



SOCIETY OF ACTUARIES

Article from:

# The Actuary

November 1979 – Volume 13, No. 9



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NOV 16 1979  
LINDEN H. COLE

# The Actuary

**The Newsletter of the Society of Actuaries**

VOLUME 13, No. 9

NOVEMBER, 1979

## BOOK REVIEW

Ashby Bladen, *How to Cope With The Developing Financial Crisis*, 192 pp., McGraw Hill, New York, 1979, \$8.95.

by Stephen L. Brown

This book is about the very serious financial situation in which the U.S. finds itself today. Mr. Bladen writes from the perspective of the professional investor (he directs Guardian Life's investment activities), aiming his comments at the intelligent layman. Given the increasing need for actuaries to understand today's rapidly changing financial and political trends, this volume should be added to every actuary's "must read" list.

In his early chapters the author undertakes to explain some fairly complex subjects—money, credit and inflation—in a practical easy-to-understand manner. He traces the history of monetary systems, from those built upon money possessing intrinsic value up to today's condition in which money with intrinsic value has disappeared completely. He also takes the reader through several historic financial collapses, including the German hyperinflation of the 1920's.

It is also in these chapters that Mr. Bladen takes a few swipes at mathematical academics in general, and economists in particular. Some of his barbs appear to be better aimed than others. He takes theoretical economists to task for failing to take sufficient account of psychological factors; he argues that "changes in the burden of debts upon incomes affect the real economy largely through their impact upon the confidence with which borrowers and lenders view their future prospects"; but less persuasive is his complete dismissal of academic attempts to develop mathematical models of risk and other aspects of the investment process.

(Continued on page 5)

## ELECTIONS 1979

The following are the results:

|                                 |  |
|---------------------------------|--|
| <i>President-Elect</i>          | Robin B. Leckie  |
| <i>Vice Presidents</i>          | Daphne D. Bartlett<br>Richard Humphrys   |
| <i>Secretary</i>                | Myles M. Gray  |
| <i>Treasurer</i>                | L. Blake Fewster   |
| <i>Director of Publications</i> | Robert E. Hunstad  |
| <i>Board</i>                    | James A. Attwood<br>Samuel Eckler<br>Paul H. Jackson<br>Michael B. McGuinness<br>Charles A. Ormsby<br>Anna Maria Rappaport |

## APHORISM RESULTS

by Charles G. Groeschell,  
Competition Editor

The response to the first Competition was good, both in quality and volume. This produces a problem since every entry deserves some reference, but space prevents this.

By far the most prolific entrant was Stuart Marks with 14 aphorisms. Here are five of them:

- Actuaries are a closed group.
- Pension actuaries lead active lives.
- Female actuaries bear new entrants.
- Pension actuaries don't wear a three-piece suit until completion of ten years of consulting experience; (only then are they vested).
- Actuaries are bored with history. The further back in time you go, the more they lose interest.

The first entrant was another Stuart (Klugman) who pointed out that he became a Fellow despite:

If you know the answers to exactly two of the three items on a triple true-false question, your guess at the third will be wrong.

From Robin Block's point of view:

There is nothing worse than demography. Corollary—You don't have to like it, you just have to study it.

Getting started is much more difficult than studying. Corollary—Talking about studying is more interesting than studying.

(Continued on page 8)

## A SERVANT AT YOUR CALL—SOFASIM

by John C. Woody

The Society owns, on behalf of its members, a creation remarkable enough to have earned the sobriquet "genie". His, or her—the creature is impartially sexless—full name is Society of Actuaries Simulation Model; thus nicknamed SOFASIM, sō'fa-sim. It's a computer model capable of portraying the operations and future results of all or part of the individual non-par life insurance line of your company or of your competition, from specifications that you choose.

### What SOFASIM Can Do For You

When given initial facts as you see them and assumptions you wish to simulate, the computer will produce, for each year simulated, 45 different balance sheets, operating statements, and related financial items. These include after-tax net gains from operations and stockholder dividends, if any; the sums of these will be discounted to the starting date at six percent, nine percent, and 12 percent interest. The final surplus may be discounted to the starting date and added to the discounted sum of stockholder dividends, producing a single index, the company's "present worth."

The model provides, if desired, stochastic (i.e., determined by chance) deaths, lapses, and sales, enabling you to investigate expected variability by Monte Carlo runs. SOFASIM's flexibility even permits you to do Monte Carlo runs on a variable (e.g., the interest rate) for which the model inherently gives no stochastic option. The possibilities are infinite for studying effects of new premiums and cash values, changes in investment policy or in interest rates, or in both, or margins needed in GAAP assumptions.

(Continued on page 6)