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Share

Print-Friendly
NewsletterSearch
Back issues

CONTENTS

[Issue Notes from the Editor](#)

by Bill Ely

[From the Chairperson](#)

[Growth of the Actuarial](#)

[Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling](#)

[Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortner

[Third World Personal](#)

[Insurance: A Mega, Mega](#)

Issue Notes from the Editor

by Bill Ely

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[\[Full article\]](#)

From the Chairperson Growth of the Actuarial Profession - What About Demand?

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[\[Full article\]](#)

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[\[Full article\]](#)

Estate Planning: Minimize Your Estate and

[Issue and a Responsibility](#)

by Jay M. Jaffe

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[SOA News Today Has a New Look! Improved Navigation!](#) 

ENTREPRENEURIAL ACTUARIES SECTION

[Entrepreneurial Actuaries Section Leadership](#)

[William Ely, Editor](#)

SOA Staff

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[Sue Martz, Section Specialist](#)

OTHER SITES OF INTEREST

[Entrepreneurial Actuaries](#)

[Newsletter](#)

[Resource Center](#)

[Member Benefits](#)

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The current uncertain political, economic and tax environment has led many people to postpone preparing or updating their estate plans. On Dec. 17, 2010, the "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" was signed into law, enacting a sweeping tax package that provides significant estate tax relief, but only for two years.

[\[Full article\]](#)

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[\[Full article\]](#)

Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives

by Nickolas J. Ortner

Over the last 20 years, the second fastest-growing state budget expense is managing prisons: 1 percent of American adults are in prison—a number that has grown 4 times faster than the overall population over the last 25 years.

[\[Full article\]](#)

Third World Personal Insurance: A Mega, Mega Issue and a Responsibility

by Jay M. Jaffe

Actuaries generally work and live in financial and social environments that are either upscale or relatively affluent. But most of the world's population exists without access to insurance or similar programs provided by either the private sector or by governments.

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and if you're already a member of the Society of Actuaries (SOA) LinkedIn group, click on Join Subgroup. If not, join LinkedIn, join the SOA group, then join our subgroup. We look forward to chatting with you on LinkedIn!

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Back issues

CONTENTS

[Issue Notes from the Editor](#)

by Bill Ely

[From the Chairperson](#)

[Growth of the Actuarial](#)

[Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have](#)

[Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your](#)

[Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling](#)

[Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing](#)

[the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortner

[Third World Personal](#)

[Insurance: A Mega, Mega](#)



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by Bill Ely

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

- Chairperson James Ramenda solicits input from EAS members in his article, "Growth of the Actuarial Profession - What About Demand?"
- Amy Elliott Hemeter and Nate Hutchins explore innovation in their article, "How Can Innovation Have Impact?"
- In "Estate Planning: Minimize Your Estate and Taxes Via a GRAT," Robert M. Russell discusses Grantor Retained Annuity Trusts.
- Karen Friedman walks us through "Handling Communications Slip-Ups and Blunders" in her article.
- We are excited to publish two honorable mention essays from the 2010 EAS-sponsored Papers Competition, "Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives," by Nickolas J. Ortner and "Third World Personal Insurance," by Jay M. Jaffe.

Enjoy the issue!

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

[Issue and a Responsibility](#)

by Jay M. Jaffe

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[Look! Improved Navigation!](#) 

ENTREPRENEURIAL ACTUARIES SECTION

[Entrepreneurial Actuaries
Section Leadership](#)

[William Ely, Editor](#)

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[Entrepreneurial
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Print-Friendly
NewsletterSearch
Back issues

CONTENTS

[Issue Notes from the Editor](#)

by Bill Ely

[From the Chairperson Growth of the Actuarial Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortner

[Third World Personal Insurance: A Mega, Mega](#)



From the Chairperson Growth of the Actuarial Profession - What About Demand?

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Go to any gathering of the life actuarial profession and you will hear that we are a growing profession. Over the past five years, FSAs have increased at an average annual rate of 3.9 percent, reaching 13,118 by November of 2010. Adding ASAs brings the total to 21,726, with a corresponding five-year annualized growth rate of 3.4 percent. These growth trends are clearly above the developed world's long-term real Gross Domestic Product (GDP) trend line and certainly well above the convulsive GDP growth statistics of the past five years. But calling us a growing profession on this basis only addresses the supply of actuaries, not the demand.


The Entrepreneurial Actuaries Section (EAS) is in early discussions with other sections and the SOA staff to develop some measure of future demand. The preliminary thinking is to ask the various section leaderships/memberships to estimate future demand for their respective areas of practice. There are a lot of potential directions for this type of project. Here are some ideas at a very conceptual level:

1. What is the overall growth outlook in the underlying business for a given section or area of professional practice?
2. Will this growth require commensurate/greater/lesser growth in the number of actuaries?
3. What about the level of actuarial expertise, e.g., less experienced/entry level vs. more experienced/advanced level.

[Issue and a Responsibility](#)

by Jay M. Jaffe

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[Entrepreneurial Actuaries Section Leadership](#)

[William Ely, Editor](#)

SOA Staff

[Meg Weber, Staff Partner](#)

[Jacque Kirkwood, Staff Editor](#)

[Sue Martz, Section Specialist](#)

OTHER SITES OF INTEREST

[Entrepreneurial Actuaries](#)

[Newsletter](#)

[Resource Center](#)

[Member Benefits](#)

How about technical vs. managerial? Will credentials be required to perform the work or will credentials simply facilitate ease of entry/access to a particular field?

4. Will the economics of the underlying business tend to create upward or downward pressure on compensation?
5. Are there factors that will cause demand to fluctuate in the short-term vs. what might be expected in the long-term, e.g., IFRS, Solvency II, health care reform?

The list is intentionally short and somewhat high-concept in nature, because in dealing with this type of conjecture, more detail is not necessarily more information. If we can get the direction and magnitude right over some meaningful time frame, that would be a major advance.

I'd like to invite EAS members to add their thoughts at this preliminary stage. Are we thinking about this the right way? Are these the right questions? Are there biases in dealing with this within the profession or at section level? Is this meaningful as a point estimate or only as a time series that tracks the trend in expected demand?

It's probably human nature that questions of potential supply-demand imbalances surface when the marketplace has felt a disturbance, so any newly initiated survey will probably reflect the heightened emotion of the moment. However, if we can begin to put some sense of dimension around the demand for our services, we will go a long way toward rounding out the growth picture for our profession.

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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Back issues

CONTENTS

Issue Notes from the Editor

by Bill Ely

From the Chairperson

Growth of the Actuarial Profession - What About Demand?

by James Ramenda

How Can Innovation Have Impact?

by Amy Elliott Hemeter
and Nate Hutchins

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Communications Slip-Ups and Blunders

by Karen Friedman

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How Can Innovation Have Impact?

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For the last few years, the business press and experts have stressed the strategic criticality of innovation. However, as we consider investing your scarce resources in innovation, should we all step back and ask ourselves, "What exactly IS innovation?" And more particularly, "How can and does innovation have impact?"

Look toward the business press for the answer and it may actually cause even more confusion. For example, if you search for *Forbes'* or *Bloomberg Business Week's* lists of the greatest innovations, you will find they contain mobile phones, laptop computers, ATMs, and stents. But is innovation only about inventions? Instead, it should be about finding ways to deliver new benefits to our clients or perhaps existing benefits at significantly lower fees—with or without breakthrough technology. In other words, innovation isn't just at the product level, but can be found throughout the business model including consulting and financial professional services, i.e., who we serve, how we deliver our services, how we support our clients, etc.

Take the air transportation industry as an illustration. In 2001, Boeing unveiled its plan to build the Sonic Cruiser. This technical wonder would have cut transatlantic flight time from 7 hours to 5 1/2 hours—a substantial improvement—but at a premium price of \$10,000 compared to \$5,000 for a first-class ticket on flights in conventional planes. Yet when considering transit time, including ground transportation to and

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ENTREPRENEURIAL ACTUARIES SECTION

[Entrepreneurial Actuaries
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[William Ely, Editor](#)

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[Entrepreneurial
Actuaries](#)

[Newsletter](#)

[Resource Center](#)

[Member Benefits](#)

from airports to city centers, the total travel time from downtown London to downtown New York would only have been reduced from 12 hours to 10 1/2 hours.

Around that time, a surprise competitor entered the market: semi-private time-share jets. Instead of cutting flight time through technology, these jets provided shorter on-the-ground time by flying from London's Northolt to Teterboro, New Jersey, while avoiding the many delays associated with commercial flights and major airports. This enabled the time-share jets to cut total travel time to 9 hours, at a per passenger cost of just \$7,500. As noted by sources such as *The Economist*, Boeing ended up shelving its technology-based solution, while the time-share jets—which were the business model innovators—took off. NetJets has been such a great success that, rather than compete, the likes of Lufthansa have preferred a joint venture approach with NetJets to offer their customers better service. The new kids on the block have become embedded within the incumbent.

Since the Wright Brothers' first flight in Kitty Hawk, there have been countless technological inventions that made air flights more efficient than driving (as for comfort and convenience, that's a whole separate debate). However, since the formation of the first commercial airline, Deutsche Luftschiffahrts-Aktiengesellschaft, in 1909, numerous *business model* innovations have become just as important by making air travel into a simple commodity that many of us can't do without.

Today, one of the most commonly cited innovators of the industry is Southwest Airlines. It challenged and overturned the conventional wisdom for nearly every element of the business model. Southwest Airlines operated just one type of aircraft on a system of city-pairs, instead of a mixture of aircraft on a hub and spoke system. It had no assigned seats or other in-flight perks. Its flight attendants and flight crew helped to clean up the cabin after every flight. Everything in its business model was about efficient use of its capital assets and reduction of total costs.

With this cost advantage, Southwest was able to expand the market for air travel. While other airlines looked at the existing air transportation market when making market entry and scheduling decisions, Southwest examined the total number of people traveling between two cities, including those traveling by car and bus. By appealing to these previously underserved customers, Southwest grew the market dramatically.

In Europe, EasyJet and Ryanair have taken the Southwest Airlines model a few steps forward. As Ryanair surpassed British Airways in market capitalization, much of the value created was explained by its

enabling mass travel at a level traditional models could not compete. However, having gained market share, Ryanair in particular has increased revenues by leveraging its strong customer loyalty and low base fares to charge for extras (e.g., food and beverage, airport check-in, etc.) that come free with the mainline operators. Like Southwest Airlines, Ryanair is making money by innovating around the business model—keeping core prices lower than the competition and providing customers with substantial choice about which "optional" services they choose to buy—choices major carriers might not as easily incorporate given their user base, recent consumer push back on fees, etc.

On the other end of spectrum, Virgin Atlantic and Singapore Airlines distinguish themselves by offering a differentiated and attractive experience. Virgin offers a fun and vibrant experience by providing a bar in the sky, complimentary in-flight massages and manicures, and a wide range of entertainment amenities. Additionally, it extends the quality throughout the total travel time to include transit to the airport as well as in their airport lounges. In particular, Virgin's lounge at Heathrow is so popular that passengers show up hours before departure just to spend time there. Singapore Airlines stresses the highest quality service at every customer interaction. Flying with them is like being in a five-star hotel in the sky. These companies operate at a level where they compete not with other airlines but with 'the last best experience' you had—and they exceed it.

While countless technological inventions have made air transportation extremely safe and cost efficient, pioneers like Southwest Airlines, Ryanair, Virgin Atlantic, and Singapore Airlines were able to innovate and create winning business models without inventing any new technologies. As a result, they regularly lead the pack in customer satisfaction, and their innovative methods are imitated by other airlines around the world.

Back to *Forbes'* greatest innovation list, obviously the other inventions mentioned—like the internet and media file compression—were critical predecessors to iTunes and iPods. But which is more innovative: iTunes, which delivered many new-to-the world benefits to the end-consumers, or the media file compression technology that enabled it? Ultimately, it doesn't matter. Great technology without the right business model can't deliver any potential benefits and an imaginative business model without the needed technology is simply words on paper.

The most important takeaway for entrepreneurs and actuarial specialists may be this: don't see innovation as simply the vast array of technologies now on the scene, invented by others and available for your use. Instead combine a distinctive and innovative business model of your own making with the useful enabling technologies. In that way,

you'll have a real shot at delivering novel benefits to your clients, thus ensuring innovation offers all stakeholders the most positive impact.

Amy Elliott Hemeter and Nate Hutchins are principals at the innovation consulting firm Strategos, a division of Innovaro. To learn more, visit Strategos.com.

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Share

Print-Friendly
NewsletterSearch
Back issues

CONTENTS

[Issue Notes from the Editor](#)

by Bill Ely

[From the Chairperson Growth of the Actuarial Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortner

[Third World Personal Insurance: A Mega, Mega](#)



Estate Planning: Minimize Your Estate and Taxes Via a GRAT

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How does a GRAT work? An individual wishing to implement a GRAT will create an irrevocable trust (the GRAT) for a specified number of years. The individual (the *grantor*) then transfers certain assets to the GRAT in exchange for a fixed payment stream for a specified term of years (the *term* of the GRAT). During the term of the GRAT, the grantor receives an annual (or more frequent) annuity payment. At the end of the GRAT term, the remaining principal of the GRAT, if any, will be distributed to, or held in further trust for the beneficiaries specified by the grantor.

The transfer of assets to the GRAT by the grantor is deemed to be an

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by Jay M. Jaffe

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ENTREPRENEURIAL ACTUARIES SECTION

[Entrepreneurial Actuaries
Section Leadership](#)

[William Ely, Editor](#)

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OTHER SITES OF INTEREST

[Entrepreneurial
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[Newsletter](#)

[Resource Center](#)

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irrevocable gift by the grantor to the GRAT beneficiaries. The value of the gift is determined by subtracting the value of the retained annuity payments that will be made to the grantor from the initial fair market value of the assets used to fund the GRAT. The value of the retained annuity payments is determined by regulations established by the Internal Revenue Service (IRS), using the interest rate in the month the asset is transferred to the GRAT (set each month by the IRS), the length of the GRAT, and the dollar amount of the annuity to be paid to the grantor.

If the assets in the GRAT appreciate in value at a rate that is greater than the interest rate set by the IRS, all the excess appreciation escapes estate and gift taxes. The interest rate currently in effect for GRATs is approximately 2 percent.

A grantor is able to minimize the gift attributable to a GRAT by setting the retained annuity payments at an amount that is almost equal to the fair market value of the assets transferred to the GRAT. For example, if a grantor transferred an asset worth \$250,000, the grantor is able to set the retained annuity payment value at \$249,950, thereby making only a \$50 taxable gift to the GRAT. A GRAT that is established where the taxable gift close to or set at zero known as a "zeroed-out GRAT" (that is, the taxable gift is close to zero). This is done to avoid paying gift tax.

There should be no gift tax consequences at the termination of a GRAT. The gift is complete upon the funding of the GRAT. Refer to the example above. Let's say the asset used to fund the GRAT appreciated in value by \$100,000 during the GRAT term. At the termination of the GRAT, a total of \$99,950 of value will have escaped gift taxation (total appreciation of \$100,000, less the \$50 taxable gift).

A Typical GRAT Strategy

GRATs may be funded with virtually any type of asset. Typically, GRATs are funded with income-producing property, such as closely-held business interests, marketable securities, venture capital investments, stock options, and/or real estate.

With interest rates at their current historic lows, many individuals have funded GRATs with a well diversified portfolio of marketable securities. As noted above, if the portfolio appreciates at a rate greater than the IRS rate (approximately 2 percent currently), the excess will be transferred without a gift tax.

When funded with closely-held business interests (whether an operating business or rental real estate), certain valuation discounts may be taken from the underlying value of the asset used to fund the GRAT. For instance, a minority interest in an enterprise normally has no authority to appoint officers, establish salaries, or control dividend payments. In

addition, closely-held business interests typically contain restrictions prohibiting its owners from transferring the business interests to third parties. As a result of these attributes, discounts are frequently taken for "lack of control" and "lack of marketability." In those situations where the closely-held business interest is sold during the GRAT term or the business interests generate sufficient cash flow for the annuity payments, the assets transferred at the termination of the GRAT are substantially greater.

Income Tax Considerations

For income tax purposes, payments made by a GRAT to the grantor are not income to the grantor. However, income and gains earned by the GRAT are includible in the grantor's income annually. Typically, a GRAT is structured so that the grantor may be reimbursed by the GRAT for any resulting tax liability. But if the grantor elects not to be reimbursed by the GRAT, the value of the GRAT at the end of the term is higher (therefore increasing the value of property escaping gift tax).

Too Good To Be True?

While it might seem that a GRAT strategy is too good to be true, a GRAT strategy is not without certain drawbacks and pitfalls.

If the grantor dies prior to the expiration of the GRAT, then all (or a portion of) the GRAT assets are included in the grantor's estate for estate tax purposes. While this result essentially eliminates the main tax benefit of the GRAT (i.e., avoiding gift tax on the appreciation of assets in the GRAT), the grantor is no worse off for having engaged in the GRAT strategy (except for the costs of creating and administering the GRAT).

Due to this "mortality risk," it is frequently advisable to establish GRATs with shorter terms, such as two years or three years. Many individuals engaged in the GRAT strategy will structure several short-term GRATs over a period of years to mitigate this mortality risk. For example, it is common to establish a three-year GRAT in year one, then another three-year GRAT in year two, and another three-year GRAT in year three. In this scenario, if the grantor dies in year four, then the appreciation of the three-year GRAT established in year one will have been transferred free of gift tax. If instead, the grantor established a five-year GRAT in year one, then the grantor's death in year five will have eliminated the benefit of the GRAT strategy.

Another potential risk of the GRAT strategy is investment performance. When the assets in the GRAT do not appreciate at a rate that is higher than the rate set by the IRS, there are no assets remaining in the GRAT to transfer to the GRAT beneficiaries. But again, under this scenario, the grantor is no worse off for having engaged in the GRAT strategy (except

for the costs of creating and administering the GRAT).

Finally, a GRAT may not be appropriate for making transfers to grandchildren. Special "generation skipping" tax rules apply to GRATs that are beyond the scope of this article. However, depending upon the circumstances, GRATs may not be the best vehicle to shift wealth to grandchildren.

Act Now

GRATs are viewed as one of the most powerful and tax efficient wealth transfer tools available today. In fact, GRATs have become so popular for transferring wealth, that Congress is considering legislation that will impose restrictions on GRATs. These new GRAT restrictions would require that GRATs have a minimum term of least 10 years. This will, of course, increase the mortality risk of the GRAT strategy, especially for older individuals looking to engage in a GRAT strategy.

So if a GRAT strategy is right for you, don't delay. Rates are at historic lows and Congress has not yet eliminated this extremely effective estate planning strategy.

Robert M. Russell, Jr. is managing partner at Pabian & Russell, LLC, specializing in corporate and business law for high net worth individuals and closely-held businesses in a variety of estate, succession, tax, and business related matters. An attorney and a CPA, Russell's unique legal and financial background provides a valuable perspective when analyzing the income, estate, gift and generation-skipping transfer tax consequences of estate and succession plans for his clients. He is a member of the Boston Bar Association, the Boston Estate Planning Council and the American Institute of Certified Public Accountants. Contact him at 617.951.3100 or PabianRussell.com.



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Print-Friendly
NewsletterSearch
Back issues

CONTENTS

[Issue Notes from the Editor](#)

by Bill Ely

[From the Chairperson](#)

[Growth of the Actuarial Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortnor

[Third World Personal Insurance: A Mega, Mega](#)



Zip It! Handling Communications Slip-Ups and Blunders

by Karen Friedman

In business as in life, even a seemingly harmless remark can backfire. Think about it—how many times have you hit "send" and wished you could get that e-mail back? How many times have you regretted something you said that hurt someone or positioned you poorly in an important meeting? It happens to all of us including those in the public eye who can be embarrassed on a far bigger stage. It's a reminder to all of us that we are responsible for what we say, which is why it's so important to keep the end result in mind.

The blunders are endless and spark different degrees of offensiveness. Learning how to better handle slip-ups and prevent future errors in judgment can actually help you turn negatives into positives. No one understands the importance of this better than actuaries!


For example, a television reporter I know aired a scathing report about broken security cameras at one of this country's busiest airports. The report was loaded with inaccuracies, but did not threaten public safety. Instead of calling management and blasting the reporter as airport executives wanted to do, we took a different tact to try to help them change the end result. Airport communications professionals phoned the number one local television station in town and offered them an exclusive behind-the-scenes look at airport security. The station jumped on the chance to have a private tour that resulted in a positive story watched by a much larger audience. If executives had simply reacted and called to complain, they might have generated more negative

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[Entrepreneurial Actuarial
Section Leadership](#)

[William Ely, Editor](#)

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[Meg Weber, Staff Partner](#)

[Jacque Kirkwood, Staff Editor](#)

[Sue Martz, Section Specialist](#)

OTHER SITES OF INTEREST

[Entrepreneurial
Actuarial](#)

[Newsletter](#)

[Resource Center](#)

[Member Benefits](#)

publicity by creating an even bigger controversy. The lesson: think about the outcome you seek and program your internal GPS to take you there before you shift into gear.

Too often, companies with bruised egos overreact instead of thinking through how their words and actions can affect outcomes. Before picking up a phone or texting a publication to set the record straight as you see it, it's important to take this quick true or false test:

True or False: This has nothing to do with my ego; it's about providing critical information for readers that could affect their safety or well-being.

Yes, the statement is almost always false. Just because you don't like the tone of a report is not cause for you to keep talking.

That leads to a story that didn't have such a happy ending when a leading expert in homeopathic medicine agreed to do an interview with John Stossel, co-host of ABC-TV's "20/20." The title of the segment, "Gimme a Break," should have been his first clue. Refusing media coaching, the spokesperson decided he was fully capable of debunking myths and handling any tough questions that might come his way. And they came. When Stossel stated that perhaps homeopathic medicine was for "suckers," the spokesperson said, "You can choose to call us suckers, but we have experience that suggests otherwise." Not only did he inadvertently validate what Stossel suggested by repeating negatives, but also, those words became his words—devoid of message.

As you can imagine, the spokesperson was outraged at the edited television program that misrepresented a scientific study of homeopathy in its visual portrayal of how homeopathy works. In a memo to colleagues, he labeled it a "story of science fiction" and "reality television" to "discredit homeopathic medicine." He wanted to demand a retraction from ABC and send letters to the editors of numerous national publications denouncing the broadcast. We advised against it explaining it's important to realize what was upsetting to him is *not* as big a deal to those who saw the piece. But when someone then writes emotionally charged letters with titles like "Junk Science," the spokesperson was keeping the negative alive instead of looking for ways to educate people, share the positives of homeopathy and position the industry in a credible light. "Until you start focusing on what you can control," we told the spokesperson, "you will never further your own agenda."

Clearly, we've all made mistakes and have said things that unintentionally offended others without stopping to think about why the words we use, or context we use them in, are inappropriate.

As an example, words like secretary and stewardess, while once commonly used, would now be considered offensive by many, especially

those who are administrative assistants or flight attendants today.

So, when a celebrity or politician says something offensive, in an oddly positive way, the remarks call attention to right versus wrong and should redirect all of us to think before we speak in an effort to prevent blunders that can have long lasting results. As former White House Press Secretary Marlin Fitzwater once said: "You don't have to explain what you don't say."

Karen Friedman is a professional communication coach and speaker who serves as president of Karen Friedman Enterprises (karenfriedman.com). Her techniques to help business professionals become more powerful persuasive communicators have been applied on four continents. This article is based on her new best-selling book, *Shut Up and Say Something: Business Communication Strategies to Overcome Challenges and Influence Listener* (Praeger 2010). She is also a contributing author to *Speaking of Success: World Class Experts Share Their Secrets*. Friedman was formerly an award-winning television news reporter and a political candidate.



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Back issues

CONTENTS

[Issue Notes from the Editor](#)

by Bill Ely

[From the Chairperson](#)

[Growth of the Actuarial Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling](#)

[Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortner

[Third World Personal Insurance: A Mega, Mega](#)

Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives

Honorable Mention Essay for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition

by Nickolas J. Ortner

Executive Summary

Spending pressures face the highest levels of government:

- Federal - The Congressional Budget Office (CBO) estimates that the federal budget deficit will exceed \$1.3T for 2010 and remain north of \$500B for the next decade. ¹
- States - At least 46 states struggled to close shortfalls when adopting budgets for fiscal year (FY) 2011 (beginning July 1 in most states), on top of projected gaps in 39 states for FY2012 and, looking back, shortfalls that 48 states faced in FYs 2009 and 2010. ²

Over the last 20 years, the 2nd fastest-growing State budget expense is managing prisons: 1% of American adults are in prison - a number that has grown 4X faster than the overall population over the last 25 years - and those prisons are overcrowded, with State prisons over 100% of their designed capacity (and Federal prisons over 130%) and annual spending growth averaging 7% for decades. ^{3, 4}

Simplified money-saving release criteria/programs incorporated by many states (recent examples include Illinois, Nebraska, and Wisconsin) - early release of groups of prisoners convicted under various definitions

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of "nonviolent" and "minor" offenses - may ease budget strains and crowding, but face heightened scrutiny, resistance, and ultimately elimination if executed arbitrarily and inflexibly with outcomes that harm society or are otherwise unquantifiable.

Solution

Program Overview/Goals and Opportunities

With the current funding crunch, it's assumed that annual spending increases of 7% for prisons are not sustainable. Early prisoner release programs can play a meaningful role in balancing budgets while helping society - but only with a rigorous, merit-based approach that can be expected to demonstrate favorable outcomes for the general public and the released prisoner.

Our proposed plan will deliver that approach via an optimized process for evaluating the perils associated with freeing candidates eligible for early release - an individualized assessment and quantification of those risks that:

- Captures the nuances of prisoners' personalities - all prisoners with the same history are not equal (as simplified early release programs currently in place might otherwise indicate) ,
- Minimizes - and ultimately eliminates - the chances for recidivism, and
- Maximizes the gains to society and the released prisoner.

We summarize the proposed evaluation framework/scorecard in Appendix A - this template/scorecard serves as the foundational evaluative criteria and tool on which our proposal is built and demonstrates the comprehensive risk assessment and mitigation process demanded for the program's absolute success. As shown, the ranking hierarchy is comprised of predictive elements and opinions from a diverse array of sources in an attempt to draw the most complete picture of the candidate being considered for early release.

Costs

Quantifiable costs include:

- Personnel
 - The people and specific expertise required to design, implement, monitor, and refine the plan on an ongoing basis - roles may include pre-release evaluations and post-release monitoring, counseling/training/placement, outcome measurement, and quality management of the evaluation process - all anticipated to be a fraction of the

costs, via sustainable total reward (salaries and benefits) costs and anticipated workplace and technology efficiencies, when compared to costs that would be required to fund a similar government-run program.

- Systems and equipment
 - Technology and related equipment must be and remain cutting edge to sustain our anticipated market leader role in this industry and deliver value not provided in current, otherwise similar, government-run programs.

Benefits

As previously alluded to, the ongoing management of prisons and prisoners is big business. The business opportunities to deliver favorable results, coupled with reduced costs, are spread across not only the State and Federal prison landscapes, but also at the more granular City and County jail levels - given that all levels of government seem to be facing ever-mounting financial pressures.

At a practical level, reduced prison spending saves taxpayer money (a message that particularly resonates in the current environment), frees up funds for other programs that may be in greater demand by the public (each citizenry's priorities will be different), and eases at least some of the tough spending choices that governments are currently being forced to make. The dual messages of more effective programming coupled with reduced required funding should similarly echo for government officials currently under siege from the constituencies they serve.

At the more personal level, the proposed program is anticipated to serve 2 greater goods:

1. The general public - in addition to being served by the reallocation of funds to other programs expected to serve more citizens, our program will reduce the significant costs of housing prisoners and maintaining facilities with the release of those who will contribute to - rather than drain funds from - society without negatively impacting that society, and
2. The released prisoners - our program will enable and optimize their (and their circle of friends and family) sense of well-being and what it means to be a contributory, productive, and law-abiding member of society.

Risks

This program faces a number of meaningful risks:

- Derailment before the program ever gets traction or has a chance

to demonstrate its efficacy, from the failure to get the buy-on from any number of potential stakeholders:

- Politicians (especially those on the opposite side of the aisle from the party currently in charge),
 - Thought leaders in the media,
 - The law enforcement and legal communities,
 - Victims' rights/advocacy groups, and
 - Impacted public employees concerned about their employment.
- Upon implementation, brutality (or other lesser recidivism) by an early-released prisoner that irreparably damages society (and - less importantly - our program) - right now, Illinois faces this challenge arising from program gaps that led to the release of a prisoner now connected to a murder.
 - With success looms potential for mismanagement of capital investments and/or loosened controls as a result of exploding growth that yields insufficient supervision - with the societal responsibility we have, along with our personal stake in this model and the tough-to-overcome publicity risk faced with even one violent act by a released prisoner, we must diligently manage our business and the clients' prisoners we recommend releasing, while investing in the appropriate and sufficient level of personnel and equipment that sustains our cost advantages while ensuring the 100% success of our program.
 - An inflexibility with regards to our current evaluative framework - recognizing that what will work today may not necessarily work "tomorrow", so the framework must be robust, dynamic, and responsive to environmental changes - coupled with an inability to tell our story via metrics that demonstrate the efficacy of our program - outcomes that improve society and the lives of the released prisoners, while at the same time delivering meaningful fiscal savings - may similarly cut short our business model.

Critical Success Factors

Aligned with the aforementioned risks, critical success factors include:

- Rally and maintain support from various affected constituencies:
 - Communicate with politicians - perhaps regular teaching sessions? - regarding the program's benefits to demonstrate our understanding of the gravity of the situation and importance of the absolute success of our

plan,


- Promote the plan's benefits with media thought leaders - seek out opportunities to go on the talk show circuit to answer questions and correct misperceptions,
 - Gather feedback from law enforcement and legal communities to be confident there are no gaps in the business model and ensure their engagement and acceptance of the program,
 - Engage victim's rights groups and the general public in a transparent manner to ensure their voices are heard - perhaps place the proposed prisoner evaluation characteristics on a public website to encourage the community to state their priorities and provide constructive criticism,
 - Duplicate the above steps repeatedly to ensure understanding of the program's goals, deliverables, and personal success stories, and
 - Clarify the opportunities that are expected to be available for displaced public employees - dynamically serving the public in a new and exciting environment.
- Given the stakes - lives potentially at risk, with even one misstep - a level of conservatism may be required, particularly in the program's infancy, to optimize the chances for success, allow time for evaluation, and minimize the risks to society.
 - A relentless focus on sustainable growth that compromises none of our controls/supervision, clients, or reputation - recognizing the societal responsibility this program has and our personal stake in it, coupled with the potential for investment misallocations /losing our technology edge and/or weakened supervision if growth explodes beyond our control - will be the foundation that our model is built on to ensure ongoing cost advantages and the "0% prisoner relapse" success of our program.
 - Flexible thinking related to and unrelenting quality management of our evaluation framework/tool - and the personnel managing it and responsible for its upkeep - to proactively and dynamically capture and measure only the criteria - and its appropriate weighting - relevant for inclusion in the attached framework to ensure absolute post-release success.
 - Track every release and diligently trace their paths to document and personalize for our clients the numbers and stories that they may relay to their citizens - where the released prisoners are,


what jobs and other societal roles they've taken on, and how our support program has minimized recidivism and empowered the released prisoners to live better, law-abiding lives.

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Appendix

[Appendix A - A Comprehensive Evaluation](#)

[Framework/scorecard/tool](#) 

[Appendix B - References/Citations Framework/scorecard/tool](#) 



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Back issues

CONTENTS

[Issue Notes from the Editor](#)

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[From the Chairperson](#)

[Growth of the Actuarial Profession - What About Demand?](#)

by James Ramenda

[How Can Innovation Have Impact?](#)

by Amy Elliott Hemeter
and Nate Hutchins

[Estate Planning: Minimize Your Estate and Taxes Via a GRAT](#)

by Robert M. Russell

[Zip It! Handling](#)

[Communications Slip-Ups and Blunders](#)

by Karen Friedman

[Low Cost Freedom: Optimizing the Success of Early Prisoner Release Initiatives](#)

by Nickolas J. Ortner

[Third World Personal Insurance: A Mega, Mega](#)

Third World Personal Insurance: A Mega, Mega Issue and a Responsibility

Honorable Mention Essay for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition

by Jay M. Jaffe

Executive Summary

Personal insurance products in third world environments are both a mega, mega opportunity and a need. This paper briefly explains why there is a problem, identifies entrepreneurial actuaries as one of the most likely groups to find solutions to the issues, and outlines the issues and approaches for solving the issues which must be resolved in order that personal insurance programs in the third world will become a viable business opportunity. In addition to being an opportunity for entrepreneurial actuaries, personal insurance programs in third world environments should be an area in which actuaries feel a responsibility for finding the solutions because we understand the problems and one of the few professional groups which can find the answers.


The Issue

Actuaries generally work and live in financial and social environments that are either upscale or relatively affluent. But most of the world's population exists without access to insurance or similar programs provided by either the private sector or by governments. Unlike actuaries who are well educated, fed and sheltered, there are billions of people who continue to work and live under subsistence conditions and whose lives fall apart if they become sick and can't work, receive medical treatment or lose their homes and possessions because of natural

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disasters.

Personal insurance programs (life, health, disability, homeowners, auto, etc.) could be extremely helpful to third world residents because they would provide a much needed buffer against many of the causes that devastate families and communities. However, widely delivering such programs is a complex task because the normal insurance infrastructure doesn't exist in many nations and communities. There is a tremendous opportunity for actuaries to help find some of the solutions needed for making personal insurance available in the third world because we have the skills needed to address some of the most basic problems which limit the development and delivery of personal insurance products.

For example, underwriting will often be impossible when providing personal insurance in third world environments. The collection of premiums will be difficult because checking accounts don't exist. Assessing the validity of claims will require procedures not involving medical or other public records as evidence. And paying claims will need to incorporate an efficient and safe way for the delivery money and services.

Entrepreneurial Actuaries Needed

Actuaries, particularly entrepreneurial actuaries, should be interested in addressing the problems facing personal insurance for third world citizens because either our employers or we personally will be able to create profitable businesses once we find the needed solutions. Third world markets should be very enticing in which to do business because they are less competitive and have more price elasticity as well as providing a much needed service.

Successfully selling insurance to third world populations isn't going to be easy. There are going to be many attempts and almost as many failures. Who but an entrepreneur would be willing to tackle these types of challenges and uncertainty? And, who is better equipped than an entrepreneurial actuary with a broad knowledge of the insurance business to help address the many issues?

Several decades ago in the United States small insurance companies were formed by entrepreneurs (including actuaries). Some of these carriers continue in operation today but many have been merged into larger companies. Many of the entrepreneurs who formed the companies were handsomely rewarded for the risks they took building successful businesses.

Solutions

Today actuarial literature and meetings are filled with discussions of very sophisticated topics and methodologies. But being able to deliver

personal insurance to third world citizens is probably a "back to the future" situation rather than a highly technical matter. Put another way, if actuaries are going to help find the solutions to the problems which limit the delivery of personal insurance for third world citizens, we will have to understand that powerful mathematical formulas are going to have to be replaced by a high level of practicality coupled with the use of approaches which are appropriate for a set of living conditions with which most actuaries have almost no familiarity.

So, how can actuaries contribute their expertise and skills to finding the keys for successfully providing personal insurance to third world citizens?

- First, we need to toss out our advanced nation thought processes. You need to start from the basis that nothing or almost nothing is available in terms of data, infrastructure, etc. in third world environments.
- Second, we need to create different benefit packages that are probably more basic than we normally develop in order to meet the most important needs of third world personal insurance markets.
- Third, we need to create a new set of models which is based on the third world actuarial environment where industry or personal data doesn't exist. Perhaps the most basic problem actuaries should address is how to estimate claims for third world personal insurance products and later overlay the other insurance related factors (e.g., expenses) which are included when we price products.
- Fourth, we need to start working with others to conceptualize and develop technologies which are applicable to the environment in which third world insurance consumers exist. For example, we need to collaborate with other experts and organizations to create the premium payment systems which are an integral and vital part of any insurance program. This doesn't necessarily mean discarding technology but, instead, finding the right technology and appropriate level of technology to solve the problem rather than trying to adapt the sophisticated infrastructure used in advanced environments.
- Fifth, we need to redefine risk and reward in third world markets. Should entrepreneurs or other private investors in third world personal insurance markets think in terms of the same financial rewards as in developed environments? What is the role for governments to play in developing personal insurance in third world markets and how should governments be compensated for risk taking?

There are probably many other areas which require new actuarial and business concepts to be identified and solved in order for personal insurance programs in third world areas to operate successfully but those listed above provide a good starting point.

As mentioned above, broad collaborative efforts are going to be needed. Actuaries in advanced economic cultures should assist and help develop local actuarial talent in third world areas but the project should be based on realistic expectations during the time prior to when the local actuaries have sufficient experience and expertise to take over the projects.

The EAS is an ideal group to promote some of the activities needed for personal insurance in third to work. For example, the EAS could:

- promote mentoring relationships between EAS members and actuaries working in third world countries;
- sponsor a colloquium dedicated to addressing the actuarial issues central to creating successful personal insurance programs to assist those entrepreneurs seeking to work in third world environments; and
- make the topic for the 2011 paper competition specific to creating successful personal insurance programs in third world markets as well as encouraging those actuaries (and others) working in third world situations to participate in the contest.

If the EAS sponsors the projects described above, not only will it be helping third world people who need access to insurance products but it will also be assisting many of its members who realistically can only work on smaller scale entrepreneurial projects because they can't comply with the high capital costs required to do business in developed environments.

Responsibility

The subtitle of this paper not only describes third world personal insurance as a mega, mega issue but also as a responsibility. Helping others is not a requirement to be a good actuary, a good citizen or a successful entrepreneur. But as a group the EAS can lend its support and talents to projects that assist its members and at the same time benefit people in less developed environments who need the very products which EAS members help create and manage in more affluent markets. Of course, the EAS is not obligated to tackle projects in third world countries but if it did so, it would be a nice feeling to know that we found a way to use our talents to make a difference.

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