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Reprinted from the April 8, 2015, issue of U.S. 1 Newspaper  
Actuarial Concepts to Help Make Up Your Mind  
by Diccon Hyatt

Peter Neuwirth

If your boss were to offer you \$10,000 today in exchange for 1 percent of all your future paychecks, should you take the deal? The right answer depends on a lot of factors, including how much your future paychecks would be worth, how much you would get investing the \$10,000, how much you value money today versus money in the future, and how long you expect to live. According to Peter Neuwirth's new book "What's Your Future Worth?" it may be impossible to know the future, but it is possible to make the right decision.

In "What's Your Future Worth," Neuwirth advocates using the actuarial concept of "present value" to make decisions such as the \$10,000 deal, as well as more mundane dilemmas such as whether or not to buy a new refrigerator, whether to go on a vacation that comes with a timeshare sales pitch, and how many pairs of your favorite running shoe to buy if they are going out of production and they are on sale for half price.

Neuwirth will hold a book signing and discussion about his new book Sunday, April 12, from noon to 3 p.m. at the Cranbury Station Art Gallery at 39 Palmer Square West in Princeton. For more information, call 609-921-0434 or visit [www.kmmorolda.com](http://www.kmmorolda.com).

Neuwirth grew up in Princeton in the shadow of mathematics. His father, Lee Neuwirth is a mathematician and cryptologist who served as director of the Princeton-based Institute for Defense Analyses. His mother, Sydney Anne, is an artist, and his sister, Bebe Neuwirth, is the actress currently in the cast of the CBS series "Madame Secretary."

In the book, Neuwirth recalls his father giving him a copy of “A Mathematician’s Apology” by GH Hardy when he was a teenager. Neuwirth says he thought his father old-fashioned and mathematics out-of-step with the times (the 1970s) until he finally read it as a college sophomore. “As much as I wanted to deny it, math was in by blood and it was high time I came to grips with and understood what it meant to ‘think like a mathematician.’”

He says the book, and his interactions with his father, convinced him he was compelled to become a mathematician. Although Neuwirth didn’t become a mathematician, he became an actuary. Rather than deal strictly with the abstractions of mathematics, Neuwirth made a career taking real-world problems of risk and uncertainty, and tried to use his calculations to determine the best courses of action.

Neuwirth graduated from Harvard in 1979 with a degree in mathematics and linguistics. He embarked on an actuarial career that saw him work for Connecticut General Life Insurance for two years before switching to consulting and working at major firms around the country including Aon, Hewitt Associates, Watson Wyatt, Towers Perrin, and others. He is currently a senior consultant at Towers Watson and lives in Berkeley, California, with his wife and son. (Neuwirth says he even used Present Value to determine that it was worthwhile to pursue courting his future wife despite her \$100,000 of student loan debt.)

In the book, Neuwirth advises a five-step process for making decisions.

- 1.) Define the choices to be made.
- 2.) Imagine all of the possible futures that might arise from each choice, and not just what will happen, but when.
- 3.) Evaluate, to the extent possible, the relative likelihood of each possible future
- 4.) Introspect deeply and in a detailed way to consider how much more value should be placed on things that will happen in the near future versus the distant future.
5. Sum up the values of the consequences of each choice, and determine the value of each alternative.

Despite Neuwirth’s actuarial background, this process is very light on math, requiring only rough estimates and addition at the end.

The example of the sneakers was a real choice that Neuwirth faced years ago when his favorite running shoe, the Saucony Jazz, was discontinued, and the company sold the remaining inventory for \$50 a pair. Neuwirth had to decide whether to buy a lifetime supply of the sneakers, buy just one more pair, or do something in between such as buying enough to last as long as he thought his running career would last.

In the end, he bought four pairs from a local store because that was all they had, but didn’t bother scouring more shops for more sneakers. Neuwirth admits it was something of a gut decision, but

says it was a much smarter gut decision than if he hadn't considered all the possibilities.

"You don't need to know the right answer, just make the right decision given all of the alternatives."

Neuwirth makes no promises that using the Present Value concept will help predict the future. The model asks only that the decision maker imagine different possibilities and consider them. Neuwirth has a healthy skepticism of computer models used on Wall Street that purport to model the behavior of the economy and stock markets. He believes the advanced algorithms and "big data" leads to a false sense of precision and accuracy that has time and again blown up in the faces of investors.

The 2008-2009 financial crash, he says, is "prima facie evidence that there is something deeply flawed in the proposition that we can truly understand the underlying nature of the randomness that governs the future."

He also gives a refreshingly un-self-interested piece of advice, encouraging readers to make decisions for themselves instead of relying on outside experts. As an example of bad advice, he uses one of his own botched consults. Neuwirth recounts the story of a friend asking him for an analysis of whether his wife should move across the country to get an MBA at Wharton. Both Neuwirth and the friend thought this was a bad idea.

Neuwirth analyzed the situation and gave a presentation to the wife advising her that the value proposition of grad school was a poor one. She ignored him, got the MBA, and went on to have an excellent business career. "Don't let an expert make decisions for you," he concludes. "Present value works — but only if you take responsibility for owning the process and doing it yourself."

What's Your Future Worth is Neuwirth's first book. He had written articles before, including a 1996 article about how people could use the concept of present value in their everyday lives. But this is his first work aimed at a general audience.

"I thought that we as actuaries have been thinking about these things and making decisions in a narrow financial realm, but this could be more useful if more people understood it," he says. "Also, more than once, I would hear people say, 'what does an actuary do?' What we do is helpful and useful in keeping financial security systems like pension plans and insurance companies from getting in trouble and making thoughtful and good decisions," he says. "This is an approach and perspective that really should be considered more broadly."

The challenge for Neuwirth was explaining his approach, developed over 35 years as an actuary, in terms the general public could understand. As a result, there is very little math in the book and it tries to convey an overall approach to decision making rather than a specific technique or formula.

"It's not just about money," Neuwirth says. "That's the way actuaries often work, and that's the way many decisions are in the financial world. But you can use this actuarial perspective for all

kinds of things where money doesn't matter, whether it's your health, investing in your education, or your relationships. It's all about what's going to happen now that's going to have an impact down the road. I think it's got some broader applications that I'd love to see people incorporate into their own thinking."

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