around the estimated mortality rates, the group can be considered homogeneous.

From the residuals under Figure 16, there is little to distinguish the top seven bands (i.e., bands 7 through 13) from each other, and the bottom 4 bands (i.e., bands 1 through 4) also appear to belong together based on their residuals and A/E ratios. Three aggregate bandings will be considered: Band A: bands 1 through 4, Band B: bands 5 and 6, and Band C: bands 7 through 13. The graduations (again using a Makeham-Perks model for males of ages 65 to 95) for the three aggregate bands are shown in Figure 18 on both a lives and an amounts basis. Note that (1) the three bandings each exhibit their own distinct age structure and (2) the

---

29These choices, particularly the decision to keep bands 5 and 6 in a separate group, are just for illustration, and different groupings may be just as or more appropriate.
lives and amounts graduations are close, implying homogeneity within the bands.

Conversely, Figure 17 demonstrates that using only a single group and adjusting the mortality for all lives in the same direction, i.e. by applying an amounts-weighting, introduces bias which may undermine the purpose of the analysis, i.e. to predict the financial outcome of the group’s survivorship. This is one of the most basic instances of model risk, which is unfortunately often ignored.
Figure 18: Central Mortality over Aggregate Amounts Bandings for the CPM2014 Dataset
10 Conclusion

We have seen how mortality experience is well captured through simple parametric laws, and how those laws can be fitted to the experience data using maximum likelihood estimation. The resulting modelling framework allows for a variety of useful statistical tests to quantify how well the model fits the experience data, particularly the deviance residual analysis. These tests reveal whether the graduation was performed correctly and also whether the model can be deemed sufficiently complex or additional investigation is warranted. By their nature, parametric models allow for the incorporation of multiple risk factors, while simultaneously reflecting their age-dependence. An important advantage of parametric models is that their parameter estimates have explanatory value and allow an intuitive interpretation.

Graduation of mortality experience by mathematical formula is a valuable tool for any actuary whose work involves life contingencies. By employing the concepts explored in this paper, hopefully this tool is made more accessible to practitioners.
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Appendix A  Datasets Used as Main Case Study

The data used for purposes of the main case study are based on the original, unaltered dataset reflected in [CIA (2014)].

The datasets for males are provided in Table A.1 and for females in Table A.2. There are separate datasets with the “private sector”, “public sector”, and total experience, both on a lives (unweighted) and amounts (weighted by pensions-in-pay) basis. The data consists of the deaths counts and the initial exposure.

The datasets were extracted from the data summary tool provided publicly by the Canadian Institute of Actuaries in 2014. The data reflected below is not equivalent to that used in the graduations of the tables published in [CIA (2014)]. In particular, the graduations published reflect numerous adjustments to the original datasets. The data summary tool permits direct extraction of the unaltered dataset, with the exception of the application of an adjustment for incurred-but-not-reported (IBNR) deaths described in [CIA (2014)]. For producing the datasets below, that adjustment was backed out, by decreasing the death counts (both on lives and amounts bases) in each individual year of experience by the appropriate factor. That process appears to have been successful, as the death counts on a lives basis decrease slightly and become integers at each age, as opposed to the fractional death counts provided in the direct extracts.

Some additional details and comments regarding the adjustments made to the datasets used in gradu-ating the published CPM2014 tables are found in Appendix G.

The authors of this paper had no part in the collection, validation, or tabulation of the CPM2014 datasets, and therefore cannot speak to the completeness or appropriateness of the corresponding testing, adjustments, exposure calculation, etc. The datasets are merely meant for purposes of illustration only, and as such the information should not necessarily be relied upon for any specific purpose.

Available online at [http://www.cia-ica.ca/docs/default-source/2014/214013t5.zip](http://www.cia-ica.ca/docs/default-source/2014/214013t5.zip)
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<th>Public Sector</th>
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<td>Lives</td>
<td>Total Dataset</td>
<td>Amounts</td>
</tr>
<tr>
<td>------</td>
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<td>---------</td>
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</table>

Table A.2: Female Datasets Invoked as Case Study
Appendix B  Sample R Implementation

Much of the modelling and graphing in this paper was conducted with R code nearly identical to what is provided below. The code is provided in the interest of reproducibility, and for interested parties to further explore the concepts presented in this paper on their own.

What is provided below is simply a sample implementation of how one might approach various items. While care was taken to ensure that the code works as would be expected over a wide variety of scenarios, as it was meant to be a relatively basic implementation there are certain to be situations where the code fails or the result returned not correct. Thus, it should not be relied upon without independent verification.

Where feasible, the results herein were checked against those generated by the group counts module in Longevitas (Longevitas Development Team (2017)) and the CMI graduation software released alongside CMI WP 077 (2015). Any errors remain the responsibility of the authors.

The implementation relies mainly on the standard R packages, with the exceptions of the numerical derivatives package numDeriv (Gilbert and Varadhan (2016) and the package randtests (Caeiro and Mateus (2014) for direct access to a function providing the precise calculation of the p-value under the runs test.

THE CODE IS PROVIDED “AS IS”, WITHOUT WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO THE WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. IN NO EVENT SHALL THE AUTHORS BE LIABLE FOR ANY CLAIM, DAMAGES OR OTHER LIABILITY, WHETHER IN AN ACTION OF CONTRACT, TORT OR OTHERWISE, ARISING FROM, OUT OF OR IN CONNECTION WITH THE SOFTWARE OR THE USE OR OTHER DEALINGS IN THE SOFTWARE.

```r
#Sample implementation of procedure to graduate mortality experience
grouped by age using the Poisson model and certain mortality laws
# REQUIRED PACKAGES
# numDeriv: grad, hessian
# randtests: runs.test
library(numDeriv)
library(randtests)
# CONSTANTS and CONTROL
# If TRUE, model central mortality as m ~ (approx) mu @ x + 0.5
# If FALSE, model central mortality as integrated hazard
MODEL.M <- TRUE
# Initial parameters for fitting laws from Richards (2012)
INIT.ALPHA <- -10
INIT.BETA <- 0.1
INIT.EPSILON <- -10
INIT.RHO <- 0
```
# Initial parameters for fitting Gompertz-Makeham - GM(r,s) - family
33 INIT.B1 <- -5
34 INIT.B2 <- 5
35 INIT.BX <- 0
36 INIT.AX <- 0
37
38 # For controlling optimization and fitting procedures.
39 # Setting the relative tolerance (REL.TOLERANCE) so low may be overkill,
40 # but it assisted in testing and comparing results to other implementations.
41 # Forcing the integrated hazard or central mortality (m) to MINIMUM.MU
42 # is meant to avoid errors being raised when a negative value would be
43 # attempted in the fitting process (which can happen when fitting to a
44 # GM(r,s) formula), but should not have impact on the parameters fitted.
45 OPTIM.METHOD <- "BFGS"
46 GRAD.METHOD <- "Richardson"
47 REL.TOLERANCE <- 1e-20
48 MAX.ITERATIONS <- 1000
49 MINIMUM.MU <- 1e-20
50
51 # HELPER FUNCTIONS FOR GM(r,s) LAWS
52 #
53 # MORTALITY LAW FUNCTIONS
54 # Defined by functions for:
55 # - force of mortality (mu)
56 # - integrated hazard function (int)
57 #
58 # Mortality laws from Richards (2012)
59
60 gompertz.mu <- function(p, x) { exp(p[1] + p[2] * x) }
61 gompertz.int <- function(p, x)
63 gompertz <- list(mu = gompertz.mu, int = gompertz.int)
64
65 makeham.mu <- function(p, x) { exp(p[3]) + exp(p[1] + p[2] * x) }

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makeham.int <- function(p, x)
makeham <- list(mu = makeham.mu, int = makeham.int)

perks.mu <- function(p, x)
perks.int <- function(p, x)
    / (1 + exp(p[1] + p[2] * x))) }
perks <- list(mu = perks.mu, int = perks.int)

beard.int <- function(p, x)
beard <- list(mu = beard.mu, int = beard.int)

makeham.perks.mu <- function(p, x) { (exp(p[3]) + exp(p[1] + p[2] * x)) /
  (1 + exp(p[1] + p[2] * x)) }
makeham.perks.int <- function(p, x)
    / (1 + exp(p[1] + p[2] * x))) }
makeham.perks <- list(mu = makeham.perks.mu, int = makeham.perks.int)

makeham.beard.mu <- function(p, x) { (exp(p[3]) + exp(p[1] + p[2] * x)) /
makeham.beard.int <- function(p, x)
  { exp(p[3]) + ((exp(-p[4]) - exp(p[3]))/p[2]) *
makeham.beard <- list(mu = makeham.beard.mu, int = makeham.beard.int)

########################################################################
# Generalized Gompertz-Makeham Family - GM(r,s)
########################################################################
gmars.mu <- function(p, r, s, x) {
  TX <- (x - 70) / 50
  sum1 <- 0
  if (r != 0) {
    for (i in 1:r) { sum1 <- sum1 + p[i] * cheby(i - 1, TX) }
  }
  sum2 <- 0
  if (s != 0) {
    for (j in 1:s) { sum2 <- sum2 + p[j + r] * cheby(j - 1, TX) }
  }
  return(sum1 + exp(sum2))
}
gmars.int <- function(p, r, s, x) {
  integrand <- function(tt) { gmars.mu(p, r, s, x + tt) }
  boole(integrand)
}
gmars <- function(r, s) {
  list (mu = function(p, x) { gmars.mu(p, r, s, x) },
     int = function(p, x) { gmars.int(p, r, s, x) })
}

########################################################################
# law.set(p, law) -> Create force of mortality (mu) and integrated
# hazard (int) functions for law using parameters p
########################################################################
law.set <- function(p, law) {
  off <- if(!MODEL.M) 0 else -0.5
  list(mu = function(x) { law$mu(p, x + off) },

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```r
int = function(x) { law$int(p, x + off) }
}
#
# MAIN FITTING FUNCTIONS
#
ll <- function(p, f, d) {
    mu <- pmax(MINIMUM.MU, f(p, d$x))
    sum(ifelse(d$e == 0, 0, -d$e * mu + d$d * log(d$e*mu) - lfactorial(d$d)))
}  
#
ll.fit <- function(p) { ll(p, if (!MODEL.M) f$int else f$mu, d) }
ğrr <- function(p) { grad(ll.fit, p, method = GRAD.METHOD) }
model <- optim(par = p.init, gr = grr, fn = ll.fit, method=OPTIM.METHOD,
control = list(fnscale=-1,
    reltol=REL.TOLERANCE,
    maxit=MAX.ITERATIONS))

hess.calc <- hessian(ll.fit, model$pars, method = GRAD.METHOD)

return(list(ll=model$value, pars = model$pars, npars = length(model$pars),
    hessian = hess.calc, fun=law.set(model$pars, f)))
}  
#
# LAW-SPECIFIC FITTING FUNCTIONS
#
# For laws from Richards (2012)
fit.gompertz <- function(d) { fit(c(INIT.ALPHA, INIT.BETA), gompertz, d) }

# For Makeham, fit Gompertz (ALPHA and BETA) first and then add Makeham
# (EPSILON) term
fit.makeham <- function(d) {
    model.gompertz <- fit.gompertz(d)
    fit(c(model.gompertz$pars, INIT.EPSILON), makeham, d)
}

# For Beard, fit Perks (ALPHA and BETA) first and then add Beard (RHO)
# parameter
fit.beard <- function(d) {
    model.perks <- fit.perks(d)
}  
```
# For Makeham-Perks, fit Perks first and then add Makeham (EPSILON) term
fit.makeham.perks <- function(d) {
  model.perks <- fit.perks(d)
  fit(c(model.perks$pars, INIT.EPSILON), makeham.perks, d)
}

# For Makeham-Beard, fit Makeham-Perks first and then add Beard (RHO) term
fit.makeham.beard <- function(d) {
  model.makeham.perks <- fit.makeham.perks(d)
  fit(c(model.makeham.perks$pars, INIT.RHO), makeham.beard, d)
}

# For Generalized Gompertz-Makeham Family - GM(r,s)
# Fit Gompertz (s) terms first, and then add non-linear Makeham (r)
# terms one-by-one
fit.gmrs <- function(d, r, s) {
  p.init <- if (s == 0) NULL
  else if (s == 1) INIT.B1
  else c(INIT.B1, INIT.B2, rep(INIT.BX, s - 2))
  gmrs.fit <- if (s != 0) fit(p.init, gmrs(0, s), d) else NULL
  if (r == 0) {
    return(gmrs.fit)
  } else {
    for (i in 1:r) {
      r.pars <- if (i == 1) INIT.AX else c(gmrs.fit$pars[1:(i-1)],
                                                INIT.AX)
      s.pars <- if (s != 0) gmrs.fit$pars[1:(i+s-1)] else NULL
      gmrs.fit <- fit(c(r.pars, s.pars), gmrs(i, s), d)
    }
    return(gmrs.fit)
  }
}

fit.gm <- function(r, s) { function(d) { fit.gmrs(d, r, s) } }

# RUN GRADUATION and STATISTICAL TESTS

graduate.poisson <- function(f, d) {
# Set results
result <- f(d)

ll <- result$ll
pars <- result$pars
npars <- result$npars
hessian <- result$hessian

m <- if(!MODEL.M) function(x) { result$fun$int(x) }
    else function(x) { result$fun$mu(x + 0.5) }
fun <- list(mu = result$fun$mu,
            int = result$fun$int,
            qx = function(x) { 1 - exp(-result$fun$int(x)) },
            m = m)
rates <- m(d$x)

# Calculate standard errors and p-values for parameter estimates
std.dev <- sqrt(diag(solve(-hessian)))
z.stat <- pars / std.dev
p.values <- 2*pnorm(abs(z.stat), 0, 1, lower.tail = FALSE)

# Calculate deviance and residuals
O <- d$d
E <- rates * d$e
dev <- sum(2 * (ifelse(O == 0, 0, O * log(O/E)) - (O - E)))
res <- sign(O - E) * sqrt(2 * (ifelse(O == 0, 0, O * log(O/E)) - (O - E)))

# Determine dispersion coefficient
dis <- dev / (length(d$x) - npars)

# Chi-squared calculations
chi <- sum((O - E)^2 / ifelse(E == 0, 1, E))
chi.p <- pchisq(chi, df = length(d$x) - npars, lower.tail = FALSE)

# Information criteria
aic <- -2 * ll + 2 * npars
bic <- -2 * ll + log(length(d$x)) * npars

# Signs test
signs.p <- sum(res > 0)
signs.n <- sum(res < 0)
signs.a <- if(signs.p <= signs.n) "less" else "greater"
signs.test <- binom.test(signs.p, signs.p + signs.n,
                          alternative = signs.a)$p.value

# Runs test
runs <- length(rle(sign(res))$lengths)
runs.p <- runs.test(res, "left.sided", 0, "exact", FALSE)$p.value

# Consolidate main results and statistics
details <- list(pars = pars, npar = npars, std.dev = std.dev,
                z.stat = z.stat, p.values = p.values, ll = ll, aic = aic,
                bic = bic, dis = dis, chi = chi, chi.p = chi.p,
                signs.p = signs.p, signs.n = signs.n,
                signs.test = signs.test, runs = runs, runs.p = runs.p)

# Calculate 95% confidence intervals
lower = log(qpois(0.025, O) / d$e)
upper = log(qpois(0.975, O) / d$e)
par(mfrow=c(2, 1))

# Plot crude versus fitted central mortality rates
obs <- log(d$d / d$e)
mod <- log(rates)
if(length(mod) == 1) mod <- rep(mod, length(obs))
y.min <- min(obs[is.finite(obs)],
             mod[is.finite(mod)],
             na.rm = TRUE)
```r
lower[is.finite(lower)])

y.max <- max(obs[is.finite(obs)],
mod[is.finite(mod)],
upper[is.finite(lower)])

plot (d$x, lower, pch = 150, cex=1.25, col = "blue",
xlab = "Age", ylab = "log (Central Mortality)",
ylim = c(y.min,y.max), axes = FALSE)
axis(1, at=c(seq(from=floor(min(d$x)/5)*5,to=ceiling(max(d$x)/5)*5,by=5)),
las = 1)
axis(2, las = 1)
box()
points(d$x, upper, pch = 150, cex = 1.25, col = "green")
points(d$x, obs, col = "black", cex = 1.2)
lines(d$x, mod, col = "red", lwd = 2)
legend("bottomright", lwd=c(NA, 2, NA, NA), lty=c(NA, 1, NA, NA),
pch=c(1, NA, 150, 150), col=c("black", "red", "green", "blue"),
legend=c("Crude","Graduated","97.5th Percentile",
 "2.5th Percentile"),
bty="n", cex=0.7)

# Plot deviance residuals
plot(d$x, res, col = "blue",
xlab = "Age", ylab = "Deviance Residual", axes = FALSE)
axis(1, at=c(seq(from=floor(min(d$x)/5)*5,to=ceiling(max(d$x)/5)*5,by=5)),
las = 1)
axis(2, las = 1)
box()
abline(h = 0, col = "red")
abline(h = 1.96, lty = 3)
abline(h = -1.96, lty = 3)

return(list(fun = fun, details = details))
```
Appendix C  Identities Regarding the Force of Mortality

The following provides various key definitions, identities, and relationships regarding the key mortality measures, as well as explaining the main motivations for modelling the force of mortality $\mu_x$, or at least the central death rate $m_x$, over the probability of death $q_x$.

Base Identities

The force of mortality $\mu_x$, called the hazard rate by statisticians, is formally defined as:

$$\mu_x = \lim_{h \to 0^+} \frac{1}{h} Pr(\text{death before age } x + h \mid \text{alive at age } x)$$

$$= \lim_{h \to 0^+} \frac{h q_x}{h}$$

The integrated hazard function is then defined as:

$$H_x(t) = \int_0^t \mu_{x+s} \, ds \quad (C.1)$$

The probability of survival from $x$ to $x + t$ is exactly given by:

$$t P_x = e^{-H_x(t)} \quad (C.2)$$

And thus there is a precise relationship between $q_x$ and $\mu_x$:

$$q_x = 1 - p_x = 1 - e^{-H_x(1)} = 1 - e^{-\int_0^1 \mu_{x+t} \, dt} \quad (C.3)$$

Definitions, Identities, and Approximations for Grouped Data

When dealing with mortality experience at the level of the individual, the above relationships are sufficient for statistical modelling purposes. With grouped data, such as the usual case in the construction of standard base tables where data is aggregated by age and other factors, we need to define some additional quantities:

- $l_x$: The number of lives alive at age $(x)$
- $d_x$: The number of deaths for those aged between $(x)$ and $(x + 1)$
- $E_x^c$: The total time lived between ages $(x)$ and $(x + 1)$, which can be termed the central exposed-to-risk/exposure
- $E_x^i$: The initial exposure at age $(x)$. In the absence of entrants or withdrawals (for reasons other than death), $E_x^i = l_x$

To tabulate the central exposure $E_x^c$ in practice, days can be counted between the earliest of (1) the appropriate birthday, (2) observation start date, (3) entry date, etc. to the latest of (1) the following birthday, (2) death date (or exit for reasons other than death), (3) observation end date, etc. The exact tabulation will depend on the age definition employed, but an age last birthday (ALB) basis is generally the most straightforward and effective, and will result in the implied $\mu_x$ and $q_x$ applying at exact age $(x)$.

If the central exposure $E_x^c$ is not available, it can be roughly approximated through the following identity:
\[ E^c_x \approx E^i_x - \frac{d_x}{2} \quad \text{(C.4)} \]

Now, we can define the central death rate \( m_x \):
\[
m_x = \frac{d_x}{E^c_x} = \frac{\int_0^1 l_{x+t} \mu_{x+t} dt}{\int_0^1 l_{x+t} dt} \]

Under the assumption where \( l_x \) does not change rapidly over the age:
\[
m_x = \frac{d_x}{E^c_x} \approx \int_0^1 \mu_{x+t} dt = H_x(1) \quad \text{(C.5)}
\]

Alternatively, under the assumption where \( \mu_x \) is constant over the age, taken to be equal to \( \mu_{x+\frac{1}{2}} \) (i.e., \[ \int_0^1 \mu_{x+t} dt \approx \mu_{x+\frac{1}{2}} \]):
\[
m_x = \frac{d_x}{E^c_x} \approx \mu_{x+\frac{1}{2}} \quad \text{(C.6)}
\]

Note that if we instead work with initial exposure:
\[
q_x = \frac{d_x}{E^i_x} \quad \text{(C.7)}
\]

**Advantages of Using the Force of Mortality**

From equation (C.3), \( q_x \) can be directly returned from \( \mu_x \), but not the other way around. Indeed, graduating mortality directly according to \( \mu_x \), or to \( m_x \), provides numerous advantages over dealing with \( q_x \):

- As noted above, \( \mu_x \) directly defines \( q_x \) and thus \( q_x \), but \( q_x \) does not necessarily return the exact \( \mu_x \). To see how this one-way relationship can impact estimates in practice, we use a similar example as provided in Richards (2008) and consider an extreme scenario where there are 100 lives alive at the beginning of the year and 50 die during the year. No matter when during the year those 50 lives died, \( q_x \) will equal \( \frac{50}{100} = 0.5 \). If on average the 50 lives die exactly halfway through the year, then \( m_x = \frac{50}{50 + \frac{50}{2}} = 0.6667 \). However, if all 50 lives die at the end of the January, then \( m_x \) is estimated as \( \frac{50}{50 + \frac{50}{12}} = 0.9231 \). Thus, using \( \mu_x \) or \( m_x \) retains additional information compared to \( q_x \).

- Since \( q_x \) is the probability of those aged \((x)\) dying within the next year, it must tend to 1 as the higher ages are approached. There are no such restrictions on \( \mu_x \) or \( m_x \); they can theoretically go well above 1 without limit. As such, more complex models are required to deal with \( q_x \) than for \( \mu_x \) or \( m_x \) for higher ages. For example, Figure C.1 illustrates a situation where \( \mu_x \) is log-linear at all ages (i.e., Gompertz’ law), the resulting \( q_x \), as per equation (C.3), will follow a logistic shape. Clearly, the shape of the force of mortality is much simpler to capture.
Figure C.1: Force of Mortality ($\mu_x$) and Mortality Rate ($q_x$) under Gompertz’ Law

- Whenever $q_x$ is used, even at the individual level, the initial exposure $E^i_x$ must be invoked. Unlike with the central exposure $E^c_x$, it is not possible to deal with entrants during the year, as might be the case with retirements, the commencement of a new annuity or insurance coverage, or the succession of a spouse or other beneficiary to a pension or policy, in a completely satisfying manner. It is especially problematic to capture cases where a life dies within the year of entry. For illustration, say a life enters halfway through the year and dies before the end of the year. In such a situation, $d_x$ is clearly incremented by 1. If the life had survived the year, $E^i_x$ would presumably need to be increased by 0.5. However, as the life died, if 0.5 is added then mortality would be overstated (the implied $q_x$ could even be brought above 1 in extreme cases); adding 1 to $E^i_x$ instead is better and the common practice, but clearly understates mortality (this approach follows from the Balducci hypothesis, which implies that the force of mortality decreases over a year-of-age). The use of initial exposure also leads to other issues, including in situations where there are withdrawals for reasons other than death (such as lapse). All those issues are avoided if $\mu_x$ is used at the individual level, or if the central exposure $E^c_x$ and $m_x$ is used for aggregated experience.
Many of the points listed above relate to one of the most fundamental advantages of central over initial exposure, which is the ability to properly reflect left-truncation and right-censorship. Experience data is generally left-truncated, as information on deaths falling before the observation start date is unavailable, as well as right-censored, as not all lives will be deceased by the end of the study period. These considerations are especially critical when analyzing mortality at the level of the individual.

As the mathematics are simpler and the limitations fewer, this paper focuses exclusively on working with $\mu_x$ or $m_x$. As such, all references to exposure generally refer to central exposure $E^c_x$ unless explicitly stated. As described in detail in Forfar et al. (1988), a similar statistical framework (though invoking a binomial as opposed to a Poisson assumption) can be applied to $q_x$ instead if absolutely necessary. However, the simple identities and approximations provided through equations (C.3), (C.4), (C.5), and (C.6) should permit the use of central exposure in most situations.

Implementation Notes

The approximation under equation (C.5) should generally be considered slightly more statistically valid than that under equation (C.6). As explicit, closed-form expressions for $H_x(t)$ are available for many of the mortality laws explored in this paper (for instance, see Richards (2012) for integrated hazard functions corresponding to the laws presented therein), the former approximation does not necessarily pose any particular complications.

Nevertheless, for simplicity and consistency, the results in this paper are calculated using the approximation under equation (C.6), though $m_x$ is parameterized directly as opposed to $\mu_x$. The results and conclusions would not have been materially different had the equation (C.5) been employed instead.

The sample R implementation in Appendix B allows for either approximation to be applied, with the choice controlled through a single variable.

---

\[^{31}\text{Where the conditional likelihood function under the binomial assumption is } L(\theta) \propto \prod_x q_x(\theta)^{d_x} (1 - q_x(\theta))^{E^c_x - d_x}.\]
Appendix D  The Poisson Model and Overdispersion

Under the assumption that the count of deaths at age $x$ follows a Poisson distribution as described under equation (1), the mean and variance of the corresponding random variable $D_x$ are assumed to be equal:

$$\mathbb{E}(D_x) = \text{Var}(D_x) = \lambda = E_x \hat{m}_x \quad \text{(D.1)}$$

This is a suitable assumption in many cases, but there are certain reasons why the Poisson model may not perform well in practice. One of the most common such situations is where a large amount of duplicates is present in the dataset. That is, where an individual has multiple policies, pensions, annuities, etc. and each is treated separately as opposed to being combined. Ideally, all such duplicates would be identified and the corresponding records merged. However, that may simply not be possible in some cases, such as when dealing with grouped data.

Note that the use of amounts-weighted exposure and deaths also creates a form of duplication, as each unit of exposure and/or death no longer will be independent.

In cases of duplication or other violations of the Poisson properties, the variance of $D_x$ is likely higher than the mean, which is referred to as overdispersion. One way to quantify dispersion within the Poisson model framework is by dividing the Poisson deviance (or, alternatively and nearly equivalently, the Pearson’s $\chi^2$ statistic) by the degrees of freedom, i.e. the number of observations less the number of model parameters. This ratio can be referred to as the “dispersion coefficient” $DCF$:

$$\text{Deviance} = \sum_x 2 \left[ d_x \times \log \left( \frac{d_x}{f_x} \right) - (d_x - f_x) \right] \quad \text{(D.2)}$$

$$DCF = \frac{\text{Deviance}}{N - K} \quad \text{(D.3)}$$

where $N$ is the number of observations (ages) and $K$ is the number of parameters.

If the dispersion coefficient is close to 1, then there is no real evidence of dispersion. A coefficient under 1 would imply underdispersion (which is relatively rare in practice), while one over 1 implies overdispersion. If the amount of dispersion is deemed significant, then a different model may be warranted.

If the dispersion is significant but within reasonable bounds, then a quasi-Poisson model may make sense. Under such a model, the parameter estimates are the same as under the basic Poisson model (i.e., the mean is the same as under the Poisson), but the p-values and certain statistics are altered by adjusting the variance by a dispersion factor $\psi$:

$$\mathbb{E}(D_x) = E_x \hat{m}_x$$
$$\text{Var}(D_x) = \psi \mathbb{E}(D_x) = \psi (E_x \hat{m}_x) \quad \text{(D.4)}$$

If the amount of dispersion is more significant, then it could make more sense to switch from the Poisson model to the more general negative binomial model, where the overdispersion will impact both the parameter estimates and the variance. The negative binomial distribution is a generalization of the Poisson distribution, which includes an additional parameter so that the variance can vary from the mean. Under a negative binomial distribution with $\psi$ the dispersion parameter, $\lambda_x(\theta) = E_x \hat{m}_x(\theta)$, $p_x(\theta) = \frac{\lambda_x(\theta)}{\lambda_x(\theta) + \psi}$, and $\Gamma(\cdot)$ the gamma function, the corresponding conditional likelihood function is:

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\[ L(\theta, \psi) \propto \prod_x \frac{\Gamma(d_x + \psi)}{d_x!} \times \frac{1}{\Gamma(\psi)} \eta(\theta)^{d_x} (1 - \eta(\theta))^\psi \]  

(D.5)

Now, in the case that there is access to the underlying individual data and there is the ability to merge any individual duplicate records, remaining overdispersion could be evidence that the assumption of a Poisson distribution is problematic for other reasons. Working with mortality at the level of the individual eliminates any necessity to make an assumption regarding the distribution of deaths at any particular age. Instead, we can work with the conditional likelihood function defined for each individual \( i \) who entered the observation period at age \( x_i \) and was observed for time \( t_i \), where \( d_i \) is 1 if the individual died at age \( x_i + t_i \) and 0 otherwise:

\[ L(\theta) \propto \prod_i t_i \eta_{x_i + t_i} \eta_{x_i + t_i} d_i \]  

(D.6)

As \( t_i \eta \) is precisely determined by \( \mu_{x_i} \) through equation (C.2), the above likelihood function is dependent solely on the function for the force of mortality \( \mu_{x_i} \) (itself being a function of parameters \( \theta \)).

Refer to [Richards 2008] and [Richards et al. 2013] for case studies where survival models are applied to the mortality experience at the level of the individual.
Appendix E  Technical Notes on Implementing $GM(r, s)$

The $GM(r, s)$ family described by equation (8) represents a general form that can capture a wide variety of mortality patterns, and it has been widely used by the Continuous Mortality Investigation (CMI) in the United Kingdom. There are a number of technical considerations that should be noted regarding how the $GM(r, s)$ curves are fitted in practice.

Most importantly, for fitting purposes and for better scaling and stability of the parameters, the $GM(r, s)$ structure relies on polynomials in age based on the transformation $T(x) = \frac{x - 70}{50}$ and Chebyshev polynomials of the first kind defined by $C(N, X)$, where when $r$ or $s$ is equal to 0 the corresponding summation is completely excluded:

$$
\mu_x = GM(r, s) = \sum_{i=0}^{r-1} a_i C(i, T(x)) + \exp \left\{ \sum_{j=0}^{s-1} b_j C(j, T(x)) \right\} \quad (E.1)
$$

Where the Chebyshev polynomials $C(N, X)$ are defined recursively as:

$$
C(N, X) = \begin{cases} 1 & N = 0 \\ X & N = 1 \\ 2X \times C(N - 1, X) - C(N - 2, X) & N \geq 2 \end{cases}
$$

By employing the Chebyshev polynomial structure, it is easier to fit the parameters, the parameter values are more consistently scaled, and the values are more stable when additional parameters are added. Other orthogonal polynomial bases, such as Legendre polynomials or the basis provided through the poly function in R Core Team (2017), could be used instead to achieve the same benefits. In this paper, the Chebyshev polynomials are invoked primarily to maintain consistency with the CMI’s established approach when graduating mortality tables.

When the mortality probability rates $q_x$ are required, it is most accurate to determine them through the precise relationship with $\mu_x$ provided through equation (C.3). Explicit formulae for the integrated hazard function $H_x(t)$ could be determined for the $GM(r, s)$ family where $s \leq 2$, though even then they could be unwieldy, especially in the presence of the Chebyshev polynomials and the transformation of $x$. Sufficiently precise results can instead be obtained through a numerical integration approach, and the CMI has employed Boole’s rule for that purpose in recent graduations:

$$
H_x(1) \approx \frac{1}{90} \left( 7\mu_x + 32\mu_{x+\frac{1}{2}} + 12\mu_{x+\frac{3}{2}} + 32\mu_{x+2} + 7\mu_{x+1} \right) \quad (E.2)
$$

The sample R implementation included in Appendix B is consistent with the above, as is that described in CMI WP 077 (2015).
Appendix F  On Amounts-Weighted Mortality Experience

As discussed under Section 5, an approximation to the financial impact of amounts (of pension, policy face value, other benefits, etc.) can be achieved by weighting the deaths and exposure by the pension, annuity, or policy amount applicable to the underlying lives. So, the amounts-weighted central mortality rate $m^a_x$ is simply the ratio of the amounts-weighted deaths $d^a_x$ to the amounts-weighted exposure $E^a_x$, that is:

$$m^a_x = \frac{d^a_x}{E^a_x} \quad (F.1)$$

The amounts-weighting is mathematically (and conceptually) equivalent to multiplying the lives-based $m_x$ by a ratio of average pensions:

$$m^a_x = m_x \times \frac{Average \, Pension \, for \, Lives \, Dying \, at \, Age \, x}{Average \, Pension \, for \, all \, Lives \, at \, Age \, x} \quad (F.2)$$

As the average pension for members dying is expected to be lower than the overall average, the ratio will generally be $\leq 1$ and so $m^a_x \leq m_x$.

We can choose to apply the same mathematical forms described in Section 5 with respect to lives-based mortality to that under amounts-based weightings. However, in order to produce more meaningfully scaled values for the residuals and other statistical tests, we need to scale the exposures and/or deaths in a manner that preserves the crude amounts-weighted mortality but that removes the level of the absolute amounts. One option is to scale at each individual age, multiplying both the amounts-weighted deaths and exposure by the ratio of the unweighted to amounts-weighted deaths count. Effectively, the deaths figure simply becomes the unweighted count ($d_x$) and the exposure is adjusted accordingly to retain the proper amounts-weighted crude rates. That is the approach that will be taken in what follows, and is also what was invoked in Section 5.

Following the same approach as under Section 5, we can try each model form in turn and determine which returns the optimal values of the AIC and BIC. As was the case for the lives analysis, the best-fitting model is found to be a $GM(1, 3)$. Details on the corresponding parameter estimates are found in Table F.1.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Estimate</th>
<th>Standard Error</th>
<th>Z</th>
<th>p-value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$a_0$</td>
<td>0.001130</td>
<td>0.000331</td>
<td>3.4144</td>
<td>6.3918e-04</td>
<td>***</td>
</tr>
<tr>
<td>$b_0$</td>
<td>-4.541924</td>
<td>0.169649</td>
<td>-26.7725</td>
<td>0</td>
<td>***</td>
</tr>
<tr>
<td>$b_1$</td>
<td>6.329917</td>
<td>0.170193</td>
<td>37.1926</td>
<td>0</td>
<td>***</td>
</tr>
<tr>
<td>$b_2$</td>
<td>-0.379542</td>
<td>0.145501</td>
<td>-2.6085</td>
<td>9.0934e-03</td>
<td>**</td>
</tr>
</tbody>
</table>

It is an almost necessary feature of amounts analysis that the experience be more dispersed (see Appendix D) than it is on a lives basis. That is borne out in the $\chi^2$ p-value, which under the amounts-weighted $GM(1, 3)$ is a highly-significant 0.000207, compared to the very insignificant 0.5579 it was with the lives $GM(1, 3)$. The deviance residuals provided in Figure F.1 are also more dispersed than they were on the lives basis.

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The approach explored under Section 9 allows for the most flexible model, though employing amounts-weighted mortality can be a useful tool. However, analysis should still first be performed on a lives basis, as doing so helps to gain better understanding of the experience.
Appendix G  Notes on the Datasets Used as Main Case Study

As mentioned in Appendix A, the data used as a case study throughout the majority of this paper represents the original, unaltered data underlying the CPM2014 set of Canadian pensioner tables published in CIA (2014), but differs significantly from what was actually used to graduate the published tables. That is a consequence of numerous adjustments made to the crude data prior to graduation. Few, if any, of these or comparable adjustments are found in the construction of standard tables produced by the Continuous Mortality Investigation in the United Kingdom, the Society of Actuaries in the United States, or the Canadian Institute of Actuaries in Canada for tables released prior to CIA (2014).

There were four main adjustments applied to the data before graduating the CPM2014 tables:

1. Adjustment to deaths for incurred-but-not-reported (IBNR) deaths
2. Adjustment to deaths for assumed mortality improvement
3. Adjustment to exposure and deaths to modify weightings by “industry”
4. Adjustment to deaths and lives-based exposure to “standardize” amounts distribution by age

We will reconcile the most significant of the above adjustments, that being the “standardization” of the amounts distribution by age. That modification appears to have had the greatest impact on the shape and the level of the resulting table. Exploring some of the observations that appear to have led to its introduction are quite instructive.

Before describing the adjustment itself, it is necessary to make some observations regarding the evolution of pension amount by age for the total CPM2014 dataset. The average pension by age is shown in Figure G.1 for males.

From the mid-50s, the average pension-in-pay decreases markedly. Some of the apparent reasons for that pattern include the following items:

(i) **Bridging Pensions**: The decrease in pensions between 63 and 65 is largely attributable to the cessation of bridging pensions. At lower ages in this dataset, much of the exposure is weighted towards “public sector” plans, where additional, automatic pensions are provided up to age 65 when government benefits such as those provided under the Canada Pension Plan or Québec Pension Plan typically commence. Only few “private sector” plans provide such additional pensions automatically, though “level income” options are relatively common, where the pension payable before age 65 is increased and that payable after age 65 reduced accordingly on a present value basis. A portion of the decrease may also be attributable to the commencement of deferred pensions, especially within the private sector.

(ii) **Wage Inflation**: A significant portion of the decrease past age 65 would be attributable to wages outpacing increases to the pensions (if any). Even in the case of plans fully indexed to increases in the Consumer Price Index (CPI), the indexation adjustments would still be expected to be less than the increase in wages that determine the pension amounts at retirement. Complicating matters further, not all pension plans included in the CPM2014 dataset are fully indexed; some would be partially indexed, and some not indexed at all. Pensions in the public sector are much more likely to be indexed than those in the private sector.

(iii) **Socio-Economic Shifts**: Even after accounting for the cessation of bridging pensions and the effects of wage inflation, part of the decrease may be attributable to socio-economic shifts, both within and...
between plans. For example, part of the reason for the strength of the decrease in the average pension in the total dataset is a shift towards the private sector at the higher ages.

In terms of the graduation of the crude mortality experience:

- The effect of the bridging pensions under (i) will have absolutely no impact on a lives basis and very little on an amounts basis. The only impact on an amounts basis is that more weighting than warranted may be applied to ages or plans where bridge pensions are more common. The amounts effect across ages can be mitigated by adjusting the deaths and/or exposure within each individual age to account for the average pension at that particular age, as described in Appendix F. However, the inclusion of bridging pensions may well have implications for the weighting between plans that provide and do not provide such benefits before age 65. As such, automatic bridging pensions (such as those provided under “public sector” plans) should almost certainly be excluded for any analysis if possible, though those created under level-income options are trickier.

- The wage inflation considerations under (ii) also have little effect on the main graduations, especially
with the mitigation of the impact that can be provided by adjusting for the average pension in the weightings by age, again as described in Appendix F. However, once again the impact of wage inflation can also be expected to have the potentially undesired effect of shifting the weightings by amounts from less generous plans with lesser indexation adjustments to those with automatic adjustments.

The effects of socio-economic shifts are more subtle (especially across a pooled dataset) and much more difficult to attribute between differences in benefit formula, indexation provisions, service periods, and salary levels, as each has very different implications depending on the particular circumstance of the plan in question. However, in general, none of the specific concerns described above should have any bearing on the resulting best-estimate mortality rates.

However, in CIA [2014] the deaths and exposure were adjusted prior to graduation in such a manner that the exposure across the thirteen size amount bands at each individual age was adjusted ("standardized") to match the distribution across the entire age range. The dataset produced by the adjustment was not published, but it can be reconstructed by the data tool made available by the Canadian Institute of Actuaries.

The data for the total male dataset before the “standardization” adjustment (but with the adjustment for IBNR deaths) and with the adjustment incorporated is provided as Table G.1 at the end of the appendix. The chart provided as Figure G.2 shows the curves fitted with Makeham-Perks over ages 55 to 95 on an amounts-weighted basis with and without the adjustment.

As would be expected, the adjustment increases mortality before age 65 (i.e., while the bridging pensions are still in pay) and correspondingly decreases it after age 65. The distortion to the shape of the graduations is quite substantial.

While the presence of the bridging pension and wage inflation effects are not particularly problematic for the graduation, those considerations certainly have implications when attempting to analyze the experience by pension amount. Those implications are amplified by pension amounts not being revalued to take into account indexation adjustments (where applicable) to ensure that observed experience is consistent across all years. By way of example, Figure G.3 provides the crude and graduated rates for males in the second of thirteen CPM2014’s size amount bands. The group captured before and after the cessation of the bridging pensions appears to be completely different. This observation was our main motivation to restrict the analysis in Section 9 to ages 65 and above.
Figure G.2: Graduations for Total Male Dataset with and without “Standardization”
Figure G.3: Crude and Graduated Rates for CPM2014’s Size Band II for Males
Table G.1: Male Dataset with and without “Standardization” Adjustment

<table>
<thead>
<tr>
<th>Age</th>
<th>Before Adjustment</th>
<th>After Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lives Amounts</td>
<td>Deaths Initial Exp.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>8.05 1,523.84</td>
<td>164.21 40,296.73</td>
</tr>
<tr>
<td>51</td>
<td>34.19 2,573.63</td>
<td>780.35 76,295.63</td>
</tr>
<tr>
<td>52</td>
<td>27.16 4,367.37</td>
<td>466.57 140,919.95</td>
</tr>
<tr>
<td>53</td>
<td>32.18 7,737.12</td>
<td>723.01 271,290.94</td>
</tr>
<tr>
<td>54</td>
<td>68.38 13,804.35</td>
<td>1,888.00 508,299.94</td>
</tr>
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The Society of Actuaries (SOA), formed in 1949, is one of the largest actuarial professional organizations in the world dedicated to serving 24,000 actuarial members and the public in the United States, Canada and worldwide. In line with the SOA Vision Statement, actuaries act as business leaders who develop and use mathematical models to measure and manage risk in support of financial security for individuals, organizations and the public.

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