The Actuary

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EDITORIAL

THE EDITOR tells me that each new Society president is obliged to write something profound for *THE ACTUARY*. I have chosen to write about the recognition of actuaries, which seems a reasonably profound subject.

Professional actuaries need to be recognized by society as providing a unique and valuable service. This is hard to bring about because it involves giving people who are not actuaries some idea of what we do and why it is important to them. It is customary for actuaries to say we have done a poor job of selling ourselves to the public. Perhaps so, but I don't think it's really all that bad. Our most immediate publics are our employers and our clients. These publics do value our services; otherwise they wouldn't keep paying for them. This is certainly an acid test of recognition.

The earnings of life actuaries, so far as I can tell, have kept up reasonably with the earnings of other professionals over the post World War II era, despite a manyfold increase in the number of actuaries. Some of the increased opportunities available to actuaries are no doubt due to ERISA, the growth of employee benefits, the number of new insurance companies, etc. But at any rate, we seem to be holding our own in an area that must concern all professionals—are there adequate opportunities for them to make a living in their profession?

The actuaries' relations with the more general public have been somewhat complicated in the United States by the existence of several actuarial organizations, all granting their own designations. The American Academy of Actuaries was set up as an umbrella actuarial organization in the hope it would become accepted as the public spokesman for the actuarial profession, particularly in connection with legislative and regulatory matters. I believe the Academy has become increasingly accepted in this role, both by people in government and by actuaries, and is doing a very good job in carrying out its task. The Canadian Institute of Actuaries has a parallel responsibility in Canada, and carries it out extremely well.

In the long run, however, it is important for us to be accepted as a valid and valued profession by the public in general, in addition to actuarial employers and clients, and government regulators and legislators.

Is the Society of Actuaries doing all it should to achieve public recognition of the actuarial profession? The answer to that kind of question has to be that we can do more. But we are alert to the need. We have a public relations professional on our staff. We are developing a public relations plan which we hope to get ready this year. We are also part of a joint task force on public relations that has been organized with representatives from several actuarial bodies.

All this is very important. Especially important is that our employers and clients continue to respect the utility and quality of our work. The actuarial profession is in a very strong position in that regard and has been for as long as I can remember. However we must remain diligent in strengthening and updating our education and examination programs, our continuing education programs, and our research programs, because these programs are the ultimate bases for the respect which actuaries have earned.

Julius Vogel

Inflation and Life Insurance

(Continued from page 1)

promoting the common-stock-based variable annuity thought it wonderful and ordered hundreds of copies. People to whom common stock investments were anathema were vocal in their opposition. Some actuaries regarded the paper as an unfortunate reflection on fixed-dollar cash-value life insurance. They had a point.

Reflections of 1979

How have that paper's ideas and forecasts worked out? For inflation, much too well—since 1958 our dollar has lost 60% of its value, mostly in the last 10 years. As for common stock investments, these worked out quite well for the first half of the period, but their record has been different since then. The stock-based variable annuity in which I took part of my 1970 pension has so far proved to be no inflation hedge. I, along with most others, failed to take into account the inflation-induced surge in interest rates. Since stocks and bonds compete for investors' money, it seems reasonable that if bond interest rates doubled (from 5% to 10%), the earnings multiple at which stocks sold should, on average, go from 16 times to 8 times; that is close to what happened, and this was generally more than enough to offset increases in earnings and dividends.

What then for the future? The adjustment in earnings multiples having taken place, it seems likely that stocks will do better in the 1980's than in the 1970's. Any lowering in interest rates resulting from better control of inflation would help. If things go the other way, and inflation causes interest rates to climb to 15% or higher, then some further decline in stock prices is to be expected; of course, prices of outstanding bonds would dive, too. In the event of runaway inflation, a possibility that no longer can be ignored, stocks would have residual value lacking in fixed currency investments.

The sad fact in these days of chronic inflation is that selecting either bonds or stocks that offer assurance of a positive real return is very difficult, if not impossible. If such investments are available, I would like to hear about them. □