Spouse model implemented with K13

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Spouse model

```
library(tidyverse)
library(scales)
```

We will be considering a spouse model, the insured will get a yearly pension P, in case of death of one of the isured dies. Let insured number one have age x and age of insured number two have age y.

The state space will be: $S = \{0, 1, 2, 3\}$

```
x <- 40     #age of insured numb.1
y <- 30     #age of insured numb.2
T <- 80     #length of contract
P <- 50000  #pension
r <- 0.03   #intereset rate
```

The policy functions will look like:

$$a_0^{Pre}(n) = \begin{cases} -\pi & , n = 0, \ldots, T-1 \\ 0 & , else \end{cases}$$

$$a_1^{Pre}(n) = a_2^{Pre}(n) = \begin{cases} P & , n = 0, \ldots, T-1 \\ 0 & , else \end{cases}$$

The formula for the reserve in state 0 will look like:

$$V_0^+(t, A) = -\pi \sum_{n=t}^{T-1} \frac{v(n)}{v(t)} p_{00}^{(x,y)}(t, n) + P \left(\sum_{n=t}^{T-1} \frac{v(n)}{v(t)} p_{01}^{(x,y)}(t, n) + \sum_{n=t}^{T-1} \frac{v(n)}{v(t)} p_{02}^{(x,y)}(t, n) \right)$$

We assume the individuals to have independent lives, and their sample-spaces are $S_{(i)} = \{*, \dagger\}$, this gives:

$$p_{00}^{(x,y)}(t, n) = p_{**}^x(t, n) p_{**}^y(t, n)$$

$$p_{01}^{(x,y)}(t, n) = p_{*\dagger}^x(t, n) p_{**}^y(t, n)$$

$$p_{02}^{(x,y)}(t, n) = p_{**}^x(t, n) p_{*\dagger}^y(t, n)$$

Here I have taken state 1 to be the state where indivdual aged x dies. Let's assume that we deal with a couple where person aged x is a man, and person aged y is a woman.

```r
#The weights given by finanstilsynet
w <- function(x, G){
  #male: G = "M"
  #female: G = "F"
  #x: age in calender year t,
  if (G == "M"){
    return (min(2.671548-0.172480*x + 0.001485*x**2, 0))
  }
  else {
    return(min(1.287968-0.101090*x+ 0.000814*x**2,0))
  }
}


mu_kol_2013 <- function(x, G){
  #male
  if (G == "M"){
    return((0.241752+0.004536*10**(0.051*x))/1000)
  }
  #female
  else {
    return((0.085411+0.003114*10**(0.051*x))/1000)
  }
}


#turning mu into a function of u, so that we can use integrate
mu <- function(u, x, G, Y = 2022){
  return(mu_kol_2013(x+u, G)*(1 + w(x+u, G)/100)^{(Y+u-2013)})
}


p_surv <- function(x, G, Y, t, s){

  if (t == s){
    return(1)
  }

  f <- Vectorize(mu)
  integral <- integrate(f, lower = t, upper = s, x=x, Y=Y, G=G)$value

  ans <- exp((-1)*integral)
  return(ans)
}

v <- function(t){
  return(exp(-(r*t)))
}
```

Again, by the equivalence principle we determine the yearly premium π such that $V_0^+(0, A) = 0$, this gives:

$$\pi = \frac{P\left(\sum_{n=0}^{T-1} v(n)[p_{01}^{(x,y)}(0,n) + p_{02}^{(x,y)}(0,n)]\right)}{\sum_{n=0}^{T-1} v(n)p_{00}^{(x,y)}(0,n)}$$

```r
#both survive:
p_00 <- function(t, n){
    p_surv(x, G="M", Y=2022, t=t,s = n)*p_surv(y, G="F", Y=2022, t=0, s=n)
  }

#man dies, woman survive:
p_01 <- function(t,n){
  (1 - p_surv(x, G="M", Y = 2022, t=t,s = n ))*p_surv(y, G = "F", Y=2022, t=t, s = n )
}

#man survive, woman die:
p_02 <- function(t,n){
  p_surv(x, G="M", Y=2022, t=t,s = n )*(1 - p_surv(y, G="F", Y=2022, t=t, s = n ))
}

#wife remains alive:
p_11 <- function(t,n){
  p_surv(y, G = "F", Y=2022, t=t, s = n)
}

#man remains alive:
p_22 <- function(t,n){
  p_surv(y, G = "M", Y=2022, t=t, s = n)
}
```

```r
upper_summand <- function(n){
  prob <- p_01(0,n) + p_02(0,n)
  return(v(n)*prob)
}

lower_summand <- function(n){
  prob <- p_00(0,n)
  return(v(n)*prob)
}

(yearly_premium <- P*sum(map_dbl(0:(T-1), upper_summand))/sum(map_dbl(0:(T-1), lower_summand)))
```

```
## [1] 7618.899
```

```r
#reserve in state 0:
V_0 <- function(t){

  summand_1 <- function(t, n){
    (v(n)/v(t))*p_00(t, n)
  }

  summand_2 <- function(t, n){
    (v(n)/v(t))*(p_01(t,n) + p_02(t,n))
  }

  ans <- (-1)*yearly_premium*sum(map_dbl(t:(T-1),summand_1, t = t)) + P*sum(
                      map_dbl(t:(T-1), summand_2, t = t))

  return(ans)
}

#reseve in state 1:
V_1 <- function(t){

  summand <- function(t, n){
    (v(n)/v(t))*p_11(t,n)
  }

  ans <- P*sum(map_dbl(t:(T-1), summand, t = t))

  return(ans)
}

#reserve in state 2:
V_2 <- function(t){

  summand <- function(t,n){
    (v(n)/v(t))*p_22(t,n)
  }

  ans <- P*sum(map_dbl(t:(T-1), summand, t = t))

  return(ans)
}
```

```
length_contract <- 0:(T-1)
state0 <- map_dbl(length_contract, V_0)


df <- data.frame(length_contract, state0) %>%
  mutate(state1 = map_dbl(length_contract, V_1)) %>%
  mutate(state2 = map_dbl(length_contract, V_2)) %>%
  pivot_longer(!length_contract, names_to = "state", values_to = "reserve")

df %>%
  ggplot(aes(x = length_contract, y = reserve)) +
  geom_line(aes(color = state, linetype = state)) +
  scale_y_continuous(labels = dollar)
```