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## Book Review

# WHAT'S YOUR FUTURE WORTH? BY PETER NEUWIRTH

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**PETE NEUWIRTH** has written a powerful book about the concept of “present value,” a book useful for laymen and thought-provoking for actuaries.<sup>1</sup> Superficially, the book is about how to make better decisions, but, ultimately, the book is a meditation on what matters in life. The central theme of the book, a phrase used over and over, is *present value*. Though Neuwirth doesn't say so, that mantra can be thought of as two separate things: the present; and value. The book assumes that only in the present can we make decisions that will affect our future, but otherwise it doesn't have much else to say about the present. (It does have a great deal to say about time, however.)

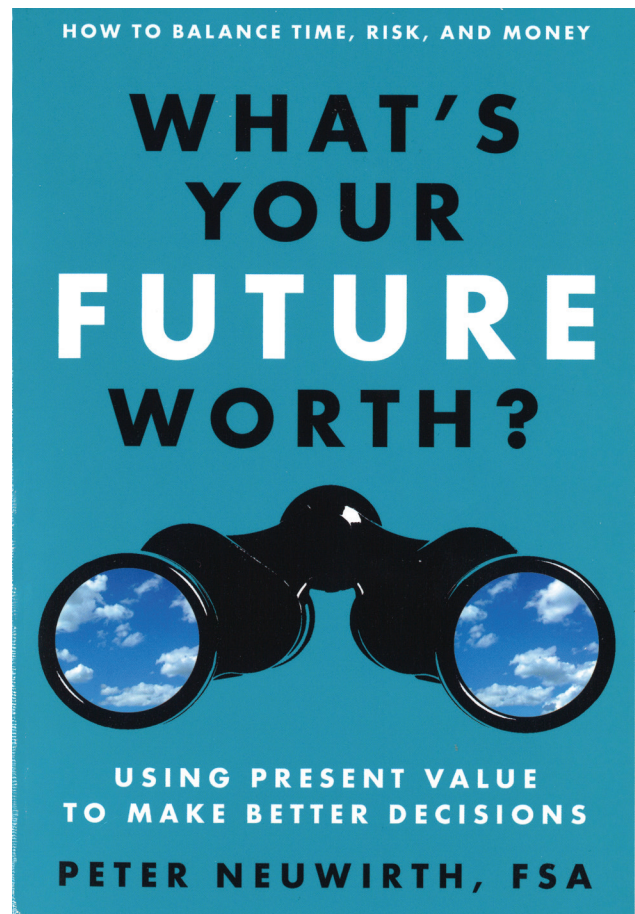
The book's most intriguing aspect is its meditation on *value*. It readily concedes that the easiest metric of value is monetary—how much is something worth? But even then the book hints at an extension of *worth* to the qualitative experience of the individual making a decision. The book gives a number of entertaining “kitchen table” examples of how to use present value to make better decisions. It concludes “this decision has a greater present value than this other decision, so I should choose the first,” but the discussion of the process by which present value is determined allows a great

leeway for subjective considerations. The same procedure could easily be employed using “happiness” instead of “money.” In fact, the book refers to this obliquely.

Neuwirth richly illustrates his contention that the five-step present value method actually results in good decisions, although it is not without its difficulties. His five-step method includes:

1. Define the choices to be made.
2. Imagine as many of the possible futures that might arise from each choice as you can, focusing not just on *what* could happen, but on *when* it could happen as well.
3. Evaluate, to the extent possible, the relative likelihood of each possible future.
4. Introspect deeply to consider how

much more value should be placed on things that will happen in the near future versus things that will happen in the distant future (i.e., develop a “personal rate of discount”).



5. Sum up the values of the consequences of each choice (i.e., determine the present value of each alternative).

The most difficult steps are envisioning a sufficient number of possible outcomes of your decision, and deciding what discount rate to use. His discussion of discount rates is thought-provoking, as it is solidly based on the idea that it has to be *your own* discount rate, not some objectively determinable rate: a personal, subjective rate. The process Neuwirth describes in his book is illustrated with a number of examples from his personal life, and this gives the book its dynamism and its vividness: Rather than an impersonal, abstract discussion on present value as explained by *Life Contingencies*, the author shows us the advantages of this method of making actual decisions in real life. The style used throughout is very engaging. Neuwirth never talks down to the reader, nor is he didactic.

How many half-priced running shoes should he buy when his favorite shoe company discontinues the line he prefers? The idea of performing a sophisticated present value analysis of such a question is absurd, as nearly every actuary would agree: The amount to be saved just isn't worth the trouble.

Nevertheless, this example exemplifies what gives the book its charm, its appeal, and ultimately, challenges us to think about the nature of what we do as actuaries, and why our approach to decision-making is so successful. The very absurdity of using an elephant gun to hunt a flea, implicit in the example, charms us into paying attention as the author decides not to stock up with 20 pairs for \$1,000, although he is a dedicated runner. It is not the *decision*, it is not even

the *problem*, it's the *method* we are seduced into focusing on. While apparently naïve, this is actually a very effective pedagogical technique. The pedagogy is seductive as it illustrates the technique, and the absurdity of the example impels us to move beyond it and ask, "What is the author really trying to say here?" The very triviality of the decision being contemplated is almost subversive to the notion that present value analysis is the only rational way to make decisions.

So we are left with the unspoken core of the book: What does it mean to make a decision? Can decisions ever be rational? Can we really envision a multivariate

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future, with contrary outcomes coexisting in varying degrees of probability? Only by doing so can we successfully apply the virtues of present value analysis. Even more important, as the book often slyly hints at, are the non-quantifiable elements of the decision, such as how other people's feelings (as well as one's own) enter into "the equation."

The author discusses whether to buy a new refrigerator (as his wife wishes), and lays out his present value analysis: The additional expense of keeping their still-working but more energy-expensive model versus the potential effect of inflation on the future cost of a new refrigerator. He concludes that buying a new refrigerator results in the best present value. He mentions, but wisely does not attempt to monetize, his wife's desire for a new refrigerator and what his refusal

could mean for their personal day-to-day happiness, and yet I imagine that well over half of appliance purchases are driven by a desire to please a spouse or partner and have little to do with present value. One question he did not discuss was how he would have decided had his present value analysis gone one way and his wife's desire another. I suspect present value would have taken a back seat to marital bliss.

Not everything in life can be monetized or measured. In fact, few truly important things in life can be. How much does relocating to a new city "cost"? What is a spouse's satisfaction "worth"? What is the "value"

of a beloved hobby? Of family, of friends, of fun, of spiritual growth, of politics, of reading, of music?

The most profound question Neuwirth's book evokes is: *Are we happy with who we are?* If only there were a formula to answer that! **A**

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### ENDNOTE

<sup>1</sup> Neuwirth, Peter. 2015. *What's Your Future Worth? Using Present Value to Make Better Decisions*. Berrett-Koehler Publishers, 216 pages.

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