

DISCUSSION BY JOHN H. MUETTERTIES

This actuarial note under discussion "Fixed and Variable Expenses" has as its closing remark a little philosophy which we are all aware of, but many times it is forgotten. Mr. Lewis Roberts suggests that ". . . we take pains to be sure that the sense in which the word is used is clear. . . ." Also, that more descriptive terms be used instead of a general word ". . . would make for better understanding in many cases."

This reviewer is sure that all of us can recall when we have used general undescriptive terms (knowing full well what we meant) but have not been understood by others.

The author's closing remarks are so very true especially when referring to general undescriptive terms as fixed and variable expense. Fixed and variable to what? Something like the over used term of "off-balance"; off-balance to what? We, in this actuarial profession, should advocate a course in completed terminology, with Mr. Roberts' paper as a start in this one area.

This brief actuarial note moves right along and it is easy to agree with the presentation as you read it. But then, on the other hand, when applied to a specific problem it may not be easy to follow a general pattern. For example, to consider allocated overhead as a variable expense item may only work when pricing additions to a portfolio. But it generally remains a fixed expense item when pricing a deviation or a rate change. Of course, the normal effects of inflation must be included.

In getting down to specifics and possibly this is where the paper left off, we must apply our definitions of what kind of expenses we are dealing with and how do they react to different situations to be priced out or evaluated. We could be pricing out or evaluating a rate revision, a deviation, a discount, a risk's profit potential or the outside effects on our business. What we are really after is this — holding some things constant and varying others — what effect does a certain change have on our business. We are in a way forecasting what the different elements of a profit and loss statement will become after some kind of a change.

In pricing out or evaluating a situation, the effect on expenses is of importance. Are certain expenses affected by certain changes or are they constant? If constant, are they constant as to dollars or percentages? So, possibly instead of using the terms fixed and variable, we could in a general way have expenses constant either as to dollars or percentage.

Therefore, we would like to propose the use of the words "dollar" expenses and "percentage" expenses as being only slightly more descriptive as to their values under certain conditions. Dollar expenses — wherein the dollars do not necessarily change as the premiums may change. Percentage expenses — wherein the percentage does not necessarily change as the premiums may change. We should, also, consider this in the terms of fixed and variable "dollar" expenses and fixed and variable "percentage" expenses.

Mr. Roberts has started our course in terminology and has warned us to be careful. May this review add to the course and warning.