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Project Management: Sticky Situations Series Topic 2–Change (the Not-So-Innocent Enemy)

by Doris Orr

Project Management: Sticky Situations is a series of articles which outlines some potential pitfalls in the realm of project management, and which can be applied to general management settings.

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From the Chair Essay Contest—A Success Story

by David V. Axene

One of my most professionally rewarding moments as chairperson of the Entrepreneurial Actuaries Section (EAS) was seeing the response to the EAS Essay Contest. When we first discussed it in one of our regular conference calls, there was interest but considerable reservation. What would happen if we do it and no one responds? The Health Section had successfully completed the effort and we wanted to do the same, but from an entrepreneurial perspective. We wanted to solicit serious interest in demonstrating an entrepreneurial response to a specific issue. We also wanted to make it worth the effort. We agreed to spend some of our section's retained surplus to fund this effort. After a good discussion and great ideas from Section Council members, coupled with the experienced support of Meg Weber and Sue Martz at the SOA, we did it!

At the Spring Health Meeting in Toronto, we plugged the contest at multiple sessions hoping we'd solicit a respectable response. We postponed the initial deadline a bit to be sure that there was adequate time to submit essays. The first responses came in slowly, but when all was said and done, we had more than 30 essays in hand, and needless to say, we were very pleased. A small group of reviewers was assembled and each paper was carefully read using a structured evaluation process. The committee consisted of last year's chairperson Kevin Dolsky, next year's chairperson Larry Stern, Meg Weber and myself, the current chairperson. Many of our reactions and evaluations were consistent; however, some required second and third readings since we weren't always in complete agreement. But it became very clear very quickly that we had the winners. Each of the three chairpersons contacted specific winners. It was a pleasure congratulating them on their accomplishments.

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So what is the primary learning from this effort? People will respond if appropriately motivated and engaged! We attracted papers from multiple countries, multiple disciplines and multiple sections. Since some of our winners were from outside the EAS, we offered a one-year free membership to the section. We realized we needed to be fair to member winners also, so we offered them free membership to our section as well. The topics were interesting and I believe will have mass appeal to our readership. We agreed to publish the top papers in our newsletter to share the great effort of our fellow actuaries. The big question facing us now is whether the essay contest should be an ongoing event. We'll keep you posted.

As I approach the close of my term as chairperson, I look back and see several meaningful section accomplishments:

1. The essay contest.
2. Multiple webinars that have been well attended.
3. Multiple sessions at SOA meetings that were well attended and well received.
4. Successful networking efforts between EAS members and preferred vendors.

As Larry Stern takes over as the EAS chairperson, I am sure he would welcome hearing from you with any ideas you might have as to how we can better meet your needs as a section member. Input is always welcome.

It has been a pleasure and an honor serving as your chairperson. I wish you all well in the coming year.

David V. Axene, FSA, MAAA, is the president of Axene Health Partners, LLC, and the chair of the Entrepreneurial Actuarial Section. He can be reached at david.axene@axenehp.com or 951.294.0841.



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Drum Roll, Please ...

by Bill Ely

The Entrepreneurial Actuaries Section sponsored a Papers Competition this summer on a topic related to being an entrepreneur. This competition was open to all SOA members. We are pleased to include the first and second place award-winning papers in this issue. Enjoy reading the first place (John Melinte) and second place (Luc Berlinguette) papers from the EAS papers competition. Melinte took home \$5,000; Berlinguette, \$3,500.

In future issues of *The Independent Consultant*, we will be publishing other submissions received for the papers competition. Please join us in congratulating our authors and meet some of them at the EAS breakfast at the SOA 09 Annual Meeting & Exhibit, Wednesday, October 28, in Boston.

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Longevity Risk Solutions for Small Canadian Pension Plans

by John Melinte

[Executive Summary](#)

Over the last several decades, mortality trends and life expectancies in developed countries have been improving and are expected to continue to improve in the future.

This paper discusses issues of longevity risk and volatility faced by small defined-benefit (DB) pension plans in Canada and outlines the opportunities available for entrepreneurial insurance companies interested in providing solutions to address these issues.

Due to the nature of the current solutions available, insurance providers are targeting their product development at larger plans, aiming for transactions based on \$100 million or more of liabilities. What is needed for small plans is a simple solution which combines the benefits of pooling, low implementation costs and efficient administration.

[Background](#)

Longevity risk (uncertainty regarding future mortality and life expectancy) can affect employer-provided DB pension plan liabilities and their funding requirements. These "present value" liabilities are calculated based on certain assumptions, including pension liability discount rates and a "mortality" assumption that dictates the length of time for which payments are expected to be made.

Longevity poses relatively higher risk and volatility for smaller pension plans as a result of having fewer members. As such, this paper deals mainly with the treatment of Designated Plans and Individual Pension Plans (IPPs). These plans are usually set up for company owners or highly-paid employees in order to allow tax-deductible company contributions over and above the normal retirement savings limits. For

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the remainder of this paper, I will refer to these plans simply as "small plans."

Plan Sponsor's Perspective

The main sources of volatility for the funding of large DB plans are the asset rate of return and the liability discount rates—longevity risk, while visible, is less likely to cause significant volatility for larger plans. As an example, consider the following comparison:

	<u>Plan A</u>	<u>Plan B</u>
Number of Pensioners:	1,000	2
Expected mortality experience (over next 20 years) used for liability calculations:	500	1
Likely mortality experience:	450–550	0–2
Likely "gain-loss" range as a % of liabilities:	0%–10%	0%–100%

As you can see, for "Plan B," should both members survive the next 20 years (which is not unlikely), the plan would experience a relatively large loss, portions of which would be realized (and likely require extra funding from the employer) at each plan valuation performed during the 20 year period.

Many small pension plan sponsors are either not positioned to absorb the potential funding volatility or are not interested in retaining these longevity risks. Having said that, as in any financial scheme, there is a flip-side to the above scenario—there is a potential "gain" to the plan should the pensioners die sooner than expected. However, as I will show later, this upside potential need not be entirely sacrificed.

Entrepreneur's Perspective

Many small DB pension plans in Canada have reached (or will soon reach) a "mature" stage. First, due to baby boomer demographics, many plan members are either already retired or close to retirement. Second, many small plans have already been (or will soon be) closed to new (younger) entrants. These factors exacerbate the longevity risk faced by small plans.

Due to the recent turmoil in the financial markets, many of these plans are now severely underfunded, with asset to wind-up liability ratios as low as 50–60 percent. Given that many plan sponsors are also experiencing a downturn in their core business, finding the additional cash necessary to fund a wind-up of their pension plan (and avoid future longevity risks) is difficult.

The combination of these conditions creates a perfect marketing opportunity for the longevity risk management solution discussed in this paper.

Current Solutions

Options are being developed to hedge longevity risk either via cashflow or value hedges. For example, Babcock International has become the first UK company to use a "longevity swap"—the deal covers liabilities of over \$1 Billion CAD.

Other current developments are also focused on large plans and revolve around a stochastic approach. Examples include using Monte–Carlo simulation to model mortality and using the Lee–Carter model as a tool to develop a risky coupon "survivor bond." Although longevity risk is much greater for smaller plans, none of the currently available solutions are practical for small plans.

A Quantitative Cost–Benefit Analysis

What this paper proposes is a deferred annuity product which can be purchased by a plan sponsor upon the retirement of a member to cover that pensioner's payments after a "trigger age." A few examples will serve to demonstrate the mechanics and cost of these "Tail–End Annuities" *TEA).

Consider a member of a small plan, set to retire immediately with a pension of \$7,500 per month and a trigger age 85:

1. Assuming he is 57 years old at retirement, his total liability in the plan is approximately \$1.3M. The cost of the TEA (before expenses, profit and taxes) would be estimated at \$57,000, about 4.5 percent of his current liability.
2. At age 60, that same TEA would cost 5.6 percent of the current liability.
3. At age 63, that same TEA would cost 7.0 percent of the current liability.

The assumptions used in the above examples are typical of those currently being used to value the wind–up liabilities of a small Canadian pension plan, specifically:

A discount rate of 5 percent per annum The UP 1994 mortality table (with projections to 2020)

Note that I have set the trigger age to 85—this is the age to which a 60–year–old male would be expected to live using the above assumptions. As such, this TEA would remove ALL of his longevity risk from the plan's liabilities, but there would still be a gain to the plan should

the member die sooner. For example, should he die at 75 instead of 85, the present value of the remaining 10 years of payments saved by the plan would be approximately \$243,000, which represents 20 percent of the liabilities (more than triple the cost of the TEA).

As you can see from the above calculations, TEA premiums could be developed to include appropriate loadings for expenses, profit and taxes and still provide value for pension plan sponsors. Consider the first example with the addition of total margins of 30 percent—the gross premium would still be 10 percent of the liabilities (or less) in all three scenarios.

The age range of 57–63 was chosen for these examples because this is where most of the business would come from—baby boomers that are nearing retirement.

Clearly, for current pensioners who are older, the cost of the TEA would be higher, but this could be offset by one of two methods:

1. Increasing the trigger age to better reflect the pensioner's life expectancy. For example, using the above assumptions, a male currently aged 75 is expected to live to 87. In this case, the premium (without loadings) of a TEA starting at 85 would be 22 percent of his liabilities, while one starting at 87 would only cost 15 percent.
2. Increasing the trigger age further to strike a balance between the cost of the TEA and the amount of risk reduction to the plan. In the above example, if we increased the trigger age to 90, the cost of the TEA would be further reduced to 7%, and the plan would still be "tail-end" protected against the more than 33 percent chance of the member surviving beyond age 90.

Why are insurance companies uniquely positioned to provide these solutions?

- With a few modifications, the pricing, marketing and administration infrastructure currently being used for deferred annuities can be adapted for TEAs.
- Many of the risks that TEAs would pose to the issuer are similar to those posed by deferred annuity products. These are risks which insurance companies already have experience managing.
- TEAs could help offset the risk of high mortality insurance companies face in their core lines of life insurance products.

A final important consideration is the size of the potential market. As at

Jan. 1, 2008, Statistics Canada reported that small DB plans (with less than 10 members) represent a total asset base of over \$5.2 billion CAD.

For illustrative purposes, a conservative estimate using the Jan. 1, 2008 asset base as a proxy for current liabilities and assuming an average premium of 10 percent of liabilities would result in a potential market of over \$500 million in premium revenue in Canada alone. Furthermore, this is a solution that could potentially be modified for small plans outside of Canada and also for slightly larger plans that may not be quite large enough to benefit from other solutions.

The initial goal would be for an insurance company to become established as a leading edge TEA solution provider in Canada and try to capture as much of the market as possible. In order to increase market penetration for cash-strapped plan sponsors, a payment plan could be structured (instead of a lump-sum premium) based on the current age of each member in question and the trigger age of the TEA.

John Melinte, ASA, is a consultant with Aon Consulting in Toronto. He can be reached at john.melinte@aon.ca.



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A New Model for Determining Salaries for NHL Players

by Luc Berlinguette

Executive Summary

As an actuary hired by the National Hockey League (NHL), a mandate to propose a new method helping teams in allocating their salary budget between players on their roster has been received. This paper explains how a new model based on determining an economic value for each athlete could help replace the existing method based principally on salary comparison between players with similar statistics. The economic value is based on the value added brought by each player to the franchise according to nine identified components. These economic values will help team executives in determining players' salaries in light of their financial impacts.

Business Problem

Historically, due mainly to player agents and lack of viable financial tools, determining how much an organization should pay one of its players has often been based on irrational factors like "similar" players comparison. The problem with this kind of emotional behaviour is that these other players also have been evaluated based on comparisons. With this chain of comparisons, one erroneous link will lead to an important derailment of the evaluation process. Such a comparison process could be severely impaired by an owner willing to buy a championship or a general manager overestimating a player.

Given that since the 2005 labour dispute the NHL operates under a salary cap and floor concept, it is clear that every team could benefit from a tool that would help them allocating salaries based on the real economic value of each player. Salaries represent nearly 60 percent of total operating costs and complex parameters like North American economy and currency value for Canadian teams would make such a tool more than welcome.

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Contract negotiations have become increasingly difficult with agents that were able in the past to play the comparison game in such a way that teams now need to respond with rational arguments to make sure that the negotiation process would be a fair one.

Business Impact

The fact that almost 60 percent of operating costs are freely managed by people who have no concrete data regarding the financial benefits coming from a player is obviously risky. The cost of a given salary is clear but what about the benefits? Any organization operating in such a way that it cannot explain how one of the two components in a cost/benefit analysis is determined is not managing its business properly. Many teams already operate at loss which should give us a hint that more sophisticated tools may be needed. To continue spending most of the budget in such a guessing way could lead the NHL into major trouble since teams in financial distress create problems like bankruptcy, relocation and lack of parity. These are the kind of problems that could even put the league in jeopardy on a long term basis.

Solution: The Economic Value Concept

Our method is based on two parts: the value components and the parameters that will individually influence the components. It actualizes values based on a given set of industry assumptions and contingencies regarding the player.

1.0 Value components

Nine components are considered while trying to determine the economic value. The model is flexible so any other component could be integrated. The method consists of actualizing components over time. The time period would be the contract duration. Many of the parameters described in section 2.0 would have to be taken into account in determining the assumptions.

1.1 Direct additional ticket sales revenues (S)

These revenues would be additional revenues provided by an increase in ticket sales due to the inclusion of the player in the roster. If the team is in a "sold out" situation, the following question must be answered: "By how much could we increase the price of our tickets without losing our "sold out" situation with this player on our team compared to without?" If the team is not in a "sold out" situation, the question becomes: "How many more tickets could we sell by including this player on our roster?"

1.2 Ancillary revenues from additional ticket sales (A)

These revenues would come from additional revenues for each new customer. This includes parking fees, food and beverages. Statistics regarding how much each fan spends on average for these, say \$X per event or Y percent of the ticket revenues would be used. Our model allows increasing the value of X or Y if adding the player would improve significantly team's performance and past experience shows that values of X and Y then increase.

1.3 Marketing revenues (M)

These revenues would come from additional derivative products sales made following the player arrival. Included in this component is additional sponsorship with the player on the team.

1.4 Additional local television revenues (T)

This is calculated by actualizing the difference in TV broadcasting revenues with or without the player presence on the roster. Similar national TV contract differential would not be taken into account here but within the component described in section 1.9.

1.5 Additional local radio revenues (R)

Similar to 1.4 except that it applies to radio instead of TV.

1.6 Performance value (P)

Basically, this component is the additional postseason revenues that the team would be able to collect because the player is now part of the team. This is highly subjective and management judgment plays a crucial role for this. Our model needs to use parameters such as player relative calibre (including talent, leadership, attitude, injury proneness and experience), complementarity, chemistry, player position and total revenues brought by additional postseason games.

1.7 Franchise value (F)

Hiring a player could generate an increase in franchise value. This increase could come from two sources: firstly if the salary paid is lower than the economic value; secondly if adding the player produces an impact on the competitiveness of the team improving rankings and/or profitability.

1.8 Player market value (D)

When a player is hired, he has a market value. This market value has to be translated in terms of dollars. If the contract is signed over a period of years, we have to

estimate the market value of the player at the end of this period if then the player is not a free agent. Difference (positive or negative) between the two values should be used in determining the economic value. This is like an amortization cost.

1.9 League value (L)

This value would be given only as an exception to outstanding athletes generating an increase in total league revenues. This component should be supported by every team in the league. Additional revenues over the league should be considered. The league would determine the percentage of this value that would be returned to the player.

2.0 Parameters

For each component, we have to determine assumptions to be used in the actuarial formulas. These assumptions and the ensuing computations will be influenced by the following parameters.

- Age should be considered when evaluating contingencies risks like mortality, disability and injuries. It would have a significant impact on most of the nine components.
- Charisma, if applicable, could influence principally component 1.3 and to a lesser degree other components.
- Complementarity could influence principally component 1.6 and to a lesser degree other components.
- Player behaviour outside the rink
- Energy and resilience
- Reliability would influence the same way complementarity would.
- Leadership
- Experience
- Performance would be the most significant parameter affecting all components.
- Injury proneness will influence the disability assumptions.

3.0 Salary Calculation

This would be done according to the following steps.

3.1 Determine contract length

This must be fulfilled before any salary calculation. If the team wants to test multiple durations, the model allows it by replicating the calculation using multiple durations.

3.2 Determine the economic value percentage

A decision has to be made regarding the percentage of the total value that the team wants to pay the athlete. This percentage could be over 100 percent due to market considerations, but at least management would then be aware of it in its payroll management.

3.3 Calculate the economic value


This is where the model comes into play. Team management determines the assumptions and the model calculates the economic value as the sum of the first eight components (see spreadsheet joined). The league value component, if necessary, would be calculated separately since being divided between teams.

3.4 Salary calculation

This final step will be done according to values determined in the first three steps, making sure to take into account other factors like minimum salary and any cap constraints.

Formulas regarding economic value and salary calculation are included in appendix.

A practical example is included as a separate spreadsheet for player X with no League value.

[Appendix \(Formulas\)](#) 

Luc Berlinguette, FSA, FCIA, is employed at Prospero– Assurance. He can be reached at luc.berlinguette@prospero-assurance.ca.

Appendix

Formulas

Economic value (EV) = S + A + M + T + R + P + F + D

EV = F + W where W = S + A + M + T + R + P + D

If y is the percentage of EV that we want to credit the player

And

F = F1 + F2

Where

F1 = (1-y) x EV

F2 is the value of the increase in franchise value due to the player addition

Then

F = ((1-y) x EV) + F2

EV = W + F2 + ((1-y) x EV)

EV = (W + F2) / y

EV should be calculated over the entire period of the contract to be signed

Annual salary AS = Z + (((y x EV) + (k x L)) / ä)

Or AS = Z + ((W + F2 + (k x L)) / ä)

Where

Z is the minimum salary prescribed by the players convention*

k is the percentage of the league value component to be credited

ä is an actuarial discounted value over the period of the contract taking into account all contingencies like mortality, cost of capital, short term disability and long term disability. This factor could take the form of an annuity for fixed values or be calculated on a cash flow seriatim basis for varying values.

* Z could be ignored but for fairness reasons is included in our model.

Formulas for S, A, M, T, R, P, F2, D and L are actualizations of the benefits based on assumptions determined by team management (league management for L) and actuarial contingencies such as interest, mortality and disability

$$S = (N_p - N_b) \times TP_b \times \ddot{a} \quad \text{if not in a sold out situation}$$

$$S = (TP_p - TP_b) \times C \times \ddot{a} \quad \text{if in a sold out situation}$$

$$A = X_p \times (N_p - N_b) \times \ddot{a} \quad \text{if not in a sold out situation and data available is X \$ per fan}$$

$$A = Y_p \times TP_b \times (N_p - N_b) \times \ddot{a} \quad \text{if not in a sold out situation and data available is Y \% of TP}$$

$$A = (X_p - X_b) \times C \times \ddot{a} \quad \text{if in a sold out situation and data available is X \$ per fan}$$

$$A = (Y_p - Y_b) \times TP_p \times C \times \ddot{a} \quad \text{if in a sold out situation and data available is Y \% of TP}$$

$$M = (M_p - M_b) \times \ddot{a}$$

$$T = (T_p - T_b) \times \ddot{a}$$

$$R = (R_p - R_b) \times \ddot{a}$$

$$P = G \times TP_p \times AD \times C \times \ddot{a}$$

$$F2 = (FV_n - FV_o) \times n P_x \times v^{(T)}$$

$$D = (MV_n - MV_o) \times n P_x \times v^{(T)}$$

$$L = \sum_{t=2}^z (S_t + S_t' + A_t + M_t + T_t + R_t + F2_t) \quad \text{for the other (z-1) teams}$$

Where

N_p is the number of tickets sold per local game with the player now in the roster

N_b was the number of tickets sold per local game before the player was added

TP_p is the average ticket price for a game now that the player is with the team

TP_b was the average ticket price before the player was added

C is the maximum capacity of the arena

X_p is the average amount of dollars a fan spends per game for ancillary purposes with the new player on the team

X_b was the average amount of dollars a fan spent per game for ancillary purposes before the player joined the team

Y_p is the percentage of the ticket price a fan spends per game for ancillary purposes with the new player on the team

Y_b was the percentage of the ticket price a fan spent per game for ancillary purposes before the player joined the team

M_p is the value of derivative products sold per game with the addition of the player
 M_b was the value of derivative products sold per game before the addition of the player
 T_p is the value of the television contract per game with the player added
 T_b was the value of the television contract per game before adding the player
 R_p is the value of the radio broadcasting contract per game with the player added
 R_b was the value of the radio broadcasting contract per game before adding the player
 G is the number of additional playoff games to be played due to an improved team with the new player
 AD is the ratio of average ticket price during playoff games compared to regular games
 FV_n is the estimated franchise value of the team at the end of the player contract (n years)
 FV_0 is the franchise value at the time of the player signature
 MV_0 is the market value of the player if sold to another team at time of signature
 MV_n is the estimated market value of the player at the end of his contract
 S' is the value of S (regular games) but for playoff games for all other teams

Luc Berlinguette, FSA, FCIA, is employed at Prospero-Assurance. He can be reached at luc.berlinguette@prospero-assurance.ca.



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Project Management: Sticky Situations Series Topic 2—Change (the Not-So-Innocent Enemy)

by Doris Orr

Project Management: Sticky Situations is a series of articles which outlines some potential pitfalls in the realm of project management, and which can be applied to general management settings. These situations, if left unaddressed, may certainly result in the early demise of an otherwise healthy/successful project.

Topic 1, which addressed the dangers of negative conflict within a project team, was covered in the March 2009 issue of *The Independent Consultant* newsletter. See <http://Newsletters.soa.org/soaic/issues/2009-03-31/>

Topic 2 in the sticky situations series addresses the potential dangers associated with requested changes after the project scope has been finalized. A simple change sounds so innocent but it can have a catastrophic impact on your project.

Definitions

The definition of change from Wikipedia is: "the act, process, or result of altering or modifying." The breadth of the definition is the root of the problem! The concept of a change is so simple but the far-reaching impact can be massive—and it can be destructive—to your project deliverable. Luckily, there are ways to successfully manage change.

Read on to find out how and why and what to do to avoid the potential disaster.

What Triggers Change?

Changes can result from many different sources, such as those in business requirements, project dependencies, technological environments, unforeseen circumstances, unanticipated project issues

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such as changes in key resources, or a correction due to an inaccurate scope assessment, estimation and planning. Some changes don't alter the business case but have a significant impact in your ability to deliver on time and on budget. Examples include the loss of a key project resource or a reprioritization of other projects that puts your project in a lower order of importance to the company than when you scoped it out.

Some changes are mandatory, such as revisions in the regulations governing your company/industry which have a direct impact on your project scope. Other changes are "nice to have" such as the "bells and whistles" that will make your project deliverable look and/or perform marginally better. To get to the root of the change request, you'll need to "data mine" (a good actuarial phrase!) to dig beneath the surface to find out the impetus, i.e. the driving force behind the change request. These insights will help you and your project team determine how best to handle the change request so that you keep you "customers" satisfied, and also still enable you to be successful in achieving your project deliverables—within your project's time and resource/budget constraints.

[What's Really Going On? Listen Beyond the "Noise" to Get the Real Facts](#)

Change requests usually arise in a very innocent way. An example may be that a project stakeholder or a key business sponsor will kindly ask the project manager to make a slight alteration to the predefined and agreed upon finalized scope. As a project manager, it always seems easiest to be helpful and accommodating—to be a good team player. And business sponsors always believe that whatever they are asking for is covered by the agreed project scope. But, watch out!

This very innocent change which was kindly requested by a stakeholder will likely be a not-so-innocent change, as the impact of it may delay your current deliverables. It may also cause your team to lose focus on their current tasks to achieve the on-time and on-budget deliverable and ultimately, it may cause your project to fail. If your project fails, then you—as project manager—fail too!

Yikes! Doesn't sound like a project that any of us would want to be associated with, does it, so read on ...

[How to Deal with Change](#)

The best thing to do whenever *any* change is requested is to run the proverbial red flag up the flagpole and stop the project; yes, that's right, stop the project!

Make it a really big deal each time a change is being requested of your project team. It goes without saying that there should be an agreed change-control process with request forms, an inventory of change requests and a process for evaluating and prioritizing them. This will get

the attention of all the project stakeholders who will quickly assess whether they want their change request to halt the flow of the execution phase of the project.

The project manager should arrange for the project team to perform an impact analysis which will assess all the possible areas which will be impacted as a result of the change. Each identified impact will require some additional work—and yes, you guessed it—additional costs and additional effort, which can delay the project delivery date.

A predetermined dollar threshold should be set for time/effort associated with evaluating the impact of the change on the project. This will help ensure that your team properly assesses all aspects of the change and which, in turn, will help you determine the right decision based on a thorough analysis, rather than trying to make a quick and impulsive decision. This evaluation—as well as the change itself—should be allocated from a contingency fund, which is normally established for the unexpected (but essential) tasks which weren't envisioned when the project was scoped out. A contingency is usually a percentage, e.g., 5-10 percent of the known project costs. It is always best to have the contingency set up as a separate component in your project plan, rather than inflate the individual known project tasks for this buffer. I know this is stating the obvious but contingency planning needs to be part of your initial project plan.

Resolving the Dilemma of Whether to Implement the Change—Using Win/Win Collaboration The reason for the change will most likely provide the impetus for the solution and may (or may not) provide the tolerance for accepting the impact of the change. A mandatory change such as a changed regulatory requirement which has to be dealt with by the project team will receive a higher level of acceptance by the project manager than an additional bell/whistle that is a "nice to have."

Sometimes, after an initial discussion regarding the impact of the change on the current project deliverables, the project manager is able to arrange with the stakeholder/change requestor to delay the implementation of the change until a subsequent phase of the project. This will give the requestor confidence that his/her change will be delivered and will also help ensure that the current project phase will stay focused on the current set of deliverables within the agreed timelines and budget. This approach works particularly well when there is a set schedule of update releases.

***Remember, everybody wants to be part of a winning project
—which, in part, means delivering the
best possible product.***

In light of all the excitement and/or drama around the requests (or

needs) for change, remember what the initial problem is that your project team is trying to solve. Don't lose sight of what your ultimate deliverable is! This focus will help you and your project team make the right decisions and make it easier to communicate less than good news to the requestor of the change, if you determine that the change cannot be accommodated within your project constraints.

If your team has made the assessment that the change can be accommodated into your current budget—without compromising quality and deadlines—then you need to make sure that this change is quickly and clearly communicated to the entire stakeholder community. The rationale behind the "yes" decision will also help them understand the thorough process that you undertook in determining whether the change would be accepted into your project scope. You will also want to ensure that everybody impacted by this change is brought into the loop as quickly as possible, as they will need to determine what they need to do differently to fulfil their part of the change order.

Remember, there is always a fine balance between: (i) acquiescing to make project stakeholders happy that they are getting what they ask for; and (ii) ensuring that your project team keeps focused on delivering the agreed scope within the agreed timeframe and budget. Always keep this in mind as this will make your life as a project manager much easier.

Some Final Thoughts

Being a project manager is so much more fun when you stay in control of the fundamentals, which includes dealing with requests for changes in a win/win solution focused way.

Just remember what's at stake—either keeping people happy or keeping your project on the path to a successful completion or both. Make sure that a requested change doesn't become your not-so-innocent enemy!

Look for the next article in Project Management: Sticky Situations Series. Also, if you have any examples of potential project pitfalls, please feel free to submit them to me and I would be more than happy to provide suggested solutions on these.

On Oct. 28, 2009 I will be presenting a project management session at the annual SOA conference in Boston, Mass. Learn more about this session and register at SoaAnnualMeeting.org/agenda-day4-sessions.aspx#session124.

Doris W. Orr, CA, is SVP project director for XL Capital. Her passion is to add value and to help others get excited about adding maximum value in order to ignite their career paths. Through experience gained from running many projects—both large and small—and from working abroad for various years, Doris provides practical insights on how to

increase your value—one second at a time. She can be reached at doris.orr@xlgroup.com.

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475 North Martingale Road, Suite 600, Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org