

**UNIVERSITI TEKNOLOGI MARA**

**DYNAMIC FORECASTING  
MODEL FOR SHORT SERIES  
AGE-SPECIFIC  
MORTALITY**

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Thesis submitted in fulfilment  
of the requirements for the degree of  
**Doctor of Philosophy**

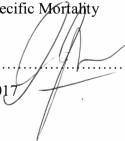
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## AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own works, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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## ABSTRACT

This thesis presents results of a research in developing a model to forecast mortality using a combination of existing demographic and time series models, specifically proposing a common factor model for forecasting Malaysia mortality using the available mortality data set. This research has been motivated by three (3) factors. Firstly, the need for a mortality forecasting model “tailored” to Malaysia data set which has been borne out of the scarcity of studies in forecasting Malaysia mortality, crucial to government pensions and social security as well as to practitioners in related fields. Secondly, over the last decades, different models for forecasting mortality have been used to produce mortality projections for different countries. However, no “universal” model, applicable to all countries, has been developed, more so for short-series historical mortality data. Hence, there is a need to develop and apply an appropriate model to produce good forecasts of Malaysia mortality. Thirdly, while undertaking a literature review to gain insights into current mortality forecasting models, it became apparent that a gap existed between the current models used for forecasting and projecting Malaysia mortality and the current practice of incorporating state-space methodology in mortality forecasting models, specifically in modelling high-dimensional short series mortality data. Hence, the research gap has to be narrowed. The first objective of this research is to establish a comprehensive literature review on modeling and forecasting mortality data. The second objective is to assess the feasibility of applying the benchmark Lee-Carter (LC) model and its variants and extensions to Malaysia age-specific mortality data. The third objective is to develop the LC model within a state space framework (LC-SS model) as a common factor model with single and multiple common trends for forecasting Malaysia age-specific mortality. The fourth objective is to evaluate and validate the performance of the LC-SS model while the fifth objective is to generate Malaysia age-specific mortality forecasts. The first stage of the research assessed the feasibility of applying the benchmark LC model together with its variants and extensions which included the Hyndman-Ullah (HU) model to Malaysia age-specific mortality data (i.e., the age-specific death rate – ASDR). In the second stage, three variants of LC models in state space framework (LC-SS model) were proposed using algorithm for a large number of series with a short time period. These are the LC-SS model with multiple common trends (LC-DFA model), the LC-SS model with single common trends; LC-SSequal and LC-SSunequal models. The performance of these models were evaluated using time series cross validation. Results indicated that the LC-SS models were able to fit and forecast Malaysia mortality well, with the LC-DFA model outperforming the LC-SSequal and LC-SSunequal models. This study has shown that it is feasible to improve the benchmark LC model by incorporating a state space model to provide good forecasts for short non-stationary age-specific Malaysia mortality. Results of this research also revealed that Malaysia ASDR is expected to decline in the future with the increase in life expectancy. These results contribute useful insights into mortality patterns using age-specific base model in modelling and forecasting Malaysia mortality. The feasibility of developing causal forecasting models for Malaysia ASDR using socioeconomic explanatory data could next be explored, along with the development of appropriate model evaluation techniques.

## TABLE OF CONTENTS

	<b>Page</b>
<b>CONFIRMATION BY PANEL OF EXAMINERS</b>	ii
<b>AUTHOR'S DECLARATION</b>	iii
<b>ABSTRACT</b>	v
<b>ACKNOWLEDGMENT</b>	vi
<b>TABLE OF CONTENTS</b>	vii
<b>LIST OF TABLES</b>	xii
<b>LIST OF FIGURES</b>	xvi
<b>LIST OF ABBREVIATIONS</b>	xx
<b>CHAPTER ONE: INTRODUCTION</b>	1
1.1 Patterns and Trends in Global Mortality	2
1.2 Patterns and Trends in Malaysia Mortality	3
1.3 Concept of Important Terminologies	5
1.3.1 Deterministic and Stochastic Model	5
1.3.2 Short Time Series Data	6
1.3.3 State Space Model	6
1.3.4 Dynamic Factor Analysis	6
1.3.5 Expectation and Maximization Algorithm	7
1.4 Research Motivation	7
1.5 Research Gap	10
1.6 Problem Statement	13
1.7 Objectives of the Study	14
1.8 Scope and Limitation of the Study	14
1.9 Research Approach	15
1.10 Organization of the Thesis	17

## CHAPTER ONE

### INTRODUCTION

Life expectancy is a measure of the number of years, on average, that a person can expect to live. In many countries life expectancy has increased tremendously in the last four decades. While this may seem to be a positive development, increased life expectancy has huge implications for governments' retirement plans, pension funds and insurance companies. Mortality, the death rate per individual, is one of the determining factors of population growth. In the developing world, along with the increase in life expectancy, the mortality or death rate has dropped more or less continuously, since the start of the industrial revolution. Personal hygiene and improved sanitation have played major roles and preceded the impact of modern medicine, in particular, the development of antibiotics capable of reducing death from infections. The downward trend in death rates is common to most developed countries and several developing countries including Malaysia. For this reason, a better understanding of the determinants of changing mortality and reliable forecasts of mortality are obviously of high importance to governments in areas such as population planning, social security and public health. In the private sector, such knowledge can have substantial monetary values as they improve the calculation of life insurance premiums and pension schemes for the insurance industry. Actuaries and demographers need mortality models to forecast mortality which will benefit most due to proper modeling. Further, mortality forecasting is important to governments and insurance companies because of their need for reliable mortality projections.

In the fields of demographic and actuarial science, there have been many approaches adopted in forecasting mortality. Traditionally, parametric curve similar to those suggested by Gompertz (1825), Makeham (1867), Heligman and Pollard (1980) were used to fit annual death rates. Over the past twenty years, a number of new approaches were developed for forecasting mortality using stochastic models. One such approach is due to McNown and Rogers (1989, 1992) and Lee and Carter (1992), (henceforth LC model). The LC model which takes into account the time effect was considered to be a significant milestone in demographic forecasting. It has been widely applied in many countries to forecast age-specific death rates (ASDR).