



SOCIETY OF ACTUARIES

Article from:

The Actuary

January 1982 – Volume 16, No. 1

Immunisation

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ing, as best we can, our estimate of the future. These calculations were of course for internal purposes only, which was as well because any high hopes of added inspiration were quickly dashed by the great volatility of the answers. It is true that much of the volatility is due to our high proportion (now over 70%) of investments in common stocks and real estate, but the erratic behaviour of bond yields in recent years has also been a contributory factor.

Thus an exercise which started as an attempt at scientific precision proved to be a lesson in human fallibility. The fact is, of course, that we cannot foresee the future. The fluctuations in world interest rates during recent months have confounded all expectations. But if we cannot see the future for three months ahead what are we doing when we value contracts which run for thirty years or more? The answer, of course, is that the word "valuation" is a gross misnomer: we are totally incapable of "valuation" in the ordinary sense of the word. Our so-called valuations can be no more than transient statements of value in the particular conditions of the moment.

Misled no doubt by the relative tranquility in those earlier days our predecessors continued to pursue the holy grail of a perfect system of valuation. The clear realization that the dream is unattainable comes with a sense of release. I now accept that neither we, nor any regulatory authority, can see thirty years into the future and thus evaluate that future. Our "valuations" are conditional statements made on the particular hypothesis contained in the valuation basis. They are photographs taken from one particular spot. The basic lesson which immunisation theory taught me was that for a valuation to have even that limited validity the photograph of the assets and liabilities must be taken from the same place. □

THE ACTUARY'S FRIEND

"The true advantage of the micro-computer is that it gives back to the actuary the flexibility he lost when mainframes came in, well protected from outside interference by armies of data-processing personnel."

Gary Chamberlin in
FIASCO, Nov. 1981

Alfred Baker

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drawn to probability as the basis for life assurance."

It is recorded that this pioneer had his own portable lectern which his students sometimes would toss out of the window before his arrival. Spying it, he would remark that some ruffians from Engineering must have done so; a student volunteer would then go down and bring it up.

Ed. Note: Stories, specially reminiscences, of other actuarial teachers of bygone days who have put the stamp of their influence on actuaries of yesterday or today, will be welcomed. □

Letters

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Recorder's Problem

Sir:

As Recorder at a 1981 meeting, I have learned to substitute facts for appearances. Consider the following—"Appearance" in each case being the Society's editing and typing instructions for Recorders:

Appearance: "In all cases the Moderator and Panelists will be providing you with well edited copies of their remarks."

Fact: Moderator and Panelist A had no copies of their speeches. Panelist B sent me only an outline. Panelist C asked that I send *him* a copy of his speech as it would be useful for his future speeches.

Appearance: "The tape of your session should help you in your final editing of their remarks."

Fact: Transcribing each and every word was tedious and time-consuming; the many technical terms meant that it could not be done by a secretary alone.

A Recorder who has to transcribe twenty typewritten pages from a tape is being taken advantage of. I recommend that Moderators see to it that the instructions are made to come true.

Benjamin E. Feller

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BENEFICIARIES OF INFLATION

Our November Query asked which groups, in addition to debtors and those blessed with amply indexed incomes, seem to have profited most conspicuously from the past decade's inflation. This yielded contributions from Larry Bartlett, Steve P. Cooperstein, Darrel J. Croot, Gerald E. Cuddihy and Harvey Sobel, a group heavily concentrated in the early letters of the alphabet; no display of interest in this question was shown by any actuary who qualified before 1957.

Nominees for inflation winners in categories other than those in the query were:

Capital (at least more than labor):

"The ratio of income to capital stock has been increasing, probably over 30 years. This results from inflation exceeding anticipated inflation."

Holders of Mercedes automobiles.

The Government—City, State and Federal—because of tax-bracket creep. One correspondent confined this to the Democrats for no stated reason. Another cited liberal congressmen who were thus able to enact substantial give-away programs.

A reader, pleading no time to research the technicalities, contented himself by nominating the descendants of those who owned this continent before the Europeans discovered it. He was, it seems, too busy to explain why.

Mr. Cuddihy, undertaking sociological analysis, offered a possible explanation of inflation that would show who has benefited from it, applying the premise that post-World War II babies, raised indulgently by parents compensating for their own depression privations, became accustomed to getting what they wanted. Now in adulthood, these children continue to demand privileged treatment, and their parents, now the nation's leaders, offer no resistance but go along indulging them. Current inflation, not a villain in itself but a measure of the resulting transfer of wealth from the parents' to the children's generation, is a consequence much more of parental attitude than of tinkering by the central bank and the government.

E.J.M.