

**Zeitschrift:** Mitteilungen / Schweizerische Aktuarvereinigung = Bulletin / Association Suisse des Actuaires = Bulletin / Swiss Association of Actuaries  
**Herausgeber:** Schweizerische Aktuarvereinigung  
**Band:** - (2000)  
**Heft:** 1  
  
**Artikel:** A note on dependencies in multiple life statuses  
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**DOI:** <https://doi.org/10.5169/seals-967297>

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## B. Wissenschaftliche Mitteilungen

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### A note on dependencies in multiple life statuses

#### 1 Introduction

A traditional assumption in the theory of multiple life contingencies is that the remaining life times of the lives involved are mutually independent. Computational feasibility rather than realism seems to be the major reason for making this assumption. Indeed, a husband and his wife are more or less exposed to the same risks. The "broken heart syndrome" causes an increase of the mortality rate after the mortality of one's spouse. Such effects may have a significant influence on present values related to multiple life actuarial functions.

Carrière and Chan (1986) investigated Fréchet-bounds for pricing joint-life and last-survivor annuities. Frees, Carrière and Valdez (1996) observed a portfolio of annuities on coupled lives and concluded that the time-of-death of the paired lives were highly correlated. Carrière (1997) presents alternative ways for modeling the dependence of the time-of-deaths of coupled lives and applies these to a data set from a life annuity portfolio. These papers use copula functions to build bivariate survivorship functions. For a general introduction and a historical overview of the development of the theory of copula functions, we refer to Dall'Aglia, Kotz and Salinetti (1991). The article of Frees and Valdez (1998) introduces actuaries to the concept of copulas.

The situation where the dependence of lives arises from an exogenous event that is common to each life, can be described by a "common shock" model. A reference to this kind of models is Marshall and Olkin (1988).

To the best of our knowledge, the first actuarial textbook explicitly introducing multiple life models in which the future life time random variables are dependent is Bowers, Gerber, Hickmann, Jones and Nesbitt (1997). In Chapter 9 of this book, copula and common shock models are introduced to describe dependencies in joint-life and last-survivor statuses.

Also other models can be used to incorporate dependencies between life times, e. g. the frailty models described by Oakes (1989) or Markov models as described by Norberg (1989). For a more extensive overview of dependency models, we further refer to Frees, Carrière and Valdez (1996) and the references in that paper.

Given a certain copula or frailty model, determining the direction and the extent of over/underpricing by taking the independence assumption is straightforward. This paper allows the reader to determine this direction for a general class of models, where the only restriction is that the marginals are given. The assumption of given marginals is crucial here since our focus will lie on comparing dependencies only.

We want to compare the riskiness of several dependency relations. More precisely, we want to compare bivariate distributions with given marginals, but with different dependency structures. Although there is an extensive actuarial literature on the theory of ordering of univariate risks, see e. g. Goovaerts, Kaas, van Heerwaarden and Bauwelinckx (1990), the theory of ordering of multivariate risks has only recently been considered more extensively in the actuarial literature, see e. g. Denuit, Lefèvre and Mesfioui (1997), Müller (1997), Dhaene and Goovaerts (1996), Dhaene, Wang, Young and Goovaerts (1997), Wang and Dhaene (1997). A general reference to the theory of ordering of multivariate risks is Shaked and Shanthikumar (1994).

In this paper, we will use some results from Dhaene & Goovaerts (1996) which were obtained for portfolios where the risks involved are not necessarily mutually independent. We will see that we can use some of these general results for evaluating the effect of dependencies in case of multiple life functions. We introduce a partial ordering in the class of all bivariate lifetime distributions with given marginals. It is shown that this ordering is preserved (or reversed) when pricing certain multiple life insurance and annuity contracts. In particular, we establish conditions that provide information on the phenomenon of over/underpricing when the usual assumption of mutual independency of the life times involved is made. Combining our results with the Fréchet bounds, we establish lower and upper bounds for the single premiums of insurances and annuities on multiple life statuses. We will restrict our discussion to situations involving two lives. Generalisations to situations with more than two lives involved are possible.

In section 2, we will give some basic definitions and results. In section 3 these results will be used for deriving ordering relations between single premiums of multiple life insurances and annuities on two lives. In the sections 4 and 5 we derive lower and upper bounds for multiple life single premiums. In section 6, we will discuss dependency between stochastically ordered remaining life times. Finally, in section 7 we will give some numerical illustrations of the results obtained in the previous sections.

## 2 Correlation order and positive quadrant dependency

Let  $R(F, G)$  be the set of all bivariate distributed random variables  $(T(x), T(y))$  with given marginal distribution functions  $F$  and  $G$  for  $T(x)$  and  $T(y)$  respectively. We will interpret  $T(x)$  and  $T(y)$  as the remaining life times of persons of age  $x$  and  $y$  respectively. Consequently, they are assumed to be nonnegative random variables.

**Definition 1** Let  $(T(x), T(y))$  and  $(S(x), S(y))$  be elements of  $R(F, G)$ . Then  $(T(x), T(y))$  is said to be less correlated than  $(S(x), S(y))$ , written as  $(T(x), T(y)) \leq_c (S(x), S(y))$ , if

$$\text{cov}[f(T(x)), g(T(y))] \leq \text{cov}[f(S(x)), g(S(y))]$$

for all nondecreasing functions  $f$  and  $g$  for which the covariances exist.

The correlation order is a partial order between the joint distributions of the remaining life times in  $R(F, G)$ . It expresses the notion that some elements of  $R(F, G)$  are more positively correlated than others.

The following theorem gives an alternative definition for correlation order in terms of bivariate distribution functions.

**Theorem 1** Let  $(T(x), T(y))$  and  $(S(x), S(y))$  be elements of  $R(F, G)$ . Then the following statements are equivalent:

- (a)  $(T(x), T(y)) \leq_c (S(x), S(y))$ .
- (b)  $\Pr[T(x) \leq t, T(y) \leq s] \leq \Pr[S(x) \leq t, S(y) \leq s]$  for all  $t, s \geq 0$ .

A proof of this theorem can be found in Dhaene & Goovaerts (1996). References to the correlation order defined above are Barlow and Proschan (1975) and Tchen (1980). For economic applications, see also Epstein and Tanny (1980) and Aboudi and Thon (1993, 1995).

Often certain insured risks tend to act similarly, they possess some "positive" dependency. In order to describe such situations we introduce the notion of "positive quadrant dependency", see e. g. Barlow and Proschan (1975).

**Definition 2** Two remaining life times  $T(x)$  and  $T(y)$  are said to be positively quadrant dependent, written as  $PQD(T(x), T(y))$ , if

$$\Pr[T(x) \leq t, T(y) \leq s] \geq \Pr[T(x) \leq t] \Pr[T(y) \leq s]$$

for all  $t, s \geq 0$ .

Hence, saying that  $T(x)$  and  $T(y)$  are positive quadrant dependent means that the probability that  $T(x)$  and  $T(y)$  both realize small values is larger than the corresponding probability in the case of independent remaining life times. In terms of correlation order (Definition 1), one can say that  $T(x)$  and  $T(y)$  are actually more correlated than the corresponding couple consisting of mutually independent remaining life times. Reversing the inequality in Definition 2 leads to the notion of negative quadrant dependency (NQD). We will not use this concept in the remainder of this paper. However, for all results that we will prove for PQD, it is possible to prove a NQD version.

The notions of correlation order and positive quadrant dependency can easily be expressed in terms of Archimedean copula functions. Indeed, let  $(T(x), T(y))$  and  $(S(x), S(y))$  be elements of  $R(F, G)$  with respective copula functions  $C_T(u, v)$  and  $C_S(u, v)$ . Then  $(T(x), T(y)) \leq_c (S(x), S(y))$  is equivalent with  $C_T(u, v) \leq C_S(u, v)$  for all  $u, v \geq 0$ . We also have that  $PQD(T(x), T(y))$  is equivalent with  $C_T(u, v) \geq uv$  for all  $u, v \geq 0$ .

### 3 Actuarial functions on two dependent lives

Let the remaining life times of the statuses  $(x)$  and  $(y)$  as earlier be denoted by  $T(x)$  and  $T(y)$  respectively.

The joint-life status  $(xy)$  exists as long as  $(x)$  and  $(y)$  are both alive. Hence, the remaining life time of  $(xy)$  is given by  $T(xy) = \min[T(x), T(y)]$ . The survival probabilities  ${}_t p_{xy}$  of the jointlife status are given by

$${}_t p_{xy} = \Pr[T(xy) > t] = \Pr[T(x) > t, T(y) > t].$$

The last-survivor status  $(\overline{xy})$  exists as long as at least one of  $(x)$  and  $(y)$  is alive. Hence, the remaining life time of  $(\overline{xy})$  is given by  $T(\overline{xy}) = \max[T(x), T(y)]$ . The survival probabilities  ${}_t p_{\overline{xy}}$  of the last-survivor status are given by

$${}_t p_{\overline{xy}} = \Pr[T(\overline{xy}) > t] = 1 - \Pr[T(x) \leq t, T(y) \leq t].$$

Let  $T$  be the remaining life time of a joint-life or last-survivor status. We will consider life insurances and annuities for which the present value of future benefits (PVFB) is given by  $f(T)$  with  $f$  a non-decreasing or non-increasing non-negative function. The expectation of  $f(T)$  is the (pure) single premium for the insurance or annuity under consideration.

Remark that the PVFB of most of the usual joint-life and last-survivor insurances and annuities can be written as non-decreasing or non-increasing functions of the remaining life time of the joint-life or last-survivor status involved:

The PVFB of pure endowments  $({}_nE_{xy}, {}_nE_{\overline{xy}})$  and whole life annuities  $(\ddot{a}_{xy}, \ddot{a}_{\overline{xy}}, \overline{a}_{xy}, \overline{a}_{\overline{xy}}, \dots)$  are non-decreasing functions of the remaining life time of the multiple life status involved. The PVFB of whole life insurances  $(A_{xy}, A_{\overline{xy}}, \overline{A}_{xy}, \overline{A}_{\overline{xy}}, \dots)$  are non-increasing functions of the remaining life time of the multiple life status involved.

Before stating our main result, we need to introduce the notion of stochastic dominance.

**Definition 3** Let  $T$  and  $S$  be two remaining life times. We say that  $S$  stochastically dominates  $T$ , written  $T \leq_{st} S$ , if one of the following equivalent conditions hold:

- (a)  $E[f(T)] \leq E[f(S)]$  for all non-decreasing functions  $f$ .
- (b)  $\Pr[T \leq t] \geq \Pr[S \leq t]$  for all  $t$ .

A proof of the equivalence between the two conditions can be found e. g. in Goovaerts, Kaas, van Heerwaarden and Bauwelinckx (1990).

**Lemma 1** Let  $(T(x), T(y))$  and  $(S(x), S(y))$  be two bivariate remaining life times, both elements of  $R(F, G)$ . If  $(T(x), T(y)) \leq_c (S(x), S(y))$ , then the following stochastic order relations hold:

$$T(xy) \leq_{st} S(xy), \quad S(\overline{xy}) \leq_{st} T(\overline{xy}).$$

**Proof** From Theorem 1 we have that

$$\Pr[T(x) \leq t, T(y) \leq s] \leq \Pr[S(x) \leq t, S(y) \leq s].$$

This inequality can be transformed into

$$\Pr[T(x) > t, T(y) > s] \leq \Pr[S(x) > t, S(y) > s].$$

Hence, we find

$$\begin{aligned} \Pr[T(xy) > t] &= \Pr[T(x) > t, T(y) > t] \leq \Pr[S(x) > t, S(y) > t] \\ &= \Pr[S(xy) > t], \end{aligned}$$

which proves the first stochastic order relation. The other relation is proven similarly.  $\square$

In the following theorem, which states our main result, we will consider two bivariate remaining life times in  $R(F, G)$  which are ordered by the correlation order. We will show that a correlation order between these bivariate remaining life times implies an ordering of the corresponding multiple life single premiums.

**Theorem 2** Let  $(T(x), T(y))$  and  $(S(x), S(y))$  be two bivariate remaining life times, both elements of  $R(F, G)$ . If  $(T(x), T(y)) \leq_c (S(x), S(y))$ , then the following inequalities hold for any non-decreasing function  $f$ :

$$\begin{aligned} E[f(T(xy))] &\leq E[f(S(xy))], \\ E[f(T(\overline{xy}))] &\geq E[f(S(\overline{xy}))]. \end{aligned}$$

If  $f$  is non-increasing then the opposite inequalities hold.

**Proof** From Lemma 1 we have that  $S(xy)$  stochastically dominates  $T(xy)$  so that the first inequality is proven.

The proof for the other inequality is similar.

The inequalities for a non-increasing function  $f$  follow immediately by remarking that  $-f$  is non-decreasing in this case.  $\square$

Theorem 2 can be interpreted as follows: Assume that the marginal distribution of the remaining life times of  $(x)$  and  $(y)$  are given. If the bivariate remaining life time of the couple increases in correlation order, then the single premiums of endowment insurances and annuities on the joint life status increase, while the single premiums of endowment insurances and annuities on the last survivor status decrease. For whole life insurances, the opposite conclusions hold.

Remark that Theorem 2 can also be used for ordering single premiums of more complex multiple life functions. Consider e. g. an annuity which pays one per year while both  $(x)$  and  $(y)$  are alive, and  $\alpha$  per year while  $(y)$  is alive and  $(x)$  has died. The discounted value of the benefits involved is given by

$$\int_0^{T(xy)} v^t dt + \alpha \int_{T(xy)}^{T(y)} v^t dt = (1 - \alpha) \int_0^{T(xy)} v^t dt + \alpha \int_0^{T(y)} v^t dt.$$

Under the conditions of Theorem 2, we find from the equality above that  $(T(x), T(y)) \leq_c (S(x), S(y))$  implies  $a_{xy}^{(T)} + \alpha a_{x|y}^{(T)} \leq a_{xy}^{(S)} + \alpha a_{x|y}^{(S)}$ , where the superscript  $(T)$  is used to indicate that the annuity is computed using the bivariate remaining lifetime  $(T(x), T(y))$ .

A natural measure of dependency between two random variables is the covariance. So, one could wonder whether  $\text{cov}[T(x), T(y)] \leq \text{cov}[S(x), S(y)]$  is a sufficient condition for the ordering relations in Theorem 2 to hold. In the following example, we will show that the ordering of the covariances is not a sufficient condition.

Let  $F$  be the cumulative distribution function of a remaining life time that can be equal to  $1/2$ ,  $3/2$  or  $5/2$ , each with probability  $1/3$ . Now, we consider the couples



$(T(x), T(y))$  and  $(S(x), S(y))$ , both elements of  $R(F, F)$ . Further, we assume that  $T(x)$  and  $T(y)$  are mutually independent, while the dependency structure of  $(S(x), S(y))$  follows from the following relations:

$$\begin{aligned}\Pr[S(y) = 1/2 \mid S(x) = 1/2] &= 1, \\ \Pr[S(y) = 3/2 \mid S(x) = 5/2] &= 1, \\ \Pr[S(y) = 5/2 \mid S(x) = 3/2] &= 1.\end{aligned}$$

We have that  $\text{cov}[T(x), T(y)] = 0$  and  $\text{cov}[S(x), S(y)] = 1/3$ . On the other hand, we find

$$\Pr[T(\overline{xy}) \leq t] = \begin{cases} 1/9 & : t < 3/2, \\ 4/9 & : 3/2 \leq t < 5/2, \\ 1 & : t \geq 5/2. \end{cases}$$

and

$$\Pr[S(\overline{xy}) \leq t] = \begin{cases} 1/3 & : t < 5/2, \\ 1 & : t \geq 5/2. \end{cases}$$

From the distribution functions of  $T(\overline{xy})$  and  $S(\overline{xy})$  we find that  ${}_1E_{\overline{xy}}^{(T)} > {}_1E_{\overline{xy}}^{(S)}$ , but  ${}_2E_{\overline{xy}}^{(T)} < {}_2E_{\overline{xy}}^{(S)}$ .

Although it is customary to compute covariances in relation with dependency considerations, one number alone cannot reveal the nature of dependency adequately. From the example above, we see that the order induced by comparing only the covariances of  $(T(x), T(y))$  and  $(S(x), S(y))$  will not imply a consistent ordering between the single premiums of endowment insurances on the last-survivor status. Hence, the results of Theorem 2 cannot be generalized in this way.

Instead of comparing  $\text{cov}[T(x), T(y)]$  and  $\text{cov}[S(x), S(y)]$  one could compare  $\text{cov}[f(X_1), g(X_2)]$  with  $\text{cov}[f(Y_1), g(Y_2)]$  for all nondecreasing functions  $f$  and  $g$ . The order induced in this way is the correlation order. As we see from Theorem 2, this generalization of an order based on comparing covariances implies a consistent ordering between single premiums of joint life and last-survivor annuities and insurances.

More generally, we could wonder if there are other bivariate orderings which lead to similar results as the one obtained in Theorem 2. Remark that the condition  $E[f(T(xy))] \leq E[f(S(xy))]$  for all non-decreasing functions  $f$  is equivalent with  $\Pr[T(x) \leq t, T(y) \leq t] \leq \Pr[S(x) \leq t, S(y) \leq t]$  for all  $t \geq 0$ . In view of Theorem 1, we can conclude that the correlation order seems to be an appropriate choice as bivariate ordering.



#### 4 Fréchet lower and upper bounds for the single premiums

In this section we will look at the extremal elements in  $R(F, G)$ , namely the one which are smaller or larger in correlation order than any other element in  $R(F, G)$ .

**Lemma 2** *For any element  $(T(x), T(y))$  in  $R(F, G)$ , we have that*

$$\begin{aligned} \max(F(t) + G(s) - 1, 0) &\leq \Pr[T(x) \leq t, T(y) \leq s] \\ &\leq \min(F(t), G(s)) \end{aligned}$$

*with the lower and upper bound being bivariate distribution functions of elements contained in  $R(F, G)$ .*

This result can be found in Fréchet (1951).

Now let  $(T_L(x), T_L(y))$  and  $(T_U(x), T_U(y))$  be elements of  $R(F, G)$  which correspond to the lower and the upper Fréchet bound respectively, i. e.

$$\begin{aligned} \Pr[T_L(x) \leq t, T_L(y) \leq s] &= \max(F(t) + G(s) - 1, 0), \\ \Pr[T_U(x) \leq t, T_U(y) \leq s] &= \min(F(t), G(s)). \end{aligned}$$

We also introduce  $T_L(xy)$  which is the remaining life time of the joint-life status associated with  $(T_L(x), T_L(y))$ . After some straightforward computations, we find

$$\Pr[T_L(xy) \leq t] = \min(F(t) + G(t), 1).$$

Similarly, we define  $T_U(xy)$ ,  $T_L(\overline{xy})$  and  $T_U(\overline{xy})$ . The distribution functions of these statuses are given by

$$\begin{aligned} \Pr[T_L(\overline{xy}) \leq t] &= \max(F(t) + G(t), 1) - 1, \\ \Pr[T_U(xy) \leq t] &= \max(F(t) + G(t)), \\ \Pr[T_U(\overline{xy}) \leq t] &= \min(F(t) + G(t)) - 1. \end{aligned}$$

From Lemma 1 and Lemma 2, we immediately find the following inequalities for  $(T_L(x), T_L(y))$ ,  $(T_U(x), T_U(y))$  and  $(T(x), T(y))$  in  $R(F, G)$ :

$$\begin{aligned} T_L(xy) &\leq_{st} T(xy) \leq_{st} T_U(xy), \\ T_U(\overline{xy}) &\leq_{st} T(\overline{xy}) \leq_{st} T_L(\overline{xy}) \end{aligned}$$

Hence, from Theorem 2, we immediately find the following result.

**Theorem 3** Let  $(T_L(x), T_L(y))$  and  $(T_U(x), T_U(y))$  be elements of  $R(F, G)$  corresponding to the Fréchet bounds. Then the following inequalities hold for any  $(T(x), T(y)) \in R(F, G)$  and for any non-decreasing function  $f$ :

$$\begin{aligned} E[f(T_L(xy))] &\leq E[f(T(xy))] \leq E[f(T_U(xy))], \\ E[f(T_U(\overline{xy}))] &\leq E[f(T(\overline{xy}))] \leq E[f(T_L(\overline{xy}))]. \end{aligned}$$

If  $f$  is non-increasing then the opposite inequalities hold.

Assume that we are in a situation where we know the marginal distribution functions of  $T(x)$  and  $T(y)$ , but where we have no information concerning the dependency relation between the two remaining life times. From the theorem above, we can compute lower and upper bounds for the single premiums of insurances or annuities on the joint-life or last-survivor statuses involved.

Let us now assume that all elements in  $R(F, G)$  are stochastically ordered. Without loss of generality we can assume that

$$F(t) \geq G(t)$$

for all  $t \geq 0$ . A sufficient condition for this to be true is that the force of mortality related to  $F$  is always greater than or equal to the force of mortality related to  $G$ , see e. g. Goovaerts, Kaas, van Heerwaarden and Bauwelinckx (1990).

In practice, the condition above could be fulfilled e. g. if we consider a couple where  $F(t)$  is the distribution function of the remaining life time of a husband which is older than his wife, who has a remaining life time with distribution function  $G(t)$ .

Now, let  $(T_U(x), T_U(y))$  be the element in  $R(F, G)$  which corresponds to the Fréchet upper bound, i. e.

$$\Pr[T_U(x) \leq t, T_U(y) \leq s] = \min(F(t), G(s)).$$

After some straightforward derivations, we find that in this case

$$\Pr(T_U(xy) \leq t) = F(t)$$

and

$$\Pr(T_U(\overline{xy}) \leq t) = G(t).$$

This means that  $T_U(xy)$  has the same distribution function as  $T_U(x)$ , and  $T_U(\overline{xy})$  has the same distribution function as  $T_U(y)$ . Hence, we find that, in this special case, for any function  $f$  the following relations hold:

$$E[f(T_U(xy))] = E[f(T_U(x))]$$

and similarly,

$$E[f(T_U(\overline{xy}))] = E[f(T_U(y))].$$

We can conclude that if  $F(t) \geq G(t)$  for all  $t \geq 0$ , or equivalently,  $T(x) \leq_{st} T(y)$  for all  $(T(x), T(y))$  in  $R(F, G)$ , then the single premiums in Theorem 3 which correspond to the Fréchet upper bound all reduce to single premiums of single life insurances or annuities.

## 5 Independent lives versus PQD

In this section, we will again assume that the marginal distributions of the remaining life times  $T(x)$  and  $T(y)$  are given. We will compare the case where the remaining life times are mutually independent with the case where they are PQD.

**Theorem 4** *Assume that the bivariate remaining life times  $(T(x), T(y))$  and  $(T^{\text{ind}}(x), T^{\text{ind}}(y))$  have the same marginal distributions. If  $PQD(T(x), T(y))$ , and  $T^{\text{ind}}(x)$  and  $T^{\text{ind}}(y)$  are mutually independent, then the following inequalities hold for any non-decreasing function  $f$ :*

$$\begin{aligned} E[f(T^{\text{ind}}(xy))] &\leq E[f(T(xy))], \\ E[f(T(\overline{xy}))] &\leq E[f(T^{\text{ind}}(xy))]. \end{aligned}$$

*If  $f$  is nonincreasing then the opposite inequalities hold.*

**Proof** The proof follows immediately from Definition 2 and Theorem 2.  $\square$

These inequalities have been derived for some specific types of multiple life insurances and annuities in Norberg (1989).

As an application of Theorem 4 we find that for  $PQD[T(x), T(y)]$ , a whole life insurance on the joint-life status  $(xy)$  has a lower single premium than in the independent case. Similarly, we can conclude that in the case of positive quadrant dependency, the independence assumption will lead to an underestimation of the single premium of an annuity on the jointlife status  $(xy)$ .

From the Theorem above we see that when  $T(x)$  and  $T(y)$  are positive quadrant dependent, then the bounds in Theorem 3 which corresponds to the Fréchet lower bound can be improved by considering the independent case as bound. Remark that in the independent case we have

$$\begin{aligned} \Pr [T^{\text{ind}}(xy) \leq t] &= F(t) + G(t) - F(t)G(t), \\ \Pr [T^{\text{ind}}(\overline{xy}) \leq t] &= F(t) + G(t). \end{aligned}$$

## 6 Numerical illustration

In this section we will illustrate the bounds derived in the previous sections by some numerical examples. The technical interest rate equals 4.75 %. Further,  $(x)$  and  $(y)$  are a male and a female. The marginal distribution functions of the remaining life times of  $(x)$  and  $(y)$  follow from the Belgian mortality tables  $MR$  and  $FR$  respectively. For the mortality table  $MR$ , the Makeham constants are given by  $k = 1\,000\,266.63$ ;  $s = 0.999\,441\,703\,848$ ;  $g = 0.999\,733\,441\,115$  and  $c = 1.101\,077\,536\,030$ . For the mortality table  $FR$ , the Makeham constants are given by  $k = 1\,000\,048.56$ ;  $s = 0.999\,669\,730\,966$ ;  $g = 0.999\,951\,440\,172$  and  $c = 1.116\,792\,453\,830$ .

We assume that the remaining life times of  $(x)$  and  $(y)$  are positive quadrant dependent. In each multiple life status, the first age will be the age of the male person.

In Table 1 bounds are given for whole life annuities on  $(xy)$  and  $(\overline{xy})$  with  $x = y$ , for different values of  $x$ . The bounds follow from Theorems 3 and 4.

$x$	$\ddot{a}_{xx}$		$\ddot{a}_{\overline{xx}}$	
	$LB$	$UB$	$LB$	$UB$
20	19.73491	20.16667	20.65737	21.08913
25	19.25552	19.75987	20.33743	20.84178
30	18.66676	19.25966	19.9384	20.53131
35	17.94998	18.64924	19.44297	20.14223
40	17.08711	17.9114	18.83157	19.65585
45	16.06302	17.03007	18.08316	19.05021
50	14.86913	15.9929	17.17676	18.30054
55	13.50804	14.79454	16.09438	17.38088
60	11.9987	13.44083	14.82536	16.26748
65	10.38052	11.95296	13.37225	14.94469

**Table 1:** Bounds for pertetuities on  $(xy)$  and  $(\overline{xy})$  with  $x = y$ .

*Assumptions:*  $(x) \sim MR(4.75\%)$ ,  $(y) \sim FR(4.75\%)$ , risks are  $PQD$ .

The differences between the upper and lower bounds are relatively small. Remark that the absolute difference between the upper and the lower bound increases with the age.

In Table 2 we compare the single premiums for pure endowment insurances on  $(25 : 20)$  and  $(\overline{25} : \overline{20})$  respectively, for varying durations of the endowment.

$n$	${}_nE_{25\ 20}$		${}_nE_{\overline{25}\ \overline{20}}$	
	$LB$	$UB$	$LB$	$UB$
5	0.7877	0.78926	0.79135	0.79291
10	0.61963	0.62223	0.62609	0.6287
15	0.48632	0.48965	0.49513	0.49847
20	0.38028	0.38418	0.39128	0.39518
25	0.29557	0.29998	0.30883	0.31324
30	0.22746	0.23243	0.24321	0.24819
35	0.17219	0.17784	0.19081	0.19645
40	0.12689	0.13333	0.14872	0.15515
45	0.08945	0.09672	0.11458	0.12186

**Table 2:** Bounds for endowment insurance on  $(xy)$  and  $(\overline{xy})$  with  $x = 25$  and  $y = 20$ .

*Assumptions:*  $(x) \sim MR(4.75\ \%)$ ,  $(y) \sim FR(4.75\ \%)$ .

For the joint-life as well as for the last-survivor insurance, the difference between the upper and the lower bound is an increasing function of the duration.

Finally, in Table 3 we compare whole life annuities on  $(x : 20)$  and  $(\overline{x} : 20)$  with  $x$  varying from 20 to 55.

$x$	$y$	$\ddot{a}_{xx}$		$\ddot{a}_{\overline{xx}}$	
		$LB$	$UB$	$LB$	$UB$
20	20	19.73491	20.16667	20.65737	21.08913
25	20	18.97906	19.25966	20.65737	21.00743
30	20	18.97906	19.25966	20.65737	20.93798
35	20	18.42589	18.64924	20.65737	20.88073
40	20	17.7345	17.9114	20.65737	20.83428
45	20	16.89073	17.03007	20.65737	20.79672
50	20	15.88407	15.9929	20.65737	20.76621
55	20	14.71068	14.79454	20.65737	20.74124

**Table 3:** Bounds for perpetuities on  $(xy)$  and  $(\overline{xy})$  with  $y = 20$ .  
*Assumptions:*  $(x) \sim MR(4.75\%)$ ,  $(y) \sim FR(4.75\%)$ , risks are  $PQD$ .

For the last-survivor annuity the lower bound equals  $a_y$  and hence is constant. From Table 3 we see that increasing the difference in age between  $(x)$  and  $(y)$  decreases the absolute difference between the bounds.

## Acknowledgements

The authors would like to thank the financial support of grant OT/97/06 of Onderzoeksfonds K. U. Leuven.

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## Abstract

We introduce the correlation order as a tool for describing and understanding dependencies in multiple life statuses. This order is well-known in the economical literature. It is a partial order in the class of all bivariate lifetime distributions with given marginals. It is shown that this order is preserved (or reversed) when pricing multiple life and last survivor insurance and annuity contracts. In particular, we establish conditions that provide information on the phenomenon of over/underpricing when the usual assumption of mutual independency of the life times involved is made. The results can also be used to establish lower and upper bounds for the single premiums of insurances and annuities on joint-life and last-survivor statues with given marginals.

## Résumé

Nous utilisons l'ordre de corrélation dans le but de décrire et de comprendre les dépendances des durées de vie dans le cadre d'assurances sur plusieurs têtes. Cette relation d'ordre est bien connue dans la littérature économique. Il s'agit ici d'un ordre partiel dans la classe de toutes les distributions à deux variables des durées de vie d'un couple à distributions marginales données. Nous montrons que cet ordre est conservé (ou renversé) lors de la détermination de la valeur d'assurances sur plusieurs têtes. En particulier nous donnons des conditions qui permettent d'évaluer l'erreur (positive / négative) lorsque l'hypothèse habituelle de l'indépendance mutuelle est utilisée. Ces résultats peuvent être utilisés pour déterminer des bornes inférieures et supérieures pour la prime unique d'assurances sur plusieurs têtes.

## Zusammenfassung

Wir führen die Korrelations-Ordnung als Hilfsmittel ein, mit dem Ziel, Abhängigkeiten der Lebensdauern im Rahmen von Versicherungen auf mehrere Leben zu beschreiben und zu verstehen. Diese Ordnung ist in der Wirtschaftsliteratur bestens bekannt. Es ist eine partielle Ordnung in der Klasse aller bivariaten Lebensdauer-Verteilungen mit vorgegebenen Randverteilungen. Es wird gezeigt, dass diese Ordnung bei der Bewertung der Versicherungen auf mehrere Leben erhalten bleibt (oder umgekehrt wird). Im Speziellen leiten wir eine Bedingung her, welche Information zum Phänomen der Über-/Unterbewertung liefert, falls die übliche Annahme der paarweisen Unabhängigkeit der zugehörenden Lebensdauern getroffen wird. Die Resultate können auch verwendet werden, um untere und obere Schranken für die Einmalprämie von Versicherungen auf mehrere Leben zu bestimmen.