

Contents

Preface	ix
Introduction: a history of multiple state models and the actuarial contribution to disability insurance	xiii
Multiple state models	xiii
Applications to insurance	xvi
1 Multiple state models for life and other contingencies: the time-continuous approach	1
1.1 States and transitions	1
1.2 Benefits and premiums	3
1.3 Examples	4
1.4 The time-continuous Markov model	11
1.5 Examples	20
1.6 The semi-Markov model	31
1.7 Splitting of states	36
1.8 Finding transition probabilities	40
1.9 Increment-decrement tables	45
1.10 Actuarial values of benefits	47
1.11 Premiums and reserves	52
1.12 Examples	54
1.13 Distributions of random present values	61
1.14 References and suggestions for further reading	65
2 Multiple state models for life and other contingencies: the time-discrete approach	66
2.1 The time-discrete Markov model	66
2.2 Examples	68
2.3 Splitting of states	71
2.4 Actuarial values, premiums and reserves	72
2.5 Emerging costs; profit testing	76

2.6	References and suggestions for further reading	78
3	Disability insurance	80
3.1	Types of benefits	80
3.2	General actuarial aspects concerning a disability annuity	84
3.3	Some particular calculation procedures for disability annuities – I	100
3.4	Some particular calculation procedures for disability insurance – II	119
3.5	Permanent disability lump sums	138
3.6	References and suggestions for further reading	142
4	The graduation of transition intensities	145
4.1	Introduction to graduation	145
4.2	Crude estimates of the transition intensities	146
4.3	Introduction to generalized linear models	149
4.4	Graduation of transition intensities using generalized linear models	153
4.5	Computational aspects of constructing a multiple state model	170
4.6	References and suggestions for further reading	171
	Appendix: Modelling assumptions in graduation of σ_x	171
5	Critical illness cover	174
5.1	Types of benefits; additional benefits and acceleration benefits	174
5.2	A general multiple state model; the time-continuous approach	174
5.3	The time-discrete approach	181
5.4	References and suggestions for further reading	185
6	Long-term care insurance	186
6.1	Types of benefits	186
6.2	A general multiple state model for LTC benefits – time-continuous approach	188
6.3	Multiple state models for some LTC covers	190
6.4	The time-discrete approach	200
6.5	Some numerical examples	205
6.6	References and suggestions for further reading	213
7	Actuarial models for AIDS	215
7.1	Introduction	215
7.2	Institute of Actuaries AIDS Working Party model	217
7.3	Dutch AIDS model	225

Contents

vii

7.4	Walter Reed Staging Method (WRSM) model	227
7.5	Haberman model and disability insurance	229
	Appendix	242
8	Indexing benefits in insurance packages	243
8.1	Introduction	243
8.2	Linking benefits and premiums to some index - a formal statement	244
8.3	Practical aspects of benefit indexing in insurance packages	248
8.4	Some examples	249
8.5	Some numerical examples	255
8.6	References and suggestions for further reading	262
	Bibliography	265
	Index	275