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# A VIEW FROM PLAN SPONSOR ACTUARIES

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JUDITH D. SPIGAL
Recorder: JEAN-LOUIS MASSE

- o Are actuaries working for plan sponsors better than outside consultants?
- o What is the professional responsibility that an in-house actuary must have?
- o How does the plan sponsor actuary provide analyses?
- o How is the role of the plan sponsor member evolving?

MR. JEAN-LOUIS MASSE: Mr. Denis Coderre, the slated moderator, was not able to come in due to last minute changes at his place of work and sends his apologies for not showing up. He has, however, agreed to act as moderator in-absentia. Ms. Spigal and I are here as actuaries working for plan sponsors. In In other words, like consultants, we get paid by plan sponsors for work that we do, but contrary to consultants, we also get paid when we have nothing to do. I'm curious to know how many of you have ever met a plan sponsor actuary. Let's see a show of hands. About half the people; I'm surprised. How many of you are plan sponsor actuaries? One purpose of this discussion will be to tell you a bit about plan sponsor actuaries, for those of you who are not: some of what they do, why they do it, how they go about it and how their role came about.

Ms. Spigal, the first panelist, started her career at Metropolitan Life, worked there for some 13 years, and joined General Electric. She works in the finance area in its headquarters in Connecticut, mostly in pension matters.

MS. JUDITH D. SPIGAL: I find this a slightly different topic than most of the other sessions here, because it is really just an opinion subject rather than a technical issue.

You might notice in the program booklet that the first question is whether actuaries working for plan sponsors are better than outside consultants. I think that they are not necessarily better, but I think they must adopt a broader view of the plan sponsor's concerns than the outside consultant usually gets involved in.

There's a basic difference in focus working at a corporation. To corporate management, the pension expense is the real number, and the IRS requirements or anything else is subsidiary. The pension expense number is what affects the bottom line, the profitability, the stock price, and everything. You have to get used to that, first of all. Once you realize that, you start seeing all sorts of other areas that become either issues in themselves or issues in the background of your major thinking about pension funding and pension expense. One of these areas that I've gotten involved in would be seeing a change in the company's cash flow needs due to a significant merger about to take place. This affects management's thoughts on what its funding policies should be for the pension plan. Another thing that I never really dealt with as a consultant, although some consultants may have, is the government recovery issue. A significant portion of our business is defense contract work. The government reimburses pension costs under very strict rules and very strict scrutiny, so you have to be very careful in what you do and keep in mind how it is going to affect the recovery.

Another thing that you see is the employee relations area; you see the history of why the pension provisions are what they are, and you see what the employees' expectations are. I'm thinking in particular of the provisions like early retirement and the fact that our plan is contributory; particularly with a very large plan like ours, you don't change traditions very quickly.

Another aspect that the outside consultant might not see is some of the peripheral effects of union negotiations. He might just be involved in pricing the possible plan changes, but I would be involved also in looking at what plan changes might be likely or not likely in connection with what we're doing in the other benefits areas. We put in some significant cost containment features on the insurance side last year when we had negotiations. We knew, therefore, that we were not going to be able to not give the union something on the pension side.

Another area is legal questions. I work fairly closely with our in-house pension attorney, and occasionally there are things like lawsuits. Right now I am very concerned about what we are doing with Qualified Domestic Relations Orders (QDROs). A big company gets lots and lots of QDROs, and the judges all over the country really don't know very much about pension plans. We have to come up with some procedures to deal with these. So, again, I'm working with the pension attorney, and we are going to be working with our outside consultants to a certain extent on QDROs, I think.

Another view is the administrative view. We have an administrative group in Schenectady. I think there are something like twenty or twenty-five people, who administer the entire G.E. pension plan. So, when we think about plan changes or administrative procedures, we have to be very careful as to what is feasible and what is not in terms of administering them.

Another issue that is probably obvious if you think about it is that we get a lot of letters, and especially letters to the chairman. Sometimes we get involved in drafting responses or things like that. There are sometimes political concerns about how we respond to these things. Very rarely would an outside consultant see these.

Another area that sort of surprised me, because I never thought about it, was that every year, we have a stockholders' meeting. In the pension area we prepare a notebook of questions and answers for the person who is going to be presenting the pension issues, so that he will be prepared to answer anything that might be asked by the stockholders. It is things like this where you see the amount of work that goes into preparing a set of questions and answers that might be asked; it's just a very different view from standing outside.

I also get involved occasionally in other benefits areas such as the insurance plans, the defined contribution plans and occasionally the compensation plans.

The way we are structured, all the plans are together by what the function is. In my finance area, we have about seven people, each specializing in one or more types of employee benefits plans, so we do have a lot of interaction.

Another area that I sometimes get involved with is the trust operation. Our trust is managed entirely in-house in Stamford, which is not too far from where I am in Fairfield, so that on certain issues we have to get together with the trust management people. For example, we had a dedicated portfolio and had to determine how to set that up, how to value it, and how to keep track of it. We decided to make a change in how we handle expenses and charge certain expenses to the trust. There again the trust people have to be involved with a lot of difficult decisions on what is allowable.

Another of these differences that I saw was the concern with the comparison with other companies. A large company like G.E. is not going to make a major move without finding out what other companies are doing -- and other specific companies, the peer companies or the product competitor companies or the board companies. We do a number of surveys on different topics from time to time so that when we present a recommendation up the line, we can also show management where other companies are.

Finally, an area that the outside consultants would almost never be involved in is communication. Last year after negotiations, I was involved, along with several other people, in going to regional meetings to explain to our personnel managers what the changes are (the Retirement Equity Act and various other changes that we may do to negotiations).

When you think about the things that I just mentioned, you realize that the actuary is uniquely equipped because of the background that he has from the exams in economics, tax, law, insurance and investments. I feel well qualified to deal with all these other people -- more so than someone from inside who really came up the accounting trail and is in charge of the pension plan matters.

Another issue that is of some concern is the professional responsibility that you have as an in-house actuary. I'm the only actuary at G.E. right now, and two years ago it had none. So I am in a different situation than you might find in some other companies that might have three or five or six actuaries, or a whole consulting company as part of the company. It seems to me that the basic rule here is that the fewer actuaries that you have in the company, the more judgment you have to exercise in when to seek outside help.

The other aspect of it is that I'm the only actuary there; my boss is not an actuary, his boss is not an actuary, and so on all the way up to the chief financial officer and the chairman of the board. They are very smart people, but they don't really understand the technical aspects. So it is sort of a challenge.

I really see two areas where you have to exercise judgment in when to seek outside help. One is that frequently you are called upon to make approximations, to come up with some quick estimate. You always have to evaluate, after you figure out how you are going to do this, whether that response is going to be close enough to the true answer that you can say that it is the answer, or how much you have to hedge it. That brings up the question of whether you should bring in your outside consultants to get concurrence on whether what you are doing is reasonable. Should you ask them to do a valuation of whatever the issue is? That kind of question comes up all the time.

The other consideration that is of even more concern is the areas where you may find that you have limited knowledge. This could include things that are really just not in your background; you have never dealt with them before. For example, I got involved with the question of applying the Section 415 limits. In the case of a contributory plan, I'd really not run up against that before; once I got into it I realized that the regulations were extremely unclear (as they usually are), so there was no way that I could give management an opinion on that myself. We had to seek outside help on that. As it turned out, we went to our outside attorney and the actuary affiliated with him. They eventually submitted the questions to the IRS, and that just demonstrated that I am not the only one who wasn't able to figure out what was wanted there.

The other aspect of limited knowledge would be new things, for example these QDROs. I don't think that anybody really knows what to do on the QDROs, so the best you can do is come up with what you think you ought to do, talk to some other actuaries and perhaps some other plan sponsors, and get some agreement that you all feel something is reasonable before you go ahead and start on it.

I guess the other aspect that goes along with professional responsibility is corporate responsibility. There I find that you really have to exercise care in giving opinions. The people you work with really rely on you as the expert. I work with an attorney, a tax guy and employee relations people, and to them I'm the expert on pension funding matters and various implications there. So, if I don't know the answer, I have to be very clear about that.

Finally, there is somewhat of a damper on all this professional responsibility. You watch the consulting fees, and that generally means that you watch the consulting fees grow. You keep in mind that you are there partly, one would think, to help reduce those fees. This makes it difficult sometimes to justify how much you want to use your outside actuaries. You can usually justify it, however, when you think about why you are using them and what they have been doing. There have been FASB, the Retirement Equity Act, and union negotiations. We have quite a few other jobs that are not that general, so you realize that using outside actuaries is justified -- at least in our case I think it is.

One of the other topics that we were asked to talk about was how the plan sponsor actuary provides analysis. I'm not really sure what that question means, but my interpretation first of all was, what are my tools and resources? I find that my basic tools and resources are a personal computer (which I use a lot) and an in-house valuation system which is actually detached from us. It is up in Schenectady, and we have a valuation specialist who does most of the work on that system. I might get involved in changes and evaluating reconciliations to our outside consultants, but I don't actually run valuations.

As you may have gathered, I really feel that our outside consultants are another major tool. I found it interesting that my company has told me that it intends to continue to use outside consultants no matter what, in particular for signing reports and so on, because it feels that an independent look is important. I'm not sure whether it feels that it is important to the company or important in the impression that it creates to others. I'm not sure it matters.

Being the only actuary at the company I think is difficult, because there is a bit of isolation, so I rely also on input from other actuaries besides our outside consultants. I try to attend a Society meeting or some other significant meeting when I can, and I keep up contacts with other actuaries from the past. Also I keep up input from other corporations, as I mentioned. I get involved occasionally in industry group meetings besides actuarial group meetings to find out what other companies are doing.

I think this job is sort of interesting in the way that I feel comfortable handling either small jobs that I can do myself and feel confident in or broad opinions. But it is the intermediate sized jobs like doing a valuation or evaluating a complex plan change that I really can't handle alone.

The other aspect of providing analyses that I see is how you present your analysis, or the method of presentation. I'm sure this will vary from job to job and company to company. For me, I find most often I get involved merely in discussing issues with people and perhaps doing some spread sheets and showing them the results. Occasionally, we prepare presentations -- for example, for the board of directors every year -- with our recommendations on the pension plan changes or funding. These are really major tasks. We spend a lot of time perfecting them and putting together just the right bullet type presentation and just the right graphs to go with it so that the senior management can spend as little time as possible working with it and gain as deep an understanding as possible. Very occasionally, I'll have to do things like write letters, memos, or pension board rules, but those really don't come up for me very often compared with just discussions and PC work.

The last issue that was mentioned in our agenda is, how is the role of the plan sponsor actuary evolving? I interpreted that question in two ways. I'll give you both answers. First, I believe that there is an increase in the number of plan sponsor actuaries, and I believe that the number is growing. I haven't actually checked the statistics in the yearbook in the last several years, but I do think it is growing. I think that in our case, the more requirements that get imposed, the FASBs and the REAs, the more the plan sponsor feels uncomfortable and wants to have an in-house expert to look at these matters.

The other way to interpret that question is to ask how the role of this actuary is evolving. There, I see for myself that over the last two years my involvements have gotten broader. I got more involved in more things. There are the tax questions, the legal questions, QDROs, employee relations questions, and questions from the field, and that seems to be growing. But it is still a little early to tell. I've only been there two years, and we really don't know where we're going with this.

MR. MASSE: Before I address those four points, I would like to give you an idea first about myself, where I come from and, more important, the environment I'm working with. This will explain a number of remarks later. I too spent the first twelve or thirteen years with a major life insurance company in Montreal and then joined Canadian Pacific (CP) three years ago.

CP is basically a holding company, for those of you who don't know it, in Canada. It holds companies in the transportation business and the non-transportation business. It holds a railway, an airline, truck companies and ships. The non-transportation companies are oil and gas, mines and minerals, forest products, steel, real estate, and finance. It is a fairly diversified company with twenty-one billion of assets and fifteen billion in revenues. It is probably second to GM in Canada in terms of revenues. It has some one hundred and twenty-five thousand employees, mainly in Canada and some in the States, Europe and the Orient.

The main plan is the rail plan. It has twenty-eight thousand employees, twenty-eight thousand pensioners and assets of two and a half billion. It is probably in the top five private pension plans in Canada. And, interestingly enough, the assets of the pension plan are about half the assets of the rail company. Relatively speaking, the pension plan is large; in fact, these days it is making more money than the rail company. You wonder, who is running whom?

Each subsidiary has its own pension plan, tailor made to its own industry, except maybe the transportation companies, which tend to have basically the same type of plan. Each subsidiary has its own consulting actuary, although many of them belong to the same actuarial firm. There are, however, certain company policy matters which come from the parent and which are monitored by the parent. We will see a little later how the actuaries in the company actually get involved in these things.

There are two Fellows at the company plus an Associate. As plan sponsor actuaries these two Fellows have very different jobs. They work together in the same department. We are not in finance; we are in administration, oddly enough. We are very close to senior management and the board of the company. One Fellow deals basically with senior management and the board in matters such as company policy on the pension plan. For example, we don't favor inflation protection or automatic indexing, and none of our subsidiaries do these things. We have certain ideas on what the normal pension age should be, and that is pretty uniform also across the system. This actuary is also involved in analyzing unfunded liabilities for the board, which at times gets interested in knowing exactly what that one billion dollar unfunded liability is which appears in a footnote.

Coming events, of course, would be the accounting treatment of pension plans in the family. No decision has been made yet as to how uniform our assumptions are going to be across the system. The plan designs, of course, are monitored; the level of benefits is monitored. The parent is obviously interested in making sure that the subsidiaries don't fatten their benefits and hide them through changes of assumptions or things like that. Of course the various investment policies are also monitored. You watch for specific investment managers at the subsidiary level being way below par compared with the rest. As the parent, you are in the position to have a broader picture and can compare who is consistently below the average on that.

One of the important tasks of that Fellow lately has been to monitor the development of pension legislation in Canada. For those of you who have followed pensions on the Canadian scene, we seem to be coming out of a long pension debate. New legislation is coming in at the federal level and at the provincial level. CP is subject to both; the transportation business is subject to federal legislation on pensions, and the non-transportation business is subject to provincial legislation. Being so large on the Canadian scene, we are asked -- in fact, we are told -- to appear in front of different parliamentary committees or special commissions on pension matters.

Of course we are active in pressure groups, be it the Chamber of Commerce, the pension managers' associations or other associations. It is one of the duties of that actuary to be the company representative on these things. The actuary is also asked to speak to unions, employees and pensioners. That can be quite an interesting experience. Some of you may have had the opportunity. It gives you quite a different perspective.

That actuary has also been asked to speak to specialized press, not because he is any brighter than the others but just because everyone is curious to know what large companies think on certain of these issues. And, like I said, these issues are very popular lately because of pension debates.

The actuary is also involved in union negotiations and acquisitions and mergers. Last, but not least, is his involvement in the production of actuarial valuations, be it internally or externally.

The other Fellow of the company and the Associate have basically been busy performing those valuations which have been done in-house, performing the experience studies, putting together the data and the record-keeping system. We have so many plans, and many of them have transfer agreements between one another. That has kept this Fellow active pricing union demands, pricing various alternatives in designs of the plan, determining transfer of assets between pension plans or producing computer programs for the administration. He has been acting as consultant to the subsidiaries also. Upon request, subsidiaries, buying or selling companies, have created work for us by starting a pension plan, terminating one or folding one -- the usual actuarial consulting work. So in a nutshell, that is the kind of work that is being done at CP by actuaries.

Plan sponsor actuaries are in a unique position. As a plan sponsor actuary, you see a special problem: the special concerns of a plan sponsor. Since you live with management every day, you get to know your people better; you devote a fair amount of time educating and understanding them. You have access to information which is not usually available to a particular consulting actuary, because you see information on various plans whether they are done all in the same country or not. You can see with your actuarial binoculars what's going on, and you can see problems and come up with solutions that a particular consultant cannot, only because he was not given the information. When management has forty or fifty different plans, it doesn't give all its actuarial valuations to its consultant and say, "What do you make of it? When a company has an in-house actuary, who is ever present, he gets to be known and obviously he gets asked more questions, I suspect, than the typical consultant would, if only because his advice is cheaper. Also, as his credibility develops, he doesn't appear as if he is selling a product. That may be more credible; because he is ever present, he can see problems which may have been seen but have not been solved. For example, in my case, the company was buying and selling other companies, but the pension situation never seemed to bother managements. It would look at the pension after the fact. Now we are trying to look at the pension situation before the fact.

The first question is, Are the pension sponsor actuaries better actuaries? My answer to that is "sometimes." As I mentioned earlier, because we are in a very different position than the consulting actuaries, we see different things; we are generalists compared with the consulting actuaries. My chairman thinks that I am a specialist in pension matters. When I compare myself to a consultant, I'm more of a generalist. That could be better or worse for the board, which is even less versed in pension matters, so it doesn't get confused with the details. On the other hand, I don't work in an actuarial laboratory, as actuarial consultants do. Of course, I am not aware of the latest loopholes, or what have you. So, my answer to that first question is that sometimes we are better, but certainly not all the time.

The second point is on special concerns relating to professional responsibilities. I had a look at the rules of professional conduct in the Canadian Institute of Actuaries preparing for this discussion. There are some interesting comments, food for thought, to which I must admit I never gave very much thought.

The first one (I'm just going through the numerical order) is, "The member shall perform professional services with courtesy and consideration to other members, and shall avoid unjustifiable or inappropriate criticism." Of course, because the actuary gets to see so many actuarial reports, he sees some that are not perfect. But I, as a plan sponsor, in practice cannot afford to be inappropriately critical of a consultant. Each of them has his own specialty, and I may very well need him in the future. So, I don't think that it is a problem in practice.

One item of more importance is, "A member shall perform professional services only when qualified to do so." Of course, being in-house, you get asked all kinds of questions. Some of them are related to your pet subject, but some are not. It is very easy to develop this aura of knowing everything since you are an actuary. You have to be able to know where your limits are. You have to be able to know when to seek outside advice, or just clearly pass the request to outsiders. In that sense this is not a new thing. I feel that I am probably in a better position than the outside actuary. I have yet to hear of an outside actuary who, if asked whether he was the best person to handle a job, would say no and suggest that you go to another firm.

Another rule of professional conduct is, "A member shall not perform professional services where the member has reason to believe that they may be used contrary to public interest." On that score, I feel that we are probably in a better position than the outside consultants; being closer to the scene, it is probably easier for us to see whether this is going to be used against public interest or what have you. But I don't think that it is a major point.

Another important rule is, "A member shall not perform professional services where there is a conflict of interest, unless there has been full disclosure of the conflict and the parties involved have expressly agreed to the performance of the services by the member." Clearly, when you are dealing with governments and unions, employees and boards of directors, you are wearing different hats at different times. It must be clear to all parties that you are speaking according to which hat you are wearing. Now again, this is not a new problem. It requires one to be cautious. Consulting actuaries who are asked to go speak to employees to explain the beauties of a plan change have to be honest with themselves. They cannot be in a conflict of interest. The life insurance company valuation actuary is in a very similar position to mine as a plan sponsor actuary. He has pressure to make sure that his reserves are adequate. He has pressure to protect the benefits of policyholders. On the other hand, he has pressures from his board or the president to produce higher revenues and smaller reserves. In that sense he may very well be in a bigger conflict of interest than I am.

There are other rules of conduct, but I thought that these were the main ones. At first they may seem to cause problems, but in practice I don't think that they are new problems. One has to keep them in mind as a plan sponsor actuary.

I also had a look at the Society's rules of professional conduct, and oddly enough, I found that they are almost the same, word for word. It is reassuring, in a way. I am not going to go over the Society's rules.

The third question is how these actuaries provide the analysis needed by their sponsors. Obviously, the answer is "very carefully." Personally, I try to provide analysis for the plan sponsor first by putting myself in his shoes. I don't feel that I am an advisor to the plan sponsor. I feel that *I am* the plan sponsor. You have to deal with the pension plan. Of course, you are worried about your bottom line profits. You have to worry about your employees. You have to worry about the public relations, particularly if you are a big employer on the Canadian scene, or any country for that matter. If you are big on any scene, what you do with important things such as pension plans has impact on a number of fields. You have to determine what the needs are. I have discovered to my surprise that even a large corporation's management sometimes doesn't know what its needs are. You have to make management realize what its needs are. We talked about the merger a moment ago. Everyone is conscious about making money or saving money, but there they go merging pension plans without worrying about the financial implications. There they go not monitoring their unfunded liabilities in various pension plans and not considering the investment performance of the various pension plans. But they all want to save money or to make money.

Of course, you have to decide at one point in time whether the job will be done in-house or outside. That, in my experience, has been a function of the nature of the job, the time you have to do it, the experience of your in-house actuary, and the amount of money the company is prepared to spend for the job. If you do it in-house, you have another question to ask yourself: whether you create a system to do it in-house or whether you go out and buy or rent the software to do the job. There is no point in reinventing the wheel.

Say the company has a job to do, or after acquiring a life insurance company has to value it. Your pension actuarial consultant may not be the best man. For example, we hold a reinsurance company in Bermuda, a general reinsurance company, which wanted to get involved in the annuity business in the States. The question was do you go to your pension actuary for such advice? In a large holding company there are very diversified interests, and that is the point I am trying to make. Not the same person always has the best answers. You, as an in-house actuary, have to be aware of each specialty that each consultant out there has, to direct the right question to the right person.

The last point is how the role of the plan sponsor actuary has evolved or is evolving. I personally think that it is a new field. Plan sponsor actuaries are still recorded as "other" for statistical purposes on the Society's sheets. There may be 2% of the actuaries who work for plan sponsors in North America -- maybe a bit more, but not very much. Of course, I suspect that they all started by convincing their employers that they could do heir valuation for them, if not for filing, at least in the interim period. They can crunch numbers just as well as anyone else and probably could interpret them better than the comptroller who had just bought a program to do actuarial valuations. I see this job evolving quite rapidly, and frankly, so far it seems that the sky is the limit. There are plenty of opportunities out there, when you get out of the mold of dealing with one pension plan.

Working for a large plan sponsor, you deal with many pension plans. There is a new layer of problems that haven't been addressed, in my experience, by anybody, if you work for a multinational with plan sponsors in various countries. I have seen very few people in charge of multinational corporations with actuarial backgrounds. That is a real problem for a parent or a holding company. How do you know that your dear subsidiary in the U.K. is funding or is designing its pension plan in the most efficient way? Do you rely on the local actuary? Do you send another actuary to audit it? Chances are that you will get into an expensive and dry discussion with two actuarial firms arguing, and you, the plan sponsor, will not be able to make out what is right and what is wrong. In short, multinationals have very specific problems. In fact, I came across one plan sponsor once who was looking for a person to be in charge of pension plans around the world. He couldn't understand actuaries and couldn't understand life insurance companies around the world and was looking for an actuary just to decipher the messages, to be able to speak the same language and then interpret it for the plan sponsor in the U.S.

Big corporations have big pension plans, and they like to speak for themselves. When they are talking to governments, unions or other employers, they are not always at ease to say, "I am not an expert on pensions, but here is my outside advisor, who will do the talking for me." I am discovering that plan sponsors prefer to talk for themselves and not rely on outsiders.

Where will that lead the plan sponsor actuary in the future? I don't know. But one thing I know is that as actuaries, we are equipped to manage risks. Pension plans are risky businesses. Plan sponsors deal with risk all the time: pension plans, casualty insurance risks, be it responsibility or fire or what have you. But more importantly, plan sponsors, employers or corporations are in business. Business in itself is a risky venture. Acquiring a company, selling one or starting up a new line of business is risky. Surely one day, a brilliant actuary will be asked to quantify those risks to manage those risks. To manage a business, to run a company, is a matter of taking risks. One must be able to figure out probabilities, to work with an array of assumptions. I have yet to meet someone better equipped to handle probabilities and all sorts of assumptions than actuaries. That gives me confidence when I try to extrapolate on how the role of the plan sponsor actuary will evolve in the future.

MR. RONALD J. SCHALLACK: I'll address this question to both of you, although Ms. Spigal, I am thinking of something that you said. How readily is your work accepted by outside consultants, where you start something or do substantial work and then you need to go outside for that independent view that you were speaking of? You mentioned that you personally didn't get involved in the valuation work, which was done by a unit in Schenectady. But there again, that unit would do the valuation work and yet the Schedule B would be, I presume, signed by someone else.

MS. SPIGAL: First, let me clarify what we do. We do the valuation in-house in Schenectady, and our outside consultants also do a valuation. They both may not be the entire plan valuation. Essentially, they are a check on each other. Then the outside consultants will usually certify the results and provide the Schedule B. If everything goes smoothly, I will hardly be involved at all. If there are special considerations, special problems or changes in assumptions, or irreconcilable differences, then I may get involved to try and interpret and help them figure out what is different about the way each one of them has done it. In fact, that is one of the things that we have had as an ongoing project: to try and reconcile the differences between the two systems.

As for the first part of your question, I would say our work gets accepted very readily by the outside consultant sought out to provide an independent view. I work very closely with our actuaries, and they are very anxious to serve in whatever capacity we need them to. So, if I am able to do the first part of the job and lay it out, they will take that and will comment if there is some problem with it. If not, they will carry it from there on. They similarly know that when they do a job for us, I'll be looking at that job. I think that we are both very happy that we are both there. It works well.

MR. MASSE: It hasn't been my personal experience, but in talking to other plan sponsor actuaries, I learned that some of them have been received like dogs in a bowling alley. The consultants were not too pleased to be dealing with an in-house actuary. I guess that it is a fact of life, and people will have to adjust.

What has been happening is that the routine jobs have been done in-house, and the outside consultants have been left with more ad hoc assignments, which are more actuarial, if you want. There is nothing very exciting in repeating every year that the data are not right, or crunching numbers of an actuarial valuation. But, if you get into financial planning, you really get into some actuarial work that makes the job much more interesting for them. The financial planning work may not be as secure; you don't have that assignment repeated year in and year out.

Other plan sponsor actuaries found that the advent of their jobs did not reduce the consulting fees. Somehow, the fees just remained where they were or if anything, increased. But the type of job is very different. I personally feel that it has made the nature of the job more interesting for outside consultants. It has helped them also that you are talking the same language. When they are given an assignment, they are much more efficient, much more productive; as consultants, they don't waste much time in understanding what is asked of them.

MR. SHRIRAM MULGUND: A reference was made, or a comparison was made, between a plan sponsor actuary and a valuation actuary of an insurance company. I think there are two aspects involved. One is the independence of action and the other, technical know-how. Now, an insurance company actuary does valuations. No insurance company would think of having outside consultants to do its valuations, because the technical know-how is available. Also there is no doubt that the independence of the actuary may be diffused between management and the actuary. But the assumption is that the valuation actuary would be able to determine the valuation basis and would be able to have a say.

Why couldn't a similar consideration be applied to a plan sponsor actuary? There may be situations where the plan sponsor actuaries may be only one or two people in the company. In that case they may not have the technical know-how; they may have to go outside to get that technical know-how. But if that technical know-how is available, why shouldn't the plan sponsor actuary be able to perform the valuation and submit it? Is it because the management or unionized labor or somebody else does not trust or believe that the plan sponsor actuary will be independent and would not have faith in the valuation results? Would they think that the results were invalid or something like that?

MS. SPIGAL: I think that on this point you are referring to my comment about independence. What I was trying to convey was that we are subject to a number of constraints by different groups: from the government, on recovery; from the unions, on benefit levels and contribution levels; from management on what it desires as pension amounts and contribution amounts; and from the IRS. In other words, we have a lot of conflicting concerns, and we find that it is easier and just overall a better idea to have an independent certification so that when one of these groups comes in and says, "Why are you using 6%? Shouldn't you use 9%?" We can say that our outside actuaries have advised this or that. If we use 9%, the next group would come in and say, "Why are you using 9%? You should be using 6%." It is sort of a no-win situation.

MR. MASSE: My comment on that is that the insurance and the plan sponsor actuary have come from very different positions. There are life insurance companies which are so small that they will farm out the valuation work, but as a rule the large ones will do their own thing. From that point of view, plan sponsors are not different. There are large pension plans, and I manage my main pension plan. The rail one has three billion of actuarial liabilities. Now that is as big as about three quarters of the life insurance companies in Canada in terms of actuarial liabilities.

Why wouldn't we have an in-house valuation actuary doing the valuation? There is nothing legally against it, but the different position is that the valuation actuary in an insurance company has two publics, one being the policyholders and one being the stockholders. Whereas with the pension plan, my one public is the employees, which is much closer to the company or the unions. Whereas you may be quite independent when doing your valuation, you must also be perceived as being independent. That has created problems in certain quarters. It hasn't stopped everybody from doing the valuation. Some plan sponsors are doing the valuation in-house and are signing it and filing it, and that is the end of it; there is no problem. Others, and we are one of them, produce the numbers in-house every year, but when the time for filing comes, get the outside consultants to audit and change the numbers if necessary, as well as sign it. It is really their report. This way this independence is protected.

MR. MARK D. HOROWITZ: Both of you made reference to having some form of in-house valuation software. I was just curious about where each of your companies got the software and whether you developed it in-house, purchased it, or use it on a time sharing basis?

MS. SPIGAL: In our case, I believe the system was developed essentially in-house, with the help of our outside consultants, some years ago. We are considering making a change in the situation.

MR. HOROWITZ: In what sense do you mean a change? Purchasing outside software?

MS. SPIGAL: Yes, we have just embarked on a study with Winklevoss and Associates. After we finish the projection study, there will be a period where we implement the valuation system of Winklevoss and Associates. We will try that out to see if that meets our needs better than the system that we already have. At this point I don't know where we are going to wind up, but there are certainly limitations under our current system, which was developed years ago just for one plan. The plan evolved over the years, and it is very hard to keep it up.

MR. MASSE: In our case, when I joined, there was nothing in-house. We have since developed a system to do small plan valuations or a large one on a group basis. We have since searched the market with the intention of buying a system. We are currently renting the system used by our outside consultant so that we can crunch the same numbers. That way we don't get into a discussion as to whether your q x is at the beginning of the year or in the middle of the year. We use this in-house system to double check the numbers. We do sign reports, as I said. We don't sign the main plan, but there are smaller plans in the family which are signed by those two actuaries that I talked about. And of course, we can't rely on somebody else's system where we turn five hundred switches to make sure it is good enough. We have to do our own thing, separately. There are all kinds of systems out there in the market. Even stock firms are selling these systems. Apparently they do valuations; they do your accounting of FASB, the old and the new and the Canadian one as well. They seem to be magic. I don't know if they work, but I have seen recent publicity on the subject.

MR. HOROWITZ: Do you have any idea how plan sponsor actuaries do relative to actuarial consultants in terms of their earnings?

MS. SPIGAL: I don't know. How much do you make?

MR. HOROWITZ: Well, in general?

MS. SPIGAL: I really don't know.

MR. HOROWITZ: They are two totally different kinds of work.

MS. SPIGAL: I think that you have to remember that there is such a small number of plan sponsor actuaries and there are so few in any given company that it is very hard to generalize anything. I think that it is an interesting question, though.

MR. MASSE: I don't know. I think it is a matter of how many hours you work.

MR. ROBERT M. KATZ: I am a plan sponsor actuary, formerly working for a consulting company. I would say that the hourly rate of pay as a plan sponsor actuary is considerably higher than that of a consultant, simply because consultants work incredibly longer hours than the plan sponsor actuary does. At least that has been my experience. So, I don't think that you can compare total rate of pay. I suggest that if you compare the hourly rate of pay, the plan sponsor actuary makes a lot more.

MR. SAMUEL ECKLER: I guess the question that intrigues me is the relationship between the outside consultant and the sponsor company's actuary. There are a lot of questions under that heading. What is the relationship between the outside consultant and the internal actuary? Does the outside consultant report to the internal actuary? Does he report to the internal actuary's boss?

How are the differences resolved? And to say that there should be very few is unrealistic. I have rarely seen two actuaries of strong convictions and a lot of experience agreeing wholeheartedly on many issues. I could see differences in the experience, the reputation and the resources of the internal actuary versus the outside actuary. We could have an internal actuary with limited experience and an outside actuary with a tremendous amount of experience, or an internal actuary with a big empire under him. The potential differences are tremendous. One can't really generalize that relationship. I am curious about the trends which are showing up.

I am also intrigued with the relationship between the valuation actuary and the internal actuary. In my experience I have acted for a lot of smaller life insurance companies, watched them grow, lost my job, and continued a very nice relationship. It's a natural kind of development.

That is different from what I think is happening in the pension field. Here we have mammoth pension plans. I think for years it was only the AT&T group that had an internal actuary. Now many companies are going to this field, and there are a lot of reasons for it. One must be saving money, but I don't think that that is the main reason. One is the great advice that these people can give companies. I think that companies are recognizing that these people have a role to play.

I don't know where we are going to go, and that is the next question that I ask. What is going to happen in the future in terms of this development? An actuary gets into a job; an empire is built up -- it's natural. We are all ambitious; we all want to develop and have what we do grow. So I do see an acceleration and a growth to this situation. The question is, will we still need outside consultants? Is there something in this term "independence"? Will the inside consultants and the boards and shareholders want outside advice at that point? I think it is a little different from insurance companies, but I am not quite sure.

MR. MASSE: To answer your question of whether we will still need outside actuaries, I am convinced that the answer is yes. I'll give you two analogies; they may not be very good, but they are practical in this world. Large companies have inside counsel: lawyers and attorneys. That doesn't stop them from going outside when the need arises. Large companies have internal audit departments and comptrollers. Now legally, they have to go outside for an auditor, but in many instances the outside auditors merely verify the auditing -- the job that has been done in-house. As I mentioned earlier, it may change, but currently (and I think that it will be so for quite a long time), the in-house actuary is not in an actuarial laboratory. He doesn't know the latest. He doesn't have the exposure that outside consultants have, and will rely on outsiders to at least bounce his ideas off, to make sure he hasn't missed anything. Management will want to make sure in-house actuaries do that. That is the case in my own shop. It is true that as time goes on, the in-house actuary will be a bit more independent of the outsider than he is right now. I guess one has to remember that the plan sponsor is managing his own pension plan.

Currently the in-house guy is maybe a comptroller, a vice-president/administration, a vp/finance, or what have you. Now you are creating this new animal, the plan sponsor actuary, who is more knowledgeable. That may be seen as a threat by consultants. I don't think it should, but it may, in some quarters. As I said earlier, some of my predecessors have been received like dogs in a bowling alley. You can at times run into arguments where you'll have two strong-willed actuaries with their own views, and of course the in-house actuary has the upper hand. If he does not like what his friendly consultant is saying, surely he can find another one who will agree with him. That is the situation right now, anyway. If those who are in charge of pension plans and plan sponsors don't like what the consultant is saying, they will not tolerate him very long.

There is probably one advantage to being a member of a relatively small profession. Considering the relationships that exist among the various members of the same profession, I don't think that a plan sponsor would be wise not to check his basis, if he is going to disagree with a long standing outside consultant and say, "I have found this less experienced boy from this less experienced shop, and he agrees with me, and that is what we are going to do." Plan sponsors are big corporations, and there are lots of wise people, and they can see. You may disagree on small things like whether your q x's should be at the beginning of the year or at the middle of the year, but that is irrelevant. When you want to design plans, you need to be pretty much in agreement with your consulting actuary.

MS. SPIGAL: I could add just a couple of things to that. I would agree with Mr. Masse that we'll always need outside consultants, because a given company cannot afford to hire enough actuaries to cover all bases. For example, if we are contemplating a major change, we are doing something different. Just off the top of my head I can think of something like a merger, or setting up a dedicated portfolio for the first time or thinking about some special benefit in our plan that we have never dealt with and with which we don't know what the experience would be. We want to be able to go to an outside actuarial firm that has had experience with these kinds of things so that it can tell us what some of the pitfalls are and what has been the experience of other companies that have done this.

There are so many detailed questions that come up. It may not be, What should the pension costs for the year be? It may be some much more minute point that takes tremendous research. Suppose a company has two or three or five or even ten actuaries; they may not have the time to put into it. But a large consulting firm generally has somebody there either in a research area or who has dealt with that question. That is a tremendous advantage for us.

QUESTION: My experience is that a company which has in-house actuaries generally does not like to go to consulting actuaries. For one reason, it takes a lot of time for the management to explain everything to the outside actuary. The inside actuary knows everything. One practice is for inside actuaries not to ask questions, but to give answers. Consulting actuaries tend to ask questions more than they give answers.

MR. MASSE: It hasn't been our experience that the company would refrain from going outside. Of course, they keep the in-house actuary very busy with questions, but that hasn't stopped either the parent or the subsidiaries from going outside. As I mentioned earlier, I have forty or fifty plans in the family. For many of them, I collect numbers once a year but never have the time to investigate any further. So the local manager is doing his own thing.

He has to deal with outside consultants. At times some of these managers have come to us and said, "We understand you. We understand your language, but we don't understand the consultant, so we would like you to be our consultant." We say, "Fine. Thank you." We tell the consultant, "Don't go away. I've got work for you. I'll be doing the talking, and you'll be doing the calculations." So, the outside consultant will still be needed, unless I build up a huge captive actuarial firm inside CP. Maybe that will be a possibility. You may see it in one hundred years, but certainly not in the immediate future.

MR. JAMES H. FRANKEN: Ms. Spigal, what is GE doing right now about QDROs? I know that it is a new area, but what is GE doing specifically with respective forms of payment to the employee and to the spouse? And since lawyers seem to get involved with the splitting of payments, they seem to demand equality in the splitting of payments rather than in the splitting of present value. Do you have to follow the law, or do you have to do what's right?

MS. SPIGAL: Well put, but I think it is even more complicated than that. Right now our attorney is waiting for me to get back from this trip, because for a couple of days before I came out here I did not have time to get together with him to call someone at an outside consulting firm who I know has been dealing with QDROs. The two of us have just thrown up our hands, and we have got to get some more advice on this.

I put together a list of questions that have to be answered before I can respond to this request from our attorney a couple of weeks ago about QDROs. I put down some choices, I showed it to my boss, and he added a couple of things to it that he thought might be impacted, too. I then calculated the number of choices. I was trying to decide whether I should just run off some factors and tell the attorney what each one means and just pick the right one. It came out that there were thirty-two thousand choices. At that point we decided that it was not a feasible approach. We were going to have to address each of the areas and see what we were going to do.

Interestingly enough, the attorney's overall approach was that he wants to avoid going back to the judge when we possibly can. We actually had an internal meeting with the two of us and a few other pertinent people on this court order. I've said that this court order doesn't tell me what the benefit is. It doesn't tell me when the benefit starts; it doesn't tell me lots of things. It thinks it tells me, but it doesn't. Just for example, it says the benefit starts when the employee becomes eligible for early retirement. Well, this employee had become eligible for early retirement two years before the order, so I wasn't satisfied. The people at the meeting wanted to sit there and say, "What the judge meant was..." and make these things up. As an actuary I don't like that approach, but I can understand that as corporate representatives they sort of feel that that is what they have to do.

I know that I am not answering your specific question; I'm just trying to set the tone. We are sort of still up in the air. We are getting a lot of these. Most of them are deferred, so nothing is being done on them yet, and a lot of them are questions such as a spouse's writing in and asking, "How much do I get, and when?" Then you look at the court order and try to decide if you can tell her how much she is going to get.

MR. FRANKEN: Have you made any progress in limiting the thirty-two thousand choices?

MS. SPIGAL: Well, it depends. If we go along with the interpretations that our attorney and our employee relations people have made and say, "That is going to be what we do," then yes. Again, what we do is not my decision. It is really more in the legal area.