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Building Your Business Through Social Media

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Networking

by Connie Golleher

Welcome to the 21st century and technology! Social networking has become a necessity in how we do business. Financial industries especially are based on building relationships first and offering products second, so it's critical to understand how social networking can help actuaries, finance consultants, accountants, entrepreneurs ... *you*.
[Full article]

How to Become a Better Actuary

by Rod Bubke

No, I am not so vain to think I have all the answers and so can tell all of you how to become a better actuary. However, I can tell you about a tool that exists that I think can help you accomplish that very objective.
[Full article]

Medical Loss Ratio: An Entrepreneurial Approach to Health Care Reform

by Mark Florian

The minimum medical loss ratio (MLR) requirement introduced in the health care reform bill has created a unique opportunity for our firm. The MLR requirement can place added financial stress on insurers by forcing them to issue rebates to policyholders, even if the overall financial performance of the company is weak.
[Full article]

Annuity Clearinghouse Proposal

by Beverly J. Orth

Future retirees will be increasingly subject to longevity risk as employer-sponsored defined benefit (DB) plans are replaced by defined contribution (DC) plans. Yet, individuals are confused about the advantages of purchasing life annuities and expect their employers to provide the tools they need to manage their retirement savings.
[Full article]

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Online voting for the elections began August 8 and will close September 2 at noon Central Daylight Time. Voting is open 24 hours a day. Complete election information can be found at soa.org/elections. Get to know the president-elect and Board of Directors candidates; read their bios; and review their answers to a strategic question. You can also view the ballot for section council positions—read section council candidates' bios and review their answers to a leadership question. Election questions can be sent to elections@soa.org. Your vote makes a difference!

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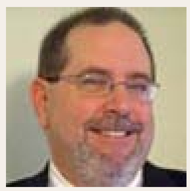

Issue Notes from the Editor

Bill Ely

In this quarter's issue of *The Independent Consultant*, we offer several interesting articles for the actuarial entrepreneur.

- Chairperson James Ramenda discusses the procurement professional as he continues to discuss how the small entrepreneur must operate in a world of large companies.
- John Vogt helps us build a local consulting practice in his article, "Top Ten Steps to a Thriving Local Consulting Practice Without Travel."
- In "Building Your Business Through Social Media Networking," Connie Golleher walks us through how to use social media to grow your business.
- Rod Bubke in "How to Become a Better Actuary" provides a path to do just that using the Competency Framework and a new Self-Assessment Tool.
- We are pleased to present two additional essays from the 2010 EAS-sponsored Papers Competition, "Medical Loss Ratio: An Entrepreneurial Approach to Health Care Reform," by Mark Florian and "An Annuity Clearinghouse Proposal," by Beverly J. Orth.

Enjoy the Issue!

Bill Ely is director, Actuarial Services for Coventry Health Care. He may be reached at brely@cvty.com or 402.995.7088.

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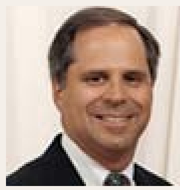

From the Chairperson
Being Little in a World of Too Big to Fails

by James Ramenda

A funny thing happened when the press, regulators, politicians, etc., discovered the concept of systemic risk. They saw that really big financial companies might well pose such risk and that certain companies, for sure, were indeed "too big to fail." They responded with a flurry of measures, including laws, regulations and forced restructurings. The net effect of all of this, ironically, has been to increase the costs of compliance and governance, giving still greater advantage to deep-pocketed companies that still remain too big to fail. In short, the intent to diffuse systemic risk has had the result of reinforcing the trend of big companies getting bigger.

This is not necessarily entrepreneur-friendly. Big companies tend to hire big companies. And a by-product of this trend is a noteworthy change in how big companies deal with vendors, i.e., the rise of the procurement professional. The procurement professional is not an expert in a given functional area, per se, but serves to standardize the approach for contracting services of all types, making sure that all legal, compliance and governance provisions are addressed in accordance with company-wide policies.

In the past, at least for professional services, this process was often conducted at the level of the functional professional, i.e., the functional area management would deal directly with the vendor, usually a small consulting firm in the case of our section, then pass the terms of the

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arrangement onto the legal department. Although the procurement person may not be a professional in the functional area under consideration, they are professionals in the bidding and contracting process and represent an increasingly important element of the sales process for entrepreneurs.

To be sure, the formalization of procurement will add time and effort to the sales cycle for entrepreneurs. It will also add complexity in managing a new relationship. It must be managed along with other already existing and perhaps long-cultivated relationships with management personnel. The skills of the individuals will be different than those of the end users of the entrepreneurs' services. Perhaps most important, and most difficult for the entrepreneur, will be the standardization of a process in which the entrepreneurs' advantages (initiative, innovative thinking, flexibility, responsiveness, sales ability, etc.) will tend to give way to the advantages of larger consulting firms (client lists consisting of other large companies, world-wide presence, depth of staff, etc.).

In a world where too big to fail is encouraged, however unwittingly, entrepreneurs must adapt. This means developing marketing strategies and capabilities that deal effectively with both the end user of the services and the procurement professionals and process, as well.

James Ramenda, FSA, CERA, is managing director of Northington Partners, Inc. in Avon, Conn. He may be reached at jr@northington.net.

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Top 10 Steps to a Thriving Local Consulting Practice Without Travel

by Jay W. Vogt

Some years into building my practice, I met a consultant with a national reputation whose work I had long admired. Since I didn't work nationally, and was little known outside of Boston, I was a trifle meek. We exchanged pleasantries about our practices and much to my surprise, he said, "I envy you. You have a local practice. I travel way too much."

Not long after, I met two partners whose books are legendary in my field. We had the same exchange. I was startled. How many consultants had I long envied in secret, all of whom were quietly wanting what I already had? If you love your travel schedule, you can skip this article. If you dread your next flight, read on.

I used to live in a working class neighborhood in Boston. I was the only management consultant for miles. Now I live in an affluent suburb west of the city. Organizational development consultants are a dime a dozen. Yet I rarely meet them. They are never around. Their spouses are always alone. They are always on the road.

I've had a thriving local practice for 25 years now. It means I sleep in my own bed at night and eat dinner with my family. It means I drive to see clients or take the train, but rarely fly. My wife knows what city I am in and I can make a social plan—and keep it.

It also means I don't make top dollar, don't work only with top tier clients, and can't always stay up-to-the-minute in my field. I don't lose myself totally in the fascinating worlds of my clients, because I am always

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coming up for air at the end of the day.

Here are 10 lessons I've learned the hard way about how to have a thriving local consulting practice, without travel.

1. **Don't work for a consulting firm.**
   At one point, fearing I was missing out, I interviewed with several consulting firms, picking the most family-friendly ones I could find. Travel was a sore spot even at these firms. No one had control of their schedules. They told me travel was a necessary evil and it came with the job.

   Firms are organized to make money, so placing consultants on-site wherever clients can afford to pay them always trumps family values. If you work for a firm, quit, and go out on your own. Without a large firm's overhead, you can still earn six figures, without travel.

2. **Keep your ego in check.**
   They say that an expert is somebody who comes from at least a hundred miles away. Many of us travel because we want the glory that comes from being the pro. We want a national (or even a global!) practice so people everywhere will think of us when they think of our specialty.

   Here in Boston, we think a Harvard degree is no big deal. Out of town, it still carries a lot of weight. How many of us go to where we are rare, so we can feel special? Find some new ways to get strokes for your ego, like hanging out with your family or giving time to your community.

3. **Keep your greed in check.**
   Face it. It feels great to bring down a big day rate. The bigger your rate, the better you are, right? True or not, that equation runs many of us.

   Many of us travel so we can pick only the very best paying clients, which then boosts our annual salary and props up our egos. What if we aimed for having a life, not supporting a life style? Could we make do with less? I think so.

4. **Deal with issues at home.**
   A recent book on the new American workplace concludes that workers spend long hours at work because work is less stressful than home. Ask yourself in the quiet and dark of your next flight: Am I running away from something at home?

I remember an apocalyptic story from the world of coaching. A master teacher met a drunk who asked him for a dollar. The teacher refused politely, instead giving him his card, saying, "Call me when you know what you will do when you stop drinking." The question both encouraged and confronted the man, haunting him until he could name what he truly wanted to do, and knowing that, so the story went, he quit drinking and called to thank the teacher.

Call me when you know what you will do when you stop traveling.

5. **Redefine success.**
   I started my practice in 1982. A colleague started his in the same year. It became clear in two or three years that he was building a business. It also became clear that I was not. What was my problem? Was I not up to it? Wouldn't I amount to anything?

   It feels almost un-American to admit that you don't want to grow a business. With some reflection, though, I realized that I liked having a solo practice, without an office to rent, a payroll to meet, and people to manage. I began groping for a metaphor that would express what I was feeling in a positive way.

   I settled on the image of the "country doctor." Country doctors work alone, or with an occasional assistant, and serve a single town or county. They know their clients intimately and follow them from one generation to the next. They know a little about a lot, and they are loved and revered. Nobody thinks less of them if they don't grow their business and their success is not measured in annual revenues.

   Think about what success means to you. Find a positive way to think about yourself as you slow down, let go, and focus locally.

6. **Live near a major city.**
   I have no idea how many organizations there are in the Greater Boston area, but I know there are enough to keep me busy. I reach a lovely hilltop view of the entire city when I drive into town, and as I take it in, I often say to myself, "There has to be a ton of work down there!"

   My home is one half hour from the city and minutes from the high technology beltway. I can walk to the library, the theater and the playground, and run through miles of woods and meadows. You can have a good life, in or around a major city, and still live next door to thousands of potential clients. Find a place that nurtures you with a local economic base that can support you.

7. **Diversify your clients.**
   I have a colleague who consults to communities in planning tourism studies. Great work, but how many studies can even a large community support? Traditional marketing smarts says consultants should find a narrow niche and target it well. The problem with this thinking is that niches are invariably small, and offer a limited number of prospects in a given area. Working locally means defining your services broadly, to cast the widest possible net.

   I have a colleague, a fellow "process consultant," who likes to say, "I don't know your business, and that's why you should hire me." My practice works with universals—interpersonal relationships and team processes—that are fundamentally similar across all organizations. As a result, I work with government agencies, nonprofit organizations, small fast-growth companies, and large corporations. I don't know their businesses, but I can still help them. All my work comes from referrals and my networks are very diverse.

8. **Learn to say NO to non-local work.**
   This is much harder than it sounds. For starters, most consultants don't know how to say no to any work at all, even if it endangers their health. Then when the work in question is actually interesting work and pays well, that just happens to be out of town, well ...

   If you want local work, say no now! Why? If you are good enough to make it working locally, you are good enough to be great working on the road. And if you are great on the road, guess where your next referrals will come from? Taking non-local work while trying to build a local practice is a slippery slope towards a lot of travel. Bite the bullet. Just say no. Don't present at national conferences where distant clients will seek out your business card. Find the strength to say no by remembering that to which you are saying yes.

9. **Learn to say YES to local work.**
   This is much harder than it sounds. You would think that it would be easy, but if it were, maybe more people would be doing it. Consider it likely that the work you will get locally, routinely, will not pay as much or be as challenging as the very best work you could cherry-pick by crisscrossing the globe. Let's assume you can find it if you work at it. Now you have it in your grasp. Will you take it?

If your ego (No. 2) or your greed (No. 3) or your home life (No. 4) or your self-image (No. 5) is not in alignment with this act, you will probably bolt for the airport. If you are clear on the balance and harmony you want, you will take it, with a smile, and never look back.

10. **Travel for work as a spice, not a staple, in your diet.**
    I actually like to travel for work now and again since it is the exception and not the rule. Sometimes I find situations where I can bring my family. I said yes to a trip to Scotland one summer to help a manufacturing plant, bringing my family along for 10 days in the Highlands. I said yes to a client who meets twice a year only at mountain and oceanfront resorts, the work being embedded in a fascinating conference, with child care and fun for the whole family.

I said yes to a recent request to come to a warm place in the winter to do some work I dearly love, just for the fun of it. Right place, right time, right work. Enjoy travel for the delight that it is, once you own a local base.

You can have a thriving local consulting practice, without travel. It may mean giving up some things, and it will certainly mean changing some things. But your sanity is worth it.

Jay W. Vogt is president of Peoplesworth and author of *Recharge Your Team: The Grounded Visioning Approach* (Praeger). He may be reached at jay@peoplesworth.com or visit his website PeoplesWorth.com.

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Building Your Business Through Social Media Networking

by Connie Golleher

Welcome to the 21st century and technology! Social networking has become a necessity in how we do business. Financial industries especially are based on building relationships first and offering products second, so it's critical to understand how social networking can help actuaries, finance consultants, accountants, entrepreneurs ... *you*.

Let's start with what social networking actually is. It's about the grouping of individuals into specific communities, neighborhoods, the workplace, and schools allowing people in such groups to gather and share information.

For businesses today, it's a needed marketing tool. Almost every business has a website that explains, at a minimum, what it does and how it can be reached. Social media networking can thus turn into a marketing tool because it allows companies to communicate such information and advertise it to a larger audience.

Social media networking is, of course, similar to the other types of marketing you may have done in the past in that it requires attention, concentration and, perhaps most importantly, your time. So, proper time management is essential or your business will suffer for lack of it.

Managing time effectively, however, is not as hard as you might think. In fact; all you need are certain things in the right place, and to be disciplined. By including social media marketing in your overall marketing mix, you can grow your network in those communities you want to

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connect with, by leveraging social media channels. Such networks as *Facebook, Twitter* and *YouTube* can help your small business boost its visibility within a specific demographic.

These names that have become household names—*Facebook, LinkedIn, Twitter, YouTube*, blogs, *MySpace, Friendwise, Yahoo! 360, Orkut, Classmates*—focus on specific practitioners, flooding how we communicate and how information is disseminated. But which tools should you use and what information should you share? Remember, almost everyone now has a cell phone which can connect them to these social networking sites. Here's one example of how social media marketing has been effectively implemented today:

> In 2010, *Facebook* launched a campaign requesting users to sign a petition asking NBC Universal to have Betty White as the host for "Saturday Night Live" (SNL). What started out as a campaign went viral and on May 8, 2010 Betty White did host the show.

Businesses can advertise specials to attract prospects like "free white paper" or "special report" or "top 10 tips" ... 'if you follow us on *Facebook* or *Twitter*.'" This type of marketing encourages individuals to pass on the advertisement to their friends, which in turn drives more people to the business.

A small business selling a product or service may look at using *Crowdsourcing*. Customers go to sites that offer daily deals, like *Groupon*, and it brings masses of people together to buy from your business.

Another way to use social media for marketing would be to become an expert by tweeting facts about a hot industry topic or about solutions to industry problem. As examples, I tweet about "the importance of planning for and long-term care insurance" since that is my area of expertise. Yours might be tax tips for small business or the impact of natural disasters on insurance policy prices. Think about what you know, then tweet it out there!

Employers are also relying on social networking to find new employees or gather information about potential new hires. Employees are using professional groups to connect with other professionals to grow or move to other opportunities.

So where or how should you start? Begin by outlining clear goals for your social media marketing efforts and figure out how you will manage and monitor success.

You could start with a *Twitter* account and designate an individual in your company to do the tweets, or you could personally tweet from the perspective of the company about broader topics. Make sure to research and understand all the capabilities of tweeting. If you have newsletters, articles, etc., for example, you can use a URL shortening service like bitly to share these with customers.

Next, perhaps create a Business *Facebook* page. Research what your competitors are doing to get ideas. With more than 300 million users out there, there are bound to be potential customers waiting to find you.

LinkedIn is the top social network for professionals with almost 50 million users from more than 200 countries. Ask a few of your customers to give you a "recommendation" which can lend credibility to your business. Connect with other business professionals through *LinkedIn* and utilize other professionals' contacts to connect your business to a broader audience.

Blogs can be valuable in establishing credibility, but it can take time to focus on blogging and building a reputation. For now, stick with the above social media vehicles.

However you begin, remember that as good as social networking can be, you have to be aware of the dangers too. One of the first things I do after meeting representatives of a company is to Google them to determine how my firm might do business with them, or to whom they may refer us.. So limit your personal information, or have personal online accounts blocked, so you are safe from such scrutiny. Keeping this one caution in mind, your social media marketing can become a plus, lifting you into this brave new world and enhancing your firm's visibility and brand.

Connie Golleher, chief operating officer of The Holleman Companies, an insurance-advisory firm in Chevy Chase, Md., has many years of experience serving law firms. She may be reached at 301.656.8689 ext. 305 or connie@hollemanco.com.

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Medical Loss Ratio: An Entrepreneurial Approach to Health Care Reform

by Mark Florian

This essay was submitted for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition.

Executive Summary

The minimum medical loss ratio (MLR) requirement introduced in the health care reform bill has created a unique opportunity for our firm. The MLR requirement can place added financial stress on insurers by forcing them to issue rebates to policyholders, even if the overall financial performance of the company is weak. Our firm is well-positioned to perform actuarial services for insurers to assess each company's specific risks associated with MLR. Through partnerships with reinsurers and efficiency improvement firms, we can offer solutions to our clients that will enable them to avoid issuing rebates while maintaining profitability.

Issue Identified

The Patient Protection and Affordable Care Act (PPACA) includes several elements that will dramatically change the business of health insurance. One aspect that has garnered much attention is the minimum medical loss ratio (MLR) requirement. Beginning in 2011, if insurers do not spend at least 85 percent of large group premium dollars and 80 percent of small group and individual premium dollars on patient care, they will be required to provide rebates to policyholders.

The medical loss ratio has always been a standard measure of insurer

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profitability, but there is considerable confusion and debate over the calculation method under the new requirement. Insurance companies are accustomed to a simple calculation of claims cost divided by earned premium. However, the description of MLR found in PPACA indicates that certain administrative costs such as care management and provider networking are considered part of "patient care" and could potentially be included in the numerator with claims costs. It also appears that state taxes and assessments as well as some federal taxes may be removed from premium in the denominator. The National Association of Insurance Commissioners has been working on rules and definitions for the MLR calculation, but it is inevitable that the calculation will be complex and challenging. This creates an opportunity for our firm to capitalize on the new risks and uncertainties surrounding the MLR requirement.

Solution

By developing expertise in the calculation of MLR, our firm can turn this challenge to our advantage and thereby offer solutions to improve the insurer's probability of meeting the MLR requirements. Specifically, actuaries in our firm will offer consulting services to calculate and monitor the insurer's experience and develop models to determine the probability and potential cost of rebate payouts so the insurer can appropriately reflect this risk in its monthly reserve calculations. Insurers will contract with our firm in order to take a proactive, rather than reactive approach to the new MLR requirement.

Non-actuarial staff in our firm can be utilized to research and develop relationships with vendors that offer efficiency-improvement tools for insurers. For example, our sales staff can broker relationships between insurers and document-imaging companies to increase the percentage of claims that can be processed electronically. For some insurers, this service would substantially decrease the cost of claims processing and improve their likelihood of meeting the MLR requirements.

One dilemma facing every insurance company is that if one market segment fails to meet the minimum MLR requirement, the company would have to provide rebates to those policyholders, even if the company as a whole performs poorly. These added losses could threaten the financial viability of the insurer. This situation demonstrates a clear need for reinsurance. Our firm should seek to form a partnership with a reinsurance carrier to create a new product. This product would cover the cost of policyholder rebates in the event that the insurance entity as a whole performs at a loss ratio that is a defined percentage worse than target, but certain lines of business fall below MLR requirements. For example, an insurer may perform at 87 percent compared to a book of business target loss ratio of 85 percent. This insurer's individual line of business, often a small percentage of the insurer's block, may perform at 75 percent and fall below the MLR of 80 percent. In this case, the reinsurer would cover part or all of the expense of the rebates to the individual policyholders. This policy protects against this new risk introduced by the MLR requirement and provides an attractive option for many insurers vulnerable to excess losses. Traditional reinsurance policies do not address MLR, but because our firm will already have access to all relevant experience data for the insurer, we will be able to appropriately price the risk.

Costs

The primary costs of this venture are the time and money spent in training our staff to become experts in MLR and in establishing relationships with reinsurer(s) and efficiency improvement firms. This venture involves substantial upfront cost, with no return likely for several months.

Because we will have to either hire additional staff or pull existing staff off of other projects, it will be necessary to evaluate this project relative to other current or proposed projects.

Risks

There are several potential risks associated with this venture. It is possible that we will be unable to develop the necessary expertise or relationships quickly enough, allowing other consulting firms to enter this market ahead of us. There are several established health care actuarial consulting firms that may already be working on similar endeavors. We have to adapt quickly to changes in the MLR regulations and offer something that our competitors cannot, namely solutions to reduce administrative costs and a new form of reinsurance to minimize the financial risk associated with MLR.

Another major risk stems from the fact that in the post-PPACA climate where insurers are looking to trim administrative expenses, they may be unwilling to hire outside help for MLR evaluation, as this would add to non-claim administrative costs. The price point will be important, and we will need to be able to effectively demonstrate to potential clients that we will add value to their companies.

There is opportunity risk involved in this venture, as it will require a large allocation of resources. We risk missing out on other business opportunities as we concentrate on the MLR project. Since many details are still being worked out in regards to the MLR calculation, it is possible that the final regulations may not present as great a risk and challenge to insurers as it currently appears. In that event, our opportunity would not be as attractive as initially thought. Because this project involves considerable upfront cost, we face the risk of wasting valuable time and financial resources.

Benefits and Measurement of Outcomes

If our firm can quickly gain the expertise and build the necessary relationships to help insurers identify and manage the risks associated with MLR, we could become the premiere firm in this arena. All health insurers will have to meet MLR requirements, so the market has great potential. It is important to note that the MLR requirements will continue into the future, so if we can earn a good reputation in the first year, we will be well-positioned to maintain profitability for many years to come.

While this proposal focuses specifically on the MLR aspect of health care reform, I should note that success in this venture could likely breed similar consulting opportunities in other areas of health care reform. I have targeted MLR because it is in effect for calendar year 2011, and insurers will be looking to plan and implement necessary adjustments during the latter part of 2010 in preparation for the new requirements.

In order to evaluate the success of the venture, it is important to tabulate all of the upfront and ongoing costs associated with the project so we can easily calculate the return on investment (ROI). Our firm must work to establish reasonable prices and sales goals to maximize profitability. Prices will need to reflect not only hours worked for a particular client, but also a share of the costs incurred in the months leading up to the program launch. We will negotiate commissions from the reinsurer and efficiency improvement firms to help defray some of these upfront costs.

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Annuity Clearinghouse Proposal

by Beverly J. Orth

This essay was submitted for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition.

Executive Summary

Future retirees will be increasingly subject to longevity risk as employer-sponsored defined benefit (DB) plans are replaced by defined contribution (DC) plans. Yet, individuals are confused about the advantages of purchasing life annuities and expect their employers to provide the tools they need to manage their retirement savings. Our product development team has identified a potentially valuable opportunity to create an annuity clearinghouse that could encourage employers to offer annuity accumulation products in their defined contribution plans.

Background

In our last report, dated July 1, 2010, our team reported on ideas for new administrative solutions that Skyline Associates might offer in the insurance and risk management areas. With increasing concerns about how individuals will manage longevity risk after the shift from DB to DC plans, we believe that Skyline Associates should focus on developing the annuity clearinghouse mentioned in our last report.

Currently, employers are freezing and terminating DB plans and are replacing them with DC plans, a process that started in the 1980's and has accelerated during the recent financial crisis. Outside of IRC Section 403(b) plans, the majority of DC plans do not offer life annuities as

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accumulation or distribution options. Individual participants in DC plans must manage longevity risk without the benefit of risk pooling, unless they choose to roll over their DC plan balance to an individual retirement annuity.

Employers recognize that their future retirees will be increasingly subject to individual management of longevity risk, yet they are reluctant to add annuity features to their DC plans for a number of reasons:

1. Employers do not want to bear fiduciary risk for selecting the insurance companies that underwrite the annuity products.
2. Employers do not want the added administrative burden of distributing the Qualified Joint and Survivor Annuity notices required for plans that are subject to ERISA.
3. Annuity products are not portable from one DC plan to another, meaning also that plan sponsors cannot easily change recordkeepers if the plan includes an annuity feature.

Proposed Opportunity

The solution that our team proposes would respond to the third concern, the lack of portability. We propose that Skyline Associates develop and operate a clearinghouse for annuity products, specifically targeted to the DC plan sponsors. We envision that when a plan sponsor wishes to add an annuity feature to its DC plan, it would engage Skyline Associates to provide the recordkeeping for that feature. The annuity would be underwritten by one of the insurance companies that has agreed to use Skyline Associates' standard annuity contract format for its product. The insurance company would underwrite the annuity and maintain the necessary reserves, but Skyline Associates would handle the participant and plan level recordkeeping for the contracts. The plan sponsor could retain Skyline Associates to provide full recordkeeping services for its DC plan. Alternatively, it could retain Skyline Associates to provide recordkeeping only for the annuity product, using a different recordkeeper for the remaining investments offered under the DC plan. In either case, when the plan sponsor desires to change recordkeepers, it does not have to liquidate the annuity contract in order to change providers. Independently of a recordkeeper conversion, the plan sponsor could change the insurance company underwriting the annuity product, without requiring transfers of participant records and accounts. Assets supporting the products would transfer from one insurance company to another, but the participant records maintained by Skyline Associates would continue without interruption.

Action Plan

The first stage of development would be to determine the costs of establishing the clearinghouse, including development costs, marketing costs, and ongoing administration costs. Next, our product development team would work with the Business Development Group to establish annual fees for recordkeeping the standardized annuity products, based on the number of participants and the complexity of the annuity product. Per participant fees would be charged directly to the plans or plan sponsors, while each annuity provider would pay Skyline Associates a fee based on the number and type of annuity contracts that Skyline Associates is recordkeeping.

The second stage would be to establish a set of standardized annuity features which would facilitate portability. Skyline Associates would work with the dominant annuity providers to create a manageable list of standard features and provisions. Preliminary pricing estimates determined in stage one would be updated to reflect the standardized annuities established in this stage.

The third stage would be to develop the software to administer the standardized annuity products. The software would be a specialized application of our participant recordkeeping platform. In addition to accepting payroll feeds from plan sponsors' payroll systems, data inputs from the annuity providers would update interest crediting rates, mortality and expense charges, and other data elements that affect the value of the annuity contracts. Additionally, the data interfaces would include transmission of files from Skyline Associates to both the recordkeepers and the annuity providers to report the updated annuity contract values. Files would be exchanged daily to allow daily reporting of contract values to participants via the recordkeeper. This stage would also include developing the administrative functions necessary to communicate with the plan sponsors, their recordkeepers, and the annuity providers.

The fourth stage would be to contract with selected plan sponsors and insurance companies to be beta testers for the clearinghouse software and data interfaces. Discounted fees would be offered as incentives for 3- to 5-year term contracts.

Following testing of the software and refining the suite of administrative and reporting services offered by the clearinghouse, the final stage would be to develop the marketing program. Our marketing should emphasize the uniqueness of this offering—to our knowledge, there is no comparable service being offered in any geography. We anticipate that Skyline Associates could establish similar clearinghouses in every geography with a critical mass of annuity providers and DC plans. After we establish a U.S. clearinghouse, there would be incremental costs to establish a clearinghouse in another geography, but the major elements would already be developed. Because Skyline Associates would not be underwriting the annuities or holding the reserves, we expect minimal involvement with insurance authorities, at least in the United States. Our legal counsel should confirm the legal requirements in each geography before proceeding with this opportunity.

Because this concept is completely new, there will initially be no competition. However, the concept will not be successful unless we can attract a significant number of major plan sponsors and annuity providers. We anticipate that it will require approximately five to 10 years to determine profitability of this opportunity. If successful, we also anticipate that the major players in outsourcing and recordkeeping services will be attracted to provide similar services. Our advantage lies in being first and cementing relationships with the major annuity providers. For that reason, development of this opportunity must be highly secretive until launch of our first marketing campaign. Communications with our beta testers will require execution of confidentiality agreements, but enforcement will be difficult. Another barrier to successful development and execution is that this will be a substantial undertaking, requiring a substantial investment of resources to develop and test the software. We believe that Skyline Associates will need at least a 5 percent increase in technical staff for the development phase, followed by a 2 percent to 3 percent increase in recordkeeping staff for the testing and implementation phases.

Conclusion

We are excited about this new opportunity and believe there is a significant need for the proposed clearinghouse. Our initial estimates are that engagement by approximately 40 large plan sponsors and 5 major annuity providers could double our current annual revenue. In the long term, this offering could increase the size of our company tenfold in the United States, with almost unlimited opportunities abroad.

Our team looks forward to answering your questions about the proposed annuity clearinghouse. We will be pleased to summarize this information for inclusion in your report to the Board of Directors for their upcoming meeting in September.

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