The Actuary

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THE ACTUARY AND INVESTMENTS

by V. N. Kapur

To an actuary trained in British traditions of actuarial practice, the somewhat complete disassociation of actuaries of this country from investment aspects of the life-contingent funds appears to be an extraordinary feature. It is surprising how wary the American actuaries are of plunging into that area of the investment field, which is legitimately their own. In his article, *The Actuary in Stockbroking* (*The Actuary,* September 1969), Alistair Grant has given a broad outline of the role of actuaries in Great Britain in the field of investment. I thought of writing this note after I had the opportunity recently of going through that excellent monograph, *Concepts of Actuarial Soundness in Pension Plans,* by Dorrance C. Bronson, which is also prescribed reading for part of the examinations of the Society of Actuaries.

It would be a reiteration of the obvious to comment that Mr. Bronson has made an outstanding contribution to actuarial literature. I was, however, disappointed to find that even in such an exhaustive and masterly exposition of the subject, the author has refused to probe the problems of investment of pension funds to their depth and has confined his comments to a few paragraphs in the concluding chapters of the monograph. On page 109, he states:

"Certainly, actuarial soundness is not independent of the investments of the pension fund. In fact, these investments are more tangibly important than are the actuary and his techniques; the fund is the essence of the matter. I believe it is distinctly a responsibility of the consulting actuary to satisfy himself on the character of assets."

Mr. Bronson has made no attempt to amplify or clarify the term "character" of assets, and one can hardly discern any suggestion that this term was intended to embrace an appraisal of the investments vis-a-vis the emergence of liabilities. There can obviously be no quarrel about the views of Mr. Bronson that as a professional consultant the actuary has a distinct responsibility to satisfy himself on the character of pension plan investments. The question, however, is whether Mr. Bronson would expect the actuary to stop at that and still decree that the tests of actuarial soundness have been satisfied.

The more vital issue, which the author has failed to stress, is the matching of assets and liabilities of the pension fund. For instance, will a moribund fund or a fund which is expected to shrink for a number of years be considered actuarially sound if a disproportionate amount of its assets is invested in very good long-dated bonds, securities or other investments? Conversely, will a fund which is expected to grow for years to come be considered actuarially sound if an unduly large share of its assets is locked up in short-dated investments, all of unquestionable soundness?

The crux of the matter is that for a fund to be actuarially sound, the investment of assets has to be so manipulated that emerging liabilities can be met at all times. While an actuary may not dispute the judgment of the managers of the fund as to the character and soundness of the assets, he would be failing in his professional duties if he were indifferent about a broad appraisal of the assets as viewed against emerging liabilities. Although this problem is indissolubly linked with the investment responsibilities of an actuary, the American actuaries appear to have relegated their judgment to the professional investment managers even in this area and this attitude can directly be traced to their reluctance to delve more deeply into the field of investments.

It would seem that actuaries in this country need to have another thought about enlarging their frontiers in the area of investments, even if it means some invasion of the present accepted territory of others.

Letters

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Institute has been very effective. I have found this true both as a prospective employee and employer. Some means of communicating present openings to eligible actuaries would be preferable.

I vote favor of the Society providing such a service. I would further suggest that a publication like *The Actuary* might be an appropriate vehicle.

Gary Corbett

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The Society's Role

Sir:

In the September issue of *The Actuary,* C. L. Trowbridge announced the formation of four Sub-Committees of the Committee on Continuing Education. The task of Sub-Committee 4 is to investigate the practices of other professional and educational institutions. In our investigations we should keep in mind that the Society is not a teaching institution and cannot "direct" but only "assist" in the extra-curricular activities of the members. The incentive has to come from the members themselves.

The practice of various professional engineering and mathematical societies, both in this country and United Kingdom, is to form "specialized" subject groups. Members interested in a particular field, of their own free will and accord, join the appropriate group which holds meetings at regular intervals in various parts of the country for the submission and discussion of papers on the new applications, developments, and advancements made in that particular field. The proceedings of these groups and the papers are printed by the parent institution in special issues of the *Journal.* Probably, a similar practice can be adopted by the Society of Actuaries.

G. B. Saksena

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A _____ _____ Actuary

Sir:

In the plural it may be "A ______ of Actuaries"; in the singular it is often "a _____ _____ actuary."

John S. Pearson, Jr.

Social Security Note

F. Bayo and O. R. Nichols, *Present Value of DI Benefits In Current Payment Status,* 1968. Actuarial Study No. 67, August 1969, Social Security Administration, Washington, D.C. pp. 15.

This study presents a valuation of the Disability Insurance benefits in current payment status at the end of every year through 1967, with a preliminary estimate for 1968.

Copies may be obtained gratis from Robert J. Myers, Chief Actuary, Social Security Administration, Washington, D.C. 20201.