



SOCIETY OF ACTUARIES

Article from:

The Actuary

November 1979 – Volume 13, No. 9



FOE
RECEIVED
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 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 Samuel Eckler Paul H. Jackson Michael B. McGuinness Charles A. Ormsby 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)

Comments

(Continued from page 7)

studies since 1925. The mortality experience of this impairment in these four successive studies has never shown any improvement—the actual to expected was always higher than in the previous study, setting the underwriters, both medical and lay, to worrying as to why they could not improve these results and reduce the ratings required.

The new 1979 study is the first to show a decrease rather than an increase in mortality ratios as compared with the previous studies. Part of this improvement is undoubtedly due to the extension of hypertensive therapy to policyholders after issue, the group not known to be under treatment for hypertension at issue.

In any event, this is an important result, but we are far from finding a cure for hypertension, and the lower mortality ratios are not going to justify dramatically reduced substandard premiums. We may be excused for hoping that we are entering upon a new history of treatment for blood pressure with more favorable prognosis for hypertensive patients as well as a reduction in the extra premiums charged for this impairment.

Two other technical points about the study are worth mentioning. The mortality tables for the standard basis were constructed from the standard experience of the companies in the study thereby, in the judgment of the committee, excluding extraneous factors from the mortality ratio computations.

The other point is that much of the work was accomplished at the Center for Medico-Actuarial Statistics of the M.I.B.

The 1979 Study has been heralded by a series of press releases announcing several of its most striking findings. We are more accustomed to reading results like these in esoteric medico-actuarial publications than in our morning newspaper. This was an improvement and possibly a help to all readers of the study. Questions and comments can wait until we get the promised volumes.

A.C.W.

WHO IS JOHN RUSKIN AND WHAT IS HE DOING ON MY FELLOWSHIP CERTIFICATE?

by Sidney A. LeBlanc

“The work of science is to substitute facts for appearances and demonstrations for impressions.” It’s on your Fellowship Certificate and in every volume of the *Transactions*. Gazing at it (intermittently) for nine years I became curious: Who was John Ruskin? How did that motto get chosen?

John Ruskin (1811-1900) was an English art critic, author and philosopher. He was a man of his time, eloquent and quotable—the type who might say in daily conversation, “The work of science is (etc.)”.

As an art critic he was sued by Whistler for saying unkind things about Whistler’s work. Ruskin had described one of Whistler’s *Nocturnes* as “flinging a pot of paint in the public’s face.” The court had to decide what is art. Ruskin lost, but had to pay only a farthing in damages.

Books on art and architecture rarely make one famous today. But in the 19th century Ruskin apparently fulfilled a widespread hunger for beauty inasmuch as his essays were avidly read by both middle and upper classes. In the New Orleans library today there still are no fewer than 30 books by or about John Ruskin, most of them dusty.

In the laissez-faire atmosphere of the 1850’s Ruskin’s political ideas were startling. He considered it the state’s duty to see that every child was housed, clothed, fed and educated. He recommended universal suffrage, progressive income tax, care for the aged, and retraining of the unemployed.

Neither an actuary nor a scientist, Ruskin yet showed some actuarial characteristics—emotionally slumbering but intellectually wide awake. Though unable to come to terms with mankind’s foibles his mind was so active that he began publishing in his teens and ultimately published 39 books.

His body’s sole purpose seemingly was to carry his mind around. Throughout his 89 years he was chronically unwell, much of his infirmity apparently psychosomatic. He was married for six years; the marriage was never consummated and was annulled. For his last

Aphorism Results

(Continued from page 1)

Then the two entrants that I would consider to be co-winners are the last entrant, Don Segal, with:

There is no error so large that it can’t be spread over future normal costs.

and Steve Cooperstein with these two:

Estimated earnings are sure to be more accurate than actual earnings.

The pursuit of centralization, e.g., under the Academy, always seems to result in greater subdivision.

However, paraphrasing an entry by Jerrold Scher, since “they thought they would win this contest, they didn’t”. So how can I give them first prize?

Finally, I received a letter from Ralph Edwards who, I had believed, was my predecessor. He wasn’t and pointed out that “it is a peculiar actuary who gets credit for another actuary’s accomplishments.” Then he added that:

An actuary is the kind of mathematician who rounds off his assumptions but not his results. □

Note to Puzzle Lovers: With this issue we enclose a pair of Actucrostics—a new feature. Hope you like them.

C. G. G.

20 years Ruskin was quite mad.

Words from his pen serve as mottos for such diverse institutions as Baskin-Robbins Ice Cream Parlors, Stuart Lang Clothes, our Society and also the Academy of Actuaries (this last supplied in 1974 by Jack Moorhead). The source of the Society’s motto has recently been recounted by George Dinney (*The Actuary*, March 1979).

How Ruskin’s now familiar assertion came to be the guiding star for actuaries in North America is set forth in *T.A.S.A.* Vol. II (1892), p. 358. In a mail ballot it won by receiving 35 votes. The four runners-up were:

“Truth, our aim; the time to come, our care.”

“By calculation you will find the truth.”

“Experience is the only prophecy of wise men.”

“I have but one lamp by which my feet are guided and that is the lamp of experience. I know of no way of judging the future but by the past.”

Given these choices, I’d settle for the maxim of our mad, eloquent ascetic. □