

Table of Contents

Authors' Biographies	xv
Authors' Introductions and Guide to Study	xvii
Introduction to First Edition.....	xvii
Introduction to Second Edition	xxi
Guide to Study.....	xxii
1 The Economics of Insurance	1
1.1 Introduction.....	1
1.2 Utility Theory.....	3
1.3 Insurance and Utility.....	7
1.4 Elements of Insurance.....	15
1.5 Optimal Insurance	16
1.6 Notes and References	18
Appendix	19
Exercises	20
2 Individual Risk Models for a Short Term	27
2.1 Introduction.....	27
2.2 Models for Individual Claim Random Variables.....	28
2.3 Sums of Independent Random Variables.....	34
2.4 Approximations for the Distribution of the Sum.....	39
2.5 Applications to Insurance	40
2.6 Notes and References	46
Exercises	47
3 Survival Distributions and Life Tables	51
3.1 Introduction.....	51
3.2 Probability for the Age-at-Death	52
3.2.1 The Survival Function	52
3.2.2 Time-until-Death for a Person Age x	52
3.2.3 Curtate-Future-Lifetimes.....	54
3.2.4 Force of Mortality	55

3.3	Life Tables.....	58
3.3.1	Relation of Life Table Functions to the Survival Function	58
3.3.2	Life Table Example	59
3.4	The Deterministic Survivorship Group	66
3.5	Other Life Table Characteristics	68
3.5.1	Characteristics	68
3.5.2	Recursion Formulas	73
3.6	Assumptions for Fractional Ages	74
3.7	Some Analytical Laws of Mortality.....	77
3.8	Select and Ultimate Tables	79
3.9	Notes and References	83
	Exercises	84
4	Life Insurance.....	93
4.1	Introduction.....	93
4.2	Insurances Payable at the Moment of Death.....	94
4.2.1	Level Benefit Insurance	94
4.2.2	Endowment Insurance	101
4.2.3	Deferred Insurance	103
4.2.4	Varying Benefit Insurance.....	105
4.3	Insurances Payable at the End of the Year of Death	108
4.4	Relationships between Insurances Payable at the Moment of Death and the End of the Year of Death.....	119
4.5	Differential Equations for Insurances Payable at the Moment of Death	125
4.6	Notes and References	126
	Exercises	126
5	Life Annuities.....	133
5.1	Introduction.....	133
5.2	Continuous Life Annuities	134
5.3	Discrete Life Annuities.....	143
5.4	Life Annuities with m -thly Payments	149
5.5	Apportionable Annuities-Due and Complete Annuities-Immediate	154
5.6	Notes and References	157
	Exercises	158
6	Benefit Premiums	167
6.1	Introduction.....	167
6.2	Fully Continuous Premiums	170
6.3	Fully Discrete Premiums.....	180
6.4	True m -thly Payment Premiums	188
6.5	Apportionable Premiums.....	191
6.6	Accumulation-Type Benefits	194
6.7	Notes and References	197
	Exercises	197

7	Benefit Reserves	203
7.1	Introduction.....	203
7.2	Fully Continuous Benefit Reserves	206
7.3	Other Formulas for Fully Continuous Benefit Reserves.....	212
7.4	Fully Discrete Benefit Reserves.....	215
7.5	Benefit Reserves on a Semicontinuous Basis	221
7.6	Benefit Reserves Based on True m -thly Benefit Premiums.....	221
7.7	Benefit Reserves on an Apportionable or Discounted Continuous Basis	224
7.8	Notes and References	225
	Exercises	225
8	Analysis of Benefit Reserves	229
8.1	Introduction.....	229
8.2	Benefit Reserves for General Insurances	230
8.3	Recursion Relations for Fully Discrete Benefit Reserves	233
8.4	Benefit Reserves at Fractional Durations.....	238
8.5	Allocation of the Risk to Insurance Years	241
8.6	Differential Equations for Fully Continuous Benefit Reserves.....	248
8.7	Notes and References	250
	Exercises	250
9	Multiple Life Functions	257
9.1	Introduction	257
9.2	Joint Distributions of Future Lifetimes	258
9.3	The Joint-Life Status.....	263
9.4	The Last-Survivor Status	268
9.5	More Probabilities and Expectations	271
9.6	Dependent Lifetime Models	274
	9.6.1 Common Shock.....	274
	9.6.2 Copulas	277
9.7	Insurance and Annuity Benefits	279
	9.7.1 Survival Statuses	279
	9.7.2 Special Two-Life Annuities.....	284
	9.7.3 Reversionary Annuities	285
9.8	Evaluation—Special Mortality Assumptions.....	287
	9.8.1 Gompertz and Makeham Laws.....	287
	9.8.2 Uniform Distribution	288
9.9	Simple Contingent Functions.....	291
9.10	Evaluation—Simple Contingent Functions.....	295
9.11	Notes and References	297
	Exercises	298
10	Multiple Decrement Models.....	307
10.1	Introduction	307
10.2	Two Random Variables.....	308
10.3	Random Survivorship Group.....	316

10.4	Deterministic Survivorship Group.....	318
10.5	Associated Single Decrement Tables	319
10.5.1	Basic Relationships	320
10.5.2	Central Rates of Multiple Decrement.....	321
10.5.3	Constant Force Assumption for Multiple Decrements	322
10.5.4	Uniform Distribution Assumption for Multiple Decrements	323
10.5.5	Estimation Issues.....	324
10.6	Construction of a Multiple Decrement Table.....	327
10.7	Notes and References	332
	Exercises	333
11	Applications of Multiple Decrement Theory	341
11.1	Introduction	341
11.2	Actuarial Present Values and Their Numerical Evaluation.....	342
11.3	Benefit Premiums and Reserves.....	345
11.4	Withdrawal Benefit Patterns That Can Be Ignored in Evaluating Premiums and Reserves	346
11.5	Valuation of Pension Plans	350
11.5.1	Demographic Assumptions	350
11.5.2	Projecting Benefit Payment and Contribution Rates.....	351
11.5.3	Defined-Benefit Plans.....	354
11.5.4	Defined-Contribution Plans	356
11.6	Disability Benefits with Individual Life Insurance	358
11.6.1	Disability Income Benefits.....	358
11.6.2	Waiver-of-Premium Benefits	359
11.6.3	Benefit Premiums and Reserves.....	360
11.7	Notes and References	361
	Exercises	362
12	Collective Risk Models for a Single Period.....	367
12.1	Introduction	367
12.2	The Distribution of Aggregate Claims	368
12.3	Selection of Basic Distributions	372
12.3.1	The Distribution of N	372
12.3.2	The Individual Claim Amount Distribution	377
12.4	Properties of Certain Compound Distributions	378
12.5	Approximations to the Distribution of Aggregate Claims	385
12.6	Notes and References	390
	Appendix	391
	Exercises	393
13	Collective Risk Models over an Extended Period	399
13.1	Introduction	399
13.2	A Discrete Time Model.....	401
13.3	A Continuous Time Model	406

13.4	Ruin Probabilities and the Claim Amount Distribution	409
13.5	The First Surplus below the Initial Level	415
13.6	The Maximal Aggregate Loss	417
13.7	Notes and References	423
	Appendix	425
	Exercises	430
14	Applications of Risk Theory	435
14.1	Introduction	435
14.2	Claim Amount Distributions	436
14.3	Approximating the Individual Model	441
14.4	Stop-Loss Reinsurance	445
14.5	Analysis of Reinsurance Using Ruin Theory	451
14.6	Notes and References	459
	Appendix	460
	Exercises	461
15	Insurance Models Including Expenses	465
15.1	Introduction	465
15.2	Expense Augmented Models	466
15.2.1	Premiums and Reserves	466
15.2.2	Accounting	469
15.3	Withdrawal Benefits	472
15.3.1	Premiums and Reserves	472
15.3.2	Accounting	476
15.4	Types of Expenses	476
15.5	Algebraic Foundations of Accounting: Single Decrement Model	481
15.6	Asset Shares	485
15.6.1	Recursion Relations	485
15.6.2	Accounting	487
15.7	Expenses, Reserves, and General Insurances	489
15.8	Notes and References	491
	Exercises	492
16	Business and Regulatory Considerations	499
16.1	Introduction	499
16.2	Cash Values	499
16.3	Insurance Options	502
16.3.1	Paid-up Insurance	502
16.3.2	Extended Term	504
16.3.3	Automatic Premium Loan	506
16.4	Premiums and Economic Considerations	507
16.4.1	Natural Premiums	508
16.4.2	Fund Objective	508
16.4.3	Rate of Return Objective	509
16.4.4	Risk-Based Objectives	511
16.5	Experience Adjustments	512

16.6	Modified Reserve Methods.....	515
16.7	Full Preliminary Term.....	519
16.8	Modified Preliminary Term	521
16.9	Nonlevel Premiums or Benefits.....	523
16.9.1	Valuation.....	523
16.9.2	Cash Values	526
16.10	Notes and References.....	528
	Exercises	529
17	Special Annuities and Insurances	535
17.1	Introduction	535
17.2	Special Types of Annuity Benefits.....	535
17.3	Family Income Insurances	537
17.4	Variable Products.....	539
17.4.1	Variable Annuity.....	539
17.4.2	Fully Variable Life Insurance	541
17.4.3	Fixed Premium Variable Life Insurance	541
17.4.4	Paid-up Insurance Increments	542
17.5	Flexible Plan Products	543
17.5.1	Flexible Plan Illustration.....	543
17.5.2	An Alternative Design	546
17.6	Accelerated Benefits.....	547
17.6.1	Lump Sum Benefits.....	548
17.6.2	Income Benefits.....	550
17.7	Notes and References	551
	Exercises	551
18	Advanced Multiple Life Theory	555
18.1	Introduction	555
18.2	More General Statuses.....	556
18.3	Compound Statuses.....	562
18.4	Contingent Probabilities and Insurances	564
18.5	Compound Contingent Functions	566
18.6	More Reversionary Annuities	570
18.7	Benefit Premiums and Reserves.....	573
18.8	Notes and References	575
	Appendix	577
	Exercises	578
19	Population Theory	585
19.1	Introduction	585
19.2	The Lexis Diagram	585
19.3	A Continuous Model.....	587
19.4	Stationary and Stable Populations.....	593
19.5	Actuarial Applications.....	595
19.6	Population Dynamics	599
19.7	Notes and References	603
	Exercises	603

20	Theory of Pension Funding	607
20.1	Introduction	607
20.2	The Model	608
20.3	Terminal Funding	609
20.4	Basic Functions for Retired Lives	611
20.4.1	Actuarial Present Value of Future Benefits, $(rA)_t$	611
20.4.2	Benefit Payment Rate, B_t	611
20.4.3	The Allocation Equation	612
20.5	Accrual of Actuarial Liability	614
20.6	Basic Functions for Active Lives	615
20.6.1	Actuarial Present Value of Future Benefits, $(aA)_t$	615
20.6.2	Normal Cost Rate, P_t	616
20.6.3	Actuarial Accrued Liability, $(aV)_t$	618
20.6.4	Actuarial Present Value of Future Normal Costs, $(Pa)_t$	619
20.7	Individual Actuarial Cost Methods	622
20.8	Group Actuarial Cost Methods	624
20.9	Basic Functions for Active and Retired Members Combined	628
20.10	Notes and References	630
	Exercises	630
21	Interest as a Random Value	635
21.1	Introduction	635
21.1.1	Incorporating Variability of Interest	636
21.1.2	Notation and Preliminaries	637
21.2	Scenarios	638
21.2.1	Deterministic Scenarios	638
21.2.2	Random Scenarios: Deterministic Interest Rates	641
21.3	Independent Interest Rates	643
21.4	Dependent Interest Rates	649
21.4.1	Moving Average Model	649
21.4.2	Implementation	654
21.5	Financial Economics Models	655
21.5.1	Information in Prices and Maturities	655
21.5.2	Stochastic Models	659
21.6	Management of Interest Risk	663
21.6.1	Immunization	663
21.6.2	General Stochastic Model	665
21.7	Notes and References	666
	Exercises	667
Appendix 1	Normal Distribution Table	673
Appendix 2A	Illustrative Life Table	675
Appendix 2B	Illustrative Service Table	685
Appendix 3	Symbol Index	687
Appendix 4	General Rules for Symbols of Actuarial Functions	693

Appendix 5	Some Mathematical Formulas Useful in Actuarial Mathematics	701
Appendix 6	Bibliography	705
Appendix 7	Answers to Exercises.....	719
Index.....		749