Comparing strategies for matching mortality forecasts to the most recently observed data
What is the best trade-off between short-term accuracy and long-term robustness?

Lenny Stoeldraijer

Introduction

- Aging population - challenges
- Pension reforms in Denmark, Finland, France, Germany
- Great Britain, Greece, Italy, the Netherlands, Norway, Spain, Sweden: retirement ages will gradually grow to 67-68 years
- Retirement age is linked to the development of life expectancy

Example – the Netherlands

From 2022 onwards (determined 5 years before):
- \( V = (L - 18.26) - (P - 65) \)
- \( V \): increase of the retirement age (0 or 0.25)
- \( L \): future (period) life expectancy on age 65
- \( P \): pension age in the year before

A good forecast of the future (period) life expectancy is therefore important.

Forecasting life expectancy

Objective:
- robust and accurate forecast

Problem:
- Jump-off bias: the estimated death rate in the last observed year does not (necessarily) equal the observed death rate

Jump-off bias

Two well-known options for the jump-off bias:
- Lee & Carter (1992): ‘have little impact on forecasted LE’
  -> Use model values as jump-off rates
- Bell (1997) and Lee & Miller (2001): ‘correction improves the forecast of LE’
  -> Use last observed values as jump-off rates

Analysis

- Data from the HMD
  - Years: 1960-2012
  - Sex: Men + women
  - Countries:
    - NLD, FRATNP, BEL, ESP, FIN, GBR_NP, NOR, SWE
- Model: Lee-Carter
- Robustness (five year ahead) and accuracy (first year)

Information on the forecasting model for the Netherlands:
Life expectancy at age 65 (NLD)

Solution: averaging

- Less ‘jumpy’ five years ahead, but small jump-off bias

Measures

Robustness: forecast five year ahead
- Standard deviation of the increase in life expectancy five years ahead of successive forecasts (ten forecasts)

Accuracy: forecast in the first year
- Mean absolute error in the first year of the forecast

Outcome – the Netherlands

Summary

- Focus on accuracy:
  - Model values (FRATNP, ESP)
  - Observed values (NLD, BEL, FIN, GBR_NP, NOR, SWE)

- Focus on robustness:
  - Averaging or model values (FRATNP, ESP)
  - Averaging (NLD, BEL, FIN, GBR_NP, NOR, SWE)
Summary

Focus on accuracy and robustness:
- Countries with a regular trend (FRATNP, ESP):
  -> Model values
- Other countries (NLD, BEL, FIN, GBR_NP, NOR, SWE):
  -> Averaging combined with observed values for the short term (interpolation for instance)

Conclusion

- Choice of jump-off rates affects accuracy, but also robustness
- Recent trend important for choice of jump-off rates

Thank you!

Questions?

lsor@cbs.nl