

Information, Please

James Guszcza gives a succinct solution to the “Monty Hall” problem to demonstrate that analytics will sometimes support a counter-intuitive decision (“Analyzing Analytics: The Debate Between Intuition and Statistical Thinking,” July/August 2008). However, the solution presumes that the probability of a win behind each door is independent of Monty’s decision to reveal what’s behind one door. Some of us will remember Monty Hall as more of a trickster than this, so that he might only open door 3 to try to tempt the contestant off of a winning guess.

It would be important to state the problem with clearer rules for the game: 1) Monty knows where the prize is, and 2) Monty is required to open one of the non-winning doors and give the contestant another chance. Then we could all agree it’s a good idea to guess again after Monty gives the additional information.

DAN WHITNAH
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A Better Health Plan

The Kilbourne national health care financing plan would provide all Americans with quality medical services at acceptable cost. It would eliminate the role of employers and would forbid insurers to offer first-dollar medical cost coverage. It would roll back government regulations greatly and would stop discouraging the development of new drugs and medical procedures. It would cut government health care spending in half, of which half would be to operate free public medical facilities and half would be for cash grants to the medically indigent. Medical services would be selected and paid for by the consumer, just like computers, cars, and cabbages.

The McCain plan takes a step or two in the direction of the Kilbourne plan and is exactly twice as likely to be enacted. The Obama plan rounds out the probability distribution and is highly likely to be the law of the land within two years.

The Obama national health plan and



National Health Insurance Exchange will massively increase the federal government role in health care regulation and financing, while further distancing the consumer from his or her product. It will extend the underfunded high-cost benefits he receives as a senator to all—except future generations. It will expand price controls on health insurance and prescription drugs, and will bring affirmative action to health care results. It will require insurers to cover subjective illnesses and houses on fire. History indicates that promised cost offsets due to preventive care and disease management and so forth and so on will not be realized. The health plans of President Johnson, for the elderly, and President Bush, for drug users, have already burdened future generations with a \$40 trillion present-value excess of promises over provision (i.e., debt). President Obama’s plan would more than double that burden.

FRED KILBOURNE
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Work Till You Drop

My response to the call for a national discussion on retirement (“It’s Time for a National Discussion on Retirement,” July/August, 2008) is “Don’t.”

Don’t retire.

Don’t spend more acres of paper discussing it.

The only people who should retire

are those who cannot perform useful work because of acute or chronic infirmity of mind and/or body. Everyone else should naturally continue working until they die.

To the extent that people have accumulated so-called retirement savings, pension entitlements, and Social Security entitlements, we need a tax-efficient way for that money to be used for other purposes than “retirement.”

People have the right to stop working before they die, just as they have the right to drop out of high school or college. We don’t encourage people to drop out of college—so why encourage them to retire?

JAN HARRINGTON
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Pension Blues

I recently bought a new computer and transferred onto it most of the files from the old computer, including, of course, outlines from Enrolled Actuary meeting sessions and other actuarial files.

Today, when I downloaded iTunes software to the new computer and chose default to have it look for the music that I’d transferred from the old computer, it thoughtfully included the EA meeting sessions. The genre that it assigned to many of the actuarial sessions: blues.

While I fully appreciate having “Matters of Life and Death—Mortality Tables for Pension Plans” land in the Blues sec-

tion, one has to wonder how iTunes knew that "Cash Balance and Other Hybrid Vehicles" should be considered Blues, and yet "Bankruptcy and Benefits Plans" was slotted into Other.

Now I'm waiting for an exciting actuarial topic to make it to the Pop category.

LINDA REVIER
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The Limitations of Models

In 1988, when I was first learning about financial economics and the Black-Scholes model, my introduction to the subject happened to coincide with the Long-Term Capital Management hedge fund fiasco. If the progenitors of modern financial modeling, Robert Merton and Myron Scholes, were involved in a disaster of this sort, I suspected that the models weren't enough.

This brings me to Gerry Smedinghoff's article ("Black Swan or Black-Scholes? The Crisis of the Actuarial Profession," May/June 2008). Have actuaries foolishly been living in Mediocristan, blithely unaware of the monster



Black Swans swimming our way from Extremistan, ready to devour our asset/liability models whole?

I learned a solar-system model of the atom in grade school, only to find out when I got to high school that a quantum cloud model was more accurate (I learned even more about this model, and its theoretical niceties, when I majored in physics in college). In the FSA exams on financial economic theory and investments, we learn of fatter-tailed models and of all sorts of anomalies that contradict the simplified theories we learned earlier. The math is easier and the con-

cepts simpler to understand when the core features a normal distribution. But we know the simple model's shortcomings and how it underestimates what has actually been seen in history, never mind forecasting the future.

I hope actuaries are not unsophisticated users of models. We know to keep qualitative as well as quantitative aspects in mind. Extreme-value theory is not new to property and casualty actuaries, and considering the rollicking volatility of the markets of late, those dealing with projecting assets know that normal distributions will not hack it in a good risk management program. Nassim Nicholas Taleb's writings are currently popular because of bad modeling of mortgage-backed securities and other financial wildness, but his ideas are not new.

However, I do recommend taking stock of the limitations of your models. Risk is opportunity, as our slogan goes, but if you don't notice the risk, it can turn from opportunity to disaster.

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