The Actuary

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The Actuary

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AN EDITORIAL BY THE PRESIDENT

DURING the summer the Society voted a change in its Constitution, eliminating the last vestige of a self-imposed prohibition it once contained against public expression of professional opinion. It has been clear since 1971 that the Society as a whole, or the Board of Governors, or any committee authorized by the Board, can issue statements of professional opinion, subject to certain rather tight conditions spelled out in Article X. The 1974 action had no effect except to make the 1971 action permanent.

For the three years that Article X has been in effect, but its long-range future cloudy, neither the Society as a whole nor any Committee thereof actually issued any public statement of professional opinion. This inactivity was partly because no appropriate issue surfaced, partly because the machinery for public expression of opinion was new and untried, and perhaps partly because Article X expired automatically at the end of 1974. Now that we have reaffirmed our intentions and made Article X as permanent as the other Articles, it may be appropriate to consider whether there now are issues to which the Society should speak.

As your 1975 President, I am not inclined to provoke controversy just to be doing so. On the other hand, we owe it to the public to provide guidance in areas where an actuary has special expertise, and to speak out where we have something constructive to say. It may be that an opportunity or two for action of this nature will come up in the not-too-distant future.

As one example, the OASDI benefit formula, and particularly its operation under inflationary conditions, is being studied by the Advisory Council on Social Security. One FSA is a member of this Council, and three others act as consultants thereto. Other actuaries are consultants to the Senate Finance Committee, and are looking into similar matters. When the Council publishes its recommendations, should the Society take a public position? At present there is no Society committee assigned to the Social Insurance area. Should there be one?

The Society might also have a public position with respect to life insurance cost comparisons, as advocated by some of our membership at a concurrent session in New Orleans. Here we have an active Society committee, but it is of a special nature, and has so far been engaged in a technical study requested by the NAIC. It has not attempted to formulate a Society, or even a Committee, position. Should it consider doing so?

Surely our professional responsibilities go beyond those to our immediate employers. On public controversy involving actuarial principles we need to stand up and be counted. How can we do this best?

Comments on any of these items are invited. They should be sent to the Editor so that the individual views can have, via *The Actuary*, wide circulation among the members of the Society.

Charles Lambert Trowbridge

Society Examinations Seminars

GEORGIA STATE UNIVERSITY

Seminars for Parts 1-4 and 6 of the Society Examinations and for Part 4 of the Casualty Actuarial Society Examinations will be held between April 7 and May 2, 1975.

Complete information can be obtained from:

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LETTERS

Impact on Inflation on Balance Sheet and Premium Calculations

Sir:

Those who attended the recent Southeastern Actuaries Club Meeting were treated to a very fine presentation by Mr. Vanderhoof on the responsibilit[y] of the actuary in investment operatio[n]. Perhaps because of its apparent mystery the analysis of investment performance, prediction of future interest yields, and study of the interrelationship between inflation, interest and expense levels, have taken a back seat to more "tangible" subjects within the actuarial realm, such as historical studies of expense and mortality.

The study of investments and effect of fluctuating interest levels is a subject we can no longer afford to ignore. Consider this simple illustration. Suppose a company has purchased a high-grade bond at par ($100) which pays annual coupons of $5 and that the same company has a contractual liability to pay $5 yer year as a perpetuity. Using a "realistic" valuation rate of 5% for its GAAP valuation it records in its balance sheet equivalent assets and liabilities of $100. During the course of time, however, interest rates rise and the bond is exchanged for another bond with similar coupons and terms, but whose market value is only $90, reflecting the high[er] interest rates generally available. [The] company must now report a loss of $10 and show only $90 of assets to cover $100 in liabilities, when in fact it has not only sufficient assets to cover its lia-

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