Contents

1 Probability Review **1**
- 1.1 Functions and moments . . . 1
- 1.2 Probability distributions . . . 2
  - 1.2.1 Bernoulli distribution . . . 3
  - 1.2.2 Uniform distribution . . . 3
  - 1.2.3 Exponential distribution . . . 4
- 1.3 Variance . . . 4
- 1.4 Normal approximation . . . 5
- 1.5 Conditional probability and expectation . . . 7
- 1.6 Conditional variance . . . 9
- Exercises . . . 10
- Solutions . . . 14

2 Survival Distributions: Probability Functions **19**
- 2.1 Probability notation . . . 19
- 2.2 Actuarial notation . . . 22
- 2.3 Life tables . . . 23
- 2.4 Mortality trends . . . 25
- Exercises . . . 26
- Solutions . . . 33

3 Survival Distributions: Force of Mortality **37**
- Exercises . . . 41
- Solutions . . . 51

4 Survival Distributions: Mortality Laws **61**
- 4.1 Mortality laws that may be used for human mortality . . . 61
  - 4.1.1 Gompertz's law . . . 64
  - 4.1.2 Makeham's law . . . 65
  - 4.1.3 Weibull Distribution . . . 66
- 4.2 Mortality laws for easy computation . . . 66
  - 4.2.1 Exponential distribution, or constant force of mortality . . . 66
  - 4.2.2 Uniform distribution . . . 67
  - 4.2.3 Beta distribution . . . 68
- Exercises . . . 69
- Solutions . . . 73

5 Survival Distributions: Moments **79**
- 5.1 Complete . . . 79
  - 5.1.1 General . . . 79
  - 5.1.2 Special mortality laws . . . 81
- 5.2 Curtate . . . 85
- Exercises . . . 89
- Solutions . . . 98

6 Survival Distributions: Percentiles and Recursions **111**

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6.1 Percentiles . . . 111
6.2 Recursive formulas for life expectancy . . . 112
Exercises . . . 114
Solutions . . . 118

7 Survival Distributions: Fractional Ages 127
7.1 Uniform distribution of deaths . . . 127
7.2 Constant force of mortality . . . 132
Exercises . . . 134
Solutions . . . 140

8 Survival Distributions: Select Mortality 151
Exercises . . . 156
Solutions . . . 164

9 Supplementary Questions: Survival Distributions 177
Solutions . . . 179

10 Insurance: Annual and $1/m$thly—Moments 185
10.1 Review of Financial Mathematics . . . 185
10.2 Moments of annual insurances . . . 186
10.3 Standard insurances and notation . . . 187
10.4 Illustrative Life Table . . . 189
10.5 Constant force and uniform mortality . . . 191
10.6 Normal approximation . . . 193
10.7 $1/m$thly insurance . . . 194
Exercises . . . 195
Solutions . . . 210

11 Insurance: Continuous—Moments—Part 1 225
11.1 Definitions and general formulas . . . 225
11.2 Constant force of mortality . . . 226
Exercises . . . 234
Solutions . . . 243

12 Insurance: Continuous—Moments—Part 2 253
12.1 Uniform survival function . . . 253
12.2 Other mortality functions . . . 255
12.2.1 Integrating $at^n e^{-ct}$ (Gamma Integrands) . . . 256
12.3 Variance of endowment insurance . . . 257
12.4 Normal approximation . . . 258
Exercises . . . 260
Solutions . . . 267

13 Insurance: Probabilities and Percentiles 277
13.1 Introduction . . . 277
13.2 Probabilities for continuous insurance variables . . . 278
13.3 Distribution functions of insurance present values . . . 282
13.4 Probabilities for discrete variables . . . 283
13.5 Percentiles . . . 285
Exercises . . . 288
Solutions . . . 292

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14 Insurance: Recursive Formulas, Varying Insurance **303**
14.1 Recursive formulas . . . 303
14.2 Varying insurance . . . 305
Exercises . . . 313
Solutions . . . 321

15 Insurance: Relationships between A_x, $A_x^{(m)}$, and $\bar{A}_x$ **333**
15.1 Uniform distribution of deaths . . . 333
15.2 Claims acceleration approach . . . 335
Exercises . . . 337
Solutions . . . 340

16 Supplementary Questions: Insurances **343**
Solutions . . . 344

17 Annuities: Discrete, Expectation **347**
17.1 Annuities-due . . . 347
17.2 Annuities-immediate . . . 352
17.3 $1/m$thly annuities . . . 355
17.4 Actuarial Accumulated Value . . . 356
Exercises . . . 357
Solutions . . . 370

18 Annuities: Continuous, Expectation **381**
18.1 Whole life annuity . . . 381
18.2 Temporary and deferred life annuities . . . 384
18.3 n-year certain-and-life annuity . . . 387
Exercises . . . 389
Solutions . . . 395

19 Annuities: Variance **403**
19.1 Whole Life and Temporary Life Annuities . . . 403
19.2 Other Annuities . . . 405
19.3 Typical Exam Questions . . . 406
19.4 Combinations of Annuities and Insurances with No Variance . . . 408
Exercises . . . 409
Solutions . . . 420

20 Annuities: Probabilities and Percentiles **435**
20.1 Probabilities for continuous annuities . . . 435
20.2 Distribution functions of annuity present values . . . 438
20.3 Probabilities for discrete annuities . . . 439
20.4 Percentiles . . . 440
Exercises . . . 442
Solutions . . . 447

21 Annuities: Varying Annuities, Recursive Formulas **455**
21.1 Increasing and Decreasing Annuities . . . 455
21.1.1 Geometrically increasing annuities . . . 455
21.1.2 Arithmetically increasing annuities . . . 455
21.2 Recursive formulas . . . 457

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Exercises . . . 458
Solutions . . . 464

22 Annuities: $1/m$-thly Payments **471**
22.1 Uniform distribution of deaths assumption . . . 471
22.2 Woolhouse's formula . . . 472
Exercises . . . 476
Solutions . . . 480

23 Supplementary Questions: Annuities **487**
Solutions . . . 490

24 Premiums: Net Premiums for Discrete Insurances—Part 1 **495**
24.1 Future loss . . . 495
24.2 Net premium . . . 496
Exercises . . . 499
Solutions . . . 508

25 Premiums: Net Premiums for Discrete Insurances—Part 2 **517**
25.1 Premium formulas . . . 517
25.2 Expected value of future loss . . . 519
25.3 International Actuarial Premium Notation . . . 520
Exercises . . . 522
Solutions . . . 529

26 Premiums: Net Premiums Paid on a $1/m$thly Basis **539**
Exercises . . . 541
Solutions . . . 544

27 Premiums: Net Premiums for Fully Continuous Insurances **549**
Exercises . . . 553
Solutions . . . 558

28 Premiums: Gross Premiums **565**
28.1 Gross future loss . . . 565
28.2 Gross premium . . . 566
Exercises . . . 568
Solutions . . . 575

29 Premiums: Variance of Future Loss, Discrete **581**
29.1 Variance of net future loss . . . 581
29.1.1 Variance of net future loss by formula . . . 581
29.1.2 Variance of net future loss from first principles . . . 583
29.2 Variance of gross future loss . . . 584
Exercises . . . 586
Solutions . . . 592

30 Premiums: Variance of Future Loss, Continuous **601**
30.1 Variance of net future loss . . . 601
30.2 Variance of gross future loss . . . 603
Exercises . . . 604

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Solutions . . . 611

31 Premiums: Probabilities and Percentiles of Future Loss 619
31.1 Probabilities . . . 619
31.1.1 Fully continuous insurances . . . 619
31.1.2 Discrete insurances . . . 623
31.1.3 Annuities . . . 623
31.1.4 Gross future loss . . . 626
31.2 Percentiles . . . 627
Exercises . . . 628
Solutions . . . 632

32 Premiums: Special Topics 641
32.1 The portfolio percentile premium principle . . . 641
32.2 Extra risks . . . 643
Exercises . . . 643
Solutions . . . 645

33 Supplementary Questions: Premiums 649
Solutions . . . 652

34 Reserves: Prospective Net Premium Reserve 661
34.1 International Actuarial Reserve Notation . . . 666
Exercises . . . 667
Solutions . . . 674

35 Reserves: Gross Premium Reserve and Expense Reserve 683
35.1 Gross premium reserve . . . 683
35.2 Expense reserve . . . 685
Exercises . . . 687
Solutions . . . 690

36 Reserves: Retrospective Formula 695
36.1 Retrospective Reserve Formula . . . 695
36.2 Relationships between premiums . . . 697
36.3 Premium Difference and Paid Up Insurance Formulas . . . 699
Exercises . . . 701
Solutions . . . 707

37 Reserves: Special Formulas for Whole Life and Endowment Insurance 715
37.1 Annuity-ratio formula . . . 715
37.2 Insurance-ratio formula . . . 716
37.3 Premium-ratio formula . . . 717
Exercises . . . 719
Solutions . . . 728

38 Reserves: Variance of Loss 739
Exercises . . . 741
Solutions . . . 748

39 Reserves: Recursive Formulas 755

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39.1 Net premium reserve . . . 755
39.2 Insurances and annuities with payment of reserve upon death . . . 758
39.3 Gross premium reserve . . . 762
Exercises . . . 765
Solutions . . . 784

40 Reserves: Modified Reserves **803**
Exercises . . . 804
Solutions . . . 808

41 Reserves: Other Topics **815**
41.1 Reserves on semicontinuous insurance . . . 815
41.2 Reserves between premium dates . . . 816
41.3 Thiele's differential equation . . . 818
41.4 Policy alterations . . . 821
Exercises . . . 825
Solutions . . . 836

42 Supplementary Questions: Reserves **851**
Solutions . . . 854

43 Markov Chains: Discrete—Probabilities **859**
43.1 Introduction . . . 859
43.2 Definition of Markov chains . . . 862
43.3 Discrete Markov chains . . . 864
Exercises . . . 867
Solutions . . . 870

44 Markov Chains: Continuous—Probabilities **875**
44.1 Probabilities—direct calculation . . . 876
44.2 Kolmogorov's forward equations . . . 879
Exercises . . . 881
Solutions . . . 890

45 Markov Chains: Premiums and Reserves **899**
45.1 Premiums . . . 899
45.2 Reserves . . . 902
Exercises . . . 906
Solutions . . . 917

46 Multiple Decrement Models: Probabilities **927**
46.1 Probabilities . . . 927
46.2 Life tables . . . 929
46.3 Examples of Multiple Decrement Probabilities . . . 931
46.4 Discrete Insurances . . . 932
Exercises . . . 934
Solutions . . . 946

47 Multiple Decrement Models: Forces of Decrement **955**
47.1 $\mu_x^{(j)}$ . . . 955
47.2 Probability framework for multiple decrement models . . . 957

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47.3 Fractional ages . . . 959
Exercises . . . 960
Solutions . . . 969

48 Multiple Decrement Models: Associated Single Decrement Tables 979
Exercises . . . 983
Solutions . . . 988

49 Multiple Decrement Models: Relations Between Rates 997
49.1 Uniform in the multiple-decrement tables . . . 997
49.2 Uniform in the associated single-decrement tables . . . 1000
Exercises . . . 1002
Solutions . . . 1007

50 Multiple Decrement Models: Discrete Decrements 1015
Exercises . . . 1019
Solutions . . . 1024

51 Multiple Decrement Models: Continuous Insurances 1029
Exercises . . . 1033
Solutions . . . 1043

52 Supplementary Questions: Multiple Decrements 1057
Solutions . . . 1058

53 Multiple Lives: Joint Life Probabilities 1061
53.1 Markov chain model . . . 1061
53.2 Independent lives . . . 1063
53.3 Joint distribution function model . . . 1065
Exercises . . . 1067
Solutions . . . 1073

54 Multiple Lives: Last Survivor Probabilities 1079
Exercises . . . 1084
Solutions . . . 1090

55 Multiple Lives: Moments 1097
Exercises . . . 1102
Solutions . . . 1107

56 Multiple Lives: Contingent Probabilities 1113
Exercises . . . 1120
Solutions . . . 1126

57 Multiple Lives: Common Shock 1135
Exercises . . . 1137
Solutions . . . 1139

58 Multiple Lives: Insurances 1143
58.1 Joint and last survivor insurances . . . 1143
58.2 Contingent insurances . . . 1148
58.3 Common shock insurances . . . 1150

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Exercises . . . 1152
Solutions . . . 1167

59 Multiple Lives: Annuities 1183
59.1 Introduction . . . 1183
59.2 Three techniques for handling annuities . . . 1184
Exercises . . . 1188
Solutions . . . 1197

60 Supplementary Questions: Multiple Lives 1207
Solutions . . . 1210

61 Pension Mathematics 1217
61.1 Calculating the contribution for a defined contribution plan . . . 1217
61.2 Service table . . . 1220
61.3 Valuing pension plan benefits . . . 1221
Exercises . . . 1225
Solutions . . . 1233

62 Interest Rate Risk: Replicating Cash Flows 1241
Exercises . . . 1244
Solutions . . . 1249

63 Interest Rate Risk: Diversifiable and Non-Diversifiable Risk 1255
Exercises . . . 1258
Solutions . . . 1260

64 Profit Tests: Asset Shares 1263
64.1 Introduction . . . 1263
64.2 Asset Shares . . . 1264
Exercises . . . 1269
Solutions . . . 1276

65 Profit Tests: Profits for Traditional Products 1281
65.1 Profits by policy year . . . 1281
65.2 Profit measures . . . 1283
65.3 Determining the reserve using a profit test . . . 1286
65.4 Handling multiple-state models . . . 1287
Exercises . . . 1289
Solutions . . . 1297

66 Profit Tests: Participating Insurance 1305
Exercises . . . 1310
Solutions . . . 1313

67 Profit Tests: Universal Life 1315
67.1 How universal life works . . . 1315
67.2 Profit tests . . . 1322
67.3 Comparison of traditional and universal life insurance . . . 1328
67.4 Comments on reserves . . . 1328
67.5 Comparison of various balances . . . 1329

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Exercises . . . 1330
Solutions . . . 1339

68 Profit Tests: Gain by Source 1349
Exercises . . . 1353
Solutions . . . 1358

69 Nonmathematical Topics 1361
69.1 Chapter 1 . . . 1361
69.2 Chapter 3 . . . 1362
69.3 Chapter 10 . . . 1363
69.4 Chapter 13 . . . 1363

Practice Exams 1365

1 Practice Exam 1 1367

2 Practice Exam 2 1375

3 Practice Exam 3 1383

4 Practice Exam 4 1391

5 Practice Exam 5 1401

6 Practice Exam 6 1411

7 Practice Exam 7 1421

8 Practice Exam 8 1431

9 Practice Exam 9 1441

10 Practice Exam 10 1451

11 Practice Exam 11 1461

12 Practice Exam 12 1473

13 Practice Exam 13 1483

14 Practice Exam 14 1495

15 Practice Exam 15 1505

Appendices 1515

A Solutions to the Practice Exams 1517
Solutions for Practice Exam 1 . . . 1517
Solutions for Practice Exam 2 . . . 1525
Solutions for Practice Exam 3 . . . 1533

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Solutions for Practice Exam 4 . . . 1541
Solutions for Practice Exam 5 . . . 1550
Solutions for Practice Exam 6 . . . 1563
Solutions for Practice Exam 7 . . . 1577
Solutions for Practice Exam 8 . . . 1590
Solutions for Practice Exam 9 . . . 1602
Solutions for Practice Exam 10 . . . 1616
Solutions for Practice Exam 11 . . . 1628
Solutions for Practice Exam 12 . . . 1640
Solutions for Practice Exam 13 . . . 1652
Solutions for Practice Exam 14 . . . 1663
Solutions for Practice Exam 15 . . . 1675

B Solutions to Old Exams **1687**
B.1 Solutions to CAS Exam 3, Spring 2005 . . . 1687
B.2 Solutions to CAS Exam 3, Fall 2005 . . . 1691
B.3 Solutions to CAS Exam 3, Spring 2006 . . . 1694
B.4 Solutions to CAS Exam 3, Fall 2006 . . . 1698
B.5 Solutions to CAS Exam 3, Spring 2007 . . . 1701
B.6 Solutions to CAS Exam 3, Fall 2007 . . . 1705
B.7 Solutions to CAS Exam 3L, Spring 2008 . . . 1708
B.8 Solutions to CAS Exam 3L, Fall 2008 . . . 1711
B.9 Solutions to CAS Exam 3L, Spring 2009 . . . 1714
B.10 Solutions to CAS Exam 3L, Fall 2009 . . . 1717
B.11 Solutions to CAS Exam 3L, Spring 2010 . . . 1720
B.12 Solutions to CAS Exam 3L, Fall 2010 . . . 1723
B.13 Solutions to CAS Exam 3L, Spring 2011 . . . 1726
B.14 Solutions to CAS Exam 3L, Fall 2011 . . . 1728
B.15 Solutions to CAS Exam 3L, Spring 2012 . . . 1731
B.16 Solutions to SOA Exam MLC, Spring 2012 . . . 1734
B.17 Solutions to CAS Exam 3L, Fall 2012 . . . 1742
B.18 Solutions to SOA Exam MLC, Fall 2012 . . . 1746
B.19 Solutions to CAS Exam 3L, Spring 2013 . . . 1753
B.20 Solutions to SOA Exam MLC, Spring 2013 . . . 1757
B.21 Solutions to CAS Exam 3L, Fall 2013 . . . 1765
B.22 Solutions to SOA Exam MLC, Fall 2013 . . . 1769
B.23 Solutions to CAS Exam LC, Spring 2014 . . . 1777
B.24 Solutions to SOA Exam MLC, Spring 2014 . . . 1783
B.24.1 Multiple choice section . . . 1783
B.24.2 Written answer section . . . 1787
B.25 Solutions to CAS Exam LC, Fall 2014 . . . 1794
B.26 Solutions to SOA Exam MLC, Fall 2014 . . . 1798
B.26.1 Multiple choice section . . . 1798
B.26.2 Written answer section . . . 1803
B.27 Solutions to CAS Exam LC, Spring 2015 . . . 1809
B.28 Solutions to SOA Exam MLC, Spring 2015 . . . 1813
B.28.1 Multiple choice section . . . 1813
B.28.2 Written answer section . . . 1818

C Exam Question Index **1825**

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Lesson 7

Survival Distributions: Fractional Ages

Reading: *Actuarial Mathematics for Life Contingent Risks* 2nd edition 3.2

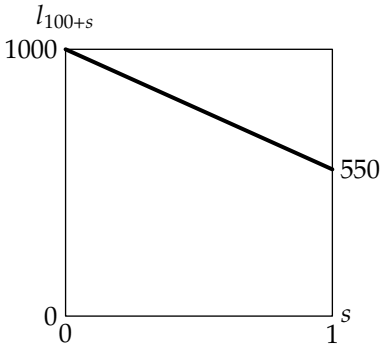
Life tables list mortality rates (q_x) or lives (l_x) for integral ages only. Often, it is necessary to determine lives at fractional ages (like $l_{x+0.5}$ for x an integer) or mortality rates for fractions of a year. We need some way to interpolate between ages.

7.1 Uniform distribution of deaths

The easiest interpolation method is linear interpolation, or uniform distribution of deaths between integral ages (UDD). This means that the number of lives at age $x+s$, $0 \le s \le 1$, is a weighted average of the number of lives at age x and the number of lives at age $x+1$:

$$l_{x+s} = (1-s)l_x + sl_{x+1} = l_x - sd_x \tag{7.1}$$

The graph of l_{x+s} is a straight line between $s=0$ and $s=1$ with slope $-d_x$. The graph at the right portrays this for a mortality rate $q_{100} = 0.45$ and $l_{100} = 1000$.



Contrast UDD with an assumption of a uniform survival function. If age at death is uniformly distributed, then l_x as a function of x is a straight line. If UDD is assumed, l_x is a straight line between integral ages, but the slope may vary for different ages. Thus if age at death is uniformly distributed, UDD holds at all ages, but not conversely.

Using l_{x+s}, we can compute ${}_sq_x$:

$$\begin{aligned} {}_sq_x &= 1 - {}_sp_x \\ &= 1 - \frac{l_{x+s}}{l_x} = 1 - (1 - sq_x) = sq_x \end{aligned} \tag{7.2}$$

That is one of the most important formulas, so let's state it again:

$$\boxed{{}_sq_x = sq_x} \tag{7.2}$$

More generally, for $0 \le s+t \le 1$,

$$\begin{aligned} {}_sq_{x+t} &= 1 - {}_sp_{x+t} = 1 - \frac{l_{x+s+t}}{l_{x+t}} \\ &= 1 - \frac{l_x - (s+t)d_x}{l_x - td_x} = \frac{sd_x}{l_x - td_x} = \frac{sq_x}{1 - tq_x} \end{aligned} \tag{7.3}$$

where the last equation was obtained by dividing numerator and denominator by l_x. The important point to pick up is that while ${}_sq_x$ is the proportion of the year s times q_x, the corresponding concept at age $x+t$, ${}_sq_{x+t}$, is *not* sq_x, but is in fact higher than sq_x. The *number* of lives dying in any amount of time is constant, and since there are fewer and fewer lives as the year progresses, the *rate* of death is in fact increasing

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over the year. The numerator of ${}_sq_{x+t}$ is the proportion of the year being measured s times the death rate, but then this must be divided by 1 minus the proportion of the year that elapsed before the start of measurement.

For most problems involving death probabilities, it will suffice if you remember that l_{x+s} is linearly interpolated. It often helps to create a life table with an arbitrary radix. Try working out the following example before looking at the answer.

Example 7A You are given:

(i) $q_x = 0.1$

(ii) Uniform distribution of deaths between integral ages is assumed.

Calculate ${}_{1/2}q_{x+1/4}$.

Answer: Let $l_x = 1$. Then $l_{x+1} = l_x(1 - q_x) = 0.9$ and $d_x = 0.1$. Linearly interpolating,

$$l_{x+1/4} = l_x - \tfrac{1}{4}d_x = 1 - \tfrac{1}{4}(0.1) = 0.975$$
$$l_{x+3/4} = l_x - \tfrac{3}{4}d_x = 1 - \tfrac{3}{4}(0.1) = 0.925$$
$${}_{1/2}q_{x+1/4} = \frac{l_{x+1/4} - l_{x+3/4}}{l_{x+1/4}} = \frac{0.975 - 0.925}{0.975} = \boxed{\mathbf{0.051282}}$$

You could also use equation (7.3) to work this example. □

Example 7B For two lives age (x) with independent future lifetimes, ${}_{k|}q_x = 0.1(k + 1)$ for $k = 0, 1, 2$. Deaths are uniformly distributed between integral ages.

Calculate the probability that both lives will survive 2.25 years.

Answer: Since the two lives are independent, the probability of both surviving 2.25 years is the square of ${}_{2.25}p_x$, the probability of one surviving 2.25 years. If we let $l_x = 1$ and use $d_{x+k} = l_x\,{}_{k|}q_x$, we get

$$q_x = 0.1(1) = 0.1 \qquad l_{x+1} = 1 - d_x = 1 - 0.1 = 0.9$$
$${}_{1|}q_x = 0.1(2) = 0.2 \qquad l_{x+2} = 0.9 - d_{x+1} = 0.9 - 0.2 = 0.7$$
$${}_{2|}q_x = 0.1(3) = 0.3 \qquad l_{x+3} = 0.7 - d_{x+2} = 0.7 - 0.3 = 0.4$$

Then linearly interpolating between l_{x+2} and l_{x+3}, we get

$$l_{x+2.25} = 0.7 - 0.25(0.3) = 0.625$$
$${}_{2.25}p_x = \frac{l_{x+2.25}}{l_x} = 0.625$$

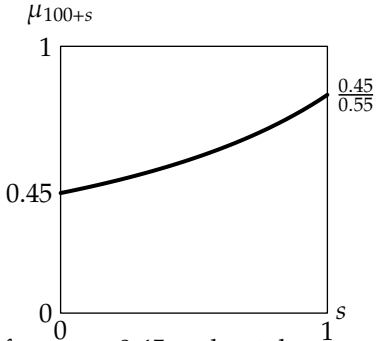
Squaring, the answer is $0.625^2 = \boxed{\mathbf{0.390625}}$. □

The probability density function of T_x, ${}_sp_x\,\mu_{x+s}$, is the constant q_x, the derivative of the conditional cumulative distribution function ${}_sq_x = sq_x$ with respect to s. That is another important formula, since the density is needed to compute expected values, so let's repeat it:

$$\boxed{{}_sp_x\,\mu_{x+s} = q_x} \tag{7.4}$$

It follows that the force of mortality is q_x divided by $1 - sq_x$:

$$\mu_{x+s} = \frac{q_x}{{}_sp_x} = \frac{q_x}{1 - sq_x} \tag{7.5}$$



The force of mortality increases over the year, as illustrated in the graph for $q_{100} = 0.45$ to the right.

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Quiz 7-1 You are given:

(i) $\mu_{50.4} = 0.01$

(ii) Deaths are uniformly distributed between integral ages.

Calculate ${}_{0.6}q_{50.4}$.

Complete Expectation of Life Under UDD

Under uniform distribution of deaths between integral ages, if the complete future lifetime random variable T_x is written as $T_x = K_x + R_x$, where K_x is the curtate future lifetime and R_x is the fraction of the last year lived, then K_x and R_x are independent, and R_x is uniform on $[0, 1)$. If uniform distribution of deaths is not assumed, K_x and R_x are usually not independent. Since R_x is uniform on $[0, 1)$, $\mathbf{E}[R_x] = \frac{1}{2}$ and $\text{Var}(R_x) = \frac{1}{12}$. It follows from $\mathbf{E}[R_x] = \frac{1}{2}$ that

$$\mathring{e}_x = e_x + \tfrac{1}{2} \tag{7.6}$$

Let's discuss temporary complete life expectancy. You can always evaluate the temporary complete expectancy, whether or not UDD is assumed, by integrating ${}_tp_x$, as indicated by formula (5.6) on page 80. For UDD, ${}_tp_x$ is linear between integral ages. Therefore, a rule we learned in Lesson 5 applies for all integral x:

$$\mathring{e}_{x:\overline{1}|} = p_x + 0.5q_x \tag{5.13}$$

This equation will be useful. In addition, the method for generating this equation can be used to work out questions involving temporary complete life expectancies for short periods. The following example illustrates this. This example will be reminiscent of calculating temporary complete life expectancy for uniform mortality.

Example 7C You are given

(i) $q_x = 0.1$.

(ii) Deaths are uniformly distributed between integral ages.

Calculate $\mathring{e}_{x:\overline{0.4}|}$.

Answer: We will discuss two ways to solve this: an algebraic method and a geometric method.

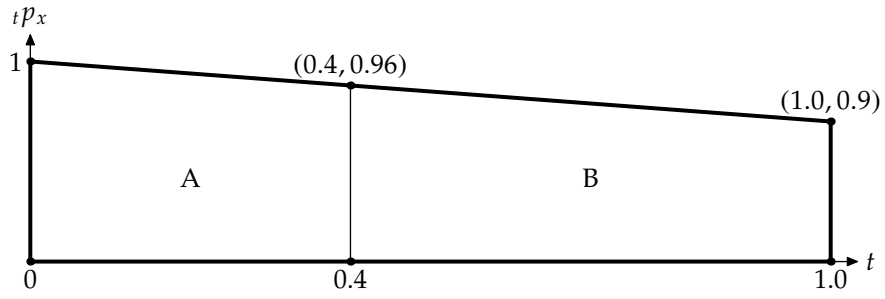
The algebraic method is based on the double expectation theorem, equation (1.11). It uses the fact that *for a uniform distribution, the mean is the midpoint*. If deaths occur uniformly between integral ages, then those who die within a period contained within a year survive half the period on the average.

In this example, those who die within 0.4 survive an average of 0.2. Those who survive 0.4 survive an average of 0.4 of course. The temporary life expectancy is the weighted average of these two groups, or ${}_{0.4}q_x(0.2) + {}_{0.4}p_x(0.4)$. This is:

$$\begin{aligned} {}_{0.4}q_x &= (0.4)(0.1) = 0.04 \\ {}_{0.4}p_x &= 1 - 0.04 = 0.96 \\ \mathring{e}_{x:\overline{0.4}|} &= 0.04(0.2) + 0.96(0.4) = \boxed{\mathbf{0.392}} \end{aligned}$$

An equivalent geometric method, the trapezoidal rule, is to draw the ${}_tp_x$ function from 0 to 0.4. The integral of ${}_tp_x$ is the area under the line, which is the area of a trapezoid: the average of the heights times the width. The following is the graph (not drawn to scale):

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Trapezoid A is the area we are interested in. Its area is $\frac{1}{2}(1+0.96)(0.4) = \boxed{\mathbf{0.392}}$. □



Quiz 7-2 As in Example 7C, you are given

(i) $q_x = 0.1$.

(ii) Deaths are uniformly distributed between integral ages.

Calculate $\mathring{e}_{x+0.4:\overline{0.6}|}$.

Let's now work out an example in which the duration crosses an integral boundary.

Example 7D You are given:

(i) $q_x = 0.1$

(ii) $q_{x+1} = 0.2$

(iii) Deaths are uniformly distributed between integral ages.

Calculate $\mathring{e}_{x+0.5:\overline{1}|}$.

Answer: Let's start with the algebraic method. Since the mortality rate changes at $x+1$, we must split the group into those who die before $x+1$, those who die afterwards, and those who survive. Those who die before $x+1$ live 0.25 on the average since the period to $x+1$ is length 0.5. Those who die after $x+1$ live between 0.5 and 1 years; the midpoint of 0.5 and 1 is 0.75, so they live 0.75 years on the average. Those who survive live 1 year.

Now let's calculate the probabilities.

$$
\begin{aligned}
{}_{0.5}q_{x+0.5} &= \frac{0.5(0.1)}{1-0.5(0.1)} = \frac{5}{95} \\
{}_{0.5}p_{x+0.5} &= 1 - \frac{5}{95} = \frac{90}{95} \\
{}_{0.5|0.5}q_{x+0.5} &= \left(\frac{90}{95}\right)\Big(0.5(0.2)\Big) = \frac{9}{95} \\
{}_{1}p_{x+0.5} &= 1 - \frac{5}{95} - \frac{9}{95} = \frac{81}{95}
\end{aligned}
$$

These probabilities could also be calculated by setting up an l_x table with radix 100 at age x and interpo-

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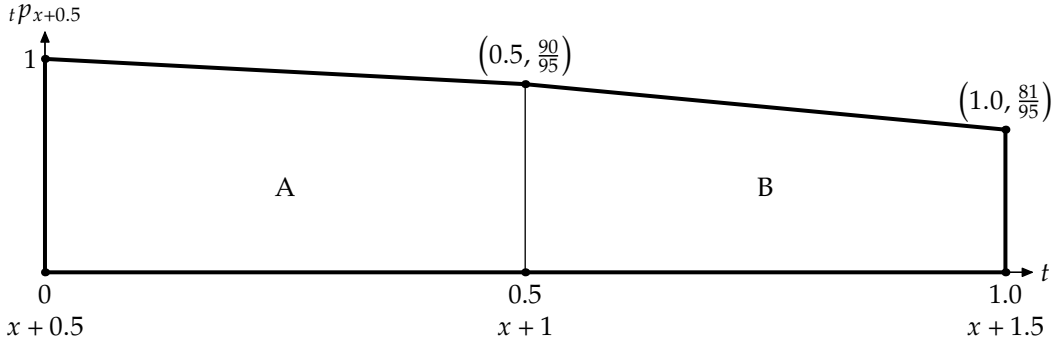
lating within it to get $l_{x+0.5}$ and $l_{x+1.5}$. Then

$$\begin{aligned}
l_{x+1} &= 0.9l_x = 90 \\
l_{x+2} &= 0.8l_{x+1} = 72 \\
l_{x+0.5} &= 0.5(90+100) = 95 \\
l_{x+1.5} &= 0.5(72+90) = 81 \\
{}_{0.5}q_{x+0.5} &= 1 - \frac{90}{95} = \frac{5}{95} \\
{}_{0.5|0.5}q_{x+0.5} &= \frac{90-81}{95} = \frac{9}{95} \\
{}_{1}p_{x+0.5} &= \frac{l_{x+1.5}}{l_{x+0.5}} = \frac{81}{95}
\end{aligned}$$

Either way, we're now ready to calculate $\mathring{e}_{x+0.5:\overline{1}|}$.

$$\mathring{e}_{x+0.5:\overline{1}|} = \frac{5(0.25)+9(0.75)+81(1)}{95} = \boxed{\frac{\mathbf{89}}{\mathbf{95}}}$$

For the geometric method we draw the following graph:



The heights at $x+1$ and $x+1.5$ are as we computed above. Then we compute each area separately. The area of A is $\frac{1}{2}\left(1+\frac{90}{95}\right)(0.5) = \frac{185}{95(4)}$. The area of B is $\frac{1}{2}\left(\frac{90}{95}+\frac{81}{95}\right)(0.5) = \frac{171}{95(4)}$. Adding them up, we get $\frac{185+171}{95(4)} = \boxed{\frac{\mathbf{89}}{\mathbf{95}}}$. □



Quiz 7-3 The probability that a battery fails by the end of the k^{th} month is given in the following table:

k	Probability of battery failure by the end of month k
1	0.05
2	0.20
3	0.60

Between integral months, time of failure for the battery is uniformly distributed.
Calculate the expected amount of time the battery survives within 2.25 months.

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To calculate $\mathring{e}_{x:\overline{n}|}$ in terms of $e_{x:\overline{n}|}$ when x and n are both integers, note that those who survive n years contribute the same to both. Those who die contribute an average of $\frac{1}{2}$ more to $\mathring{e}_{x:\overline{n}|}$ since they die on the average in the middle of the year. Thus the difference is $\frac{1}{2}{}_n q_x$:

$$\mathring{e}_{x:\overline{n}|} = e_{x:\overline{n}|} + 0.5{}_n q_x \tag{7.7}$$

Example 7E You are given:

(i) $q_x = 0.01$ for $x = 50, 51, \ldots, 59$.

(ii) Deaths are uniformly distributed between integral ages.

Calculate $\mathring{e}_{50:\overline{10}|}$.

Answer: As we just said, $\mathring{e}_{50:\overline{10}|} = e_{50:\overline{10}|} + 0.5{}_{10}q_{50}$. The first summand, $e_{50:\overline{10}|}$, is the sum of ${}_k p_{50} = 0.99^k$ for $k = 1, \ldots, 10$. This sum is a geometric series:

$$e_{50:\overline{10}|} = \sum_{k=1}^{10} 0.99^k = \frac{0.99 - 0.99^{11}}{1 - 0.99} = 9.46617$$

The second summand, the probability of dying within 10 years is ${}_{10}q_{50} = 1 - 0.99^{10} = 0.095618$. Therefore

$$\mathring{e}_{50:\overline{10}|} = 9.46617 + 0.5(0.095618) = \boxed{\mathbf{9.51398}}$$ □

7.2 Constant force of mortality

The constant force of mortality interpolation method sets μ_{x+s} equal to a constant for x an integral age and $0 < s \leq 1$. Since $p_x = \exp\left(-\int_0^1 \mu_{x+s}\, ds\right)$ and $\mu_{x+s} = \mu$ is constant,

$$p_x = e^{-\mu} \tag{7.8}$$

$$\mu = -\ln p_x \tag{7.9}$$

Therefore

$${}_s p_x = e^{-\mu s} = (p_x)^s \tag{7.10}$$

In fact, ${}_s p_{x+t}$ is independent of t for $0 \leq t \leq 1 - s$.

$${}_s p_{x+t} = (p_x)^s \tag{7.11}$$

for any $0 \leq t \leq 1 - s$. Figure 7.1 shows l_{100+s} and μ_{100+s} for $l_{100} = 1000$ and $q_{100} = 0.45$ if constant force of mortality is assumed.

Contrast constant force of mortality between integral ages to global constant force of mortality, which was introduced in Subsection 4.2.1. The method discussed here allows μ_x to vary for different integers x.

We will now repeat some of the earlier examples but using constant force of mortality.

Example 7F You are given:

(i) $q_x = 0.1$

(ii) The force of mortality is constant between integral ages.

Calculate ${}_{1/2}q_{x+1/4}$.

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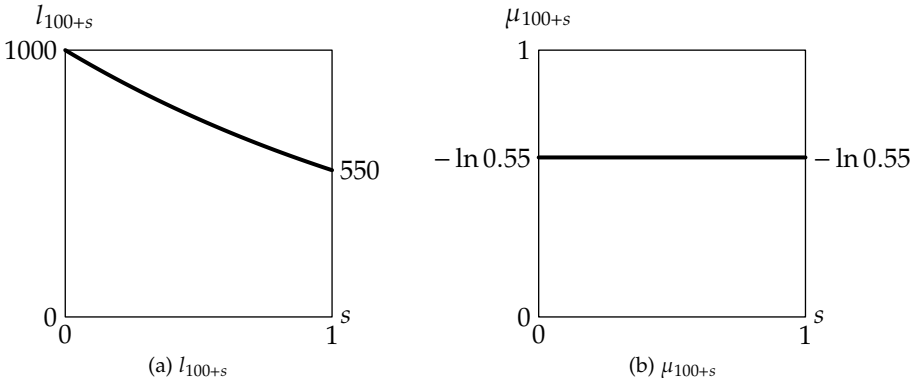


Figure 7.1: Example of constant force of mortality

Answer:

$$ {}_{1/2}q_{x+1/4} = 1 - {}_{1/2}p_{x+1/4} = 1 - p_x^{1/2} = 1 - 0.9^{1/2} = 1 - 0.948683 = \boxed{\mathbf{0.051317}} $$ □

Example 7G You are given:

(i) $q_x = 0.1$

(ii) $q_{x+1} = 0.2$

(iii) The force of mortality is constant between integral ages.

Calculate $\mathring{e}_{x+0.5:\overline{1}|}$.

Answer: We calculate $\int_0^1 {}_tp_{x+0.5}\,dt$. We split this up into two integrals, one from 0 to 0.5 for age x and one from 0.5 to 1 for age $x+1$. The first integral is

$$ \int_0^{0.5} {}_tp_{x+0.5}\,dt = \int_0^{0.5} p_x^t\,dt = \int_0^{0.5} 0.9^t\,dt = -\frac{1-0.9^{0.5}}{\ln 0.9} = 0.487058 $$

For $t > 0.5$,

$$ {}_tp_{x+0.5} = {}_{0.5}p_{x+0.5}\,{}_{t-0.5}p_{x+1} = 0.9^{0.5}\,{}_{t-0.5}p_{x+1} $$

so the second integral is

$$ 0.9^{0.5}\int_{0.5}^1 {}_{t-0.5}p_{x+1}\,dt = 0.9^{0.5}\int_0^{0.5} 0.8^t\,dt = -\left(0.9^{0.5}\right)\left(\frac{1-0.8^{0.5}}{\ln 0.8}\right) = (0.948683)(0.473116) = 0.448837 $$

The answer is $\mathring{e}_{x+0.5:\overline{1}|} = 0.487058 + 0.448837 = \boxed{\mathbf{0.935895}}$. □

Although constant force of mortality is not used as often as UDD, it can be useful for simplifying formulas under certain circumstances. Calculating the expected present value of an insurance where the death benefit within a year follows an exponential pattern (this can happen when the death benefit is the discounted present value of something) may be easier with constant force of mortality than with UDD.

The formulas for this lesson are summarized in Table 7.1.

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Table 7.1: Summary of formulas for fractional ages

Function	Uniform distribution of deaths	Constant force of mortality
l_{x+s}	$l_x - sd_x$	$l_x\, p_x^s$
${}_sq_x$	sq_x	$1 - p_x^s$
${}_sp_x$	$1 - sq_x$	p_x^s
${}_sq_{x+t}$	$sq_x/(1 - tq_x)$	$1 - p_x^s$
μ_{x+s}	$q_x/(1 - sq_x)$	$-\ln p_x$
${}_sp_x\, \mu_{x+s}$	q_x	$-p_x^s \ln p_x$
$\mathring{e}_x$	$e_x + 0.5$	
$\mathring{e}_{x:\overline{n}\rceil}$	$e_{x:\overline{n}\rceil} + 0.5\, {}_nq_x$	
$\mathring{e}_{x:\overline{1}\rceil}$	$p_x + 0.5q_x$	

Exercises

Uniform distribution of death

7.1. **[CAS4-S85:16]** (1 point) Deaths are uniformly distributed between integral ages.
Which of the following represents ${}_{3/4}p_x + \frac{1}{2}{}_{1/2}p_x\, \mu_{x+1/2}$?

(A) ${}_{3/4}p_x$ (B) ${}_{3/4}q_x$ (C) ${}_{1/2}p_x$ (D) ${}_{1/2}q_x$ (E) ${}_{1/4}p_x$

7.2. [Based on **150-S88:25**] You are given:

(i) ${}_{0.25}q_{x+0.75} = 3/31$.
(ii) Mortality is uniformly distributed within age x.

Calculate q_x.

Use the following information for questions 7.3 and 7.4:

You are given:
(i) Deaths are uniformly distributed between integral ages.
(ii) $q_x = 0.10$.
(iii) $q_{x+1} = 0.15$.

7.3. Calculate ${}_{1/2}q_{x+3/4}$.

7.4. Calculate ${}_{0.3|0.5}q_{x+0.4}$.

7.5. You are given:

(i) Deaths are uniformly distributed between integral ages.
(ii) Mortality follows the Illustrative Life Table.

Calculate the median future lifetime for (45.5).

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Exercises continue on the next page ...

7.6. [**160-F90:5**] You are given:

(i) A survival distribution is defined by

$$l_x = 1000\left(1 - \left(\frac{x}{100}\right)^2\right),\ 0 \le x \le 100.$$

(ii) μ_x denotes the actual force of mortality for the survival distribution.

(iii) μ_x^L denotes the approximation of the force of mortality based on the uniform distribution of deaths assumption for l_x, $50 \le x < 51$.

Calculate $\mu_{50.25} - \mu_{50.25}^L$.

(A) -0.00016 (B) -0.00007 (C) 0 (D) 0.00007 (E) 0.00016

7.7. A survival distribution is defined by

(i) $S_0(k) = 1/(1 + 0.01k)^4$ for k a non-negative integer.

(ii) Deaths are uniformly distributed between integral ages.

Calculate ${}_{0.4}q_{20.2}$.

7.8. [Based on **150-S89:15**] You are given:

(i) Deaths are uniformly distributed over each year of age.

(ii)

x	l_x
35	100
36	99
37	96
38	92
39	87

Which of the following are true?

I. ${}_{1|2}q_{36} = 0.091$

II. $\mu_{37.5} = 0.043$

III. ${}_{0.33}q_{38.5} = 0.021$

(A) I and II only (B) I and III only (C) II and III only (D) I, II and III
(E) The correct answer is not given by (A) , (B) , (C) , or (D) .

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Exercises continue on the next page ...

7.9. [**150-82-94:5**] You are given:

(i) Deaths are uniformly distributed over each year of age.
(ii) ${}_{0.75}p_x = 0.25$.

Which of the following are true?

I. ${}_{0.25}q_{x+0.5} = 0.5$
II. ${}_{0.5}q_x = 0.5$
III. $\mu_{x+0.5} = 0.5$

(A) I and II only (B) I and III only (C) II and III only (D) I, II and III
(E) The correct answer is not given by (A) , (B) , (C) , or (D) .

7.10. [**3-S00:12**] For a certain mortality table, you are given:

(i) $\mu_{80.5} = 0.0202$
(ii) $\mu_{81.5} = 0.0408$
(iii) $\mu_{82.5} = 0.0619$
(iv) Deaths are uniformly distributed between integral ages.

Calculate the probability that a person age 80.5 will die within two years.

(A) 0.0782 (B) 0.0785 (C) 0.0790 (D) 0.0796 (E) 0.0800

7.11. You are given:

(i) Deaths are uniformly distributed between integral ages.
(ii) $q_x = 0.1$.
(iii) $q_{x+1} = 0.3$.

Calculate $\mathring{e}_{x+0.7:\overline{1}|}$.

7.12. You are given:

(i) Deaths are uniformly distributed between integral ages.
(ii) $q_{45} = 0.01$.
(iii) $q_{46} = 0.011$.

Calculate $\text{Var}\left(\min\left(T_{45}, 2\right)\right)$.

7.13. You are given:

(i) Deaths are uniformly distributed between integral ages.
(ii) ${}_{10}p_x = 0.2$.

Calculate $\mathring{e}_{x:\overline{10}|} - e_{x:\overline{10}|}$.

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Exercises continue on the next page ...

7.14. [**4-F86:21**] You are given:

(i) $q_{60} = 0.020$
(ii) $q_{61} = 0.022$
(iii) Deaths are uniformly distributed over each year of age.

Calculate $\mathring{e}_{60:\overline{1.5}|}$.

(A) 1.447 (B) 1.457 (C) 1.467 (D) 1.477 (E) 1.487

7.15. [**150-F89:21**] You are given:

(i) $q_{70} = 0.040$
(ii) $q_{71} = 0.044$
(iii) Deaths are uniformly distributed over each year of age.

Calculate $\mathring{e}_{70:\overline{1.5}|}$.

(A) 1.435 (B) 1.445 (C) 1.455 (D) 1.465 (E) 1.475

7.16. [**3-S01:33**] For a 4-year college, you are given the following probabilities for dropout from all causes:

$$q_0 = 0.15$$
$$q_1 = 0.10$$
$$q_2 = 0.05$$
$$q_3 = 0.01$$

Dropouts are uniformly distributed over each year.

Compute the temporary 1.5-year complete expected college lifetime of a student entering the second year, $\mathring{e}_{1:\overline{1.5}|}$.

(A) 1.25 (B) 1.30 (C) 1.35 (D) 1.40 (E) 1.45

7.17. You are given:

(i) Deaths are uniformly distributed between integral ages.
(ii) $\mathring{e}_{x+0.5:\overline{0.5}|} = 5/12$.

Calculate q_x.

7.18. You are given:

(i) Deaths are uniformly distributed over each year of age.
(ii) $\mathring{e}_{55.2:\overline{0.4}|} = 0.396$.

Calculate $\mu_{55.2}$.

7.19. [**150-S87:21**] You are given:

(i) $d_x = k$ for $x = 0, 1, 2, \ldots, \omega - 1$
(ii) $\mathring{e}_{20:\overline{20}|} = 18$
(iii) Deaths are uniformly distributed over each year of age.

Calculate ${}_{30|10}q_{30}$.

(A) 0.111 (B) 0.125 (C) 0.143 (D) 0.167 (E) 0.200

Exercises continue on the next page ...
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7.20. [**150-S89:24**] You are given:

(i) Deaths are uniformly distributed over each year of age.
(ii) $\mu_{45.5} = 0.5$

Calculate $\mathring{e}_{45:\overline{1}|}$.

(A) 0.4 (B) 0.5 (C) 0.6 (D) 0.7 (E) 0.8

7.21. [**CAS3-S04:10**] 4,000 people age (30) each pay an amount, P, into a fund. Immediately after the 1,000th death, the fund will be dissolved and each of the survivors will be paid \$50,000.

- Mortality follows the Illustrative Life Table, using linear interpolation at fractional ages.
- $i = 12\%$

Calculate P.

(A) Less than 515
(B) At least 515, but less than 525
(C) At least 525, but less than 535
(D) At least 535, but less than 545
(E) At least 545

Constant force of mortality

7.22. [**160-F87:5**] Based on given values of l_x and l_{x+1}, ${}_{1/4}p_{x+1/4} = 49/50$ under the assumption of constant force of mortality.

Calculate ${}_{1/4}p_{x+1/4}$ under the uniform distribution of deaths hypothesis.

(A) 0.9799 (B) 0.9800 (C) 0.9801 (D) 0.9802 (E) 0.9803

7.23. [**160-S89:5**] A mortality study is conducted for the age interval $(x, x+1]$.

If a constant force of mortality applies over the interval, ${}_{0.25}q_{x+0.1} = 0.05$.

Calculate ${}_{0.25}q_{x+0.1}$ assuming a uniform distribution of deaths applies over the interval.

(A) 0.044 (B) 0.047 (C) 0.050 (D) 0.053 (E) 0.056

7.24. [**150-F89:29**] You are given that $q_x = 0.25$.

Based on the constant force of mortality assumption, the force of mortality is μ^A_{x+s}, $0 < s < 1$.

Based on the uniform distribution of deaths assumption, the force of mortality is μ^B_{x+s}, $0 < s < 1$.

Calculate the smallest s such that $\mu^B_{x+s} \geq \mu^A_{x+s}$.

(A) 0.4523 (B) 0.4758 (C) 0.5001 (D) 0.5239 (E) 0.5477

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Exercises continue on the next page ...

7.25. **[160-S91:4]** From a population mortality study, you are given:

(i) Within each age interval, $[x+k, x+k+1)$, the force of mortality, μ_{x+k}, is constant.

(ii)

k	$e^{-\mu_{x+k}}$	$\frac{1-e^{-\mu_{x+k}}}{\mu_{x+k}}$
0	0.98	0.99
1	0.96	0.98

Calculate $\mathring{e}_{x:\overline{2}|}$, the expected lifetime in years over $(x, x+2]$.

(A) 1.92 (B) 1.94 (C) 1.95 (D) 1.96 (E) 1.97

7.26. You are given:

(i) $q_{80} = 0.1$
(ii) $q_{81} = 0.2$
(iii) The force of mortality is constant between integral ages.

Calculate $\mathring{e}_{80.4:\overline{0.8}|}$.

7.27. **[3-S01:27]** An actuary is modeling the mortality of a group of 1000 people, each age 95, for the next three years.

The actuary starts by calculating the expected number of survivors at each integral age by

$$l_{95+k} = 1000\,{}_kp_{95}, \qquad k = 1, 2, 3$$

The actuary subsequently calculates the expected number of survivors at the middle of each year using the assumption that deaths are uniformly distributed over each year of age.

This is the result of the actuary's model:

Age	Survivors
95	1000
95.5	800
96	600
96.5	480
97	—
97.5	288
98	—

The actuary decides to change his assumption for mortality at fractional ages to the constant force assumption. He retains his original assumption for each ${}_kp_{95}$.

Calculate the revised expected number of survivors at age 97.5.

(A) 270 (B) 273 (C) 276 (D) 279 (E) 282

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Exercises continue on the next page ...

7.28. [**M-F06:16**] You are given the following information on participants entering a 2-year program for treatment of a disease:

(i) Only 10% survive to the end of the second year.
(ii) The force of mortality is constant within each year.
(iii) The force of mortality for year 2 is three times the force of mortality for year 1.

Calculate the probability that a participant who survives to the end of month 3 dies by the end of month 21.

(A) 0.61 (B) 0.66 (C) 0.71 (D) 0.75 (E) 0.82

7.29. [**Sample Question #267**] You are given:

(i) $\mu_x = \sqrt{\dfrac{1}{80-x}}, \quad 0 \le x \le 80$
(ii) F is the exact value of $S_0(10.5)$.
(iii) G is the value of $S_0(10.5)$ using the constant force assumption for interpolation between ages 10 and 11.

Calculate $F - G$.

(A) -0.01083 (B) -0.00005 (C) 0 (D) 0.00003 (E) 0.00172

Additional old SOA Exam MLC questions: S12:2

Additional old SOA Exam MLC questions: F13:25

Additional old CAS Exam 3/3L questions: S05:31, F05:13, S06:13, F06:13, S07:24, S08:16, S09:3, F09:3, S10:4, F10:3, S11:3, S12:3, F12:3, S13:3, F13:3

Additional old CAS Exam LC questions: S14:4, F14:4, S15:3

Solutions

7.1. In the second summand, ${}_{1/2}p_x\,\mu_{x+1/2}$ is the density function, which is the constant q_x under UDD. The first summand ${}_{3/4}p_x = 1 - \frac{3}{4}q_x$. So the sum is $1 - \frac{1}{4}q_x$, or $\boxed{{}_{1/4}p_x}$. **(E)**

7.2. Using equation (7.3),

$$\frac{3}{31} = {}_{0.25}q_{x+0.75} = \frac{0.25q_x}{1-0.75q_x}$$
$$\frac{3}{31} - \frac{2.25}{31}q_x = 0.25q_x$$
$$\frac{3}{31} = \frac{10}{31}q_x$$
$$q_x = \boxed{\mathbf{0.3}}$$

7.3. We calculate the probability that $(x+\frac{3}{4})$ survives for half a year. Since the duration crosses an integer boundary, we break the period up into two quarters of a year. The probability of $(x + 3/4)$ surviving for 0.25 years is, by equation (7.3),

$${}_{1/4}p_{x+3/4} = \frac{1-0.10}{1-0.75(0.10)} = \frac{0.9}{0.925}$$

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The probability of $(x+1)$ surviving to $x+1.25$ is

$$_{1/4}p_{x+1} = 1 - 0.25(0.15) = 0.9625$$

The answer to the question is then the complement of the product of these two numbers:

$$_{1/2}q_{x+3/4} = 1 - {}_{1/2}p_{x+3/4} = 1 - {}_{1/4}p_{x+3/4}\,{}_{1/4}p_{x+1} = 1 - \left(\frac{0.9}{0.925}\right)(0.9625) = \boxed{\mathbf{0.06351}}$$

Alternatively, you could build a life table starting at age x, with $l_x = 1$. Then $l_{x+1} = (1-0.1) = 0.9$ and $l_{x+2} = 0.9(1-0.15) = 0.765$. Under UDD, l_x at fractional ages is obtained by linear interpolation, so

$$\begin{aligned} l_{x+0.75} &= 0.75(0.9) + 0.25(1) = 0.925 \\ l_{x+1.25} &= 0.25(0.765) + 0.75(0.9) = 0.86625 \\ {}_{1/2}p_{3/4} &= \frac{l_{x+1.25}}{l_{x+0.75}} = \frac{0.86625}{0.925} = 0.93649 \\ {}_{1/2}q_{3/4} &= 1 - {}_{1/2}p_{3/4} = 1 - 0.93649 = \boxed{\mathbf{0.06351}} \end{aligned}$$

7.4. ${}_{0.3|0.5}q_{x+0.4}$ is ${}_{0.3}p_{x+0.4} - {}_{0.8}p_{x+0.4}$. The first summand is

$${}_{0.3}p_{x+0.4} = \frac{1-0.7q_x}{1-0.4q_x} = \frac{1-0.07}{1-0.04} = \frac{93}{96}$$

The probability that $(x+0.4)$ survives to $x+1$ is, by equation (7.3),

$${}_{0.6}p_{x+0.4} = \frac{1-0.10}{1-0.04} = \frac{90}{96}$$

and the probability $(x+1)$ survives to $x+1.2$ is

$${}_{0.2}p_{x+1} = 1 - 0.2q_{x+1} = 1 - 0.2(0.15) = 0.97$$

So

$${}_{0.3|0.5}q_{x+0.4} = \frac{93}{96} - \left(\frac{90}{96}\right)(0.97) = \boxed{\mathbf{0.059375}}$$

Alternatively, you could use the life table from the solution to the last question, and linearly interpolate:

$$\begin{aligned} l_{x+0.4} &= 0.4(0.9) + 0.6(1) = 0.96 \\ l_{x+0.7} &= 0.7(0.9) + 0.3(1) = 0.93 \\ l_{x+1.2} &= 0.2(0.765) + 0.8(0.9) = 0.873 \\ {}_{0.3|0.5}q_{x+0.4} &= \frac{0.93 - 0.873}{0.96} = \boxed{\mathbf{0.059375}} \end{aligned}$$

7.5. Under uniform distribution of deaths between integral ages, $l_{x+0.5} = \frac{1}{2}(l_x + l_{x+1})$, since the survival function is a straight line between two integral ages. Therefore, $l_{45.5} = \frac{1}{2}(9{,}164{,}051 + 9{,}127{,}426) = 9{,}145{,}738.5$. Median future lifetime occurs when $l_x = \frac{1}{2}(9{,}145{,}738.5) = 4{,}572{,}869$. This happens between ages 77 and 78. We interpolate between the ages to get the exact median:

$$\begin{aligned} l_{77} - s(l_{77} - l_{78}) &= 4{,}572{,}869 \\ 4{,}828{,}182 - s(4{,}828{,}182 - 4{,}530{,}360) &= 4{,}572{,}869 \\ 4{,}828{,}182 - 297{,}822s &= 4{,}572{,}869 \\ s = \frac{4{,}828{,}182 - 4{,}572{,}869}{297{,}822} &= \frac{255{,}313}{297{,}822} = 0.8573 \end{aligned}$$

So the median age at death is 77.8573, and median future lifetime is $77.8573 - 45.5 = \boxed{\mathbf{32.3573}}$.

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7.6. ${}_xp_0 = \frac{l_x}{l_0} = 1 - (\frac{x}{100})^2$. The force of mortality is calculated as the negative derivative of $\ln {}_xp_0$:

$$\mu_x = -\frac{\mathrm{d} \ln {}_xp_0}{\mathrm{d}x} = \frac{2(\frac{x}{100})(\frac{1}{100})}{1 - (\frac{x}{100})^2} = \frac{2x}{100^2 - x^2}$$

$$\mu_{50.25} = \frac{100.5}{100^2 - 50.25^2} = 0.0134449$$

For UDD, we need to calculate q_{50}.

$$p_{50} = \frac{l_{51}}{l_{50}} = \frac{1 - 0.51^2}{1 - 0.50^2} = 0.986533$$
$$q_{50} = 1 - 0.986533 = 0.013467$$

so under UDD,

$$\mu^L_{50.25} = \frac{q_{50}}{1 - 0.25q_{50}} = \frac{0.013467}{1 - 0.25(0.013467)} = 0.013512.$$

The difference between $\mu_{50.25}$ and $\mu^L_{50.25}$ is $0.013445 - 0.013512 =$ **$\boxed{-0.000067}$**. **(B)**

7.7. $S_0(20) = 1/1.2^4$ and $S_0(21) = 1/1.21^4$, so $q_{20} = 1 - (1.2/1.21)^4 = 0.03265$. Then

$${}_{0.4}q_{20.2} = \frac{0.4q_{20}}{1 - 0.2q_{20}} = \frac{0.4(0.03265)}{1 - 0.2(0.03265)} = \boxed{\mathbf{0.01315}}$$

7.8.

I. Calculate ${}_{1|2}q_{36}$.

$${}_{1|2}q_{36} = \frac{{}_2d_{37}}{l_{36}} = \frac{96 - 87}{99} = 0.09091 \quad \checkmark$$

This statement does not require uniform distribution of deaths.

II. By equation (7.5),

$$\mu_{37.5} = \frac{q_{37}}{1 - 0.5q_{37}} = \frac{4/96}{1 - 2/96} = \frac{4}{94} = 0.042553 \quad \checkmark$$

III. Calculate ${}_{0.33}q_{38.5}$.

$${}_{0.33}q_{38.5} = \frac{{}_{0.33}d_{38.5}}{l_{38.5}} = \frac{(0.33)(5)}{89.5} = 0.018436 \quad \times$$

I can't figure out what mistake you'd have to make to get 0.021. **(A)**

7.9. First calculate q_x.

$$1 - 0.75q_x = 0.25$$
$$q_x = 1$$

Then by equation (7.3), ${}_{0.25}q_{x+0.5} = 0.25/(1 - 0.5) = 0.5$, making I true.
By equation (7.2), ${}_{0.5}q_x = 0.5q_x = 0.5$, making II true.
By equation (7.5), $\mu_{x+0.5} = 1/(1 - 0.5) = 2$, making III false. **(A)**

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7.10. We use equation (7.5) to back out q_x for each age.

$$\mu_{x+0.5} = \frac{q_x}{1-0.5q_x} \Rightarrow q_x = \frac{\mu_{x+0.5}}{1+0.5\mu_{x+0.5}}$$
$$q_{80} = \frac{0.0202}{1.0101} = 0.02$$
$$q_{81} = \frac{0.0408}{1.0204} = 0.04$$
$$q_{82} = \frac{0.0619}{1.03095} = 0.06$$

Then by equation (7.3), ${}_{0.5}p_{80.5} = 0.98/0.99$. $p_{81} = 0.96$, and ${}_{0.5}p_{82} = 1 - 0.5(0.06) = 0.97$. Therefore

$${}_2q_{80.5} = 1 - \left(\frac{0.98}{0.99}\right)(0.96)(0.97) = \boxed{\textbf{0.0782}} \qquad \textbf{(A)}$$

7.11. To do this algebraically, we split the group into those who die within 0.3 years, those who die between 0.3 and 1 years, and those who survive one year. Under UDD, those who die will die at the midpoint of the interval (assuming the interval doesn't cross an integral age), so we have

Group	Survival time	Probability of group	Average survival time
I	$(0, 0.3]$	$1 - {}_{0.3}p_{x+0.7}$	0.15
II	$(0.3, 1]$	${}_{0.3}p_{x+0.7} - {}_1p_{x+0.7}$	0.65
III	$(1, \infty)$	${}_1p_{x+0.7}$	1

We calculate the required probabilities.

$${}_{0.3}p_{x+0.7} = \frac{0.9}{0.93} = 0.967742$$
$${}_1p_{x+0.7} = \frac{0.9}{0.93}\big(1 - 0.7(0.3)\big) = 0.764516$$
$$1 - {}_{0.3}p_{x+0.7} = 1 - 0.967742 = 0.032258$$
$${}_{0.3}p_{x+0.7} - {}_1p_{x+0.7} = 0.967742 - 0.764516 = 0.203226$$
$$\mathring{e}_{x+0.7:\overline{1}|} = 0.032258(0.15) + 0.203226(0.65) + 0.764516(1) = \boxed{\textbf{0.901452}}$$

Alternatively, we can use trapezoids. We already know from the above solution that the heights of the first trapezoid are 1 and 0.967742, and the heights of the second trapezoid are 0.967742 and 0.764516. So the sum of the area of the two trapezoids is

$$\begin{aligned}\mathring{e}_{x+0.7:\overline{1}|} &= (0.3)(0.5)(1 + 0.967742) + (0.7)(0.5)(0.967742 + 0.764516) \\ &= 0.295161 + 0.606290 = \boxed{\textbf{0.901451}}\end{aligned}$$

7.12. For the expected value, we'll use the recursive formula. (The trapezoidal rule could also be used.)

$$\begin{aligned}\mathring{e}_{45:\overline{2}|} &= \mathring{e}_{45:\overline{1}|} + p_{45}\,\mathring{e}_{46:\overline{1}|} \\ &= (1 - 0.005) + 0.99(1 - 0.0055) \\ &= 1.979555\end{aligned}$$

We'll use equation (5.7)to calculate the second moment.

$$\mathbf{E}[\min(T_{45}, 2)^2] = 2\int_0^2 t\,{}_tp_x\,\mathrm{d}t$$

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$$= 2\left(\int_0^1 t(1-0.01t)\,dt + \int_1^2 t(0.99)\Big(1-0.011(t-1)\Big)\,dt\right)$$
$$= 2\left(\frac{1}{2} - 0.01\left(\frac{1}{3}\right) + 0.99\left(\frac{(1.011)(2^2-1^2)}{2} - 0.011\left(\frac{2^3-1^3}{3}\right)\right)\right)$$
$$= 2(0.496667 + 1.475925) = 3.94518$$

So the variance is $3.94518 - 1.979555^2 = \boxed{\mathbf{0.02654}}$.

7.13. As discussed on page 132, by equation (7.7), the difference is

$$\frac{1}{2}\,{}_{10}q_x = \frac{1}{2}(1-0.2) = \boxed{\mathbf{0.4}}$$

7.14. Those who die in the first year survive $\frac{1}{2}$ year on the average and those who die in the first half of the second year survive 1.25 years on the average, so we have

$$p_{60} = 0.98$$
$${}_{1.5}p_{60} = 0.98\Big(1 - 0.5(0.022)\Big) = 0.96922$$
$$\mathring{e}_{60:\overline{1.5}|} = 0.5(0.02) + 1.25(0.98 - 0.96922) + 1.5(0.96922) = \boxed{\mathbf{1.477305}} \qquad \textbf{(D)}$$

Alternatively, we use the trapezoidal method. The first trapezoid has heights 1 and $p_{60} = 0.98$ and width 1. The second trapezoid has heights $p_{60} = 0.98$ and ${}_{1.5}p_{60} = 0.96922$ and width 1/2.

$$\mathring{e}_{60:\overline{1.5}|} = \frac{1}{2}(1 + 0.98) + \left(\frac{1}{2}\right)\left(\frac{1}{2}\right)(0.98 + 0.96922)$$
$$= \boxed{\mathbf{1.477305}} \qquad \textbf{(D)}$$

7.15. $p_{70} = 1 - 0.040 = 0.96$, ${}_2p_{70} = (0.96)(0.956) = 0.91776$, and by linear interpolation, ${}_{1.5}p_{70} = 0.5(0.96 + 0.91776) = 0.93888$. Those who die in the first year survive 0.5 years on the average and those who die in the first half of the second year survive 1.25 years on the average. So

$$\mathring{e}_{70:\overline{1.5}|} = 0.5(0.04) + 1.25(0.96 - 0.93888) + 1.5(0.93888) = \boxed{\mathbf{1.45472}} \qquad \textbf{(C)}$$

Alternatively, we can use the trapezoidal method. The first year's trapezoid has heights 1 and 0.96 and width 1 and the second year's trapezoid has heights 0.96 and 0.93888 and width 1/2, so

$$\mathring{e}_{70:\overline{1.5}|} = 0.5(1 + 0.96) + 0.5(0.5)(0.96 + 0.93888) = \boxed{\mathbf{1.45472}} \qquad \textbf{(C)}$$

7.16. First we calculate ${}_tp_1$ for $t = 1, 2$.

$$p_1 = 1 - q_1 = 0.90$$
$${}_2p_1 = (1 - q_1)(1 - q_2) = (0.90)(0.95) = 0.855$$

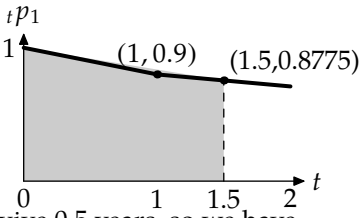
By linear interpolation, ${}_{1.5}p_1 = (0.5)(0.9 + 0.855) = 0.8775$.

The algebraic method splits the students into three groups: first year dropouts, second year (up to time 1.5) dropouts, and survivors. In each dropout group survival on the average is to the midpoint (0.5 years for the first group, 1.25 years for the second group) and survivors survive 1.5 years. Therefore

$$\mathring{e}_{1:\overline{1.5}|} = 0.10(0.5) + (0.90 - 0.8775)(1.25) + 0.8775(1.5) = \boxed{\mathbf{1.394375}} \qquad \textbf{(D)}$$

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Alternatively, we could sum the two trapezoids making up the shaded area at the right.

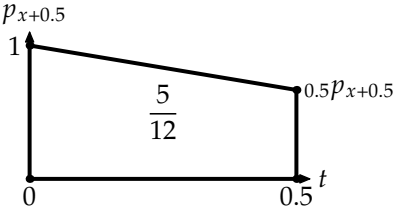


$$\mathring{e}_{1:\overline{1.5}|} = (1)(0.5)(1+0.9) + (0.5)(0.5)(0.90+0.8775)$$
$$= 0.95 + 0.444375 = \boxed{\mathbf{1.394375}} \qquad \textbf{(D)}$$

7.17. Those who die survive 0.25 years on the average and survivors survive 0.5 years, so we have

$$0.25\,{}_{0.5}q_{x+0.5} + 0.5\,{}_{0.5}p_{x+0.5} = \tfrac{5}{12}$$
$$0.25\left(\frac{0.5q_x}{1-0.5q_x}\right) + 0.5\left(\frac{1-q_x}{1-0.5q_x}\right) = \tfrac{5}{12}$$
$$0.125q_x + 0.5 - 0.5q_x = \tfrac{5}{12} - \tfrac{5}{24}q_x$$
$$\frac{1}{2} - \frac{5}{12} = \left(-\frac{5}{24} + \frac{1}{2} - \frac{1}{8}\right)q_x$$
$$\frac{1}{12} = \frac{q_x}{6}$$
$$q_x = \boxed{\tfrac{1}{2}}$$

Alternatively, complete life expectancy is the area of the trapezoid shown on the right, so



$$\frac{5}{12} = 0.5(0.5)(1 + {}_{0.5}p_{x+0.5})$$

Then ${}_{0.5}p_{x+0.5} = \frac{2}{3}$, from which it follows

$$\frac{2}{3} = \frac{1-q_x}{1-\frac{1}{2}q_x}$$
$$q_x = \boxed{\tfrac{1}{2}}$$

7.18. Survivors live 0.4 years and those who die live 0.2 years on the average, so

$$0.396 = 0.4{}_{0.4}p_{55.2} + 0.2{}_{0.4}q_{55.2}$$

Using the formula ${}_{0.4}q_{55.2} = 0.4q_{55}/(1-0.2q_{55})$ (equation (7.3)), we have

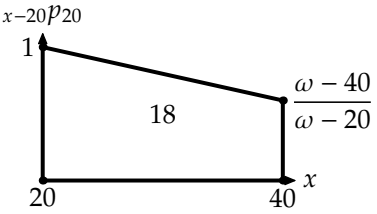
$$0.4\left(\frac{1-0.6q_{55}}{1-0.2q_{55}}\right) + 0.2\left(\frac{0.4q_{55}}{1-0.2q_{55}}\right) = 0.396$$
$$0.4 - 0.24q_{55} + 0.08q_{55} = 0.396 - 0.0792q_{55}$$
$$0.0808q_{55} = 0.004$$
$$q_{55} = \frac{0.004}{0.0808} = 0.0495$$
$$\mu_{55.2} = \frac{q_{55}}{1-0.2q_{55}} = \frac{0.0495}{1-0.2(0.0495)} = \boxed{\mathbf{0.05}}$$

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7.19. Since d_x is constant for all x and deaths are uniformly distributed within each year of age, mortality is uniform globally. We back out ω using equation (5.12), $\mathring{e}_{x:\overline{n}|} = {}_np_x(n) + {}_nq_x(n/2)$:

$$\begin{aligned} 10\,{}_{20}q_{20} + 20\,{}_{20}p_{20} &= 18 \\ 10\left(\frac{20}{\omega-20}\right) + 20\left(\frac{\omega-40}{\omega-20}\right) &= 18 \\ 200 + 20\omega - 800 &= 18\omega - 360 \\ 2\omega &= 240 \\ \omega &= 120 \end{aligned}$$

Alternatively, we can back out ω using the trapezoidal rule. Complete life expectancy is the area of the trapezoid shown to the right.



$$\begin{aligned} \mathring{e}_{20:\overline{20}|} = 18 &= (20)(0.5)\left(1 + \frac{\omega-40}{\omega-20}\right) \\ 0.8 &= \frac{\omega-40}{\omega-20} \\ 0.8\omega - 16 &= \omega - 40 \\ 0.2\omega &= 24 \\ \omega &= 120 \end{aligned}$$

Once we have ω, we compute

$${}_{30|10}q_{30} = \frac{10}{\omega-30} = \frac{10}{90} = \boxed{\textbf{0.1111}} \qquad \textbf{(A)}$$

7.20. We use equation (7.5) to obtain

$$\begin{aligned} 0.5 &= \frac{q_x}{1 - 0.5q_x} \\ q_x &= 0.4 \end{aligned}$$

Then $\mathring{e}_{45:\overline{1}|} = 0.5\big(1 + (1-0.4)\big) = \boxed{\textbf{0.8}}$. **(E)**

7.21. According to the Illustrative Life Table, l_{30} = 9,501,381, so we are looking for the age x such that l_x = 0.75(9,501,381) = 7,126,036. This is between 67 and 68. Using linear interpolation, since l_{67} = 7,201,635 and l_{68} = 7,018,432, we have

$$x = 67 + \frac{7{,}201{,}635 - 7{,}126{,}036}{7{,}201{,}635 - 7{,}018{,}432} = 67.4127$$

This is 37.4127 years into the future. $\frac{3}{4}$ of the people collect 50,000. We need $50{,}000\left(\frac{3}{4}\right)\left(\frac{1}{1.12^{37.4127}}\right)$ = $\boxed{\textbf{540.32}}$ per person. **(D)**

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7.22. Under constant force, ${}_sp_{x+t} = p_x^s$, so $p_x = {}_{1/4}p_{x+1/4}^4 = 0.98^4 = 0.922368$ and $q_x = 1 - 0.922368 = 0.077632$. Under uniform distribution of deaths,

$$\begin{aligned}
{}_{1/4}p_{x+1/4} &= 1 - \frac{(1/4)q_x}{1-(1/4)q_x} \\
&= 1 - \frac{(1/4)(0.077632)}{1-(1/4)(0.077632)} \\
&= 1 - 0.019792 = \boxed{\mathbf{0.980208}} \qquad \textbf{(D)}
\end{aligned}$$

7.23. Under constant force, ${}_sp_{x+t} = p_x^s$, so $p_x = 0.95^4 = 0.814506$, $q_x = 1 - 0.814506 = 0.185494$. Then under a uniform assumption,

$${}_{0.25}q_{x+0.1} = \frac{0.25q_x}{1-0.1q_x} = \frac{(0.25)(0.185494)}{1-0.1(0.185494)} = \boxed{\mathbf{0.047250}} \qquad \textbf{(B)}$$

7.24. Using constant force, μ^A is a constant equal to $-\ln p_x = -\ln 0.75 = 0.287682$. Then

$$\begin{aligned}
\mu_{x+s}^B = \frac{q_x}{1-sq_x} &= 0.287682 \\
\frac{0.25}{1-0.25s} &= 0.287682 \\
0.2877 - 0.25(0.287682)s &= 0.25 \\
s = \frac{0.287682 - 0.25}{(0.25)(0.287682)} &= \boxed{\mathbf{0.5239}} \qquad \textbf{(D)}
\end{aligned}$$

7.25. We integrate ${}_tp_x$ from 0 to 2. Between 0 and 1, ${}_tp_x = e^{-t\mu_x}$.

$$\int_0^1 e^{-t\mu_x}\,\mathrm{d}t = \frac{1-e^{-\mu_x}}{\mu_x} = 0.99$$

Between 1 and 2, ${}_tp_x = p_x\ {}_{t-1}p_{x+1} = 0.98e^{-(t-1)\mu_{x+1}}$.

$$\int_1^2 e^{-(t-1)\mu_{x+1}}\,\mathrm{d}t = \frac{1-e^{-\mu_{x+1}}}{\mu_{x+1}} = 0.98$$

So the answer is $0.99 + 0.98(0.98) = \boxed{\mathbf{1.9504}}$. **(C)**

7.26.

$$\begin{aligned}
\mathring{e}_{80.4:\overline{0.8}|} &= \mathring{e}_{80.4:\overline{0.6}|} + {}_{0.6}p_{80.4}\,\mathring{e}_{81:\overline{0.2}|} \\
&= \frac{\int_{0.4}^1 0.9^t\mathrm{d}t}{0.9^{0.4}} + 0.9^{0.6}\int_0^{0.2} 0.8^t\mathrm{d}t \\
&= \frac{0.9^{0.6}-1}{\ln 0.9} + \left(0.9^{0.6}\right)\frac{0.8^{0.2}-1}{\ln 0.8} \\
&= 0.581429 + (0.938740)(0.195603) = \boxed{\mathbf{0.765049}}
\end{aligned}$$

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7.27. Under uniform distribution, the numbers of deaths in each half of the year are equal, so if 120 deaths occurred in the first half of $x = 96$, then 120 occurred in the second half, and $l_{97} = 480 - 120 = 360$. Then if ${}_{0.5}q_{97} = (360 - 288)/360 = 0.2$, then $q_{97} = 2\,{}_{0.5}q_{97} = 0.4$, so $p_{97} = 0.6$. Under constant force, ${}_{1/2}p_{97} = p_{97}^{0.5} = \sqrt{0.6}$. The answer is $360\sqrt{0.6} = \boxed{\mathbf{278.8548}}$. **(D)**

7.28. Let μ be the force of mortality in year 1. Then 10% survivorship means

$$e^{-\mu-3\mu} = 0.1$$
$$e^{-4\mu} = 0.1$$

The probability of survival 21 months given survival 3 months is the probability of survival 9 months after month 3, or $e^{-(3/4)\mu}$, times the probability of survival another 9 months given survival 1 year, or $e^{-(3/4)3\mu}$, which multiplies to $e^{-3\mu} = (e^{-4\mu})^{3/4} = 0.1^{3/4} = 0.177828$, so the death probability is $1 - 0.177828 = \boxed{\mathbf{0.822172}}$. **(E)**

7.29. The exact value is:

$$F = {}_{10.5}p_0 = \exp\left(-\int_0^{10.5} \mu_x \,\mathrm{d}x\right)$$
$$\int_0^{10.5} (80-x)^{-0.5}\mathrm{d}x = -2(80-x)^{0.5}\Big|_0^{10.5}$$
$$= -2\left(69.5^{0.5} - 80^{0.5}\right) = 1.215212$$
$${}_{10.5}p_0 = e^{-1.215212} = 0.296647$$

To calculate $S_0(10.5)$ with constant force interpolation between 10 and 11, we have ${}_{0.5}p_{10} = p_{10}^{0.5}$, and ${}_{10.5}p_0 = {}_{10}p_0\,{}_{0.5}p_{10}$, so

$$\int_0^{10} (80-x)^{-0.5}\mathrm{d}x = -2\left(70^{0.5} - 80^{0.5}\right) = 1.155343$$
$$\int_{10}^{11} (80-x)^{-0.5}\mathrm{d}x = -2\left(69^{0.5} - 70^{0.5}\right) = 0.119953$$
$$G = {}_{10.5}p_0 = e^{-1.155343 - 0.5(0.119953)} = 0.296615$$

Then $F - G = 0.296647 - 0.296615 = \boxed{\mathbf{0.000032}}$. **(D)**

Quiz Solutions

7-1. Notice that $\mu_{50.4} = \frac{q_{50}}{1-0.4q_{50}}$ while ${}_{0.6}q_{50.4} = \frac{0.6q_{50}}{1-0.4q_{50}}$, so ${}_{0.6}q_{50.4} = 0.6(0.01) = \boxed{\mathbf{0.006}}$

7-2. The algebraic method goes: those who die will survive 0.3 on the average, and those who survive will survive 0.6.

$${}_{0.6}q_{x+0.4} = \frac{0.6(0.1)}{1-0.4(0.1)} = \frac{6}{96}$$
$${}_{0.6}p_{x+0.4} = 1 - \frac{6}{96} = \frac{90}{96}$$
$$\mathring{e}_{x+0.4:\overline{0.6}|} = \frac{6}{96}(0.3) + \frac{90}{96}(0.6) = \frac{55.8}{96} = \boxed{\mathbf{0.58125}}$$

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The geometric method goes: we need the area of a trapezoid having height 1 at $x + 0.4$ and height 90/96 at $x + 1$, where 90/96 is ${}_{0.6}p_{x+0.4}$, as calculated above. The width of the trapezoid is 0.6. The answer is therefore $0.5\,(1 + 90/96)\,(0.6) = \boxed{\mathbf{0.58125}}$.

7-3. Batteries failing in month 1 survive an average of 0.5 month, those failing in month 2 survive an average of 1.5 months, and those failing in month 3 survive an average of 2.125 months (the average of 2 and 2.25). By linear interpolation, ${}_{2.25}q_0 = 0.25(0.6) + 0.75(0.2) = 0.3$. So we have

$$\begin{aligned}\mathring{e}_{0:\overline{2.25}|} &= q_0(0.5) + {}_{1|}q_0(1.5) + {}_{2|0.25}q_0(2.125) + {}_{2.25}p_0(2.25)\\ &= (0.05)(0.5) + (0.20 - 0.05)(1.5) + (0.3 - 0.2)(2.125) + 0.70(2.25) = \boxed{\mathbf{2.0375}}\end{aligned}$$

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The manual includes 15 practice exams. The last 11 of them have 20 multiple choice questions and 56 points of written answer questions, similar to the actual exam. The following practice exam has 25 multiple choice questions.

Practice Exam 1

1. You are given:

(i) The following life table.

x	l_x	d_x
50	1000	20
51		
52		35
53		37

(ii) ${}_2q_{52} = 0.07508$.

Determine d_{51}.

(A) 20 (B) 21 (C) 22 (D) 24 (E) 26

2. For a fully discrete 20-year deferred whole life insurance of 1000 on (50), you are given:

(i) Premiums are payable for 20 years.
(ii) The net premium is 12.
(iii) Deaths are uniformly distributed between integral ages.
(iv) $i = 0.1$
(v) ${}_9V = 240$ and ${}_{9.5}V = 266.70$.

Calculate ${}_{10}V$, the net premium reserve at the end of year 10.

(A) 272.75 (B) 280.00 (C) 281.40 (D) 282.28 (E) 282.86

3. For an annual premium 2-year term insurance on (60) with benefit b payable at the end of the year of death, you are given

(i)

t	p_{60+t-1}
1	0.98
2	0.96

(ii) The annual net premium is 25.41.
(iii) $i = 0.05$.

Determine the revised annual net premium if an interest rate of $i = 0.04$ is used.

(A) 25.59 (B) 25.65 (C) 25.70 (D) 25.75 (E) 25.81

Exercises continue on the next page ...
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4. In a double-decrement model, with decrements (1) and (2), you are given, for all $t > 0$:

(i) ${}_tp_x'^{(1)} = 10/(10+t)$

(ii) ${}_tp_x'^{(2)} = \left(10/(10+t)\right)^3$

Determine $q_x^{(1)}$.

(A) 0.068 (B) 0.074 (C) 0.079 (D) 0.083 (E) 0.091

5. A Type A universal life policy with death benefit 10,000 is sold to a person age 75. You are given the following information concerning charges and credits:

(i) 20% of premium is charged at the beginning of the first year.
(ii) The COI charge in the first year is based on $q_{75} = 0.02$.
(iii) Interest is credited on the account value at 4.5% effective.
(iv) A different interest rate is used to discount the COI.
(v) The account value is updated annually.

The policyholder contributes 1000 initially. At the end of the first year, the account value is 644.30.

Determine the interest rate used to discount the COI.

(A) 0.020 (B) 0.022 (C) 0.024 (D) 0.026 (E) 0.028

6. In a three-state Markov chain, you are given the following forces of transition:

$$\mu_t^{01} = 0.05 \qquad \mu_t^{10} = 0.04 \qquad \mu_t^{02} = 0.03 \qquad \mu_t^{12} = 0.10$$

All other forces of transition are 0.

Calculate the probability of an entity in state 0 at time 0 transitioning to state 1 before time 5 and staying there until time 5, then transitioning to state 0 before time 10 and staying there until time 10.

(A) 0.017 (B) 0.018 (C) 0.019 (D) 0.020 (E) 0.021

7. For a temporary life annuity-due of 1 per year on (30), you are given:

(i) The annuity makes 20 certain payments.
(ii) The annuity will not make more than 40 payments.
(iii) Mortality follows the Illustrative Life Table.
(iv) $i = 0.06$

Determine the expected present value of the annuity.

(A) 14.79 (B) 15.22 (C) 15.47 (D) 15.63 (E) 16.06

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Exercises continue on the next page ...

8. For a fully discrete whole life insurance on (35) with face amount 100,000, you are given the following assumptions and experience for the fifth year:

	Assumptions	Actual
q_{39}	0.005	0.006
Surrender probability	0.05	0.06
Annual expenses	20	30
Settlement expenses—death	100	80
Settlement expenses—surrender	50	40
i	0.05	0.045

You are also given:

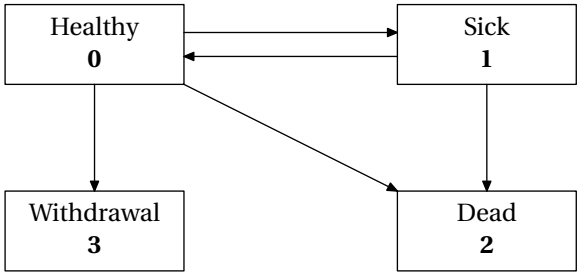
(i) The gross premium is 1725.
(ii) Reserves are gross premium reserves.
(iii) The gross premium reserve at the end of year 4 is 6000.
(iv) The cash surrender value for the fifth year is 6830.
(v) The surrender probability is based on the multiple-decrement table.

The fifth year gain is analyzed in the order of interest, surrender, death, expense.

Determine the fifth year surrender gain.

(A) −7.9 (B) −7.7 (C) −7.5 (D) 7.7 (E) 7.9

9. You are given the following Markov chain model for disability income:



Forces of transition are:

$$\mu_x^{01} = 0.002x \qquad \mu_x^{02} = 0.0001x \qquad \mu_x^{03} = 0.0004x$$
$$\mu_x^{10} = 0.001x \qquad \mu_x^{12} = 0.006x$$

Calculate the probability that a healthy individual age 40 ever enters the sick state.

(A) 0.75 (B) 0.80 (C) 0.83 (D) 0.85 (E) 0.95

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Exercises continue on the next page . . .

10. For an insurance with face amount 100,000, you are given:

(i)
$$\frac{\mathrm{d}}{\mathrm{d}t}{}_tV = 100$$

(ii) $P = 1380$
(iii) $\delta = 0.05$
(iv) $\mu_{x+t} = 0.03$

Determine ${}_tV$.

(A) 21,000 (B) 21,500 (C) 22,000 (D) 22,500 (E) 23,000

11. For a 20-year endowment insurance policy of 1000 on (x):

(i) Death benefits are paid at the moment of death.
(ii) Premiums of 46 per year are payable continuously.
(iii) $\mu_{x+t} = 0.02, \quad t \geq 0$
(iv) $\delta = 0.04$

For a portfolio of such policies, the present value of the future loss at issue is estimated using the normal approximation.

Determine the smallest number of policies for which the 95th percentile of the future loss at issue is 0.

(A) 79,000 (B) 89,000 (C) 99,000 (D) 109,000 (E) 119,000

12. For a special whole life insurance on (x) paying benefits at the moment of death, you are given:

(i) If death occurs in the first 10 years, the benefit is the refund of the net single premium with interest at a rate of $\delta' = 0.03$.
(ii) If death occurs after the first 10 years, the benefit is 1000.
(iii) $\mu_{x+t} = \begin{cases} 0.01 & t \leq 10 \\ 0.02 & t > 10 \end{cases}$
(iv) $\delta = 0.06$

Determine the net single premium.

(A) 131 (B) 132 (C) 133 (D) 134 (E) 135

13. A life age 90 is subject to mortality following Makeham's law with $A = 0.0005$, $B = 0.0008$, and $c = 1.07$.

Curtate life expectancy for this life is 6.647 years.

Using Woolhouse's formula with three terms, compute complete life expectancy for this life.

(A) 7.118 (B) 7.133 (C) 7.147 (D) 7.161 (E) 7.176

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Exercises continue on the next page ...

14. For a Type B universal life policy on (x) of 40,000:

(i) A premium of 1000 is paid at the beginning of year 11.
(ii) $AV_{10} = 15{,}000$.
(iii) $AV_{11} = 16{,}000$.
(iv) Assumed expenses in year 11 are 50.
(v) Assumed interest in year 11 is 0.055.
(vi) Assumed mortality rate in year 11 is $q'^{(\text{death})}_{x+10} = 0.01$.
(vii) Assumed surrender rate in year 11 is $q'^{(\text{surrender})}_{x+10} = 0.05$. All surrenders occur at the end of the year.
(viii) Settlement expenses are 100 for each death claim, 40 for each surrender claim, even if no payment is made.
(ix) Profit in year 11 per policy in force at the beginning of the year is 449.02.

Determine the surrender charge in year 11.

(A) 420 (B) 455 (C) 460 (D) 495 (E) 500

15. A life age 60 is subject to Gompertz's law with $B = 0.001$ and $c = 1.05$.

Calculate $e_{60:\overline{2}|}$ for this life.

(A) 1.923 (B) 1.928 (C) 1.933 (D) 1.938 (E) 1.943

16. For a fully continuous whole life insurance of 1000 on (x):

(i) The gross premium is paid at an annual rate of 25.
(ii) The variance of future loss is 2,000,000.
(iii) $\delta = 0.06$

Employees are able to obtain this insurance for a 20% discount.

Determine the variance of future loss for insurance sold to employees.

(A) 1,281,533 (B) 1,295,044 (C) 1,771,626 (D) 1,777,778 (E) 1,825,013

17. For a continuously increasing continuous annuity on (x) paying at the rate of t per year at time t, you are given:

(i) $\mathbf{E}[T_x] = 52$
(ii) $\text{Var}(T_x) = 822$
(iii) $\delta = 0$

Compute the expected present value of the annuity.

(A) 1302 (B) 1748 (C) 1763 (D) 2518 (E) 2604

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Exercises continue on the next page ...

18. You are given the following profit test for a 10-year term insurance of 100,000 on (x):

t	${}_{t-1}V$	P	E_t	I_t	bq_{x+t-1}	$p_{x+t-1}\,{}_tV$
0			−350			
1	0	1000	0	60.0	500	447.75
2	450	1000	20	85.8	600	795.20
3	800	1000	20	106.8	700	1092.30
4	1100	1000	20	124.8	800	1289.60
5	1300	1000	20	136.8	900	1412.18
6	1425	1000	20	144.3	1000	1435.50
7	1450	1000	20	145.8	1100	1285.70
8	1300	1000	20	136.8	1200	1037.40
9	1050	1000	20	121.8	1300	641.55
10	650	1000	20	97.8	1400	0.00

Which of the following statements is true?

I. The interest rate used in the calculation is $i = 0.06$.

II. At time 5, the reserve per survivor is 1425.

III. The profit signature component for year 3 is 92.81

(A) I and II only (B) I and III only (C) II and III only (D) I, II, and III
(E) The correct answer is not given by (A) , (B) , (C) , or (D) .

19. Your company sells whole life insurance policies. At a meeting with the Enterprise Risk Management Committee, it was agreed that you would limit the face amount of the policies sold so that the probability that the present value of the benefit at issue is greater than 1,000,000 is never more than 0.05.

You are given:

(i) The insurance policies pay a benefit equal to the face amount b at the moment of death.
(ii) The force of mortality is $\mu_x = 0.001(1.05^x)$, $x > 0$
(iii) $\delta = 0.06$

Determine the largest face amount b for a policy sold to a purchaser who is age 45.

(A) 1,350,000 (B) 1,400,000 (C) 1,450,000 (D) 1,500,000 (E) 1,550,000

20. A Type A universal life policy with face amount 20,000 is issued to (50). The policy has a no-lapse guarantee, and remains in force as long as the policyholder pays a premium of 500 at the beginning of each year.

At time 10, the account value is 0, and the no-lapse guarantee is effective. The following assumptions are used for calculating the reserve:

(i) Mortality follows the Illustrative Life Table.
(ii) $i = 0.06$.
(iii) Expenses are 3% of premium plus 10, paid at the beginning of each year.
(iv) Death benefits are paid at the end of the year.

Calculate the gross premium reserve.

(A) 1992 (B) 2020 (C) 2042 (D) 2065 (E) 2089

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Exercises continue on the next page ...

21. For two lives (50) and (60) with independent future lifetimes:

(i) $\mu_{50+t} = 0.002t, \quad t > 0$
(ii) $\mu_{60+t} = 0.003t, \quad t > 0$

Calculate ${}_{20}q^{1}_{50:60} - {}_{20}q^{2}_{50:60}$.

(A) 0.17 (B) 0.18 (C) 0.30 (D) 0.31 (E) 0.37

22. You are given that $\mu_x = 0.002x + 0.005$.

Calculate ${}_{5|}q_{20}$.

(A) 0.015 (B) 0.026 (C) 0.034 (D) 0.042 (E) 0.050

23. For a 30-pay whole life insurance policy of 100,000 on (45), you are given:

(i) Benefits are payable at the end of the year of death.
(ii) Premiums and expenses are payable at the beginning of the year.
(iii) $\ddot{a}_{45} = 14.1121$
(iv) $\ddot{a}_{45:\overline{30}|} = 13.3722$
(v) $i = 0.06$
(vi) Expenses are:

	Per Premium	Per Policy
First Year	40%	200
Renewal Years	10%	r
Settlement		100

(vii) The gross premium determined by the equivalence principle is 1777.98.

Determine r.

(A) 37 (B) 38 (C) 39 (D) 40 (E) 41

24. For a special fully discrete whole life insurance on (40), you are given:

(i) The annual net premium in the first 20 years is $1000P_{40}$.
(ii) The annual net premium changes at age 60.
(iii) The death benefit is 1000 in the first 20 years, after which it is 2000.
(iv) Mortality follows the Illustrative Life Table.
(v) $i = 0.06$

Determine ${}_{21}V$, the net premium reserve for the policy at the end of 21 years.

(A) 282 (B) 286 (C) 292 (D) 296 (E) 300

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Exercises continue on the next page ...

25. You are given the following yield curve:

$$y_t = \begin{cases} 0.01 + 0.004t & 0 < t \leq 5 \\ 0.02 + 0.002t & 5 \leq t \leq 20 \\ 0.06 & t \geq 20 \end{cases}$$

Calculate the 2-year forward rate on a 10-year zero-coupon bond.

(A) 0.040 (B) 0.044 (C) 0.047 (D) 0.049 (E) 0.052

Solutions to the above questions begin on page 1517.

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Appendix A. Solutions to the Practice Exams

Answer Key for Practice Exam 1

1	B	6	A	11	D	16	C	21	B
2	D	7	C	12	E	17	C	22	D
3	C	8	E	13	A	18	A	23	D
4	C	9	B	14	E	19	A	24	B
5	A	10	B	15	E	20	E	25	D

Practice Exam 1

1. **[Lesson 2]** $0.07508 = {}_2q_{52} = (d_{52} + d_{53})/l_{52} = 72/l_{52}$, so $l_{52} = 72/0.07508 = 959$. But $l_{52} = l_{50} - d_{50} - d_{51} = 1000 - 20 - d_{51}$, so $d_{51} = \boxed{\mathbf{21}}$. **(B)**

2. **[Section 41.2]** We need to back out q_{59}. We use reserve recursion. Since the insurance is deferred, $1000q_{59}$ is not subtracted from the left side.

$$\begin{aligned}({}_9V + P)(1.1^{0.5}) &= {}_{9.5}V(1 - 0.5q_{59}) \\ 252(1.1^{0.5}) &= 266.70 - 133.35q_{59} \\ q_{59} &= \frac{2.40017}{133.35} = 0.018\end{aligned}$$

Then the net premium reserve at time 10 is, by recursion from time 9,

$$\frac{252(1.1)}{1 - 0.018} = \boxed{\mathbf{282.28}} \qquad \textbf{(D)}$$

3. **[Lesson 24]** The revised premium for the entire policy is 25.41 times the ratio of the revised premium per unit at 4% to the original premium per unit at 5%.

We calculate the original net premium per unit, $P^1_{60:\overline{2}|}$.

$$\begin{aligned}\ddot{a}_{60:\overline{2}|} &= 1 + \frac{0.98}{1.05} = 1.93333 \\ A^1_{60:\overline{2}|} &= \frac{0.02}{1.05} + \frac{(0.98)(0.04)}{1.05^2} = 0.054603 \\ P^1_{60:\overline{2}|} &= \frac{A^1_{60:\overline{2}|}}{\ddot{a}_{60:\overline{2}|}} = \frac{0.054603}{1.93333} = 0.028243\end{aligned}$$

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Now we recalculate at 4%. Call the revised premium $P'^{1}_{60:\overline{2}|}$.

$$\ddot{a}_{60:\overline{2}|} = 1 + \frac{0.98}{1.04} = 1.94231$$
$$A^{1}_{60:\overline{2}|} = \frac{0.02}{1.04} + \frac{(0.98)(0.04)}{1.04^2} = 0.055473$$
$$P'^{1}_{60:\overline{2}|} = \frac{0.055473}{1.94231} = 0.028561$$

So the revised premium for benefit b is $25.41(0.028561/0.028243) = \boxed{\mathbf{25.696}}$. **(C)**

4. **[Lesson 48]**

$$\begin{aligned}
{}_tp_x^{(\tau)} &= \left(\frac{10}{10+t}\right)\left(\frac{10}{10+t}\right)^3 = \left(\frac{10}{10+t}\right)^4 \\
\mu_{x+t}^{(1)} &= -\frac{\mathrm{d}\ln {}_tp_x'^{(1)}}{\mathrm{d}t} \\
&= -\frac{\mathrm{d}\Big(\ln 10 - \ln(10+t)\Big)}{\mathrm{d}t} \\
&= \frac{1}{10+t} \\
q_x^{(1)} &= \int_0^1 {}_tp_x^{(\tau)}\,\mu_{x+t}^{(1)}\,\mathrm{d}t \\
&= \int_0^1 \left(\frac{10}{10+t}\right)^4\left(\frac{1}{10+t}\right)\mathrm{d}t \\
&= \int_0^1 \frac{10^4\mathrm{d}t}{(10+t)^5} \\
&= -\left(\frac{10^4}{4}\right)\left(\frac{1}{(10+t)^4}\right)\Bigg|_0^1 \\
&= \left(\frac{10^4}{4}\right)\left(\frac{1}{10^4} - \frac{1}{11^4}\right) \\
&= \boxed{\mathbf{0.079247}} \qquad \textbf{(C)}
\end{aligned}$$

5. **[Section 67.1]** Use the formula relating account values. Let $v_q = 1/(1+i_q)$ be the discount factor for COI.

$$\begin{aligned}
\mathrm{AV}_1 &= \frac{(P - E - v_q q_{75} FA)(1+i)}{1 - v_q(1+i)q_{75}} \\
644.30 &= \frac{(1000 - 200 - 200v_q)(1.045)}{1 - 1.045v_q(0.02)} \\
644.30 - 13.4659v_q &= 836 - 209v_q \\
195.5341v_q &= 191.7 \\
v_q &= 0.9803915 \\
i_q &= \frac{1}{0.9803915} - 1 = \boxed{\mathbf{0.02}} \qquad \textbf{(A)}
\end{aligned}$$

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6. [**Section 44.1**] Let ${}_5p_0^{\overline{01}}$ be the probability that an entity in state 0 at time 0 transitions to state 1 before time 5 and stays there until time 5, and let ${}_5p_5^{\overline{10}}$ be the probability that an entity in state 1 at time 5 transitions to state 0 before time 10 and stays there until time 10. We'll use formula (44.9) for both transitions. Notice that the formula is the same with 0 and 1 switched, except that ${}_5p_0^{\overline{01}}$ uses $\mu^{01} = 0.05$ and ${}_5p_5^{\overline{10}}$ uses $\mu^{10} = 0.04$ outside the parentheses.

$$\frac{e^{-\mu^{0\bullet}t}}{\mu^{1\bullet} - \mu^{0\bullet}} + \frac{e^{-\mu^{1\bullet}t}}{\mu^{0\bullet} - \mu^{1\bullet}} = \frac{e^{-0.08(5)}}{0.14 - 0.08} + \frac{e^{-0.14(5)}}{0.08 - 0.14} = 2.89558$$

$${}_5p_0^{\overline{01}} = 0.05(2.89558) = 0.14478$$

$${}_5p_5^{\overline{10}} = 0.04(2.89558) = 0.11582$$

The answer is $(0.14478)(0.11582) = \boxed{\mathbf{0.01677}}$. **(A)**

7. [**Lesson 17**] This annuity is the sum of a 20-year certain annuity-due and a 20-year deferred 20-year temporary life annuity due.

$$\begin{aligned}
\ddot{a}_{\overline{20|}} &= \frac{1 - (1/1.06)^{20}}{1 - 1/1.06} = 12.15812 \\
{}_{20|}\ddot{a}_{30:\overline{20|}} &= {}_{20|}\ddot{a}_{30} - {}_{40|}\ddot{a}_{30} \\
&= {}_{20}E_{30}\,\ddot{a}_{50} - {}_{40}E_{30}\,\ddot{a}_{70} \\
&= {}_{20}E_{30}\,\ddot{a}_{50} - {}_{20}E_{30}\,{}_{20}E_{50}\,\ddot{a}_{70} \\
&= (0.29374)(13.2668) - (0.29374)(0.23047)(8.5693) \\
&= 3.89699 - (0.067699)(8.5693) \\
&= 3.89699 - 0.58013 = 3.31686
\end{aligned}$$

The expected present value of the annuity is $12.15812 + 3.31686 = \boxed{\mathbf{15.4750}}$. **(C)**

8. [**Lesson 68**] Surrender gain per surrender is the ending reserve (which is released into profit) minus the benefit paid and minus expenses. The ending gross premium reserve is

$${}_5V = \frac{(6000 + 1725 - 20)(1.05) - (100{,}000 + 100)(0.005) - (6830 + 50)(0.05)}{1 - 0.05 - 0.005} = 7667.46$$

Using assumed expenses, the surrender gain per surrender is $7667.46 - (6830 + 50) = 787.46$. The gain is $(0.06 - 0.05)(787.46) = \boxed{\mathbf{7.8746}}$. **(E)**

9. [**Lessons 44 and 47**] Since we're just interested in the first transition, this is a multiple-decrement question. We're asked for ${}_\infty p_x^{01}$, and by formula (47.2) that is

$${}_\infty p_{40}^{01} = \int_0^\infty {}_sp_{40}^{00}\,\mu_{40+s}^{01}\,\mathrm{d}s$$

$${}_sp_{40}^{00} = \exp\left(-\int_0^s \Big(0.002(40+u) + 0.0005(40+u)\Big)\mathrm{d}u\right) = e^{-0.00125[(40+s)^2 - 40^2]}$$

$$\begin{aligned}
{}_\infty p_x^{01} &= \int_0^\infty e^{-0.00125[(40+s)^2-40^2]}\Big(0.002(40+s)\Big)\mathrm{d}s \\
&= -\frac{0.002}{0.0025}e^{0.00125(40^2)}\ e^{-0.00125(40+s)^2}\Big|_0^\infty \\
&= \boxed{\mathbf{0.8}} \qquad \textbf{(B)}
\end{aligned}$$

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This could also be done more simply by using the fact that in a multiple decrement model in which the forces are constant proportions of each other, the probability of a specific decrement ever happening is the ratio of its force to the total of the forces. This is discussed on page 957, right after Quiz 47-1.

10. **[Section 41.3]**

$$100 = (0.05 + 0.03)_tV + 1380 - 100{,}000(0.03) = 0.08_tV - 1620$$
$$_tV = \frac{1720}{0.08} = \boxed{\mathbf{21{,}500}} \qquad \textbf{(B)}$$

11. **[Section 30]** The expected loss per policy is

$$\mathbf{E}[_0L] = \bar{A}_{x:\overline{20|}}\left(b + \frac{P}{\delta}\right) - \frac{P}{\delta}$$
$$\bar{A}_{x:\overline{20|}} = \bar{A}^{1}_{x:\overline{20|}} + A_{x:\overline{20|}}$$
$$= \frac{0.02(1 - e^{-0.06(20)})}{0.06} + e^{-0.06(20)} = 0.5341295$$
$$\mathbf{E}[_0L] = 0.5341295\left(1000 + \frac{46}{0.04}\right) - \left(\frac{46}{0.04}\right) = -1.62163$$

The variance of the loss per policy is, using 2δ

$$^2\bar{A}_{x:\overline{20|}} = \frac{0.02(1 - e^{-0.10(20)})}{0.02 + 2(0.04)} + e^{-0.10(20)} = 0.3082682$$
$$\text{Var}(_0L) = (0.3082682 - 0.5341295^2)\left(1000 + \frac{46}{0.04}\right)^2 = 106{,}197$$

We want n such that $-1.62163n + 1.645\sqrt{106{,}197n} = 0$.

$$-1.62163\sqrt{n} + 1.645\sqrt{106{,}197} = 0$$
$$\sqrt{n} = \frac{1.645\sqrt{106{,}197}}{1.62163} = 330.58$$
$$n = 330.58^2 = \boxed{\mathbf{109{,}280}} \qquad \textbf{(D)}$$

12. **[Lesson 12]** The expected present value of one unit of a 10-year deferred whole life insurance is $_{10}E_x\,\bar{A}_{x+10}$. The force of mortality is constant after 10 years, so

$$\bar{A}_{x+10} = \frac{\mu}{\mu + \delta} = \frac{0.02}{0.02 + 0.06} = 0.25$$

The pure endowment factor $_{10}E_x$ is computed using the mortality rate in effect for the first ten years, so it is $e^{-(0.01+0.06)(10)} = e^{-0.7}$. Therefore, the EPV of the 10-year deferred whole life insurance is

$$1000_{10|}\bar{A}_x = 250e^{-0.7}$$

Let P be the net single premium. The interest on the benefit in the first ten years at $\delta' = 0.03$ partially offsets the $\delta = 0.06$ discount factor, so the EPV of the first ten years of insurance is

$$\frac{P\mu}{\mu + \delta - \delta'}\left(1 - e^{-10(\mu+\delta-\delta')}\right) = \frac{0.01P}{0.04}\left(1 - e^{-0.4}\right)$$

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We now solve for P.

$$\begin{aligned} P &= 250e^{-0.7} + P\left(0.25(1-e^{-0.4})\right) \\ &= 124.1463 + 0.08242P \\ P &= \frac{124.1463}{1-0.0842} = \boxed{\mathbf{135.30}} \qquad \textbf{(E)} \end{aligned}$$

13. [**Section 22.2**] By equation (22.10),

$$\mathring{e}_x = e_x + \tfrac{1}{2} - \tfrac{1}{12}\mu_x$$

Force of mortality for (90) is $\mu_{90} = 0.0005 + 0.0008(1.07^{90}) = 0.353382$. Thus

$$\mathring{e}_{90} = 6.647 + 0.5 - \tfrac{1}{12}(0.353382) = \boxed{\mathbf{7.118}} \qquad \textbf{(A)}$$

14. [**Section 67.2**] First we calculate the components other than surrender charges and surrender settlement costs. Initial reserve plus premium minus expenses are 15,950. This earns 0.055(15,950) = 877.25 interest. Expected death benefits including settlement costs are 0.01(40,000 + 16,000 + 100) = 561. The payment of the account value to all others (including surrenders) has expected value 0.99(16,000) = 15,840. These components add up to 15,950+877.25−561−15,840 = 426.25. Profit is 449.02. The difference, divided by the surrender probability, is $(449.02 - 426.25)/(0.99 \cdot 0.05) = 460$. So the company gains 460 on each surrender. Of this, 40 is the cost of settling the claim, so the company must gain $\boxed{\mathbf{500}}$ on the surrender charge. **(E)**

15. [**Section 5.2**] By formula (4.2),

$$\begin{aligned} p_{60} &= \exp\left(-0.001(1.05^{60})\left(\frac{0.05}{\ln 1.05}\right)\right) = 0.981040 \\ {}_2p_{60} &= \exp\left(-0.001(1.05^{60})\left(\frac{1.05^2-1}{\ln 1.05}\right)\right) = 0.961518 \end{aligned}$$

Then $e_{60:\overline{2}|} = 0.981040 + 0.961518 = \boxed{\mathbf{1.9426}}$. **(E)**

16. [**Lesson 30**] The variance of future loss for a gross premium of 25 is

$$\begin{aligned} 2{,}000{,}000 &= \text{Var}\left(v^{T_x}\right)\left(1000 + \frac{25}{0.06}\right)^2 \\ &= \text{Var}\left(v^{T_x}\right)(2{,}006{,}944) \end{aligned}$$

If we replace 25 with 20 (for a 20% discount) in the above formula, it becomes

$$\begin{aligned} \text{Var}\,({}_0L) &= \text{Var}\left(v^{T_x}\right)\left(1000 + \frac{20}{0.06}\right)^2 \\ &= \text{Var}\left(v^{T_x}\right)(1{,}777{,}778) \end{aligned}$$

We see that this is 1,777,778/2,006,944 times the given variance, so the final answer is

$$\text{Var}({}_0L) = \frac{1{,}777{,}778}{2{,}006{,}944}(2{,}000{,}000) = \boxed{\mathbf{1{,}771{,}626}} \qquad \textbf{(C)}$$

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17. [**Sections 5.1 and 21.1**] The EPV of a continuously increasing continuous annuity is

$$(\bar{I}\bar{a})_x = \int_0^\infty t v^t \, {}_tp_x \, \mathrm{d}t$$

and since $v^t = 1$, this is $\int_0^\infty t \, {}_tp_x \, \mathrm{d}t$. However,

$$\mathbf{E}[T_x^2] = 2\int_0^\infty t \, {}_tp_x \, \mathrm{d}t$$

and in our case,

$$\mathbf{E}[T_x^2] = \mathrm{Var}(T_x) + \mathbf{E}[T_x]^2 = 822 + 52^2 = 3526$$

It follows that $(\bar{I}\bar{a})_x = 3526/2 = \boxed{\mathbf{1763}}$. **(C)**

18. [**Lesson 65**]

I From the row for year 1, with 0 reserves and expenses, we see that $I_t/P_t = 0.06$, so the interest rate is 0.06. ✓

II Looking at the line for $t = 6$, we see that the reserve per survivor to time $t - 1 = 5$ is 1425. ✓

III First, the profit in year 3 is $800+1000-20+106.8-700-1092.3 = 94.50$. We deduce survivorship from the bq_{x+t-1} column, and we see that the mortality rates in the first two years are 0.005 and 0.006, so the profit signature component of year'3 is $(0.995)(0.994)(94.50) = 93.46$. ✗.

(A)

19. [**Lesson 13**] The present value of the benefit decreases with increasing survival time, so the 95th percentile of the present value of the insurance corresponds to the 5th percentile of survival time. The survival probability is

$$\begin{aligned} {}_tp_{45} &= \exp\left(-\int_0^t 0.001(1.05^{45+u})\mathrm{d}u\right) \\ -\ln {}_tp_{45} &= \frac{0.001(1.05^{45+u})}{\ln 1.05}\bigg|_0^t \\ &= \frac{0.001(1.05^{45+t} - 1.05^{45})}{\ln 1.05} \end{aligned}$$

Setting ${}_tp_{45} = 0.95$,

$$\begin{aligned} \frac{0.001(1.05^{45+t} - 1.05^{45})}{\ln 1.05} &= -\ln 0.95 \\ 1.05^{45+t} &= (-1000\ln 0.95)(\ln 1.05) + 1.05^{45} = 11.48762 \\ 1.05^t &= \frac{11.48762}{1.05^{45}} = 1.27853 \\ t &= \frac{\ln 1.27853}{\ln 1.05} = 5.0361 \end{aligned}$$

The value of Z if death occurs at $t = 5.0361$ is $be^{-5.0361(0.06)}$, so the largest face amount is $1{,}000{,}000e^{5.0361(0.06)} = \boxed{\mathbf{1{,}352{,}786}}$. **(A)**

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20. **[Section 67.1]** The expected present value of future benefits and expenses is

$$20{,}000A_{60} + \Big(10 + 0.03(500)\Big)\ddot{a}_{60} = 20(369.13) + 25(11.1454) = 7661.24$$

The expected present value of future premiums is $500\ddot{a}_{60} = 500(11.1454) = 5572.70$. The gross premium reserve is $7661.24 - 5572.70 = \boxed{\mathbf{2088.54}}$. **(E)**

21. **[Lesson 56]** ${}_{20}q^{1}_{50:\overline{60}} - {}_{20}q^{2}_{50:\overline{60}} = {}_{20}q_{50}\,{}_{20}p_{60}$, and

$$\begin{aligned}
{}_{20}q_{50} &= 1 - \exp\left(-\int_0^{20} 0.002t\,\mathrm{d}t\right) \\
&= 1 - e^{-0.001(20)^2} = 1 - 0.670320 = 0.329680 \\
{}_{20}p_{60} &= \exp\left(-\int_0^{20} 0.003t\,\mathrm{d}t\right) \\
&= e^{-0.0015(20)^2} = 0.548812 \\
{}_{20}q_{50}\,{}_{20}p_{60} &= (0.329680)(0.548812) = \boxed{\mathbf{0.180932}} \qquad \textbf{(B)}
\end{aligned}$$

22. **[Lesson 3]** ${}_{5|}q_{20} = \Big(S_0(25) - S_0(26)\Big)\Big/S_0(20)$, so we will calculate these three values of $S_0(x)$. (Equivalently, one could calculate ${}_5p_{20}$ and ${}_6p_{20}$ and take the difference.) The integral of μ_x is

$$\int_0^x \mu_u\,\mathrm{d}u = \left(\frac{0.002u^2}{2} + 0.005u\right)\Bigg|_0^x = 0.001x^2 + 0.005x$$

so

$$\begin{aligned}
S_0(20) &= \exp\Big(-\big(0.001(20^2) + 0.005(20)\big)\Big) = \exp(-0.5) = 0.606531 \\
S_0(25) &= \exp\Big(-\big(0.001(25^2) + 0.005(25)\big)\Big) = \exp(-0.75) = 0.472367 \\
S_0(26) &= \exp\Big(-\big(0.001(26^2) + 0.005(26)\big)\Big) = \exp(-0.806) = 0.446641
\end{aligned}$$

and the answer is

$${}_{5|}q_{20} = \frac{0.472367 - 0.446641}{0.606531} = \boxed{\mathbf{0.042415}} \qquad \textbf{(D)}$$

23. **[Lesson 28]** By the equivalence principle,

$$G(0.9\ddot{a}_{45:\overline{30}|} - 0.3) = 100{,}100A_{45} + ra_{45} + 200 \qquad (*)$$

$$\begin{aligned}
1000A_{45} &= 1000\,(1 - d\ddot{a}_{45}) = 1000\left(1 - \frac{0.06}{1.06}(14.1121)\right) = 201.2 \\
a_{45} &= 14.1121 - 1 = 13.1121 \\
0.9\ddot{a}_{45:\overline{30}|} - 0.3 &= 0.9(13.3722) - 0.3 = 11.7350
\end{aligned}$$

Substituting into (*),

$$\begin{aligned}
1777.98(11.7350) &= 100.1(201.2) + 13.1121r + 200 \\
r &= \frac{1777.98(11.7350) - 100.1(201.2) - 200}{13.1121} = \boxed{\mathbf{40}} \qquad \textbf{(D)}
\end{aligned}$$

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24. [**Lessons 36 and 39**] Because premiums and benefits are the same as for an insurance on (40) through year 20, ${}_{20}V$ must be the same as for a standard 1000 whole life insurance on (40), or

$$ {}_{20}V_{40} = 1 - \frac{\ddot{a}_{60}}{\ddot{a}_{40}} = 1 - \frac{11.1454}{14.8166} = 0.247776 $$

Then by the equivalence principle, this reserve plus expected future net premiums must equal expected future benefits. If we let P be the premium after age 60:

$$ \begin{aligned} 2000A_{60} &= 247.776 + P\ddot{a}_{60} \\ 2000(0.36913) &= 247.776 + P(11.1454) \\ P &= \frac{2000(0.36913) - 247.776}{11.1454} = 44.0077 \end{aligned} $$

Now we roll the reserve forward one year.

$$ \begin{aligned} {}_{21}V &= \frac{({}_{20}V + P)(1+i) - 2000q_{60}}{1 - q_{60}} \\ &= \frac{(247.776 + 44.0077)(1.06) - 2000(0.01376)}{1 - 0.01376} \\ &= \boxed{\textbf{285.70}} \qquad \textbf{(B)} \end{aligned} $$

25. [**Lesson 62**]

$$ \begin{aligned} y_2 &= 0.018 \\ y_{12} &= 0.044 \\ (1 + f(2,12))^{10} &= \frac{1.044^{12}}{1.018^2} = 1.617746 \\ f(2,12) &= \sqrt[10]{1.617446} - 1 = \boxed{\textbf{0.0493}} \qquad \textbf{(D)} \end{aligned} $$

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