

Occam Is Still Sharp

Robert Lynch's article in the January/February issue, "Gerbils on Espresso," iterated a point that many health care actuaries, including myself, have been espousing for years—the completion factor method of calculating IBNR is not very good.

When I first learned the method years ago, the math made sense, but intuitively it made no sense that the method could (and often would) hold a bigger reserve as of month t (say, December) for month $t-k$ (say, June) than for month $t-k+1$ (say, July), simply because more claims had already been paid for June than July.

The "paid claims" method Lynch uses, aka completing the triangle, works much better, and unlike the completion factor method, is applicable to reserves for the most recent months (the whole reason for calculating IBNR). But its biggest advantage of all is that people can understand it. A high schooler can understand



"we have this triangle, and based on the averages of the preceding entries, we fill in the rest of the square," whereas even CFOs roll their eyes when actuaries start to ramble on about completion ratios and completion factors.

It's nice to see that in the actuarial world, as computers have enabled increasingly sophisticated reserving meth-

odologies, Occam's razor still applies, and the simplest method is the best one.

THOMAS J. LEIBOWITZ
OAKLAND, CALIF.

You Gotta Have Heart

The puzzle editor (Noam Segal) wrote in last issue's puzzle discussion (January/February 2004): "I rejected... solutions using algorithms whereby each actuary was responsible for tallying a specific digit. I felt such algorithms could potentially give one actuary too much information." I find this surprising. Would you not think that words such as "feel" and "could" and "potentially" should have no place to live on so lofty a puzzle page? Like "there's no crying in baseball," there's no heart in mathematical and logic problems.

BRIAN D. CANES
NEW YORK CITY

Mr. Segal responds:

The Lion, the Scarecrow, and the Tin Man made their way down the yellow brick road in search of courage, brains, and, of course, a heart. Sure, this was Oz and not Puzzleland, but to my way of thinking, there's no harm in showing a bit of humanity every once in awhile, even within the world of mathematical puzzles.

For "out of the box" problems of this sort there is occasionally need for interpretation and even "infer-pretation."

The readership came up with two very different "accepted" solutions for the November/December puzzle. The actual paragraph Mr. Canes objected to was written simply out of my desire to acknowledge and briefly describe other clever proposed solutions sent in by a few readers, even though I didn't accept them as far as making the solvers list goes. Specifics of these approaches, and/or explanations as to why they were deemed flawed, are available by contacting me at puzzzles@aol.com.

Nonetheless, I see I should have factored into the acknowledgment itself more actuarial risk than I'd imagined—and just when I renewed my poetic license!

I hope you enjoy this issue's conundrums.

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Letter to Alan

As a retired actuary interested in the problems of Social Security, I would like to comment on the recent comments of Alan Greenspan, to which *The New York Times* gave such prominent attention (*New York Times*, Feb. 26, 2004). I think his comments were strangely incomplete and misleading to an extent that constituted a disservice to the public.

First, he made a very strong statement asserting that the coming retirement of the baby boomers would create a tremendous strain on the Social Security system, requiring substantial reductions or possibly elimination of benefits for younger covered workers. But he failed to mention that the plan now in existence and placed in effect in 1983 on the recommendation of the presidential commission that he chaired provided for fully prefunding the extra cost of the baby boomer retirement benefits.

It's true that this plan now appears to

be falling somewhat short because the cost experience since 1983 has been less favorable than projected. But this shortfall can be easily corrected by sensible adjustments well known to all serious observers of Social Security financing, all without any increase in the payroll tax or substantial reduction of benefits. If only Congress and the president act.

Second, he asserted that the normal retirement age should be increased to reflect the constantly increasing life expectancies of covered workers. He failed to mention that this has already been done in the 1983 law. That legislation set up a schedule of such increases, beginning in 2001 and ending in 2027, and increasing the normal retirement age from 65 to 67. Mr. Greenspan also failed to mention that Congress arbitrarily cut off the schedule of increases at 67 in 2027 for no apparent reason. The same logic justifying the increases through 2027 also justifies continuing the increases beyond 2027,

so long as life expectancies continue to increase. And no reasonable person predicts the opposite.

Most seriously, Mr. Greenspan fails to mention that the present financial imbalance in the system can be easily corrected by sensible and widely known adjustments, without increasing payroll taxes or reducing benefits beyond the retirement age adjustments mentioned above.

Mr. Greenspan, chairman of the 1983 Presidential Commission on Social Security, surely is well aware of all of the above.

ROBERT J. RANDALL
STAMFORD, CONN.

Corrections:

Herb Wolf's article, "Can This Be Happening?" on Page 10 in the January/February issue, contains the following paragraph:

"These arrangements are being offered to prospects ranging from age 70 to age 90 in amounts upward from a \$4 million single premium annuity policy. In many cases, the prospects for these policies are wealthy widows who expect to live out their lives on the payments from the annuity and leave behind the life insurance proceeds for their heirs. They tend to be easy targets, credulous and eager to do the right thing with the wealth that's been left to them."

The paragraph should read as follows:

These arrangements are being offered to prospects ranging from age 70 to age 90 in amounts upward from a \$4 million single premium annuity policy. In many cases, the prospects for these policies are wealthy widows who tend to be easy targets, credulous and eager to do the right thing with the wealth that's been left to them.

In Stephen J. Hoeffner's article on Page 33 ("Twin Crises: The Future of Defined Benefit Plans") the Traditional Benefits and Cash Balance labels in the "DB/DC Benefit Accrual Pattern Comparison" chart should switch places.

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