

Life histories: real and synthetic

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Abstract

Life history data are generally incomplete. Respondents enter observation late (left truncation) or leave early (right censoring). In survival analysis, these limitations are considered in the estimation of hazard rates. Rates are estimated from data on different respondents with different observation periods (observation windows). In multistate modeling, transition rates also integrate information on different individuals.

By combining data from different but similar individuals, life histories can be modeled. The life history that results is a *synthetic* life history. It is not observed and it does not tell anything about a particular individual. It tells something about the population the individual is part of. A synthetic biography summarizes information on several individuals. The collective experience is summarized in *transition rates*. The individual is a fictitious individual, referred to as virtual individual or statistical individual (Courgeau, 2012). A population of virtual individuals is a virtual population. The life history of such an individual is not directly observed but is an outcome of a probability model, the parameters of which are estimated from empirical data. Life histories are generated from models using microsimulation in continuous time.

Several life course indicators may be derived from transition rates. They include probabilities of significant transitions, probabilities of having reached particular stages in life, expected durations of stages of life, and expected ages at significant transitions.

The methods are illustrated using data from the German Life History Survey (GLHS). It is a subsample also used by Blossfeld and Rohwer (2002) in their book *Techniques of Event History Modeling*. In the paper, references are made to R packages for multistate modelling and analysis, in particular *mvna*, *etm*, *msm*, *mstate*, *ELECT* and *Biograph*.

Life histories: real and synthetic

1. Introduction

Life history data are generally incomplete. Usually, they do not cover for each individual in the study the entire life span or the life segment of interest. If data are collected retrospectively, observation ends at interview date and no information is available on events and experiences after the date. Data collected prospectively are incomplete because events and other experiences are recorded during a limited period of time only. To deal with data limitations, models are introduced. The model that is considered in this chapter describes life histories. The model is based on the premise that life histories are realizations of a continuous-time Markov process. A Markov process is a stochastic process that describes a system with multiple states and transitions between the states. The time at which a transition occurs is random but the distribution of the time to transition is known. In the continuous-time Markov process, the transition time has an exponential distribution. The rate of transition out of the current state (exit rate) is the parameter of the exponential distribution. It depends on the current state only and is independent of the history of the stochastic process. In a system with multiple states, an individual who leaves the current state may enter one of several states. In competing risks models, states in the state space are viewed as competing destinations and transition rates are destination-specific. The Markov process is a first-order process: the destination state depends on the current state only and is independent of states occupied previously.

The Markov model predicts¹ the probability that an individual of a given age occupies a given state. The Markov model may also be used to predict the number of transitions during a given interval and the number of times an individual occupies a given state. The stochastic process that describes the transition counts or the state occupancy counts is a Markov counting process (see below). It belongs to the class of counting processes. The most elementary counting process is the Poisson process. It is a stochastic process that counts the number of transitions without considering origin and destination states. In a Poisson process, the time between two consecutive transitions has an exponential distribution.

The parameters of the Markov model are estimated from data. By pooling data on different but similar individuals, models can be estimated that describe the entire life histories. The life history that is based on pooled data is a *synthetic* life history. It is a virtual life history; it is not observed. It does not say anything about a specific individual in a sample but tells something about the sample the individual is part of. A synthetic biography summarizes information on several individuals. It is the life course that would result if an individual lives a life prescribed by the collective experience of similar individuals under observation. The collective experience is summarized in *transition rates*. These rates play a key role in generating synthetic biographies. Transition rates are estimated from life history data and used to generate synthetic biographies. Maximum likelihood estimates of transition rates are used to

¹ Prediction is used in the statistical meaning. Prediction is a statement about an outcome. A model is often used to predict an outcome, e.g. an event that occurs in a population or that is experienced by an individual in a population. The parameter(s) of the model are estimated from observations on a selection of individuals. Prediction is part of statistical inference. It should not be confused with forecasting.

generate expected life histories and expected values of life history indicators. Individual life histories are distributed randomly around an expected life path. Microsimulation is used to generate individual life histories from empirical transition rates.

In life history analysis and life history modelling, age is the main time scale. Age is a proxy for stage of life. Other useful time scales are calendar time and time since a reference event. Birth, marriage, labour market entry, and entry into observation are examples of reference events. The standard approach in survival analysis is to use time since the baseline survey or (first) entry into the study (time-on-study). Time-on-study has no explanatory power, which is acceptable if time dependence of a transition rate is not of interest, such as in the Cox model with free baseline hazard. Korn et al. (1997) argue that time-on-study is not appropriate for predicting transition rates. They recommend age as the time scale (see also Pencina et al., 2007 and Meira-Machado et al., 2009). Rates of transition between states generally vary with age. The Markov process that accommodates changing rates is the time-inhomogeneous Markov process. The model of that process is discussed in this chapter.

To characterize life histories, a set of indicators is usually used, including state occupancies at consecutive ages, durations of stages of life, and ages at significant transitions. The indicators are sometimes combined in a table, known as the *multistate life table*. The multistate life table originated in demography (Rogers, 1975), but it is currently used across disciplines. The model that produces the values of the indicators summarized in the multistate life table is the Markov process model.

Two examples may clarify the concept of synthetic biography. The first relates to the length of life and the second to marriage and fertility.

- a. Suppose we are interested in the life expectancy of a 60-year old. The empirical evidence consists of a 10-year follow-up of 1000 individuals aged 60 and over. At the beginning of the observation period, some individuals are relatively young (60 years, say) while others are already old (over 90, say). During the observation period of 10 years, some individuals die. The oldest old are more likely to die than other individuals under observation. To determine the expected remaining lifetime for a 60-year old, one could calculate the mean age at death of those who die during the observation interval. The observed mean age at death provides a wrong answer, however. It depends on the age composition of the population under observation. If the group under observation consists of many old persons, the mean age at death will be higher than for a group that consists mainly of persons in their sixties and seventies. To remove the effect of the age composition, death rates are calculated by age. The distribution of ages at death is obtained by applying a piecewise exponential survival model, with parameters the age-specific mortality rates. The expected age at death is 60 plus the expected remaining lifetime or life expectancy. The life expectancy of a 60-year old is the number of years that the individual may expect to live if at each age over 60 he experiences the age-specific mortality rate estimated during the 10-year follow-up of 1000 individuals. At young ages, he experiences the mortality rates of individuals who were 60 recently. At older ages the mortality rates are from old persons who turned 60 many years ago. The life expectancy is adequate if the age-specific mortality rates do not vary in time.

- b. The second illustration considers marriage and fertility. Suppose we want to know at what age women start marriage and at what duration of marriage they have their first child. It is not possible to follow all women until they have their first child since some will remain childless. Suppose the data are from a 5-year follow-up survey of girls and women aged 15 to 35 at the onset of observation. At the end they are 20 to 40. During the follow-up, the age at marriage and the age at birth of the first child are recorded. At the start of observation, some individuals are already married. Other individuals remain unmarried during the entire period of observation. They may marry after observation is ended or they may not marry at all. To determine the age at marriage and the duration of marriage at time of birth of the first child, marriage and childbirth are described by a continuous-time Markov process with transition rates the empirical marriage rates and marital first birth rates. The model describes the marriage and first birth behaviour of hypothetical and identical individuals of age 15 assuming that at consecutive ages they experience the empirical rates of marriage and first birth. Transition rates may depend on covariates and other factors.

This chapter consists of two parts. The first part (Section 2) is devoted to the estimation of transition rates from data. The second part (Sections 3 to 5) focuses on synthetic biographies. Section 3 shows how transition probabilities and state occupation probabilities are computed from transition rates. The computation of expected occupation times is covered in Section 4. The generation of synthetic life histories is discussed in Section 5. Section 6 is the conclusion.

The methods presented in this chapter are illustrated using employment data from a subsample of 201 respondents of the German Life History Survey (GLHS) (see Chapter 1). Two states are distinguished: employed (**J**ob) and not employed (**N**ojob). Transitions are from employed to not employed (**JN**) and from not employed to employed (**NJ**). Dates of transition are given in months; it is assumed that transitions occur at the beginning of a month. In the chapter, references are made to R packages for multistate modeling and analysis, in particular *mvna* (Allignol, 2012; Allignol et al., 2008), *etm* (Allignol, 2013; Allignol et al., 2011), *msm* (Jackson, 2011, 2013), *mstate* (Putter et al., 2012; de Wreede et al., 2010, 2011), *dynpred* (Putter, 2011), *ELECT* (van den Hout, 2013) and *Biograph* (Willekens, 2013).

2. Transition rates

Transition rates are the parameters of the Markov process that underlies the multistate life history model. In this section, two broad approaches for estimating transition rates are covered. Age, which is the time scale, is treated as a continuous variable. Transitions may occur at any age. Transition rates are estimated by relating transitions to exposures. In the first approach, transition rates may vary freely with age. The age profile is not constrained in any way. In the second approach, transition rates are restricted to follow an age profile described by a parametric model. The first approach is non-parametric; the second is parametric. The two approaches are covered by e.g. Aalen et al., (2008).

In the non-parametric analysis of life history data, cumulative transition rates are estimated for ages at which transitions occur. Without any parametric assumptions,

the transition rate can be any nonnegative function, and this makes it difficult to estimate. The cumulative transition rate is easy to estimate. This is akin to estimating the cumulative distribution function, which is easier than estimating the density function (Aalen et al., 2008, p. 71). At ages at which transitions occur, the cumulative transition rate jumps to a higher value. Therefore, the function that describes cumulative transition rates is a step function. It implies that between observations the cumulative transition rate is the one estimated at the last observation. The shape of the function is entirely free, not influenced by an imposed age dependence. The cumulative transition rate is said to be empirical. In the second approach the age dependence is restricted to follow an imposed pattern. A convenient and simple restriction is a constant transition rate. If the transition rate is constant, the cumulative transition rate increases linearly with age and the survival function is exponential. The restriction of constant rate may be relaxed by keeping the rate constant within relatively narrow age intervals and let the rate vary freely between age intervals. Because of the imposed age dependence, there is no need to estimate the cumulative transition rate each age a transition occurs. It suffices to estimate the cumulative transition rate at the end of each age interval. The cumulative hazard function is not a step function. It is a piecewise-linear function: linear within age intervals with slopes varying between intervals. The two approaches differ but at the limit when the age interval becomes infinitesimally small, they coincide. The first approach is common in biostatistics, while the second is common in the life-table method of demography, epidemiology and actuarial science. Covariates may be introduced in each approach. The cumulative transition rates may be estimated at each level of covariate or a regression model may be used. A (piecewise) constant transition rate is only one of the many possible restrictions imposed on the age dependence of transition rates. In demography, biostatistics, epidemiology and other fields, a large number of models are used to describe age dependencies of rates. These models are beyond the scope of this chapter.

A few software packages in R implement the non-parametric method. They include *mvna* and *mstate*. The packages *eha*, *msm* and *Biograph* implement the parametric method, more particularly the piecewise-constant transition rate model: the transition rate varies freely between age intervals and is constant within age intervals.

Transition rates are estimated by relating transitions to exposures. At a given age, the rate of transition is estimated by dividing the number of transition and the risk set, which is the population under observation and at risk just before a transition occurs. In multistate modelling, a risk set is the number of individuals under observation and occupying a given state. That basic principle allows complex observation schemes. Individuals may be at risk but not under observation. It is not practical to track every individual from birth to death to record occurrences and monitor risk sets and periods at risk. When the period of observation does not cover the entire life span, observations are incomplete. Individuals may enter and leave the population at risk during the observation period. They may leave the population at risk because the transition of interest occurs or another, unrelated, transition removes them from the population at risk. Individuals who leave the population at risk may return later and be at risk again. Counting transitions and tracking exposures necessarily take place during periods of observation. Transitions and exposures outside the observation period are not recorded. The non-occurrence of a transition during a period of observation to persons at risk of that transition is however useful information that

should not be omitted. The proportion of individuals under observation and at risk that experiences a transition is an estimator of the likelihood of a transition. The proportion that does not experience a transition is an estimator of the survival probability.

Dates of transition are usually measured in the Gregorian calendar. For reasons of computation, calendar dates are often converted into Julian dates, which are days since a reference date. Sometimes, calendar months are coded as number of months since a reference month. The Century Month Code (CMC) is a coding scheme with reference month January 1900. The reference month is month 1. In life history analysis, dates are often replaced by ages. In this chapter, dates (in CMC) and ages are used, but age is the main time scale. Hence, most of the time reference is made to age. Transitions may occur at any time and age. Hence time at transition and age at transition are random variables. T will be used to denote time and age, and X will be used to denote age only. A realization of T is t and a realization of X is x . Continuous time is approximated by dividing a period in very small time intervals. A small interval following time t is denoted by $[t, t+dt)$, where dt is the length of the interval, $[$ means that t is not included in the interval and $)$ that $t+dt$ is included. A small interval following age x is $[x, x+dx)$. When is an interval small? An interval is considered small when at most one transition occurs in the interval.

In the employment data used for illustrative purposes (GLHS), two states are distinguished (J and N) and two transitions: NJ and JN. In this chapter, transitions between jobs are not considered. Individuals in state N are at risk of the NJ transition and individuals in J are at risk of the JN transition. Labour-market entry (first jobs) is selected as onset of the observation. The original GLHS data include transitions between jobs and dates at transition are expressed in CMC. Two *Biograph* functions are used to prepare the desired data file from the original data. The function `Remove.intrastate` is used to remove transitions between jobs. The function `ChangeObservationWindow.e` is used to select observation periods between labour market entry and survey date. Table 2.1 shows the data for a selection of 10 respondents. Two variants are presented. The first shows calendar dates at transition. The second shows ages, except for the birth date, which is given in CMC. Calendar dates and ages are derived from CMC using *Biograph*'s `date_b` function.

```
d <- Remove.intrastate(GLHS)
dd <- ChangeObservationWindow.e (Bdata=d,
                                entrystate="J",
                                exitstate=NA)
d3.a <- date_b (Bdata=dd,
               selectday=1,
               format.out="age")
```

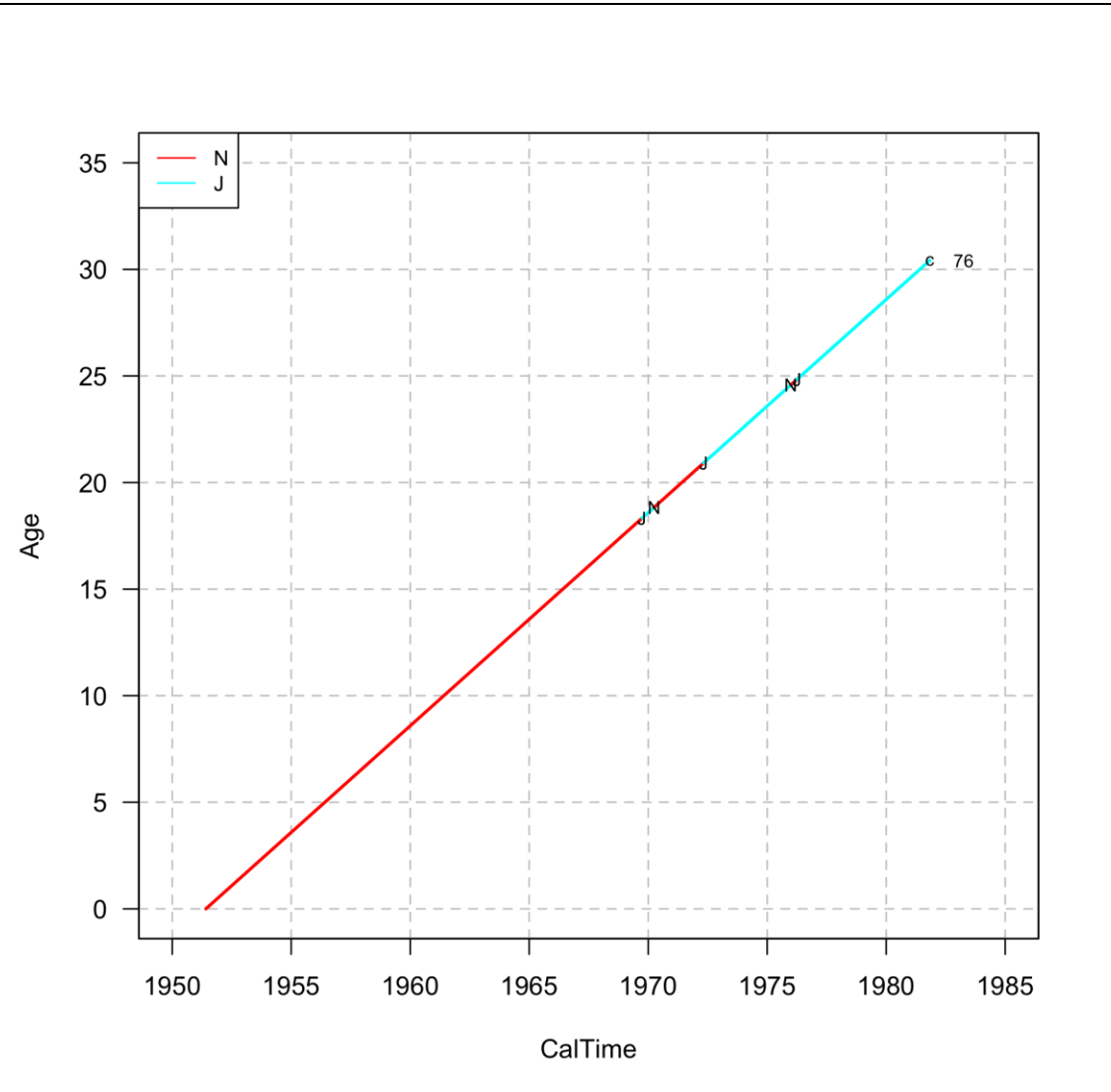
The 10 individuals experience 33 episodes (20 job episodes and 13 episodes without a job). They experience 23 transitions during the observation period (13 JN transitions and 10 NJ transitions). Individual 2 is born in September 1929 and enters the labour market (first job) in May 1949 at age 19. She leaves the first job in May 1974 at age 44 and remains without a paid job until the end of the observation period in November 1981, when she is age 52. Individuals 1, 5 and 7 are employed throughout

the observation period. They move between jobs but they do not experience a period without a job. Individuals 3, 4, 6, 8, 9 and 10 have several jobs, separated by periods without a job. Observation periods differ between individuals. In this chapter, we estimate transition rates for the JN and NJ transitions, transition probabilities, state occupation probabilities and expected state occupation times for the subsample of 201 respondents. For illustrative purpose, a selection of the 10 respondents shown in Table 2.1 is also used. The focus is on the method and not on the application.

a. Calendar dates										
	ID	born	start	end	sex	path	Tr1	Tr2	Tr3	Tr4
1	1	Mar29	Mar46	Nov81	Male	J	<NA>	<NA>	<NA>	<NA>
2	2	Sep29	May49	Nov81	Female	JN	May74	<NA>	<NA>	<NA>
3	67	Dec39	Feb55	Nov81	Female	JNJN	Sep58	Aug70	Mar80	<NA>
4	76	Jun51	Oct69	Nov81	Male	JNJNJ	Apr70	May72	Jan76	Apr76
5	82	Jun51	Aug74	Nov81	Female	J	<NA>	<NA>	<NA>	<NA>
6	96	Feb39	Apr57	Nov81	Female	JNJNJ	Apr62	Apr64	Feb65	Nov68
7	99	May40	Sep58	Nov81	Male	J	<NA>	<NA>	<NA>	<NA>
8	180	Aug40	Aug54	Nov81	Male	JNJNJ	Apr56	Apr59	Jul61	Jan63
9	200	Nov50	Sep68	Dec81	Male	JNJNJ	Apr70	Jan72	Jan74	Jan79
10	208	May40	Jul59	Nov81	Female	JNJN	May61	Nov61	Dec62	<NA>
b. Ages										
	ID	born	start	end	sex	path	Tr1	Tr2	Tr3	Tr4
1	1	351	17.000	52.667	Male	J	NA	NA	NA	NA
2	2	357	19.667	52.167	Female	JN	44.667	NA	NA	NA
3	67	480	15.167	41.917	Female	JNJN	18.750	30.667	40.250	NA
4	76	618	18.333	30.417	Male	JNJNJ	18.833	20.917	24.583	24.833
5	82	618	23.167	30.417	Female	J	NA	NA	NA	NA
6	96	470	18.167	42.750	Female	JNJNJ	23.167	25.167	26.000	29.750
7	99	485	18.333	41.500	Male	J	NA	NA	NA	NA
8	180	488	14.000	41.250	Male	JNJNJ	15.667	18.667	20.917	22.417
9	200	611	17.833	31.083	Male	JNJNJ	19.417	21.167	23.167	28.167
10	208	485	19.167	41.500	Female	JNJN	21.000	21.500	22.583	NA

Individual 4 (with ID 76) will be singled out for a detailed description. He gets his first job in October 1969 at age 18 and remains employed until April 1970. He is not employed for about two years, until he gets another job in May 1972. From January to April 1976 he experiences another period without employment. At the end of the observation, i.e. at survey date, the person is 30 years of age and employed. The employment career is JNJNJ. The lifeline is shown in Figure 2.1. The figure is a Lexis diagram, which is a diagram with calendar time on the x-axis and age on the y-axis. The transitions are displayed, as well as the job and no-job episodes. The Lexis diagram is discussed in detail in Chapter 5. During the observation period, the individual experiences the JN transition two times, in April 1970 at age 18 and in January 1976 at age 24. Transitions are assumed to occur at the beginning of a month. From 1st October 1969 to 31st March 1970 he is at risk of the first occurrence of the JN transition and from 1st May 1972 to 31st December 1975 he is at risk of the second occurrence. From 1st April 1976 he is at risk of a third occurrence but does not experience the JN transition before the end of the observation on 1st November 1981. The individual experiences three job episodes, two end in a JN transition and one ends because observation is terminated (censored). In addition, the respondent experiences two episodes without a job. They end with a new job.

Figure 2.1 Employment career of respondent with ID 76



The estimation of transition rates involves counting transitions and persons at risk. Let k denote an individual. Transitions are denoted by origin state and destination state. The number of states is I and any two states are denoted by i and j . Let ${}_kN_{ij}(t_1, t_2)$ denote the number of (i, j) -transitions individual k experiences during a period of observation from t_1 to t_2 . Without loss of generality, in this section I assume that $t_1=0$ and represent t_2 by t . The observation interval is therefore from 0 to t . The variable ${}_kN_{ij}(0, t)$ is denoted by ${}_kN_{ij}(t)$. Data on numbers of transitions are *count data*. Transition counts cannot be predicted with certainty, hence ${}_kN_{ij}(t)$ is a random variable. The distribution of transition counts is described by a stochastic process model. A widely used model is the Poisson process model, where changes ('jumps') occur randomly and are independent of each other (Çinlar, 1975). The sequence of random variables $\{{}_kN_{ij}(t); t \geq 0\}$ is a random process, known as a *counting process* (Aalen et al., 2008, p. 25). The counting process is a continuous process. The increment in ${}_kN_{ij}(t)$ during the small interval between t and $t+dt$ is denoted by $d{}_kN_{ij}(t)$. It is a binary variable with possible values 0 (no transition) and 1 (transition).

Individual counting processes are aggregated to obtain the aggregated process:

$\sum_{k=1}^K N_{ij}(t)$, where K is the number of individuals in a (sample) population. If dt is sufficiently small to make the counting process absolutely continuous, at most one transition occurs in the interval dt .

A main issue in survival analysis, and in multistate modelling in particular, is to determine who is at risk or exposed at time (age) t and who is not. Individuals may experience a transition between t and $t+dt$ if and only if they are at risk at t , i.e. just before the interval $[t, t+dt)$. If individual i is at risk at t , he/she is at risk during the infinitesimally small interval from t to $t+dt$. To be at risk of the (i,j) -transition, an individual should be in state i . Let ${}_k Y_i(t)$ be a binary variable, which takes the value of 1 if individual k is in state i at t and 0 if the individual is not. The binary random variable ${}_k Y_i(t)$ indicates the exposure status. The number of individuals in state i just before t , and at risk of the (i,j) -transition, is $\sum_{k=1}^K {}_k Y_i(t)$. It is the *risk set*. The sequence of risk sets $\{Y_i(t), t \geq 0\}$ is the *at risk process* or *exposure process*. The risk set in state i at time (age) t , $Y_i(t)$, changes when an individual enters state i or leaves the state, and when the observation starts or ends. In many studies, $Y_i(t)$ is large relative to the numbers of (i,j) -transitions. That empirical observation will be used for estimating the variance of the transition rate.

During the observation period from 0 to t , individual k is at risk of experiencing the (i,j) -transition during the time (age) segments he occupies state i . The state occupation time measures the duration at risk. It is $\int_0^t {}_k Y_i(u) du$. The total duration at risk may be spread over multiple 'at risk' episodes. This approach, in which a counting process and an at risk process are distinguished, is known as the counting process approach to the study of life histories and event histories. The approach is very flexible. It allows late entry, exit and re-entry in state i during the observation period.

The counting process is a random process. It can be modelled by a Poisson process. The parameter of the model is the transition rate. The transition rate in the small time (age) interval $[t, t+dt)$ is referred to as the instantaneous transition rate and is denoted by ${}_k \mu_{ij}(t)$. The counting process approach to the Poisson process describes the intensity of the process in terms of the instantaneous transition rate and exposure status. It adds exposure status to the conventional description of the Poisson process in probability theory. Aalen et al. (2008) write the intensity at t as the product of the instantaneous transition rate and the indicator function ${}_k Y_i(t)$, which is equal to 1 if individual k is at risk just before t and 0 otherwise: ${}_k \lambda_{ij}(t) = {}_k \mu_{ij}(t) {}_k Y_i(t)$. The intensity function is the transition rate function weighted by the exposure status. If individual k is not at risk at t , the intensity is zero although the transition rate may be positive. The product ${}_k \lambda_{ij}(t) dt$ is the probability that individual k experiences the (i,j) -transition during the small time (age) interval t to $t+dt$, provided that just prior to the interval k is at risk of the (i,j) -transition, i.e. is in state i . It is the product of the intensity and the length of the interval. The probability is conditioned on being at risk. In survival analysis, that condition is usually imposed by the statement 'provided that the event has not occurred yet'. That condition applies in case of a single event, because an individual is at risk as long as (1) the event has not occurred yet and (2) the individual is under observation. In the case of repeatable transitions or different

types of transitions, an individual may be under observation but not at risk. In the example of employment, an individual in state N is under observation but not at risk of the JN transition.

If at most one transition occurs during the interval dt , the probability of occurrence may be expressed in different but equivalent ways. It is the probability that ${}_kN_{ij}(t)$ changes to ${}_kN_{ij}(t)+1$; the probability that the transition occurs at t , $\Pr(d{}_kN_{ij}(t)=1)$; and the probability that the transition time (age) ${}_kT_{ij}$ is in the $[t,t+dt)$ interval: $\Pr(t \leq {}_kT_{ij} < t+dt)$. The probability that $d{}_kN_{ij}(t)$ is one, $\Pr(d{}_kN_{ij}(t)=1)$, is equal to the expected value of $d{}_kN_{ij}(t)$, hence ${}_k\lambda_{ij}(t) dt = E[d{}_kN_{ij}(t)]$. Note that ${}_kN_{ij}(t)$ and its increment $d{}_kN_{ij}(t)$ are observations, whereas ${}_k\lambda_{ij}(t)$ is a model of the increment $d{}_kN_{ij}(t)$ (Poisson process model that satisfies the two conditions listed above). ${}_k\lambda_{ij}(t)$ is the *intensity process* of the counting process ${}_kN_{ij}(t)$.

If individuals are independent of each other, the intensity process of the aggregated counting process $N_{ij}(t)$ is . If in addition all individuals are assumed to have the same hazard rate, i.e. for all k , then the survival times are independent and identically distributed. The aggregate intensity process may be written as: , where $Y_i(t)$ is the number of individuals in state i just before t . It is the population at risk. The model is the multiplicative intensity model for a counting process (Aalen et al., 2008, p. 34). In the multiplicative intensity model, the at risk process $Y_i(t)$ does not depend on unknown parameters (Aalen et al., 2008, p. 77). That condition is satisfied if the population at risk is large relative to the number of transitions. The same condition was introduced by Holford (1980) and Laird and Olivier (1981) in the context of estimating (piecewise-constant) transition rates with log-linear models. The transition rates $\mu_{ij}(t)$ are key model parameters and a main aim of statistical analysis is to determine how they vary over time (age) and depend on covariates.

The observed increment $dN_{ij}(t)$ of the counting process $N_{ij}(t)$ generally differs from the model estimate $\lambda_{ij}(t)dt$ because observations do not meet the conditions imposed by the Poisson process. Aalen et al. (2008, p. 27) refer to the difference as noise and to the probability of a transition during the interval dt as signal. The noise cumulated up to time (age) t is the martingale $M_{ij}(t)$ and $dM_{ij}(t)$ is the increment in noise during the small interval following t : $dM_{ij}(t) = dN_{ij}(t) - \lambda_{ij}(t) dt$. The intensity process and the noise process are stochastic processes, whereas $N_{ij}(t)$ represents observations. Note that , and , where $\Lambda_{ij}(t)$ is the cumulative intensity process, that is the expected number of transitions up to t , predicted by the Poisson model. The martingale is the difference between the counting process and the cumulative intensity process. It can be interpreted as cumulative noise. The intensity process is central to the statistical modelling of event occurrences and transitions between states. Note that the intensity process depends on the transition rate and the at risk process.

A frequently used measure in multistate modelling is the cumulative hazard , where is equal to the increment in the cumulative hazard

during an infinitesimally small interval. In case of a continuous process, $\mu_{ij}(t)$. The reason for using the cumulative hazard is given above. The transition rates $\mu_{ij}(t)$ and the cumulative transition rates $A_{ij}(t)$ are estimated from the data. The estimation method is determined by the assumed underlying stochastic process. In this chapter, two methods are described. In the first method, no assumption is made about the process. The method is known as the non-parametric method, because of the absence of a parametric model that described the time (age) dependence of transition rates. The second method assumes that transition rates are (piecewise) constant. As a consequence, the duration to the next transition and the time between two consecutive transitions follow a (piecewise) exponential distribution. In the remainder of this chapter, I use age as time scale.

a. Non-parametric method

Recall that $N_{ij}(t)$ is the number of (i,j)-transitions experienced by individuals in the (sample) population during the observation interval from 0 to t and T_{ij} is the age of an (i,j)-transition. For the estimation of empirical transition rates (non-parametric), transitions are ordered by age of occurrence. Let t_n denote the age of the n-th occurrence of the (i,j)-transition experienced in the (sample) population. The number of individuals at risk just before t_n is $Y_{ij}(t_n)$. Consider the age interval $[t, t+dt)$. If in a population no event occurs in the interval, the natural estimate of $\mu_{ij}(t)$ is zero. If a transition is recorded during the interval, the natural estimate is 1 divided by the number of individuals at risk, that is $1/Y_{ij}(t)$ or the proportion of individuals at risk that experiences a transition. Aggregating these contributions over all age intervals at which transitions occur, up to age t, gives the estimator $\hat{A}_{ij}(t)$ of $A_{ij}(t)$. A natural estimator of the cumulative transition rate at age t is $\hat{A}_{ij}(t) = \sum_{t_n \leq t} \frac{dN_{ij}(t_n)}{Y_{ij}(t_n)}$, where numerator and denominator are aggregations over all individuals. If transition ages are t_n , then the estimator is $\hat{A}_{ij}(t) = \sum_{t_n \leq t} \frac{1}{Y_{ij}(t_n)}$, where t_n is the age at the n-th occurrence of the (i,j)-transition. The estimator is known as the Nelson-Aalen estimator. The estimator was initially developed by Nelson and extended to event history models and Markov processes by Aalen, who adopted a counting process formulation (see Aalen et al., 2008, pp. 70ff). The Nelson-Aalen estimator corresponds to the cumulative hazard of a discrete distribution, with all its probability mass concentrated at the observed ages at transition. The matrix $\hat{A}(t)$ is a matrix of step functions with jumps at ages at transition.

The variance of the Nelson-Aalen estimator is $\text{Var}(\hat{A}_{ij}(t)) = \sum_{t_n \leq t} \frac{1}{Y_{ij}(t_n)^2}$ (Aalen variance). The variance increases with t. The increment is $\frac{1}{Y_{ij}(t_n)^2}$. In large samples, the Nelson-Aalen estimator at age t is approximately normally distributed. Therefore the 95 percent confidence interval is $\hat{A}_{ij}(t) \pm 1.96 \sqrt{\text{Var}(\hat{A}_{ij}(t))}$. If the sample size is small, the approximation to the normal distribution is improved by using a log-transformation giving the confidence interval



(Aalen et al., 2008, p. 72).

Consider the employment careers of the 10 individuals, shown in Table 2.1. To track individuals at risk, ages at entry into observation and exit from observation, and ages at transition should be ordered. Individual 8 enters observation at age 14.00, followed by individual 3 at age 15.16. The first transition occurs at age 15.67 when individual 8 enters a period without a job. At that age, 2 individuals are at risk of the JN transition (3 and 8). The Nelson-Aalen estimator of the cumulative transition rate at that age is $\frac{1}{2}$. The next event is at age 17.00 when individual 1 enters observation. Just before that age, individual 3 is at risk in J and individual 8 in N. At age 17.00, individual 1 joins 3 in J. The next event is at age 17.83 when individual 9 enters observation. When individual 6 enters observation at age 18.17, three individuals are in J and one in N. Individuals 4 and 7 enter observation at age 18.33. At age 18.67, individual 8 enters J again. Just before that age, he is the only person in N and at risk of the NJ transition, while 6 individuals are in J. Hence the estimator of the hazard is 1. The next event is at age 18.75, when individual 3 leaves J and enters a period without a job. At that age 7 individuals are in J and at risk of the JN transition (1,3,4,6,7,8,9). The cumulative JN transition rate $\frac{1}{2} + \frac{1}{7} = 0.64$. The Aalen variance is $(\frac{1}{2})^2 + (\frac{1}{7})^2 = 0.270$. At that age, three individuals have not yet entered observation and do not contribute to the cumulative hazard estimation (2,5 and 10). The cumulative transition rate increases to age 44.67 when individual 3 enters a period without a job. At that age, the cumulative transition rate is 2.696 and the Aalen variance is 0.764. Table 2.2 shows the Nelson-Aalen estimator based on data of the 10 respondents. The columns are: (1) age at entry into observation, exit from observation or transition, (2) the population at risk just prior to the transition (`nrisk`), (3) occurrence of a transition (`nevent`), (4) censoring (`ncens`), (5) the Nelson-Aalen estimator of the cumulative transition rate (`cumhaz`) at the indicated age, (6) the Aalen estimator of the variance (`var`) and (7) increment in the cumulative hazard (`delta`). The information is shown each time a transition occurs or a respondent enters or leaves observation. The number of events is less than the number of entries (10) + the number of exits (10) + the number of JN transitions (13) + the number of NJ transitions (10), because individuals 3 and 7 enter observation at the same time, individual 5 enters observation when individuals 6 and 9 experience a JN transition, and individuals 4 and 5 leave observation at the same age, as do individuals 7 and 10. The table is produced by the `mvna` function of the `mvna` package. The last column is produced by the `etm` function of the `etm` package (see below). The object `d.10` is the *Biograph* object for a selection of 10 respondents and `DSD` is an object with data of 10 respondents in *mvna* format. The following code is used:

```
# Select 10 respondents and create Biograph object
idd <- c(1,2,67,76,82,96,99,180,200,208)
d.10 <- d3.a[d3.a$ID%in%idd,]
D<- Biograph.mvna (d.10)
library (mvna)
library (etm)
tra <- matrix(ncol=2,nrow=2,FALSE)
tra[1, 2] <- TRUE
tra[2,1] <- TRUE
na <- mvna(data=DSD,c("J","N"),tra,"cens")
```

```

etm.0 <- etm(data=D$D,c("J","N"),tra,"cens",s=0)

gg.1 <- data.frame (
  round(na$"J N"$time,4),
  na$n.risk[,1],
  unname(aperm(na$n.event,c(3,2,1))[,2,1]),
  na$n.cens[,1],
  round(na$"J N"$na,4),
  round(na$"J N"$var.aalen,3),
  round(aperm (etm.0$delta.na,c(3,2,1))[,2,1],4))
dimnames (gg.1) <- list
(1:37,c("age","nrisk","nevent","ncens","cumhaz","var",
"delta"))
gg.2 <- data.frame (
  round(na$"N J"$time,4),
  na$n.risk[,2][na$time %in% na$"N J"$time],
  unname(aperm(na$n.event,c(3,2,1))[,1,2])[na$time
%in% na$"N J"$time],
  na$n.cens[,2][na$time %in% na$"N J"$time],
  round(na$"N J"$na,4),
  round(na$"N J"$var.aalen,3),
  round(aperm
(etm.0$delta.na,c(3,2,1))[,1,2][na$time %in%
na$"N J"$time],4))
dimnames (gg.2) <- list
(1:nrow(gg.2),c("age","nrisk","nevent","ncens","cumh
az","var","delta"))

```

The 10 respondents enter observation at ages 14.00 (ID 180), 15.67 (ID 67), 17.00 (ID 1), 17.83 (ID 200), 18.17 (ID 96), 18.83 (ID 99), 19.17 (ID 208), 19.67 (ID 2) and 23.17 (ID 82) (see Table 2.1). They experience 13 JN transitions and 10 NJ transitions. At time of survey, 7 respondents had a job and 3 were without a job. The youngest age at job exit is 15.67 years (ID 180). The youngest age at survey is 30.42 (ID 76 and 82) and the highest is 52.67 (ID 1). Two respondents are 41.50 years at survey date, one (ID 99) has a job and one (ID 208) is without a job.

Table 2.2 Nelson-Aalen estimator and Aalen variance of cumulative transition rates.
GLHS, subsample of 10 respondents.

Transition JN							
	age	nrisk	nevent	ncens	cumhaz	var	delta
1	14.0000	1	0	0	0.0000	0.000	0.0000
2	15.1667	1	0	0	0.0000	0.000	0.0000
3	15.6667	2	1	0	0.5000	0.250	0.5000
4	17.0000	1	0	0	0.5000	0.250	0.0000
5	17.8333	2	0	0	0.5000	0.250	0.0000
6	18.1667	3	0	0	0.5000	0.250	0.0000
7	18.3333	4	0	0	0.5000	0.250	0.0000
8	18.6667	6	0	0	0.5000	0.250	0.0000
9	18.7500	7	1	0	0.6429	0.270	0.1429
10	18.8333	6	1	0	0.8095	0.298	0.1667
11	19.1667	5	0	0	0.8095	0.298	0.0000
12	19.4167	6	1	0	0.9762	0.326	0.1667
13	19.6667	5	0	0	0.9762	0.326	0.0000
14	20.9167	6	1	0	1.1429	0.354	0.1667
15	21.0000	6	1	0	1.3095	0.382	0.1667
16	21.1667	5	0	0	1.3095	0.382	0.0000
17	21.5000	6	0	0	1.3095	0.382	0.0000
18	22.4167	7	0	0	1.3095	0.382	0.0000
19	22.5833	8	1	0	1.4345	0.397	0.1250
20	23.1667	7	2	0	1.7202	0.438	0.2857
21	24.5833	6	1	0	1.8869	0.466	0.1667
22	24.8333	5	0	0	1.8869	0.466	0.0000
23	25.1667	6	0	0	1.8869	0.466	0.0000
24	26.0000	7	1	0	2.0298	0.486	0.1429
25	28.1667	6	0	0	2.0298	0.486	0.0000
26	29.7500	7	0	0	2.0298	0.486	0.0000
27	30.4167	8	0	2	2.0298	0.486	0.0000
28	30.6667	6	0	0	2.0298	0.486	0.0000
29	31.0833	7	0	1	2.0298	0.486	0.0000
30	40.2500	6	1	0	2.1964	0.514	0.1667
31	41.2500	5	0	1	2.1964	0.514	0.0000
32	41.5000	4	0	1	2.1964	0.514	0.0000
33	41.9167	3	0	0	2.1964	0.514	0.0000
34	42.7500	3	0	1	2.1964	0.514	0.0000
35	44.6667	2	1	0	2.6964	0.764	0.5000
36	52.1667	1	0	0	2.6964	0.764	0.0000
37	52.6667	1	0	1	2.6964	0.764	0.0000
Transition NJ							
	age	nrisk	nevent	ncens	cumhaz	var	delta
1	17.0000	1	0	0	0.0000	0.000	0.0000
2	17.8333	1	0	0	0.0000	0.000	0.0000
3	18.1667	1	0	0	0.0000	0.000	0.0000
4	18.3333	1	0	0	0.0000	0.000	0.0000
5	18.6667	1	1	0	1.0000	1.000	1.0000
6	18.8333	1	0	0	1.0000	1.000	0.0000
7	19.1667	2	0	0	1.0000	1.000	0.0000
8	19.4167	2	0	0	1.0000	1.000	0.0000
9	19.6667	3	0	0	1.0000	1.000	0.0000
10	20.9167	3	1	0	1.3333	1.111	0.3333

11	21.0000	3	0	0	1.3333	1.111	0.0000
12	21.1667	4	1	0	1.5833	1.174	0.2500
13	21.5000	3	1	0	1.9167	1.285	0.3333
14	22.4167	2	1	0	2.4167	1.535	0.5000
15	22.5833	1	0	0	2.4167	1.535	0.0000
16	23.1667	2	0	0	2.4167	1.535	0.0000
17	24.5833	4	0	0	2.4167	1.535	0.0000
18	24.8333	5	1	0	2.6167	1.575	0.2000
19	25.1667	4	1	0	2.8667	1.637	0.2500
20	26.0000	3	0	0	2.8667	1.637	0.0000
21	28.1667	4	1	0	3.1167	1.700	0.2500
22	29.7500	3	1	0	3.4500	1.811	0.3333
23	30.4167	2	0	0	3.4500	1.811	0.0000
24	30.6667	2	1	0	3.9500	2.061	0.5000
25	31.0833	1	0	0	3.9500	2.061	0.0000
26	40.2500	1	0	0	3.9500	2.061	0.0000
27	41.2500	2	0	0	3.9500	2.061	0.0000
28	41.5000	2	0	1	3.9500	2.061	0.0000
29	41.9167	1	0	1	3.9500	2.061	0.0000
30	52.1667	1	0	1	3.9500	2.061	0.0000

The time-continuous model of the counting process $\{N_{ij}(t), t \geq 0\}$ assumes that not more than one transition occurs in an interval. In practice and in particular in large samples, more than one individual may experience a transition in the same time interval (e.g. same day). If multiple transitions occur in the same interval, their times of occurrence are referred to as *tied transition times*. Tied transition times may be a consequence of (a) grouping and rounding or (b) time (age) intervals that are genuinely discrete. For instance, if instead of days or months, seconds are used as time units, it is unlikely that more than one transition occurs at the same time (age). If tied transition times are due to grouping and rounding, the interval may be divided in even smaller intervals and the transition times (ages) ordered. The increment in the Nelson-Aalen estimator of the cumulative hazard at age t may be written as

$\frac{d_n}{n}$ (Aalen et al., 2008, p.84). If the age intervals are

genuinely discrete, the increment in the Nelson-Aalen estimator at age

t is $\frac{d_n}{n}$, where n is the population at risk just prior to the interval

and d_n is the number of transitions recorded at age t . In the presence of tied transition times, the variance of the Nelson-Aalen estimator needs to be adjusted.

When tied event times are a consequence of grouping or rounding, the increment in the variance is $\frac{d_n}{n}$. In case of discrete age intervals, the

increment in the variance is estimated by $\frac{d_n}{n}$. Aalen et al.

(2008, p. 85) report that the numerical difference between the two approaches to tie correction is usually quite small, and it is not very important which of the two one adopts.

b. Parametric method: exponential and piecewise exponential models

The Nelson-Aalen estimator is nonparametric. The shape of the hazard function is not constrained in any way. In a parametric counting process model, the age dependence of the transition rate is constrained and consequently the waiting times to a transition are constrained. It is assumed that there is a continuous-time process underlying the data. In addition, the transition rate may depend on covariates. Covariates are not considered in this chapter. Two models are considered in this chapter. The first is the exponential model, which imposes a constant transition rate and an exponential waiting time distribution. The second model is a piecewise exponential model, which imposes piecewise-constant transition rates. Transitions rates are assumed to be constant in age intervals of usually one year. The transition rates of consecutive age groups are unrelated, i.e. no restrictions are imposed on how the piecewise-constant rates vary with age. The estimation method therefore combines a parametric approach (within intervals) and a non-parametric approach (between intervals). Individuals are assumed to be independent and to have the same instantaneous transition rate. In other words, transition times of the individuals in the (sample) population are assumed to be independent and identically distributed. The estimation of piecewise exponential models and occurrence-exposure rates received considerable attention in the literature (see e.g. Hoem and Funck Jensen, 1982, Tuma and Hannan, 1984, Hougaard, 2000, Blossfeld and Rohwer, 2002, Aalen et al., 2008, Van den Hout and Matthews, 2008, Li et al., 2012). Mamun (2003) and Reuser et al. (2010), who study the effect of covariates on disability and mortality, impose the restriction that the piecewise-constant transition rates (occurrence-exposure rates) increase exponentially with age. The result is a Gompertz model with piecewise constant transition rates. The choice of model is determined by the age profile of transition rates (exponential increase) and data limitations. Parametric models of transition rates covering the entire age range in multistate models have been estimated too. Van den Hout and Matthews (2008) estimate a multistate model in which the age dependence of transition rates is described by a Weibull model and Van den Hout et al. (2014) use a Gompertz model. In demography, a variety of models are specified to describe age profiles of transition rates in multistate models. For an overview of models, see Rogers (1986).

In the counting process approach, the likelihood function is written in terms of the counting process ${}_kN_{ij}(t)$ and the intensity process ${}_k\lambda_{ij}(t)$, where t represents age. The intensity process at age t is ${}_k\lambda_{ij}(t) = \mu_{ij}(t) Y_i(t)$. The indicator function ${}_kY_i(t)$ is 1 if individual k is under observation and in state i at t and 0 otherwise. The total occupation time in state i is $\int_0^{\omega} {}_kY_i(t) dt$, with ω the highest age. If individuals are independent, the intensity process at age t is ${}_k\lambda_{ij}(t) = \mu_{ij}(t) Y_i(t)$ and ${}_k\lambda_{ij}(t) dt$ is the number of (i,j) -transitions between t and $t+dt$, given the instantaneous transition rate and the exposure function. If in addition all individuals have the same hazard rate, i.e. $\mu_{ij}(t) = \mu_{ij}$ for all k , then the survival times are independent and identically distributed. The aggregate intensity process may be written as:

$\sum_k {}_k\lambda_{ij}(t) = \mu_{ij} \sum_k Y_i(t)$, where $\sum_k Y_i(t)$ is the number of individuals under observation and in state i just before t . If the transition rate is constant, then ${}_k\mu_{ij}(t) = \mu_{ij}$ for all t and the intensity process at t is ${}_k\lambda_{ij}(t) = \mu_{ij} Y_i(t)$. If

the transition rate is piecewise-constant during the age interval from x to $x+1$, ${}_k\mu_{ij}(t) = {}_k\mu_{ij}(x)$ for $x \leq t < x+1$ and the intensity process at t is for $x \leq t < x+1$. The intensity of leaving state i at age t , irrespective of destination, is

, which may be written as , with .

Let ω denote the highest age in the study. A transition is observed if it occurs before ω . Individual k experiences ${}_kN_{ij}(\omega)$ occurrences of the (i,j) -transition from 0 to ω . In addition, the observation is censored in state i or in another state. Hence, the number of episodes of exposure is the number of transitions plus one. The contribution of individual k to the likelihood function is

where is the age at the n -th occurrence of the (i,j) -transition. Since the intensity depends on the instantaneous transition rate and exposure, the likelihood function is written in terms of the counting process ${}_kN_{ij}(t)$ and its intensity process ${}_k\lambda_{ij}(t)$ (Aalen et al., 2008, p. 210). Notice that , with the at risk function equal to one if individual k is in state i just before the transition and 0 otherwise, and , with the at risk function equal to one if k is in i at τ . The last term is the probability of surviving in state i between the age at last entry and age at censoring. The intensity depends on the instantaneous rate of leaving i and the at risk function, which is zero except for τ larger than or equal to the age of the last transition and less than the age at censoring. In the traditional approach, integration is from the beginning of the period during which individual k is at risk of the (i,j) -transition to the end of that period. In the first term, the end is the age at the next occurrence; in the last term, it is the age at censoring. Hougaard (2000, p. 181) derives the likelihood function following the traditional approach:

where is one if the at risk period ends in an (i,j) -transition and zero if it ends because the observation is discontinued (censored). The counting process approach to the likelihood function is (Aalen et al., 2008, p. 210):

with ${}_k\Delta N_{ij}(t)$ the increment of ${}_kN_{ij}$ at age t .

The full likelihood is

with $\lambda_i(\tau)$ the intensity process of the aggregated process $N_i(t)$.

The log-likelihood is . The maximum likelihood estimator of μ_{ij} is the value of μ_{ij} for which the score function is zero: . The score function is the first-order condition for maximizing the likelihood that the model predicts the data. In the exponential model, and the first term of the log-likelihood is . The second term is , with $R_i(\omega)$ the total exposure time in state i for all individuals in the (sample) population. The score function is . The solution of the equation gives the maximum likelihood estimator of the transition rate: . The estimator is the observed number of transitions (occurrences) divided by the total duration at risk (exposure). The estimator is an occurrence-exposure rate.

In large samples, the estimator is approximately normally distributed around the true value of μ_{ij} , with the variance estimator . To improve the distribution for , the logarithmic transformation is used. Only 10 transitions are needed for to be approximately normally distributed around with variance estimator (Aalen et al., 2008, p. 215).

The cumulative transition rate under the exponential model (occurrence-exposure rate) increases linearly with duration. The empirical cumulative transition rate (Nelson-Aalen estimator) is a step function (Andersen and Keiding, 2002, p. 100). The two estimators are usually close. To improve the approximation, the age interval from 0 to ω may be partitioned in subintervals and the occurrence-exposure rate estimated for each subinterval. The exponential model turns into a piecewise exponential model with piecewise-constant transition rates. That is the common approach in demography, where an age intervals is usually one year. The estimator of the transition rate and the variance, given above, are applied to each subinterval. Consider the aggregate counting processes $N_{ij}(t)$ and $Y_i(t)$, and subintervals from exact age x to exact age y (y not included). Age intervals are usually one year, but a more general interval is chosen here. The transition rate, which is constant in the interval, is denoted by . The observed number of (i,j)-transitions during the interval is and the observed exposure time in state i is . Following Aalen et al. (2008, pp. 220ff), the score function is solved. The score function is

, where

and $\int_x^y I_{ij}(t) dt$ with $I_{ij}(t)$ an indicator function taking the value of one in the interval from x to y and a value of zero otherwise.

The maximum likelihood estimator of the transition rate from i to j during the interval from x to y is the occurrence-exposure rate $\frac{O_{ij}(x,y)}{E_{ij}(x,y)}$. Occurrence-exposure rates are approximately independent and normally distributed around their true values, and the variance of $\frac{O_{ij}(x,y)}{E_{ij}(x,y)}$ can be estimated by $\frac{O_{ij}(x,y)}{E_{ij}(x,y)^2}$ or the logarithmic transformation $\ln\left(\frac{O_{ij}(x,y)}{E_{ij}(x,y)}\right)$. In demography, epidemiology and actuarial science, transition rates are usually occurrence-exposure rates and are determined by dividing occurrences by exposures. In the absence of exposure data, exposure is approximated by the product of the mid-period population and the length of the period, a method also used by Aalen et al. (2008, p. 222).

By way of illustration of the method, aggregate transition rates and age-specific transition rates are estimated from the subsample of 201 individuals, entering observation at labour market entry. The analysis focuses on transitions between job episodes and episodes without a job. Transitions between jobs are omitted. *Biograph* and some additional calculations produced the main results reported in this section. The results are compared to those generated by the *msm* package for multistate modelling. The 201 individuals experience 504 episodes (323 job episodes and 181 episodes without a job). The total observation time between first job entry and survey is 4,668 person-years (3,397 person-years in J and 1,271 person-years in N). The sample population experienced 303 transitions during the observation period (181 JN transitions and 122 NJ transitions). The JN transition rate is $181/3397 = 0.0533$ per year and the NJ transition rate is $122/1271 = 0.0960$ per year. To determine the 95 percent confidence interval of the occurrence-exposure rate. The log-transformation of the estimator is used: $\ln\left(\frac{O_{ij}(x,y)}{E_{ij}(x,y)}\right)$. The confidence interval around the JN transition rate is $\left[0.0461, 0.0617\right]$, which is (0.0461, 0.0617). The confidence interval around the NJ transition rate is $\left[0.0804, 0.1146\right]$, which is (0.0804, 0.1146). Bootstrapping, i.e.

sampling the original 201 observations with replacement, with 100 bootstrap samples, produces a JN transition rate of 0.0535 with confidence interval (0.0452, 0.0636) and a NJ transition rate of 0.0977 with confidence interval (0.0701, 0.1264). 500 bootstrap samples yield a JN transition rate of 0.0534 with confidence interval (0.0451, 0.0629) and a NJ transition rate of 0.0973 with confidence interval (0.0729, 0.1254). Bootstrapping produces confidence intervals that are somewhat larger than the analytical method.

The package *msm* produces the same estimates and confidence intervals. The code is:

```
library (msm)
d <- Remove.intrastate(GLHS)
dd <- ChangeObservationWindow.e
      (Bdata=d,entrystate="J",exitstate=NA)
data <- date_b (Bdata=dd,selectday=1,format.out="age",
```

```

covs=c("marriage", "LMentry"))
Dmsm <- Biograph.msm(data)
twoway2.q <- rbind(c(-0.025, 0.025), c(0.2, -0.2))
crudeinits.msm(state ~ date, ID, data=Dmsm,
               qmatrix=twoway2.q)
GLHS.msm.y <- msm( state ~ date,
                 subject=ID,
                 data = Dmsm,
                 use.deriv=TRUE,
                 exacttimes=TRUE,
                 qmatrix = twoway2.q,
                 obstype=2,
                 control=list(trace=2, REPORT=1,
                              abstol=0.0000005),
                 method="BFGS")

```

The first line removes transitions between jobs. The second line changes the observation window: observation starts at labour market entry (first job) and ends at interview. The third line converts dates in CMC into ages. The fourth line converts the *Biograph* object `data` to the long format required by the *msm* package. The fifth and sixth lines generate initial values for transition rates. The next line calls the `msm` function for estimating the transition rates. Object `GLHS.msm.y` contains the estimates and the 95% confidence intervals, with the row variable denoting origin and the column variable destination. State 1 is J and state 2 is N.

	State 1	State 2
State 1	-0.05328 (-0.06164, -0.04606)	0.05328 (0.04606, 0.06164)
State 2	0.09602 (0.08041, 0.1147)	-0.09602 (-0.1147, -0.08041)

As expected, the 95% confidence intervals produced by the *msm* package are the same as computed above. The *msm* package includes a function (`boot`) that uses bootstrapping to produce estimates, standard errors and confidence intervals. Bootstrapping, with 100 bootstrap samples, produces the following estimates and confidence intervals: 0.0532 for the JN transition rate, with 95% confidence interval (0.0453, 0.0621), and 0.0988 for the NJ transition rate, with 95% confidence interval (0.0755, 0.1294).

Consider the piecewise constant exponential model with age intervals of one year. The input data are transition counts (occurrences) and exposures by single year of age for the 201 respondents. Transition counts and exposure times are shown in Table 2.3. Column JN shows the number of transitions from J to N and PY is the exposure time. The table also shows the state occupancies at birthdays (`Occup`) and the number of observations censored by age (`cens`). The estimate of the transition rate is `r.est` and the 95% confidence interval is `(r.L95, r.U95)`. The estimate and the confidence interval are obtained using the analytical method. Bootstrapping produces the estimate `b.est` and the confidence interval `(b.L95, b.U95)`. The cumulative transition rate is `cumrate`. Consider age 30. Of the 201 individuals, 198 are under observation at that age; 138 have a job on their 30th birthday and 60 are without a job. For 3 individuals, the information is missing. Two did not reach age 30 yet when observation ended at age at interview (ID 45 and 115) and one entered labour force and observation after age 30 (ID 49). Together the individuals spent 127.75 years in

state J and 56.58 years in state N between the 30th and 31st birthdays. Notice that an individual in state J on his 30th birthday may spend some time in state N before reaching age 31. At age 30, 2 individuals experienced a JN transition and 3 a NJ transition. At that age, the JN transition rate is $2/127.75=0.0157$ and the NJ transition rate is $3/60.25=0.0530$. In Table 2.3, $r.est$ denotes the estimator of the transition rate. The 95 percent confidence interval around the JN transition rate at age 30 is

, which is (0.0039, 0.0626). The confidence around the NJ transition rate at age 30 is , which is

(0.0171,0.1644). In the table, $r.L95$ denotes the lower bound and $r.U95$ the upper bound. The table also shows estimated transition rates ($b.est$) and confidence intervals ($b.L95$ and $b.U95$) obtained by bootstrapping with 100 bootstrap samples. The bootstrap standard errors are generally larger than the asymptotic standard errors, but it is not always the case in the table because of the relatively small number of bootstrap samples.

The cumulative JN transition rate at age 30 is 1.3455 and the cumulative NJ transition rate is 3.2957.

State J		Occup	PY	JN	cens	r.L95	r.est	r.U95	b.L95	b.est	b.U95	cumrate
13	0	1.83	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
14	6	20.42	2	0	0.0245	0.0979	0.3916	0.0000	0.0941	0.2255	0.0000	0.0000
15	28	33.83	3	0	0.0286	0.0887	0.2750	0.0254	0.0893	0.2043	0.0979	0.0979
16	37	43.17	6	0	0.0624	0.1390	0.3094	0.0480	0.1494	0.2830	0.1866	0.1866
17	52	78.25	1	0	0.0018	0.0128	0.0907	0.0000	0.0125	0.0438	0.3256	0.3256
18	95	111.67	9	0	0.0419	0.0806	0.1549	0.0344	0.0828	0.1332	0.3384	0.3384
19	123	137.83	11	0	0.0442	0.0798	0.1441	0.0299	0.0763	0.1273	0.4190	0.4190
20	146	138.17	24	0	0.1164	0.1737	0.2592	0.1022	0.1739	0.2409	0.4988	0.4988
21	138	143.42	17	0	0.0737	0.1185	0.1907	0.0629	0.1157	0.1696	0.6725	0.6725
22	141	150.17	9	0	0.0312	0.0599	0.1152	0.0294	0.0618	0.0933	0.7910	0.7910
23	151	151.33	10	0	0.0356	0.0661	0.1228	0.0279	0.0669	0.1049	0.8510	0.8510
24	151	145.00	15	0	0.0624	0.1034	0.1716	0.0536	0.1095	0.1668	0.9170	0.9170
25	143	139.00	11	0	0.0438	0.0791	0.1429	0.0374	0.0811	0.1292	1.0205	1.0205
26	135	134.25	14	0	0.0618	0.1043	0.1761	0.0588	0.1050	0.1660	1.0996	1.0996
27	129	131.58	6	0	0.0205	0.0456	0.1015	0.0142	0.0453	0.0831	1.2039	1.2039
28	135	133.75	8	0	0.0299	0.0598	0.1196	0.0264	0.0594	0.1062	1.2495	1.2495
29	134	138.08	5	2	0.0151	0.0362	0.0870	0.0069	0.0343	0.0682	1.3093	1.3093
30	138	127.75	2	19	0.0039	0.0157	0.0626	0.0000	0.0143	0.0335	1.3455	1.3455
31	120	108.83	5	18	0.0191	0.0459	0.1104	0.0088	0.0483	0.0926	1.3612	1.3612
32	102	90.33	4	14	0.0166	0.0443	0.1180	0.0104	0.0461	0.0977	1.4071	1.4071
33	84	85.08	3	0	0.0114	0.0353	0.1093	0.0052	0.0335	0.0688	1.4514	1.4514
34	86	84.83	3	0	0.0114	0.0354	0.1097	0.0000	0.0379	0.0915	1.4867	1.4867
35	84	86.08	1	0	0.0016	0.0116	0.0825	0.0000	0.0138	0.0424	1.5220	1.5220
36	87	86.83	1	0	0.0016	0.0115	0.0818	0.0000	0.0103	0.0368	1.5337	1.5337
37	86	87.58	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.5452	1.5452
38	88	88.08	2	0	0.0057	0.0227	0.0908	0.0000	0.0241	0.0573	1.5452	1.5452
39	90	89.75	1	1	0.0016	0.0111	0.0791	0.0000	0.0101	0.0361	1.5679	1.5679
40	88	83.17	1	17	0.0017	0.0120	0.0854	0.0000	0.0120	0.0448	1.5790	1.5790
41	74	68.08	0	12	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.5910	1.5910
42	62	57.17	2	8	0.0087	0.0350	0.1399	0.0000	0.0406	0.1301	1.5910	1.5910
43	53	53.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.6260	1.6260
44	53	52.00	2	0	0.0096	0.0385	0.1538	0.0000	0.0415	0.1085	1.6260	1.6260
45	51	52.33	1	0	0.0027	0.0191	0.1357	0.0000	0.0180	0.0595	1.6645	1.6645
46	52	52.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.6836	1.6836
47	52	52.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.6836	1.6836
48	52	52.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.6836	1.6836
49	52	51.92	0	1	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.6836	1.6836

50	51	37.25	2	26	0.0134	0.0537	0.2147	0.0000	0.0544	0.1249	1.6836
51	24	15.67	0	17	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.7373
52	7	3.33	0	7	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.7373
53	0	0.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.7373
State N											
Occup	PY	NJ	cens	r.L95	r.est	r.U95	b.L95	b.est	b.U95	cumrate	
13	0	0.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
14	0	0.33	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
15	2	3.67	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
16	5	8.25	2	0	0.0606	0.2424	0.9693	0.0000	0.2412	0.6905	0.0000
17	9	8.08	3	0	0.1197	0.3713	1.1512	0.0000	0.4121	1.0889	0.2424
18	7	9.92	3	0	0.0975	0.3024	0.9377	0.0000	0.2947	0.6461	0.6137
19	13	13.67	10	0	0.3936	0.7315	1.3596	0.3920	0.7578	1.1739	0.9161
20	14	26.83	6	0	0.1005	0.2236	0.4978	0.0928	0.2296	0.4226	1.6477
21	32	33.50	11	0	0.1818	0.3284	0.5929	0.1760	0.3322	0.5461	1.8713
22	38	33.75	9	0	0.1387	0.2667	0.5125	0.1203	0.2764	0.4944	2.1996
23	38	41.17	6	0	0.0655	0.1457	0.3244	0.0455	0.1488	0.2946	2.4663
24	42	48.92	6	0	0.0551	0.1226	0.2730	0.0421	0.1317	0.2440	2.6121
25	51	55.00	3	0	0.0176	0.0545	0.1691	0.0000	0.0564	0.1292	2.7347
26	59	60.42	6	0	0.0446	0.0993	0.2210	0.0449	0.1014	0.1646	2.7892
27	67	65.17	9	0	0.0719	0.1381	0.2654	0.0648	0.1457	0.2569	2.8886
28	64	66.00	6	0	0.0408	0.0909	0.2024	0.0297	0.0911	0.1569	3.0267
29	66	61.75	11	0	0.0987	0.1781	0.3217	0.0882	0.1783	0.2794	3.1176
30	60	56.58	3	6	0.0171	0.0530	0.1644	0.0000	0.0523	0.1221	3.2957
31	53	50.83	4	9	0.0295	0.0787	0.2097	0.0198	0.0824	0.1614	3.3487
32	45	45.75	0	3	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.4274
33	46	44.92	5	0	0.0463	0.1113	0.2674	0.0281	0.1060	0.1873	3.4274
34	44	45.17	1	0	0.0031	0.0221	0.1572	0.0000	0.0219	0.0730	3.5387
35	46	43.92	4	0	0.0342	0.0911	0.2427	0.0203	0.0917	0.2204	3.5609
36	43	43.17	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.6519
37	44	42.42	2	0	0.0118	0.0471	0.1885	0.0000	0.0458	0.1160	3.6519
38	42	41.92	4	0	0.0358	0.0954	0.2542	0.0085	0.0938	0.2038	3.6991
39	40	40.17	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.7945
40	41	36.25	4	5	0.0414	0.1103	0.2940	0.0263	0.1130	0.2514	3.7945
41	33	30.50	0	5	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.9048
42	28	24.50	1	7	0.0057	0.0408	0.2898	0.0000	0.0463	0.1723	3.9048
43	22	22.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.9457
44	22	23.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.9457
45	24	22.67	2	0	0.0221	0.0882	0.3528	0.0000	0.1051	0.3614	3.9457
46	23	23.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0339
47	23	23.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0339
48	23	23.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0339
49	23	22.92	0	1	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0339
50	22	17.92	1	10	0.0079	0.0558	0.3962	0.0000	0.0570	0.1755	4.0339
51	13	8.83	0	8	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0897
52	5	2.00	0	5	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0897
53	0	0.00	0	0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	4.0897

Biograph produced several of the figures in Table 2.3. The state occupancies at birthday are produced by the `Occup` function, the transitions by the `Trans` function, and the transition rates and cumulative rates by the `Rates.ac` function.

Biograph tracks individual transitions and state occupancies (exposure times). The purpose of tracking individuals is to show an individual's contribution to transition counts and exposure times. Consider individual with ID 76. The data are shown in Table 2.1 and the employment career in Figure 2.1. Table 2.4 shows the states occupied at all birthdays between first job and survey date, and the exposure times by age. At exact age 18, the individual is not under observation yet (state -). He enters observation at age 18.333, when he gets his first job. Between the 18th and 19th birthday, respondent with ID 76 spends 0.333 years before observation (in state -), 0.5 years in J and 0.167 years in N. At age 30, he spends 0.417 years in J and 0.518 years

in the state ‘censored’. The tracking of individual transitions and exposures is necessary for a correct estimation of transition rates and is a central aspect of the counting process approach. If $\hat{\lambda}_{ij}$ is an estimate of the rate of transition from i to j between exact ages x and $x+1$, then the contribution of the individual to the likelihood function is $\lambda_{ij}^{t_{ij}}$ if the individual experiences a transition between x and $x+1$, and $\lambda_{ii}^{t_{ii}}$ if he experiences no transition. The best estimate of λ_{ij} is the one that maximizes the likelihood function for all individuals combined.

	-	J	N	+	-	J	N	+
18	1	0	0	0	0.333	0.500	0.167	0.000
19	0	0	1	0	0.000	0.000	1.000	0.000
20	0	0	1	0	0.000	0.083	0.917	0.000
21	0	1	0	0	0.000	1.000	0.000	0.000
22	0	1	0	0	0.000	1.000	0.000	0.000
23	0	1	0	0	0.000	1.000	0.000	0.000
24	0	1	0	0	0.000	0.750	0.250	0.000
25	0	1	0	0	0.000	1.000	0.000	0.000
26	0	1	0	0	0.000	1.000	0.000	0.000
27	0	1	0	0	0.000	1.000	0.000	0.000
28	0	1	0	0	0.000	1.000	0.000	0.000
29	0	1	0	0	0.000	1.000	0.000	0.000
30	0	1	0	0	0.000	0.417	0.000	0.583
31	0	0	0	1	0.000	0.000	0.000	1.000

3. Transition probabilities and state occupation probabilities

In multistate modelling, distinct types of probabilities have been identified (see e.g. Schoen, 1988, pp. 81ff). Survival probabilities, transition probabilities, and state occupation probabilities are well-known. They relate to the state occupied at a given age or at given ages. An event probability is the probability that a given transition occurs at least once during a given period. The cumulative incidence, which is frequently used in epidemiology and health sciences, is an event probability. If the destination state is an absorbing state, e.g. dead, the transition probability and the event probability are the same. Otherwise they differ. The probability types are discussed in some detail. In this section and the following sections, age is denoted by x and y . State and transition probabilities are denoted by p and event probabilities by π . The matrix of transition probabilities between ages x and y is $\mathbf{P}(x,y)$ and the vector of state probabilities at x is $\mathbf{p}(x)$. The probability of a continuous stay in a state between ages x and y will be denoted by $S(x,y)$. It is the survival probability in the state; it is the probability of non-occurrence of an event (exit from the state).

The survival probability at age x is the probability of being alive at that age. In some fields, such as demography, dead is usually not a separate state in the state space. It is an absorbing state that is integrated in the diagonal of the transition matrix. The probability of being alive is the probability of being in any of the states of the state space. In medical statistics, the absorbing state of dead is usually a separate state of the state space. In that case, the survival probability is the probability of being in a transient state. Unless specified otherwise, the state occupation probability at age x is the probability of occupying a given state at age x , **conditional** on being in any of the

states of the state space at x , i.e. conditional on still being part of the population. The transition probability is the probability of occupying a given state at age y , conditional on occupying a given state at age x with $y \geq x$. All probabilities are derived from transition rates. Before deriving probabilities from rates, probability types are discussed. Probabilities are defined for periods. A period may be delineated by two ages, two transitions or by an age and a transition. The delineation results in periods of fixed or variable length. Probabilities may be conditional on being in a given state or having experienced a transition.

Probabilities are computed at a *reference age*. The reference age indicates the position of the observer in the life course. The reference age is particularly relevant in the presence of mortality or when the probability is conditional on the state occupied at the reference age. For instance, the probability of experiencing a period without a job between ages 30 and 40 is likely to differ between persons employed at age 30 and persons employed at age 25, but not necessarily at age 30. At age 30, the latter category may have a job or may be without a job. The difference is due to competing events between ages 25 and 30. In medical statistics, the reference age x from which a transition probability is estimated is known as the landmark time point or age and the method to select a range of reference ages as the landmark method. Individuals who experience the transition of interest before the landmark time point or who leave the population at risk for another reason (e.g. censoring) are removed from the data (Van Houwelingen and Putter, 2008; Beyersmann et al., 2012, p. 187). The landmark method is used for dynamic prediction (van Houwelingen and Putter, 2011). The central idea of dynamic prediction is that, by increasing the reference age, time-varying covariates may be updated with more recent values and predictions adjusted.

If a period is delineated by two ages, the first age is denoted by x and the second by y ($y > x$). The probability of a transition, an event or a continuous stay in a given state between ages x and y depends on competing events before and during the period. To exclude the effect of competing events before x , the probability is computed at age x . If the impact of competing events before x need to be accounted for, the probability is computed at an age lower than x . For instance the probability of impairment after age 65 depends on the likelihood of surviving to 65. It is higher if computed at 65 than at age zero. Probabilities are computed for individual k , but the reference to k is omitted for convenience.

The probability that an individual who is in state i on his x -th birthday, will be in state j at age y is the transition probability $P_{ij}(x, y)$. It may be written as

$P_{ij}(x, y) = P_{ij}(x, y | \mathbf{X}_x)$, where \mathbf{X}_x is a random variable denoting the state occupied at age x . The transition probability depends on the life history. If the life history is represented by Θ , that dependence is denoted by

$P_{ij}(x, y | \Theta)$. That dependence is omitted in this section on the derivation of probabilities. The time scale is continuous (t is a continuous variable). The process is time-homogeneous if the transition probability $P_{ij}(x, y)$ only depends on the age difference $y-x$ and not on age x . In life-history data analysis with age as the time scale, the process is time-inhomogeneous. Age matters. Transition probabilities defined for the age interval from x to y are combined in a matrix of transition probabilities:

x

where x is the probability that an individual who is in state i at age x will also be in state i at age y . Between x and y , the individual may move out of i and return later but before y . The reason for using matrices is that, except for a few simple cases, transition probabilities depend on all transition intensities and that requires systems of equations, which are conveniently written as matrix equations.

The interval from x to y may be partitioned into smaller intervals: $x = x_0 < x_1 < x_2 \dots < x_p = y$. The transition probability matrix $\mathbf{P}(x,y)$ may be written as a matrix product:

x

The equation is the Chapman-Kolmogorov equation for the Markov process. If the number of time points increases and the distance between them goes to zero in a uniform way, the matrix product approaches a limit termed a (matrix-valued) product-integral. The product integral is a counterpart of the usual integral in classical calculus.

State occupation probabilities at age y are derived from transition probabilities $\mathbf{P}(x,y)$ and state probabilities at age x . Let $\mathbf{p}(x)$ denote the vector of state probabilities at exact age x . The state probabilities at age y is $\mathbf{P}(x,y) \mathbf{p}(x)$.

To show the link between transition probability and (cumulative) transition rate, consider the infinitesimally small interval from τ to $\tau+d\tau$ with $x \leq \tau < y$. The transition probability may be expressed in terms of increments of cumulative transition rates. The cumulative transition rates at age τ may be arranged in a matrix:

x

An element x denotes the cumulative rate at age τ of the transition from i to j .

The diagonal element x is the cumulative rate at age τ of leaving i :

x

. The cumulative transition rate can be a step function, with a jump each age a transition occurs, or a continuous function. The increment of x

during the interval from τ to $\tau+d\tau$ is x. The probability that the individual who

is in i at τ will be in j at $\tau+d\tau$ is x. The probability that an

individual who is in i at τ will be in i at $\tau + d\tau$ is

. The matrix of transition probabilities between ages x and y , expressed in terms of the transition probabilities in small subintervals, is:

The equation is the solution to the Chapman-Kolmogorov equation. No assumption is made on the nature of the distribution of the transition probability (Aalen et al., 2008, p. 470). The distribution can be discrete or continuous. The product integral is a restatement of the Chapman-Kolmogorov equation.

If transition rates are continuous functions of age, then and . The quantity is the probability that an individual who is in i at τ will move to j during the interval of length $d\tau$: . Since the interval is sufficiently small to ensure not more than one transition, a move from i to j implies that the individual will be in j at $\tau+d\tau$. The probability of remaining in i during the interval of length $d\tau$ is . The matrix expression linking the matrix of transition probabilities during the interval from τ to $\tau+d\tau$ to the matrix of instantaneous transition rates is:

, where \mathbf{I} is the identity matrix and

with . If the instantaneous transition rates are continuous functions of age, .

In the literature, the instantaneous transition rate matrix has different configurations. The configuration used in this chapter; is common in demography. The first subscript denotes the origin and the second the destination. In statistics, the off-diagonal element is the transition rate instead of minus the transition rate, and the matrix is the transpose of the matrix shown here. The reasons for choosing the configuration become clear later.

If the transition probability is a continuous function of age, a system of differential equations links transition probabilities and transition rates. The differential equations are derived from the Chapman-Kolmogorov equation. Recall that we may write

Subtraction of $\mathbf{P}(\tau, y)$ from both sides of the equation and dividing by $\tau - x$ yields

$$\frac{\partial \mathbf{P}(\tau, y)}{\partial \tau} = -\mathbf{M}(\tau) \mathbf{P}(\tau, y)$$

and

$$\frac{\partial \mathbf{P}(\tau, y)}{\partial y} = \mathbf{M}(\tau) \mathbf{P}(\tau, y)$$

Since $\frac{\partial \mathbf{P}(\tau, y)}{\partial \tau} = -\mathbf{M}(\tau) \mathbf{P}(\tau, y)$, we obtain the differential equation

$$\frac{\partial \mathbf{P}(\tau, y)}{\partial \tau} = -\mathbf{M}(\tau) \mathbf{P}(\tau, y)$$

The differential equation describes continuous-time non-homogeneous Markov processes. In physics the equation is known as the master equation. In the social sciences, the master equation is less well-known but some important applications (under that name) exist (see e.g. Weidlich and Haag, 1983, 1988; Aoki, 1996; Helbing, 2010). Aoki summarizes the significance of the master equation as follows: “The master equations describe time evolution of probabilities of states of dynamic processes in terms of probability transition rates and state occupancy probabilities” (Aoki, 1996, p. 116).

To solve the matrix differential equation, we may try to generalize the solution of the scalar differential equation $\frac{dy}{dx} = -\mu(x)y$. The solution, given the interval from x to y , is $y = p(x, y) e^{-\int_x^y \mu(\tau) d\tau}$, with $p(x, y)$ the probability that an individual who is alive at age x will be alive at age y and $\mu(\tau)$ the instantaneous death rate at age τ . The generalization $\frac{d\mathbf{P}}{dx} = -\mathbf{M}(x)\mathbf{P}$ does usually not work, however. It works only if the matrices of instantaneous transition rates commute, i.e. if the matrix multiplication $\mathbf{M}(\tau_1)\mathbf{M}(\tau_2) = \mathbf{M}(\tau_2)\mathbf{M}(\tau_1)$ for all τ .

To solve the system of differential equations, it is replaced by a system of integral equations:

$$\mathbf{P}(\tau, y) = \mathbf{P}(\tau, x) + \int_x^y \mathbf{M}(\tau) \mathbf{P}(\tau, \tau) d\tau$$

This equation is essentially a system of flow equations of the multistate model. The element $P_{ij}(\tau, y)$ of $\mathbf{P}(\tau, y)$ is:

$$P_{ij}(\tau, y) = P_{ij}(\tau, x) + \int_x^y \sum_k M_{kj}(\tau) P_{ik}(\tau, \tau) d\tau$$

$$P_{ij}(\tau, y) = P_{ij}(\tau, x) + \int_x^y \sum_k M_{kj}(\tau) P_{ik}(\tau, \tau) d\tau$$

represents the number of moves or direct transitions from state j to state q between the ages x and y by an individual in state i at exact age x . The sum is the number of exits from state j by persons in i at x . The last term is the number of entries into state j by persons in i at x .

To derive an expression involving transition rates during the interval from x to y , we write

$$\frac{d\mathbf{p}_i(x,y)}{dx} = \mathbf{m}(x,y)\mathbf{p}_i(x,y) - \mathbf{p}_i(x,y)\mathbf{m}(x,y)$$

where $\mathbf{m}(x,y)$ is the matrix of transition rates. An element $m_{ij}(x,y)$ ($j \neq i$) is the average transition rate during the interval from x to y and the diagonal element is the rate of leaving i : . Schoen (1988, p. 66) shows the same matrix equation and points to the link with the flow equations commonly used in demography.

Transition probabilities serve as input in the computation of state occupation probabilities. Let $p_i(y)$ denote the probability that an individual who is alive at age y is in state i at that age and let $\mathbf{p}(y)$ denote the vector of state occupation probabilities at age y . The state probabilities at age y depend on state probabilities at an earlier age and transition probabilities, e.g. . This equation may be applied recursively to determine state occupancies at consecutive ages. Consider age intervals of one year. If the state occupation probabilities at birth are given and the transition probabilities are known for $0 \leq x < z-1$, with z the start of the highest, open-ended age group, then a recursive application of with $0 \leq x < z-1$ produces state occupation probabilities by single years of age from birth to the highest age.

The estimation of transition probabilities from data relies on the Nelson-Aalen estimator if the waiting-time distribution of a transition is not constrained and on the occurrence-exposure rate if the waiting-time distribution is (piecewise) exponential. The two approaches are considered in the remainder of this section. Some packages for multistate modelling, e.g. *etm* and *mstate*, adopt the non-parametric method assuming that the multistate survival function is a step function and estimate the empirical transition matrix, while other packages, e.g. *msm* and *Biograph*, adopt the parametric method assuming that the underlying multistate process is continuous but transition rates are (piecewise) constant.

a. Non-parametric method

A logical estimator of $\mathbf{P}(x,y)$ is . Since the estimator is a matrix of step functions with a finite number of increments in the (x,y) -interval, the product-integral is the finite matrix product

The matrix is the *empirical transition matrix*, often denoted as the Aalen-Johansen estimator. It is a non-parametric estimator, which generalizes the Kaplan-Meier estimator to Markov chains (Aalen et al., 2008, p. 122). The diagonal element is generally not equal to the Kaplan-Meier estimator. The i -th diagonal element is the probability that an individual who is in i at age x will also be in i at age y . The state may be left and re-entered during the interval. The Kaplan-Meier estimator is an estimator of the probability that an individual who is in i at age x will **remain** in i at least until age y . The state may not be left during the interval. The Kaplan-Meier

estimator is .

For the covariance of the empirical transition matrix, see Aalen et al. (2008).

Consider the selection of the GLHS data on 10 individuals. The Aalen-Johansen estimator of the transition probabilities are derived from the Nelson-Aalen estimator of the cumulative transition rates shown in Table 2.2. Consider the transition probability between ages 14 and 18.833. At age 14, individual 8 (ID=180) enters his first job and enters observation. He leaves the first job at age 15.667 (see Table 2.1, JN transition). At that age, individual 3 (ID=67) had entered observation (at age 15.167). The empirical probability of transition from J to N between ages 14 and 15.667 is $(1-1/2)=0.5$. The probability that the individual is without a job at age 18.833 is 28.57 percent. It is computed by the matrix multiplication:

Table 2.5 shows the results. The column `etm.est` gives the probability of an occurrence before t and `etm.var` gives the variance. The probability of no occurrence is `surv`. It is the empirical survival function or Kaplan-Meier estimator of the survival function. Both the Nelson-Aalen estimator and the Kaplan-Meier estimator are **discrete** distributions with their probability mass concentrated at the observed event times. The link between the cumulative hazard estimator and the Kaplan-Meier estimator relies on the approximation of the product integral. The product integration is the key to understanding the relation between the Nelson-Aalen and the Kaplan-Meier estimators (Aalen et al., 2008, p. 99 and p. 458). The column `delta` shows the increments of the cumulative hazard. The probability that an individual who is in state J at age 14 will be in state N at age 25 is 43.27 percent. The estimate is based on all transitions before age 25, the last one at age 24.833. The probability of being in J at age 25 is the same as the probability of being in J at age 24.833, since in the sample population no transition occurred between ages 24.833 and 25. Recall that the elements of the empirical transition matrix are step functions with constant values between transition times. The probability that a 20-year old individual who is in state J will be in N at age 25 is 41.52 percent.

The `etm` function of the *etm* package computes the Aalen-Johansen estimator of the transition probability matrix of any multistate model. The entries of the Aalen-Johansen estimator are empirical probabilities. The *etm* package is used to produce the results shown in Table 2.5. The results are for a selection of the 10 respondents used for illustration of the Nelson-Aalen estimator. The code is:

```
library (etm)
D<- Biograph.mvna (d.10)
tra <- attr(D$D, "param")$trans_possible
etm.0 <- etm(data=D$D, c("J", "N"), tra, "cens", s=0)
```

The covariance matrix of the empirical transition matrix is derived using martingale theory (Aalen et al., 2008, pp. 124ff). The Aalen-Johansen estimator along with event counts, risk set, variance of the estimator and confidence intervals can be obtained through the `summary` function of the *etm* package:

```
summary(etm.0)$"J N"
summary(etm.0)$"N J"
```

The confidence interval is computed without transformation of the data. Transformations can be specified, however (see Beyersmann et al., 2012, p. 185).

Respondents enter observation when they start their first job. The probability of being employed at the highest age in the sample population (53) depends on the employment status at lower ages. An individual with a job at age 14 has a 37 percent chance of also having a job at age 53. The percentage is the same for a person with a job at age 18. An individual with a job at age 30 has a 42 percent chance of having a job at age 53. Because employment status varies with age the probability of being in a given state at a given higher age varies with age too. By varying the reference age, the changes in probabilities can be assessed. The selection of a range of reference ages is the basic idea of the landmark method. In this example, the end state is a transient state. In the landmark method, the end state is an absorbing state. In multistate life-table analysis, the method of selecting different reference ages and to estimate transition probabilities conditional on states occupied at a reference age is known as the status-based life table (Willekens, 1987).

Table 2.5 Aalen-Johansen estimator of transition probabilities. GLHS subsample of 10 individuals.

JN transition						
	age	nrisk	nevent	etm.est	etm.var	surv
1	14.00000	1	0	0.0000000	0.000000000	1.0000000
2	15.16667	1	0	0.0000000	0.000000000	1.0000000
3	15.66667	2	1	0.5000000	0.125000000	0.5000000
4	17.00000	1	0	0.5000000	0.125000000	0.5000000
5	17.83333	2	0	0.5000000	0.125000000	0.5000000
6	18.16667	3	0	0.5000000	0.125000000	0.5000000
7	18.33333	4	0	0.5000000	0.125000000	0.5000000
8	18.66667	6	0	0.0000000	0.000000000	1.0000000
9	18.75000	7	1	0.1428571	0.017492711	0.8571429
10	18.83333	6	1	0.2857143	0.029154519	0.7142857
11	19.16667	5	0	0.2857143	0.029154519	0.7142857
12	19.41667	6	1	0.4047619	0.032056473	0.5952381
13	19.66667	5	0	0.4047619	0.032056473	0.5952381
14	20.91667	6	1	0.3690476	0.028351420	0.6309524
15	21.00000	6	1	0.4742063	0.028903785	0.5257937
16	21.16667	5	0	0.3556548	0.026799238	0.6443452
17	21.50000	6	0	0.2371032	0.021280425	0.7628968
18	22.41667	7	0	0.1185516	0.012347346	0.8814484
19	22.58333	8	1	0.2287326	0.020075818	0.7712674
20	23.16667	7	2	0.4490947	0.027585427	0.5509053
21	24.58333	6	1	0.5409123	0.026181931	0.4590877
22	24.83333	5	0	0.4327298	0.026119191	0.5672702
23	25.16667	6	0	0.3245474	0.023469628	0.6754526
24	26.00000	7	1	0.4210406	0.025223801	0.5789594
25	28.16667	6	0	0.3157805	0.022498163	0.6842195
26	29.75000	7	0	0.2105203	0.017385650	0.7894797
27	30.41667	8	0	0.2105203	0.017385650	0.7894797
28	30.66667	6	0	0.1052602	0.009886262	0.8947398
29	31.08333	7	0	0.1052602	0.009886262	0.8947398
30	40.25000	6	1	0.2543835	0.025396927	0.7456165
31	41.25000	5	0	0.2543835	0.025396927	0.7456165
32	41.50000	4	0	0.2543835	0.025396927	0.7456165
33	41.91667	3	0	0.2543835	0.025396927	0.7456165
34	42.75000	3	0	0.2543835	0.025396927	0.7456165
35	44.66667	2	1	0.6271917	0.075842235	0.3728083
36	52.16667	1	0	0.6271917	0.075842235	0.3728083
37	52.66667	1	0	0.6271917	0.075842235	0.3728083
NJ transition						
	age	nrisk	nevent	etm.est	etm.var	surv
1	14.00000	0	0	0.0000000	0.000000000	1.0000000
2	15.16667	0	0	0.0000000	0.000000000	1.0000000
3	15.66667	0	0	0.0000000	0.000000000	1.0000000
4	17.00000	1	0	0.0000000	0.000000000	1.0000000
5	17.83333	1	0	0.0000000	0.000000000	1.0000000
6	18.16667	1	0	0.0000000	0.000000000	1.0000000
7	18.33333	1	0	0.0000000	0.000000000	1.0000000
8	18.66667	1	1	1.0000000	0.000000000	0.0000000
9	18.75000	0	0	0.8571429	0.017492711	0.1428571
10	18.83333	1	0	0.7142857	0.029154519	0.2857143

11	19.16667	2	0	0.7142857	0.029154519	0.2857143
12	19.41667	2	0	0.5952381	0.032056473	0.4047619
13	19.66667	3	0	0.5952381	0.032056473	0.4047619
14	20.91667	3	1	0.6309524	0.028351420	0.3690476
15	21.00000	3	0	0.5257937	0.028903785	0.4742063
16	21.16667	4	1	0.6443452	0.026799238	0.3556548
17	21.50000	3	1	0.7628968	0.021280425	0.2371032
18	22.41667	2	1	0.8814484	0.012347346	0.1185516
19	22.58333	1	0	0.7712674	0.020075818	0.2287326
20	23.16667	2	0	0.5509053	0.027585427	0.4490947
21	24.58333	4	0	0.4590877	0.026181931	0.5409123
22	24.83333	5	1	0.5672702	0.026119191	0.4327298
23	25.16667	4	1	0.6754526	0.023469628	0.3245474
24	26.00000	3	0	0.5789594	0.025223801	0.4210406
25	28.16667	4	1	0.6842195	0.022498163	0.3157805
26	29.75000	3	1	0.7894797	0.017385650	0.2105203
27	30.41667	2	0	0.7894797	0.017385650	0.2105203
28	30.66667	2	1	0.8947398	0.009886262	0.1052602
29	31.08333	1	0	0.8947398	0.009886262	0.1052602
30	40.25000	1	0	0.7456165	0.025396927	0.2543835
31	41.25000	2	0	0.7456165	0.025396927	0.2543835
32	41.50000	2	0	0.7456165	0.025396927	0.2543835
33	41.91667	1	0	0.7456165	0.025396927	0.2543835
34	42.75000	0	0	0.7456165	0.025396927	0.2543835
35	44.66667	0	0	0.3728083	0.075842235	0.6271917
36	52.16667	1	0	0.3728083	0.075842235	0.6271917
37	52.66667	0	0	0.3728083	0.075842235	0.6271917

The following code computes the Aalen-Johansen estimators of the transition probabilities for reference ages 18, 25, 30 and 35 (see Beyersmann et al., 2012, p. 187):

```
age.points <- c(18,25,30,35)
landmark.etm <- lapply (age.points,
  function (reference.age)
    {etm(data=D$D,
      state.names=c("J", "N"),
      tra=tra,"cens",
      s=reference.age) })
```

The landmark method is also implemented in the *dynpred* package (Putter, 2012). It is the companion package of Van Houwelingen and Putter (2011).

State occupation probabilities are derived from transition probabilities. Because all individuals are initially in J, the probability of being in state N is the transition probability JN with the youngest age as reference age (compare with Beyersmann et al., 2012, p. 190). In the subsample of 10 individuals, the probability of occupying state J at age 30 is 78.95 percent and the probability of being in N is 21.05 percent (Table 2.5). The 95 percent confidence intervals are (0.531, 1.000)

() and (0.000, 0.469) (), respectively. The following code produces these results:

```
dd=Biograph.mvna(d.10)
etm(data=dd$D,c("J","N"),tra,"cens",s=0)
summary(etm.0)$"J N"[26, c("P","lower","upper")]
summary(etm.0)$"N J"[26, c("P","lower","upper")]
```

where `dd` is the data for the 10 selected individuals (*Biograph* object) and 26 is the age index associated with the age at the last transition before 30 (age 29.75).

Consider now the subsample of 201 respondents. Of the 201 respondents, 160 enter the labour market (first job) before age 20 and 41 enter after age 20. The ages at labour market entry are obtained by the code

```
table(trunc(d3.a$start))
```

Of those who entered the labour market before age 20, 146 are in state J (91 percent) and 14 in state N (9 percent) at age 20. In the observation plan considered, they are under observation at age 20. Some entered observation at young ages while others entered just before age 20. The empirical transition probabilities take into account durations under observation and durations spent in J and N. The transition probabilities condition the state occupancy on the state occupied at a reference age. A person with a job at age 14 (lowest age) has a 85.6 percent chance of having a job a age 20 and 14.4 percent chance of having no job. A person without a job at age 14 has a probability of 75.1 percent to have a job at age 20 and 24.9 percent to have no job at that age. The state probabilities at age 20 are produced by the code:

```
D=Biograph.mvna(d3.a)
tra <- Parameters(d3.a)$trans_possible
etm.0 <- etm(data=D$D,c("J","N"),tra,"cens",s=0,t=20)
```

where `d3.a` is the *Biograph* object with ages at transition.

To display the results for age 20, use the code

```
summary(etm.0)$"J N"[81:84,]
summary(etm.0)$"N J"[81:84,]
```

The state probabilities at age 30 are obtained from the state probabilities at age 20 and the empirical transition probabilities between ages 20 and 30,

The following code produces the transition matrix :

```
etm.20_30 <-
etm(data=D$D,c("J","N"),tra,"cens",s=20,t=30)
```

The product of and is:

```
t(etm.20_30$est[, , 99])%*%
t(etm.0$est[, , dim(etm.0$est)[3]])[, 1]
```

The state occupation probabilities at age 30, can be obtained by the code:

```
etm(data=D$D,c("J","N"),tra,"cens",s=0,t=30)
```

The probability of being employed at age 30 is 68.5 percent if the person is employed at the lowest age and 67.5 percent if the person is not employed. Table 2.6 shows the state probabilities at selected ages. The table shows the probabilities of occupying state J (J_{est}) and state N (N_{est}) at selected ages, and the 95 percent confidence intervals (J_{lower} , J_{upper}) and (N_{lower} , N_{upper}) who are employed at the lowest age. The confidence intervals are computed by the `summary.etm` function of the *etm* package.

	age	J_{lower}	J_{est}	J_{upper}	N_{lower}	N_{est}	N_{upper}
1	15	0.827	0.926	1.000	0.000	0.074	0.173
2	20	0.786	0.856	0.926	0.074	0.144	0.214
3	25	0.641	0.707	0.774	0.226	0.293	0.359
4	30	0.618	0.684	0.749	0.251	0.316	0.382
5	40	0.624	0.699	0.774	0.226	0.301	0.376
6	50	0.600	0.688	0.775	0.225	0.312	0.400

b. Parametric method: piecewise exponential model

If the instantaneous transition rates are constant the distribution of the waiting time to the next transition is exponential. Assume that the instantaneous transition rates are constant in the age interval from x to y : for $x \leq \tau < y$, with $m_{ij}(x,y)$ the transition rate during the (x,y) -interval. The matrix of transition probabilities is . If transition rates are age-specific with age intervals of one year, then the transition probabilities between reference age x and age y are obtained by the matrix expression

$$\text{input type="text"}$$

with .

To determine the value of $\exp[-\mathbf{m}(x,y)]$, I use the Taylor series expansion. Note that for matrix \mathbf{A} , $\exp(\mathbf{A})$ may be written as a Taylor series expansion:

$$\exp(\mathbf{A}) = \mathbf{I} + \mathbf{A} + \frac{1}{2!}\mathbf{A}^2 + \frac{1}{3!}\mathbf{A}^3 + \dots$$

Hence

$$\text{input type="text"}$$

(see also Schoen, 1988, p. 72).

The estimator of the transition matrix is: with the matrix of empirical occurrence-exposure rates in the (x,y)-interval: , where $N_{ij}(x,y)$ is the observed number of moves from i to j during the interval and $R_i(x,y)$ is the exposure time in i.

In case of two states, the rate equation may be written as follows:

$$\frac{dP}{dt} = P \cdot R$$

where and . In matrix notation:

Consider the example with 201 respondents. The age-specific transition rates are shown in Table 2.3. The first state is J and the second N. The JN transition rate for 18-year old individuals is 0.0806 and the NJ transition rate is 0.3024. They are obtained by dividing the number of transitions by the exposure time in each state between ages 18 and 19. The one-year transition probability matrix is:

$$\begin{bmatrix} 0.9194 & 0.0806 \\ 0.3024 & 0.6976 \end{bmatrix}$$

The probability that an individual in the sample population who on his 18th birthday has a job, will be without a job on his 19th birthday is 6.7 percent. The probability that an 18-year old without a job will be with a job one year later is 25.1 percent. Bootstrapping is used to generate confidence intervals. The mean transition probability produced by 100 bootstrap samples is 0.0665 for the JN transition, with 95 percent confidence interval (0.0294, 0.1043) and 0.2583 for the NJ transition, with 95 percent confidence interval (0.0000, 0.4611). The retention probabilities are 0.9335 for J, with confidence interval (0.8957, 0.9706) and 0.7417 for N, with confidence interval (0.5389, 1.0000).

The state occupation probabilities at age 30 are obtained as the product of the transition probability matrix and the state probabilities . In the subsample, 86 percent is employed at age 20 and 14 percent is without a job (Table 2.6). The state probabilities at age 30 are:

. It is equal to:

$$\begin{bmatrix} 0.86 \\ 0.14 \end{bmatrix}$$

The 95 percent confidence intervals of the state occupation probabilities at age 30, obtained from 100 bootstrap samples, is (0.6173, 0.7556) for J and (0.2444, 0.3827) for N. The estimates and their confidence interval are close to the figures produced by the non-parametric method (Table 2.6).

4. Expected waiting times and state occupation times

State occupation times, also denoted as sojourn times and exposure times, are durations of stay in a state or stage during a given period. They indicate the lengths of episodes and are expressed in days, weeks, months or years if measured for a single individual or in person-days to person-years if measured for a population. Observed sojourn times are used to determine the exposure to the risk of a transition. In this section the focus is on *expected* sojourn times. The fundamental question is: given a set of transition rates, what is the expected sojourn time in a state? Questions on durations of stay are omnipresent. What is the expected lifetime (life expectancy)? What is the health expectancy, i.e. how many years may a person expect to live healthy? What is the expected age at disability for those who ever become disabled? What is the expected duration of marriage at time of divorce? What is the expected duration of unemployment for someone who becomes unemployed? What is the expected number of years of working life for persons who retire early? What these questions have in common is that they are about the length of periods between two reference points. The reference points may be transitions such as in the question on duration of marriage at divorce. Marriage and divorce are the two transitions. The reference point may be any point in time. When the second reference point is a transition, the expected sojourn time is equivalent to the expected waiting time to the transition.

Expected occupation times depend on transition rates between two reference ages. They also depend on the location of the observer. Suppose we want to know the number of years a person may expect to live with cardiovascular disease between ages 60 and 80. It depends on the transition rates between ages 60 and 80, including rates of death from cardiovascular disease or other causes. It also depends on the reference age because the reference age introduces dependencies on intervening transitions. The expected number of years with the disease is larger for 60-year old individuals than for 0-year old children because the latter category may not reach age 60.

The sojourn time between ages x and y spent in each state of the state space, by state occupied at age x is . The configuration of is:

The marginal state occupation times give the total expected sojourn time in the system by state occupied at age x (column total).

The time spent in state j between ages x and y by an individual who is in state i at exact age x is

and for all states of origin and states of destination:

In the above formulation, the expected occupation time in state j is conditional on being in state i at age x . The occupation time is said to be *status-based*; it is estimated for individuals in a given state at the reference age x . The *population-based* occupation time is the expected occupation time in state j beyond age x , irrespective of the state occupied at age x . It is the sum of status-based occupation times between x and y , weighted by state probabilities at age x :

, where is the probability that an individual is in state i at age x .

The expected state occupation times are derived from transition rates. Two approaches are considered: the non-parametric approach and the (piecewise-constant) exponential model.

a. Non-parametric approach

Beyersmann and Putter (2014) present a non-parametric method for estimating the expected state occupation time. Divide the period between age 0 and the highest age ω in intervals. Intervals of one year are considered, but the method can be applied to intervals of any length. Let denote the state occupation probability at age x . A natural estimate of the expected occupation time in i beyond age x , irrespective of the state occupied at age x , is

The method assumes that an individual who is in state i at age x stays in i during the entire year preceding x and an individual who leaves i between $x-1$ and x leaves at the beginning of the interval (at $x-1$). The assumption can be relaxed by reducing the length of the interval or by making alternative assumptions about ages at entry and exit. A plausible assumption is that transitions take place in the middle of the interval. That assumption is valid if the interval is sufficiently short so that at most one transition occurs during the interval. Multiple transitions during an interval (tied transitions) require an assumption about the sequence of transitions.

b. Parametric approach: exponential model

A distinction is made between expected state occupation times between two ages (closed interval) and expected state occupation times beyond a given age (open interval). The reference age may be any age at or before the start of the interval. For instance, the expected number of years in good health beyond age 65 may be computed for persons aged 65 or for persons of an age below 65, e.g. at birth or at labour market entry. The expected state occupation time may be conditioned on the state occupied (and other characteristics) at the reference age or the first age of the closed or open interval. The expected state occupation time may also be conditioned on a future transition. Consider an employment career. The age at which a person may

experience a first episode without work after a period with employment is lower for those who will ever experience an episode without work than for the average population. The expected occupation time during an age interval, conditioned on a transition occurring with certainty during that interval, is less than the expected occupation time that is not conditioned on a transition occurring. For instance, the expected duration of marriage at divorce is lower for those who ever divorce than for the average married population. The latter includes those who never divorce.

The time spent in state j between ages x and y by an individual who is in state i at exact age x is , where an element denotes the time an individual in i at age x may expect to spend in j between ages x and y . If the transition rates are constant in the (x,y) -age interval (exponential model), the integration of the equation leads to:

$$\text{[input box]}$$

which is equal to:

$$\text{[input box]}$$

provided $\mathbf{m}(x,y)$ is not singular. The expression is also shown by Namboodiri and Suchindran (1987, p. 145), Schoen (1988, p. 101) and van Imhoff (1990). If $\mathbf{m}(x,y)$ is singular, a very small value may be added to the diagonal elements of the matrix. Izmirlan et al. (2000, p. 246), who consider the case with an absorbing state (death), suggest to replace by one the zero diagonal element corresponding to the absorbing state. I choose to add a small value (10^{-8}) to the diagonal. It may be viewed as a rate of a fictitious attrition. It is too small to occur between x and y but it is large enough to make $\mathbf{m}(x,y)$ non-singular.

Taylor series expansion of results in the following equivalent expression for the state occupation times (Schoen, 1988, p. 73):

$$\text{[input box]}$$

When the interval is short, the sojourn time may be approximated by the linear integration hypothesis, which implies the assumption of uniform distribution of events (linear model):

$${}_x\mathbf{L}(x,y) = \frac{y-x}{2} [\mathbf{I} + \mathbf{P}(x,y)]$$

The linear method is usually used in demography and actuarial science. It is often referred to as the actuarial method.

until age y . If a departure from i occurs during the (x,y) - interval, it will occur at an occupation time which is less than the expected occupation time. In other words, the expected occupation time, conditioned on a transition occurring, is less than the expected occupation time that is not conditioned on a transition occurring. Consider an individual in state i at age x . The expected waiting time to leaving i between x and y consists of two parts. The first is the state occupation time for stayers. It is equal to $y - x$. The probability of staying in i during the entire interval from x to y is the survival probability . The second part is the waiting time to an exit from i that occurs before y . It is denoted by . Hence the occupation time equation is and . It is the time an individual aged x in i spends in i on a continuous basis before leaving, provided the exit occurs before y . The occupation time equation distinguishes stayers and leavers.

The fraction of an interval spent in a given state if a transition occurs with certainty is frequently referred to as Chiang's "a", after the statistician Chiang who introduced it. Chiang, who developed the measure in the context of mortality, called "a" the fraction of the last year of life (Chiang, 1968, pp 190ff; 1984, pp. 142ff). Schoen (1988, p. 8 and p. 71) uses the concept of *mean duration at transfer* to denote the expected number of years before the transition. It is the product of Chiang's "a" (fraction of the interval) and the length of the interval. If transitions are uniformly distributed during the interval, the survival function is linear and "a" is half the length of the interval. If the transition rate is constant during an interval, the waiting time to the event is exponentially distributed. Consequently, the expected time to an event that occurs with certainty is less than half the interval length. The probability that an exit from state i during the (x,y) -interval occurs during the first half of the interval, provided it occurs with certainty during the interval, is a ratio of two distribution functions:

$$\frac{1 - e^{-\lambda(x - y/2)}}{1 - e^{-\lambda(x - y)}}$$

Consider the 201 respondents and age 18. The expected occupation times in each of the states of the state space (J and N) by state on the 18th birthday is

$$\begin{matrix} & J & N \\ J & 0.036 & 0.134 \\ N & 0.036 & 0.134 \end{matrix}$$

A person of exact age 18 with employment may expect to spend 0.036 years (less than half a month) without employment before reaching age 19. The 95 percent confidence interval, produced by bootstrapping, is (0.0136, 0.0635). A person of the same age without a job may expect to be employed during 0.134 years (1.6 months) before his 19th birthday, with confidence interval (0.0323, 0.2663). A small figure (10^{-8}) has been added to the diagonal to prevent $\mathbf{m}(18,19)$ from being singular. A person aged 18 with employment, who leaves employment before age 19, may expect to leave employment after years or 5.6 months. The Taylor

series expansion gives about the same result. A sum of four terms plus the identity matrix gives

The number of years between the lowest age (14) and the highest age (54) is 40 years. Since states J and N are transient states, the total numbers of years spent in the employment career between ages 14 and 54 is 40. If a hypothetical individual starts at age 14 with a job and the employment career is governed by the occurrence-exposure rates estimated from the GLHS subsample of 201 subjects, then the expected number of years with a job is 28.66 and the number of years without a job is 11.34. The average of the 100 bootstrap samples is 28.55 and 11.45, respectively. The 95 percent confidence intervals are (26.65, 30.28) and (9.72, 13.35).

5. Synthetic life histories

The methods presented in the previous sections produce state probabilities and expected occupation times that are consistent with empirical transition rates. The state probabilities and the occupation times describe the expected life history, given the data. The confidence intervals around the expected values indicate the degree of uncertainty in the data. Transition rates are differentiated by age to capture the age patterns of transitions. In this section, age-specific transition rates are considered, with age intervals of one year. Transition rates are piecewise constant: they vary between age groups but they are constant within age groups. Individual life histories differ from the expected life history because of observed differences between individuals with different personal attributes, unobserved differences and chance. The chance mechanism is the subject of this section. Observed and unobserved differences are disregarded because they are beyond the scope of this chapter. Synthetic individual life histories are generated using longitudinal microsimulation (Willekens, 2009; Zinn, 2011; Zinn et al., 2013; Zinn, 2014). The method is consistent with Discrete Event Simulation (DEV) methods.

To explain the chance mechanism, a single transition rate will do and to explain the basic principle of generating synthetic biographies, a single transition rate matrix is sufficient. To generate more realistic synthetic biographies, age-specific transition rates are used. Consider the 201 respondents of the GLHS sample and the observation period between labour market entry and survey date. In Section 2.2, the aggregate NJ transition rate was estimated at 0.096 per year (using *msm*). An individual who previously had a job (the nature of the sample) and who is currently without a job, may expect to get another job in 10.4 years ($1/0.096$) on average. The expected waiting time during the first year is years. It is high because at the time the data were collected a relatively large number of respondents, in particular women, left the labour force and did not return. The probability of experiencing the event in the first year is 9.154 percent [$100*(1-\exp(-0.096))$]. An individual without a job, who gets a job within one year, waits 0.4920 years, on average. This is a little less than 6 months. Individual waiting times are random variables; the values are distributed around these expected value. Since the transition rate is constant at 0.096, individual waiting times are exponentially distributed with a mean of 10.4 years and a variance of 108 years, assuming no competing transition

intervenes in the labour market transitions. The median waiting time is 7.2 years $[\ln(2)]/0.096$.

To obtain individual waiting times that are consistent with these expected values, waiting times are drawn randomly from an exponential distribution with a hazard rate 0.096 or, alternatively, a mean waiting time of 10.4 years. A random draw is implemented in two steps. First, a random number is drawn from the standard uniform continuous distribution $U[0,1]$. Every value between zero and one is equally likely to occur. The random number drawn represents the probability that the waiting time to the transition is less than or equal to t , where t needs to be determined. Let α denote the probability. Hence: . Suppose $\alpha=0.54$. The value of t is derived from the inverse distribution function of the exponential distribution. It is years. N draws from the uniform distribution result in N individual waiting times. If N is sufficiently large, the *sample* mean is close to the expected value of 10.4 years and the sample variance is close to 108 years. One experiment of 1000 draws resulted in a mean waiting time of 10.11 years and a variance of 116.5 years. Another experiment resulted in a mean waiting time of 9.89 years and a variance of 87.4 years.

The transition rate estimated from data, in this example 0.096, is subject to sample variation. The rate is itself a random variable. If the number of observations is sufficiently large, the rate is a normally distributed random variable with the expected value as its mean. The 95 percent confidence interval of the NJ transition rate was estimated at (0.0804, 0.1146). To incorporate the degree of uncertainty in the data in the generation of synthetic life histories, a transition rate may be drawn from a normal distribution with mean $\ln(0.096)$ and standard deviation . The standard deviation of the NJ transition rate was computed in Section 2.2 of this chapter. If the value drawn from a normal distribution is denoted by m , then the transition rate is $\exp(m)$. An alternative to drawing a transition rate from a normal distribution is to resample the data (with replacement) and to estimate the transition rate from the new sample. In this approach, the distribution of the transition rate is the distribution generated by bootstrap samples. Consider 100 bootstrap samples and 100 transition rates, one from each sample. Each of these transition rates is used to generate 1000 individual waiting times. The collection of waiting time incorporates the effects of sample variation and the exponential distribution of waiting times. For a person without a job, the overall average waiting time to a job is 10.54 years and the variance is 115.00 years. The NJ transition rates estimated in the bootstrap samples vary from 0.073 to 0.140, with mean rate 0.0967.

The aggregate transition rates may be used to generate employment histories. The JN transition rate is 0.0533 and the NJ transition rate is 0.0960. Recall that observations started at labour market entry (first job). Hence N refers to being without a job, after having had at least one job. The transition rate matrix is .

Everyone starts the employment history in J . The starting time is zero, meaning that the time is measured as time elapsed since labour market entry. The employment history is simulated for 30 years (simulation stop time). The transition rates are

assumed to remain constant during that period. In this example, employment histories are sequences of transitions and waiting times to transitions. They are assumed to be outcomes of a continuous-time Markov model with constant rates. The simulation runs as follows. Let t denote time. An individual starts in J at time 0. A random number is drawn from an exponential distribution with transition rate 0.0533 to determine the time to transition from J to N. One draw results in a transition at $t=8.29$ years. To determine how long the individual stays in N, a random number is drawn from an exponential distribution with transition rate 0.096. The randomly selected time to NJ transition is 4.30 years. Hence the individual starts a second job 12.59 years after labour market entry ($8.29+4.30$). A new random waiting time is drawn from an exponential distribution with transition rate 0.0533 to determine the time of the second JN transition. The number is 24.00, which means that the transition would occur 36.59 years after labour market entry. The transition time exceeds the time horizon of 30 years and is not considered. When the simulation is discontinued, the individual is in state J. The function `sim.msm` of the *msm* package is used to generate the life history of a single individual. The code is:

```
m <- array(c(0.0533,-0.0533,-0.096,0.096),
           dim=c(2,2),dimnames=list(destination=c("J","N"),
                                         origin=c("J","N")))
bio <- sim.msm (-t(m),mintime=0,maxtime=30,start=1)
```

where `m` is the transition rate matrix shown above, `mintime` is the starting time of the simulation, `maxtime` is the ending time and `start` is the starting state (J is state 1 and N is state 2). The object `bio` has two components. The first contains the state sequence and the second the transition times.

The distribution of employment histories that are consistent with the transition rates may be obtained by simulating a large number of employment histories. In this simple illustration, the transition rates are assumed not to depend on age and to remain constant during the period of 30 years. Simulation of 1,000 employment histories results in the distribution shown in Table 2.7. The most frequent trajectory is JNJ, about one third of all trajectories. The trajectories JN and J cover about one fifth each. These 3 trajectories account for 68 percent of all trajectories during a period of 30 years. For each trajectory, the median ages at transition are also shown. The table is produced by the `Sequences` function of *Biograph*. The results of the simulation are stored in a *Biograph* object, which facilitates analysis of the simulated life histories.

ncase	%	cum%	path	tr1	tr2	tr3	tr4
1	305	30.5	JNJ	9.12>N	19.95>J		
2	194	19.4	JN	20.35>N			
3	185	18.5	J				
4	130	13.0	JNJNJ	4.81>N	10.42>J	18.86>N	24.91>J
5	121	12.1	JNJN	6.53>N	13.28>J	25.83>N	

Constant transition rates have been used for illustrative purposes only. Usually, age-specific transition rates are used to generate synthetic life histories. Suppose an individual enters his first job at age 21.3 (decimal year). He experiences the employment exit rate from age 21.3 onwards until (a) he enters a period without a job,

(b) he experiences a competing transition, or (c) the ‘observation’ is censored, i.e. simulation is discontinued. In this illustration, no competing transition is considered. Hence the waiting time to the JN transition depends on the age-specific transition rates between age 21.3 and the age at which simulation is discontinued, which in the sample of 201 respondents is 52. Age-specific transition rates are weighted by exposure time. The transition rate at age 21 is multiplied by the duration of exposure, which is 0.7 years (22.0 – 21.3). The transition rates at age 22 and higher are multiplied by one. The sum of the age-specific transition rates beyond age 21 is the cumulative transition rate, computed at age 21. The waiting time to the JN transition is determined by a random draw from an exponential waiting time distribution associated with the cumulative transition rate computed at age at labour market entry. The age at the JN transition is the current age plus the waiting time to the JN transition. Suppose a waiting time of 3.4 years is drawn. The individual will enter a period without a job at age 24.4. If the waiting time is such that the age at transition exceeds the highest age in the *observation* scheme, then the *observation* is censored at the highest age.

If the number of states exceeds two, the destination state must be determined in addition to the time to transition. A multinomial distribution is used. The distribution is derived from the origin-destination specific transition rates. If $m_{ij}(x,y)$ is the (i,j)-transition rate between ages x and y, then the probability of selecting state j,

conditional on leaving i, is: , with . The

probability is an event probability, not a transition probability. The probabilities are used to partition the interval between the minimum probability (0) and the maximum probability (1): . A random number is drawn from a standard uniform distribution and the interval that corresponds to its value determines the destination state. The method is implemented in the *msm* package.

The method of estimating time to transition and destination state consists of two steps. The first uses the exit rate from the current state, i say, to determine the time to transition (exit from i). The exit rate is taken from the diagonal of the transition rate matrix. The second step is to determine the destination, conditional on leaving the current state. This method was suggested by Wolf (1986). An alternative but equivalent method relies on the destination-specific transition rates. Consider an individual in state i at age x. For each possible destination j random waiting times are drawn from exponential distributions with parameters the cumulative (i,j)-transition rates between x and the highest age: . If transition rates are piecewise constant (age-specific), the cumulative hazard is piecewise linear. The smallest random waiting time determines the destination. The two methods rely on the theory of competing risks and assume that the waiting times corresponding to the distinct destinations are independent. Zinn (2011, pp. 177ff) shows that the two methods give similar results. Notice that the two methods are also consistent with discrete event simulation (DEVS), although only the second method stores randomly drawn waiting times in event queues before selecting the shortest waiting time. The *LifePaths* (Statistics Canada²) and *MicMac* microsimulation models (Gampe and

² <http://www.statcan.gc.ca/microsimulation/lifepaths/lifepaths-eng.htm>

Zinn, 2008) use event queues. The *msm* package uses exit rates and conditional destination probabilities.

For illustrative purposes, the transition rates in Table 2.3, are used to generate synthetic employment histories for 2010 individuals, 10 for each observation in the GLHS subsample of 201 respondents. For each individual in the GLHS sample, 10 employment histories are simulated to reduce the Monte Carlo variation. The employment career is simulated between a low age and a high age. The ages are determined by individual observation periods in the GLHS subsample of 201 respondents. For instance, individual 1 enters the labour market at age 17 and is 52 at interview. In the virtual population, 10 individuals enter the labour market at age 17 and are interviewed at age 52. Individual 4 is 22 at labour market entry and 31 at interview. The ages of labour market entry and interview of that respondent are imposed on 10 individuals in the virtual population. The simulated employment histories cover the same age intervals as the observed employment histories. Differences between simulated and observed employment trajectories are due to sample variation affecting the estimated transition rates and Monte Carlo variation in the simulation. Table 2.8 shows the main employment trajectories in the observed and the simulated population. For a given trajectory, the number of simulated trajectories should be about 10 times the observed trajectories because 10 simulations were performed for each observation. The table also shows the median ages at transition. The results differ considerably because in the GLHS, which was organized in 1981, women and men report very different employment histories and the transition rates are not differentiated by sex. If the transitions rates are estimated separately for males and females, and employment trajectories are produced for the two sexes separately, the simulated trajectories are much closer to the observations (Table 2.8). Among females, JN is the most frequent trajectory, whereas it is quite rare among males. For both men and women the model accurately estimates the proportion of persons employed continuously throughout the observation period. For women, it underestimates permanent withdrawal from the labour market after a single employment episode and overestimates re-entry. That may be due to a cohort effect with younger cohorts more likely to re-enter the job market after a period of absence. The sample size is too small to estimate age-specific transition rates by sex and birth cohort.

Table 2.8 Employment histories in observed population and virtual population, based on age-specific GLHS transition rates.

A. Observed trajectories: males and females combined											
	n	case	%	cum%	case	tr1	tr2	tr3	tr4		
1	67	J	33.33	33.33	J						
2	54	JNJ	26.87	60.20	JNJ	21.71>N	26.17>J				
3	44	JN	21.89	82.09	JN	24.88>N					
4	16	JNJNJ	7.96	90.05	JNJNJ	20.83>N	23.96>J	25.62>N	29.62>J		
5	10	JNJN	4.98	95.02	JNJN	20.12>N	21.21>J	29.62>N			
B. Simulated trajectories: males and females combined											
	n	case	%	cum%	case	tr1	tr2	tr3	tr4		
1	627	J	31.19	31.19	J						
2	531	JNJ	26.42	57.61	JNJ	22.99>N	27.33>J				
3	294	JN	14.63	72.24	JN	27.2>N					
4	245	JNJN	12.19	84.43	JNJN	21.21>N	24.3>J	30.31>N			
5	218	NJNJ	10.85	95.27	NJNJ	20.66>N	22.31>J	26.92>N	32.43>J		
C. Observed trajectories: males											
	n	case	%	cum%	case	tr1	tr2	tr3	tr4	tr5	tr6

1	52	49.06	49.06	J						
2	41	38.68	87.74	JNJ	21.92>N	25.33>J				
3	6	5.66	93.40	JNJNJ	18.42>N	20.17>J	22.71>N	24.04>J		
4	3	2.83	96.23	JN	27.5>N					
5	3	2.83	99.06	JNJNJNJ	18.17>N	19.67>J	21.5>N	22.08>J	33.17>N	35.75>J
D. Simulated trajectories: males										
	ncase	%	cum%	case	tr1	tr2	tr3	tr4	tr5	tr6
1	518	48.87	48.87	J						
2	314	29.62	78.49	JNJ	21.5>N	24.93>J				
3	131	12.36	90.85	JNJNJ	20.54>N	22.54>J	26.81>N	28.85>J		
4	35	3.30	94.15	JNJN	21.3>N	23.37>J	34.4>N			
5	23	2.17	96.32	JNJNJNJ	20.4>N	21.65>J	22.52>N	23.85>J	28.4>N	30.62>J
E. Observed trajectories: females										
	ncase	%	cum%	case	tr1	tr2	tr3	tr4	tr5	tr6
1	41	43.16	43.16	JN	24.67>N					
2	15	15.79	58.95	J						
3	13	13.68	72.63	JNJ	21.5>N	29.58>J				
4	10	10.53	83.16	JNJN	20.12>N	21.21>J	29.62>N			
5	10	10.53	93.68	JNJNJ	23.21>N	26.29>J	27.62>N	32.25>J		
6	5	5.26	98.95	JNJNJN	18.5>N	19.67>J	27.17>N	28.42>J	32.58>N	
7	1	1.05	100.00	JNJNJNJ	21.92>N	22.08>J	33.83>N	35.08>J	39.83>N	40.17>J
F. Simulated trajectories: females										
	ncase	%	cum%	case	tr1	tr2	tr3	tr4		
1	337	35.47	35.47	JN	25.32>N					
2	183	19.26	54.74	JNJN	21.13>N	25.5>J	30.11>N			
3	174	18.32	73.05	JNJ	24.43>N	31.99>J				
4	139	14.63	87.68	J						
5	62	6.53	94.21	JNJNJ	20.91>N	24.31>J	28.8>N	37.05>J		

6. Conclusion

Life histories are operationalised as state and event sequences. Synthetic life histories describe sequences that would result if individual life courses are governed by transition rates estimated from life history data. Transition rates link real and synthetic life histories. If transition rates are accurate, synthetic biographies mimic observed life paths. Life history data are generally incomplete. They do not cover the entire life span. By combining data from similar individuals, the transition rates may cover the entire life span. The estimation of transition rates is crucial. In this chapter, two estimation methods are described. The first is non-parametric and the second is parametric, or more appropriate, partial parametric. The non-parametric approach is common in biostatistics. The Nelson-Aalen estimator of transition rates is distribution-free, it does not rely on an assumption that the data are drawn from an underlying probability distribution. The partial parametric method is common in demography, epidemiology and actuarial science. The occurrence-exposure rate computed for an age interval assumes that the transition rate is constant within the interval. Occurrence-exposure rates vary freely between intervals. The two methods converge when the interval gets infinitesimally small.

Transition rates are used to generate synthetic biographies. Synthetic biographies describe life histories in terms of state occupation probabilities and expected state occupation times. Life expectancies, healthy life expectancies and active life expectancies are examples of state occupation times. Life histories generated by the most likely transition rates, given the data, are expected life histories. They apply to a population. Few individuals have a life path that coincides with the expected life history. Microsimulation is used to determine the distribution of individual life

histories around expected life histories. The method presented in this chapter involves drawing individual waiting times to transitions from piecewise-exponential waiting time distributions. Sequences of waiting times are obtained by joining randomly drawn waiting times. The method, which is referred to as longitudinal microsimulation, is described in the chapter. The added value of synthetic individual life paths is the information they provide on the distribution of (1) state and event sequences and (2) state occupation times around expected values. Synthetic individual biographies describe life paths in a virtual population. The virtual population closely resembles the real population if (1) transition rates are accurately estimated and (2) the observation plan applied to the real population is also applied to the virtual population, i.e. simulated life segments fully coincide with observed life segments.

The variation of individual life histories indicates uncertainties in the data and uncertainties associated with drawing random numbers from probability distributions. The uncertainties translate into uncertainties in transition rates, transition and state probabilities and expected state occupation times. Uncertainties in transition rates can be measured assuming that transition rates or transformations of transition rates are normally distributed (asymptotic theory). The distributions of probabilities and occupation times are more complicated and cannot always be expressed analytically. In the chapter, bootstrapping is used to estimate the uncertainties in transition probabilities, state probabilities and occupation times. If the cohort biography (expected life path) is computed for each bootstrap sample, the distribution of cohort biographies can be determined. By combining bootstrapping and longitudinal microsimulation, synthetic individual biographies can be produced that incorporate uncertainties in the data and uncertainties introduced by the microsimulation (Monte Carlo variation). The latter results from drawing random numbers from probability distributions. The precision of the method of computing synthetic biographies from real data is measured by comparing summary statistics of virtual and real populations.

The methods described in this chapter are implemented in *Biograph* and other packages discussed in this book. The packages have in common that they adopt a counting process point of view (Aalen et al., 2008).

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