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GRINDERS, MINDERS AND FINDERS

Moderator: FREDERICK W. KILBOURNE
Panelists: CURTIS D. HAMILTON
DANIEL F. MCGINN
JEFFERY D. MILLER
Recorder: ALVIN FLIER

In this session, consultants will share with you the secrets of managing clients and projects successfully.

MR. FREDERICK W. KILBOURNE: The panel will share with you the secrets of successfully managing projects and clients and of building a consulting firm.

Each of the panelists will give you a little bit more background to set the stage for the secrets that they're going to share with you, but I think it's fair to say that Jeff's practice is substantially in the life and health insurance area, Curt and Dan practice in what might generically be called benefits, and Al and I work substantially in the casualty actuarial area.

MR. JEFFERY D. MILLER: My orientation in coming to this session is maybe a little different. I've always been a consulting actuary. I've been a consulting actuary for 16 years and a manager of consulting offices for the last 10 years. Through that time, I've developed a fundamental belief about a consulting actuarial office that works best for me, and that is that a consulting office is a community, not a business. Therefore, all of the thinking that we do within our firm revolves around our work with each other as a community; certainly we have to make our communities work financially, but we don't operate primarily by the profit motive. In fact, we have some very basic fundamental beliefs that tie us together and it goes like this. We say, "We're in the business to help our clients, and we help our clients by attracting, developing, and motivating talented people." To attract talented people in the first place, we find that talented people really only want three things. They want to learn a lot, have a lot of fun, and make a lot of money. It's interesting to us that those three things, learning a lot, having a lot of fun, making a lot of money, are kind of like the old three-legged stool analogy. All three of them have to be working. If any one of the legs of the stool isn't working, then the stool falls down. What we believe is that all three of those characteristics of the association with our firm have to be working in order for us to be successful.

The first section I'd like to talk about is a consulting office as a community in our model. This paradigm of community for a consulting office probably doesn't work in every consulting market. I think it works best in markets where the customer, the client, is very knowledgeable about the work that we do and the service that we provide. It works best in markets where we're consulting to our clients on their core business, and that's the nature of my firm. When we consult with a client, that client is typically a life insurance company, or a Blue Cross/Blue Shield plan, or an agency, or some sort of organization where we consult with them about their core business. I don't think that our community paradigm would necessarily work in a consulting firm where you're working with clients on something outside their core business. I think, in general, employee benefit consulting falls in that category. If you're doing employee benefit consulting for Yellow Freight Company, a trucking company in our community, yes, employee benefits are important to them, but their business is trucking. When they look to someone to help them with their employee benefits, they want that consulting firm, or whoever it is, to solve the problem so they don't have to worry about it. They're more likely to seek advice from a firm, rather than an individual. So as you hear my comments, I come from the perspective of a firm, where our clients seek advice and counsel primarily from an individual, and not from the firm.

I think that much of the consulting market may be moving toward this idea of the primary relationship being between the client and the consultant or the client and the individual, rather than the client and the firm. You can see that by some of the turnover and challenges that many of the larger firms have seen recently and by an explosion in the number of small firms, such as what are represented here on this panel. Going on about a community, we find that a community works best when its members are motivated by enlightened self-interest: that is, a free market where the members of the community, the people in the firm, are working for their own self-interests. The firm provides minimal services, only the services necessary to make the whole thing function, and extracts a minimal tax, meaning the firm takes as small a piece of the pie as possible. In this kind of community environment, individual consultants and individual professionals, particularly those who are experienced and have established client relationships, are allowed to take risks and reap rewards. That's one of the fundamental natures of our firm as well. Each individual professional can strike out and take a risk by using his own resources in many instances. I think a number of the firms have a mechanism that allows individual professionals to take risks by using income that's been deferred in the firm.

Another part of the community that we think is important is education and training, and that's not any different than education and training in a community or a city. Education and training within our firm is a high priority, because whenever we can improve the capacity of individuals, we improve the intellectual capacity of the firm, which elevates our role in the marketplace.

The final element of a community that is essential, we believe, is charity. No community can operate without charity, and that means that successful members of the community are willing to help those members who are struggling from time to time. What we try to do is create a culture whereby charity is encouraged and almost expected of the successful people.

A major theme of all the work we do as a firm is the importance of relationships, both internal and external, because relationships are what the firms are all about. Relationships create the opportunities for our people to learn a lot, have a lot of fun, and make a lot of money. External relationships are critically important, because those are relationships with clients who pay our fees and who allow us to do the things we do. Internal relationships are important, often for some of the newer members of the firm who come without a lot of experience in the consulting business or without an established client base, and there the newer members build relationships internally with those members who have external relationships. All relationships, whether internal or external, are established and managed through the free-market system. I picked up a model from the Tillinghast office in London a number of years ago, which to this day, in my experience, remains one of the most effectively managed consulting offices I've seen. Ideally, internal relationships develop naturally through the enlightened self-interest and charity that I talked about earlier, but sometimes it's required that firm leadership help nurture particular relationships through informal networking. That is, if you have a new person coming into the firm, the leader of the firm will kind of cajole other members to involve that person in a project. It is the role of the leader to understand when some members of the firm are not as busy as they could be or when they need some training in a particular area. It's also the role of the leader to use informal networking to manipulate, if you will, to mold, the relationships among the people. Still, structure is kept to a minimum. What I'm talking about in relationships is leadership, not management. Management has a very small role in the development of relationships within a firm, I believe.

External relationships are obviously extremely important for the firm to survive. It's the external relationships that generate cash, and consultants who have strong external relationships are encouraged to leverage those relationships to provide work for others to do. The extent to which a consultant can involve other people within the firm in his client relationships creates more opportunities. In our firm, we encourage the senior consultants who have external relationships by paying them a commission. I know that might be a bad word to some, but we carve out a specific part of our revenue to go to the consultants who have external relationships. Consultants in our firm who work on only internal relationships will make a very good living if they work on the client relationships that are managed and controlled and serviced by others. But a consultant who builds external relationships and gets other people involved in those external client relationships will make a great living, and that's our objective.

External relationships are much different than selling, because in our experience, relationships must be maintained constantly. Once a relationship is started, it's the ongoing interaction between the senior consultant and the client that creates the ongoing flow of revenue from that client. Therefore, when we talk about the external relationship and the commission part of our compensation structure, that only works for the people who obtain ongoing assignments and collect ongoing fees from their clients. If consultant X has a relationship with client A today, that does not necessarily mean that consultant Y might not develop the relationship and receive the commission from that same client A sometime down the road. It's not a matter of, "I bring in this client, so I get whatever commission is paid forever and ever." That's not the way it works. It works such that whoever is responsible for obtaining the assignments and collecting the bills on an ongoing basis is credited with maintaining that relationship.

That brings us to the firm financial structure from our perspective and, again, our firm financial structure is a little different than others that you might have run into. First, the firm is seen as providing a mechanism to facilitate relationships between consultants and clients. The firm, in our view, in and of itself, has no clients. Only the individual consultants have clients. Since the primary value in our practice resides in relationships, and since the firm has no relationships, we believe the firm has no value, and we don't assign a lot of value to the firm at all. The ownership in the firm, since it does not have a great value, can be shared, because it's not that big of a deal. Whenever you start a business, as we did three years ago, that business needs venture capital, and it also needs people to sign things like leases and lines of credit. We provide compensation to people for that venture capital. Our fundamental belief, however, is that the firm is a mechanism for facilitating relationships, and beyond that, it has no value.

The title of this session is "Grinders, Minders and Finders" and I haven't talked about them yet, but I wanted to give you some context about the practice that we have and why we think it's worked. Now we'll get into "Grinders, Minders and Finders." With respect to all three, the grinders, minders and finders, we believe the following: first, all three are people and they must be treated with respect. To the extent that this kind of title tends to pigeonhole people, we would reject it. All of our people are constantly growing in their careers and will constantly seek new challenges and expect new rewards; no one person is a grinder, minder and finder forever. In fact, few people really enjoy being classified, and particularly, few people enjoy being classified as grinders, but all three skills are important in our view, because all three are necessary to complete projects. Among the three, I believe that the minders are the most important. Fred asked me why the minders are the most important. From our perspective, 90-95% of our new clients come to us through referrals from our old clients, and old clients will refer new clients to us only if we're getting the projects done for our old clients. Therefore, in our view, the minder is that senior member of the firm who is responsible for making sure that our firm and our people are serving the needs of our clients. The minder is the person, generally, who receives that commission element that I was talking about. In my view, and in my experience, most people can become successful consulting actuaries if they develop skills as a minder.

I think I'm just about finished here. I'll close by saying that the consulting business is changing rapidly. The days of being able to bring people in as grinders and allow them to work on quasiroutine projects and then come up through the ranks are changing. In fact, the roles of grinders, in our experience, are diminishing rapidly. There's much more pressure on new people to get up to speed much quicker. What we've tried to do in structuring our firm is to structure a community where everybody is encouraged to serve clients and learn as much as they can as quickly as possible and then each one is also encouraged to share his knowledge and expertise in his or her relationships with others, such that the good of the community as a whole is enhanced.

MR. CURTIS D. HAMILTON: We're a small benefits consulting firm. We represent many small clients. Most of my comments will be directed to those people who are either contemplating creating their own firm or working in a role where they're responsible for staffing.

I think that in the context of the terminology used to describe our session, the grinders, minders and finders, there's actually a parallel from an external perspective of firms. I'll explain what I mean by that as I go along.

Here's a bit more background about our firm: we have 34 employees. Our business has been in the retirement-plan field for virtually 18 of our 20 years, and two years ago we started a health and welfare practice as a result of strategic planning that we did about three years ago. Those of you in the benefits area know that this area has changed markedly. Defined-benefit plans are essentially disappearing, certainly in the small-business environment. Very few are being started by medium-sized or larger clients. I would define medium-sized as our current market – 100-2,000 employees. With no new defined-benefit plans, we were faced with a caretaking role, handling clients' qualified profit sharing, employee stock ownership plans (ESOPs), or 401(k) plans. The 401(k) plan area caught many of us by surprise, however, because it was a shift in the way we had provided traditional services. It's difficult to take traditional recordkeeping services and apply them to the 401(k) business, because it's changing so rapidly.

We decided we had better make some strategic changes. The buzzword in most business planning today is a "paradigm shift" and that means our frame of reference. We had to take a look at our firm from a whole new concept. Specifically, if I were starting the firm today, how would I structure our services and what would I focus on in the way of marketing activities, staff development, and so forth? I thought we'd been fairly successful in the development of our staff. As I mentioned, we have 34 employees. We have five senior consultants, four of whom are vice presidents. We're different from Jeff Miller's firm, which he defines as a community where profit isn't so important. I guess it depends on how you define the word *profit*, but in my opinion, it's really important – financially as well as emotionally. For us to make the reinvestment in capital needs that we have in hardware, software, staff training and so forth, we need to have a minimum threshold of profit.

Our revenue this year will be about $2.4 million. That's our target. That's about $70,000 per employee, and that's under a large firm's targets, but it's not too bad from the standpoint of a smaller firm. The difficulty we have is in the administration of so many small clients. In this case, we're using the same perspective Jeff had, that the minders have a very important role because they have to complete so many different activities on a day-to-day basis. Their days are very fragmented, because they can't devote the bulk of a day to one particular client engagement. So, in that sense, teaching them how to manage client relationships is very important. It's not just the task, it's the overall relationship of making sure that we meet the clients' needs. We do not provide services that are core to the business of our clients. We are a provider of services, hopefully through the clients to their employees, and we tell our clients that our objective is to help the employees understand the scope of benefits they have. We think we're a better spokesman on behalf of the client than the client may be for themselves. That, too, depends on the size of the client and how interactive they are in communicating their employee benefit programs.

Most of our staff has been with us for about eight years. We have several who have been with the company 14 or 15 years. Our objective has been to identify the right staff, train them, and keep them with us on a long-term basis. Obviously, we all know the cost of terminating and retraining. Another distinction, I guess, is that there are often client relationships that are recognized or associated with a "specific" senior consultant. Our objective, however, is to assure that the firm has the primary identification in the mind of the client. We want the client to recognize the organization and all of our collateral services. As our organization grows, we want to have a whole range of services that we can provide to one particular client.

As I said, we have two practice divisions. We have a retirement-plan practice and a health-and-welfare plan practice. In the health-and-welfare practice, we do administration of 125 plans, which is not exciting, but there's a lot of intensive administrative work. Most of our efforts have been to create recurring income as opposed to project income. That's a bit less likely in health-and-welfare engagements. That is clearly the result in retirement plans because of the recurring services. This year we bit the bullet and created a registered investment advisory firm. That seemed a bit heretical, I guess, because of our history. We had never provided asset-management services to our clients. Again, in keeping with what I referenced as the paradigm shift that we had to make in the 401(k) market, it became necessary for us to get on a level playing ground that would match those of mutual funds or other providers. Unfortunately, what had been our bread and butter – plan administration – has now been characterized as a commodity by the very large organizations. I submit that 401(k) recordkeeping for participants is now a commodity in the mind of the client. The cost has been driven so low that unless we can get into an arena where we can tie our fees to the plan assets, we have a tough time competing. So, we've been victimized by a shift in the marketplace, and the traditional services that we could charge on a time-and-expense basis have changed dramatically. Thus, we created the registered investment advisory firm. In the longer term, we are considering the creation of a communications division that would augment all our current services: health and welfare, flexible benefits, employee benefit programs, and so forth.

Intuitively, we all know the concept of the grinder, minder and finder. The grinders are those people who interact extensively with the computers and all of the other hardware and software activities that they have in producing client-end reports. They may or may not have client contact. If they do, it's usually in a data-gathering role, or it's a rather perfunctory role. They're not usually consulting with or giving guidance to the client. The minder, on the other hand, is the person we are really trying to develop. He or she is the in-house technician, knowledgeable in a technical sense, who can represent and work with clients and who may be able to develop business. The minders Jeff described are critically important in his firm, and I think they are in ours as well, because of the strong referral base that we built our business on. That has been the life's blood of our business: the referrals we receive from accountants, attorneys, and other clients. But that's changing. For the first time ever, we're starting to look at direct marketing to promote the development of our new product – 401 Choice. That's what we call it. We need to get the word out to our clients. We think that our employee benefit programs have been the best kept secret in San Diego. It's necessary for us to change the way we look at business development.

The finders, then, are those people who are essentially the business developers. In this framework, I think, it sounds like a salesperson. But, we've never had salespeople. We've always tried to groom our consultants to be the business developers. Again, I think that's being challenged. Will we continue to do that or will we hire some marketing people for isolated areas, most notably the 401(k) plan area? If we use direct mail or telemarketing, will we hire some salespeople to approach prospects, or will we try to absorb that with our consulting people? Of course, the trade-off is that the cost of business acquisition is significant. Contrast having to get new clients as opposed to being able to expand services to your existing clients. That's one of the motivations we had for changing our target market and raising the average size of our client – so we could deliver greater services to each client.

Returning to the perspective I mentioned earlier, that is, that firms also develop their own profile, during the 20 years I have had my own business, I have had the occasion to watch many other firms (as well as colleagues of mine around the country) develop their businesses. I think firms exhibit the same characteristics we have described for our staff people. I am reluctant to categorize our people as grinders, finders, or minders, because my hope is that they progress. If we find the right people and train them, they will find their own level. Sometimes that's a combination of all three.

I submit that no matter what level you are individually, as the principal of your own firm, you end up being all three. That's just the nature of the business. You end up doing some kind of grunt work. Then, at times you're a minder and at other times you're a finder. Learning how to keep those balls up in the air is a part of our job, as is teaching our people how to do so as well.

Here's the point. There are actually grinder, minder, and finder firms. The grinder type of firm is one I would define as the smaller firm that doesn't necessarily understand (or hasn't learned) the lesson of being able to hire and invest in the training of staff, such that they can ever get out of the process of getting a client, coming back to their office, and doing the work. These people can be trapped in that process. Until they learn how to not live on all the business revenue they have and divest that by training and hiring the right people, they may not be able to make the transition out of the grinder firm. We've seen many small administrative firms caught in that over the last few years. Their market has shifted, and they are stuck, and they just can't get out of it. Now, they're often willing to sell their firm, or they just want to get out of it. It may make them a living, but there's no way to transcend the scope of activity that the principals find themselves in on a day-to-day basis.

The minder firm, on the other hand, may be that of the technician. In the employee benefits area, we have some very bright, talented, capable people who can read 401(a)(4) regulations and understand them. I can't. I can read them over and over again and get pieces of it. I think it's largely a matter of motivation. When you've been in the business a long time, your resiliency starts to diminish. You're not as willing to unlearn everything you've known and relearn it. So now I defer that to our younger people who really have an interest in that kind of work. But the minders are often the technicians. They're very good at understanding the regulations, applying them, and being able to be rather theoretical in the concepts. They can relate well to the client, if the client understands them. That's often a problem, because the client doesn't want to know that much. We run the risk as firms, I think, of falling into our own trap. We're so enamored with our technical knowledge that we think the client cares about that. I submit that most of the time, when any of us goes to see a doctor, we expect the doctor to know his or her area of specialty. We also have a real feeling for how we got treated when we went there. Did the doctor show up on time, or did we have to wait an hour? When we got in, how did we get treated? What was the overall effect of the relationship? I think the relationship is important, because the client assumes that we're technically competent. We want to make sure that every time the client has what Jan Carlson talks about, "a moment of truth," it's a positive one. We have the opportunity to add value to that relationship and enhance the overall relationship; by doing that, we keep our clients. We've been generally successful at that. Now I find, as I'm getting older, that many of my clients are retiring, and so that's also changing the scope of some of the services we provide. I may not be too far behind them; in the way of retirement, I mean.

The finder firm, on the other hand, and again this has been demonstrated in some firms I've watched, are really great at getting business. Their problem is, it runs right out the back door. So they bring it in. They just don't know how to keep it, because they, again, haven't trained their people, or they don't understand that it's much, much more effective to keep a client relationship on a longer-term basis than it is to go out and get a new client. Tom Peters has said that it costs five times as much to get a new client as it does to keep an existing client. It is an extremely expensive process, as I started to allude to earlier. By the time you hire people, you expand systems, you do direct mailing, or you do all of the other things we're now contemplating, the cost of business development becomes significant. So to address that, one of the things we've done has been to sensitize all of our people, every staff member, to realize that without the sustained new business development, there's no reason for us to exist. We must have new business development, and it's largely in their own interest to cultivate that. We implemented something that a friend of mine used and called S.O.S.: Sell Our Services. But it really has a broader connotation because, as we make these changes, it really is necessary that we look at the long-term aspect of doing this and saving our ship. So there is a correlation. We want our people to raise their own awareness about business development and extend themselves. But they're not comfortable with that. I think that minders, if they're in-office people and they're not out seeing many clients, are reluctant to approach a client and say, "We'd like to introduce you to our new investment advisory services and our health and welfare activities. We have a great actuary on staff, and we're doing some interesting things." We spend a lot of time trying to train our people about that conversation, how to introduce it and how to make sure that the client is comfortable. "Do the best you can, but you'll make mistakes along the way." That's the internal application of what I was referencing about the external nature of the firm. So I'm trying to draw a parallel here about the nature of the firms, as well as what to do on an internal basis with your own people as you develop your staff and their skills.

Here are a couple of comments about developing a business. I really don't know if the finders are the most important. In many respects, I would say they are, but it's difficult to know that because I think it's necessary that you have those who will do the client work and those who will be the technicians and be the minders. But I don't want anybody to get stratified. We want to continue to expand the growth of our people so that they, in fact, take on new challenges and raise their own expectations of themselves. If we start with the right staff people, we think we can give them the training to enhance that. We want them to have the opportunity to grow. However they can manifest that or want to grow, we're going to give them every opportunity to do so.

A couple of thoughts (if you are contemplating starting your own practice, although not too many of you actually have done that, at least in the benefits area), you must anticipate that there are going to be distinct plateaus you'll pass through or have to address. They are, at least from my experience, distinct plateaus. They're usually revenue-driven and will mean that you need to change some of the things you're doing. As an example, we started out as a grinder firm and one of the handicaps we had was being in a small community where there was no reservoir of actuarial talent. There weren't any insurance companies from which we could draw. It was very difficult for us to find anybody who was trained within our community. So we made a decision early on, out of necessity, that it was incumbent upon us to hire the right people, invest in the training and develop those people so that they would be capable of handling many of the client relationships and doing the same things I might have had to do when we were a small organization. A plateau that a grinder will hit seems to be $300,000, because without investing in staff and training, there's just a certain limit, at least in the benefits area, that will exert an imposition where you just can't get out and do any more work. You'll need to create some alliances, develop the staff, or be able to invest the money in hardware as well as in training to make the next jump. You'll see it again at about $600,000 (not so distinctly though). At $1 million in revenue, there is another transition you will make because of all of the other capital expenses it takes to produce the work and be competitive with some of the bigger firms, due to the nature of the case you're competing for. Again, these are focused predominantly in the benefits area, not in some of the other areas of practice like the casualty practice and life practice (where I think it may be different), because again, we're offering a commodity of service. Another occurs at $2 million and then distinctly at $5 million, so I hear. I haven't gotten there yet. I know that we have had to confront the $2 million revenue monster, and it does have some interesting implications, just because of projecting revenue and capacity. Running it like a business and seeking a profit requires looking at recurring revenue, whether you bill on a flat-fee or a time-and-expense basis, or a combination of both. All of those will play roles in your ultimate business decisions.

It's important to identify where your business is going, to do some strategic planning, and to be proactive. As I said, three years ago, we started looking carefully at where we wanted to reposition our firm, and we have taken the steps to do that. We think we have done that successfully, but it involved a great deal of capital investment and some significant changes in how we look at the business, how we view our clients, and how they see our business. So we're trying some interesting things and making some significant changes to the conventional practices we've had.

It's great to have a community as Jeff described. Every firm is a community, but as a community, it demands attention. Somebody needs to, I think, set strong examples and be a leader to make sure that your people learn by example, not just by dictate, obviously, because our people depend upon the decisions we're making. We do have a stewardship. Max Dupres in *The Art of Leadership* talks about that stewardship and how people depend upon us as leaders and the judgment we must exhibit in recognizing their welfare. Compartmentalizing people into these categories does bother me, because my hope is to allow the people to grow and to continue in the pursuit of their own careers. But they have a lot invested in me and I have a lot invested in them, so it's interdependent. It's my hope that together we can make that community stronger. Nonetheless, it still has to be a viable, profit-seeking organization that fulfills all of our needs and objectives in the way of revenue and career growth, and also it gives us an opportunity to meet each of our own goals.

Again, just to recap, I don't know which is the most important. We're in the pursuit of that right now. We're looking at how we're going to find new business and one of the queries I have is whether it's best to take consultants and make them into marketing people. A consultant is sort of a self-fulfilling term, I guess. But I don't know whether it's better to take our senior people – those who have had longevity and understand how we function -- and put them into the marketplace, or whether it's better finding some strong marketing people and trying to train them well enough about the 401(k) business so that we can market those services more successfully.

MR. DANIEL F. MCGINN: I speak as the consulting actuary in the field of multiemployer pension plans, and to some extent health and welfare funds. Most people here, especially if you don't have your own practice or you may not work for another consulting firm, may wonder how an actuary gets involved with multiemployer plans. Would you ever want to be involved with multiemployer plans? I thought maybe I'd take a few moments and just tell you how I got started, because when I got started I didn't know that I was really getting started.

I was with Occidental Life, and Occidental Life did a great deal of business in the field of Taft-Hartley pension plans and Taft-Hartley health and welfare funds. It just so happens that because they needed somebody to go to a meeting once in a while, I went to meetings. Periodically people would ask me to handle certain projects and after a little while, I became known as sort of the Taft-Hartley pension specialist at Occidental Life. As time went by, I was handling the Transamerica Corporation accounts because I was with Occidental Life, which was a Transamerica subsidiary. I was handling these multiemployer plans and I was also handling many single-employer plans, fairly large-sized plans, throughout the country. After a while, I decided I'd like to start my own company, but of course I didn't have any money. I liked the idea of making money and having some fun and that type of thing, but I wanted to have somebody else put up the money. So I was able to get somebody to put up the money – Transamerica. Transamerica helped me set up a company back in 1970. I convinced them or I conned them into thinking it was a good idea. Four years later, they thought they had made the biggest mistake they had made in a long time and decided they would like to dump the company back on me, which they did. Then I realized that was really a good deal, because now I could do some of the things that I couldn't do in the Transamerica environment.

So as time went by, since 1974 when I bought the company, I've had the experience of seeing our corporate retirement-plan practice grow and then sort of almost fall apart as Transamerica pulled all of its business away from us in the early 1980s. We wound up becoming progressively more and more multiemployer-plan-oriented. Meanwhile, during this time, I fractured my hip, I was in the hospital, and somebody asked me to write a book. I had nothing else to do, so I wrote a book on multiemployer pension plans. That's how I became the oracle, so to speak, in the field of multiemployer pension plans. But without any further historical information, that's sort of the reason why I am in the field of multiemployer pension plans, and as time has gone by, in spite of any efforts to the contrary, and there have been many efforts I've made to move in other directions, it seems like our business keeps growing, but it keeps growing with multiemployer plans, and it's very, very good business. I think it's maybe the best business that there is to get involved in.

Like any company, we have grinders, minders, and finders, and I've put together my own little definitions. I don't think grinders are really that bad. Those are the people who work the computer systems. They handle the spreadsheets. They perform all of these calculations. But they also are the people who are the actuarial students, the actuarial technicians. For example, I have one actuarial technician that I hired as a receptionist at $8,000 a year, and that person now is making more than $50,000 and is a senior actuarial technician. So that person was a grinder. Some people might claim that she is still a grinder, but, boy, she grinds out great work. So, many people can be grinders, but that doesn't mean that they have to stay that way. The fact that we have categorized in this fashion doesn't mean that people should be held to a single position. Included among so-called grinders might be secretaries, because you must have your reports go out and look good. We think we have some of the best secretaries available. A bookkeeper has to keep account of everybody's time and expenses, and make sure that the billings get out on time, and prepare cash-flow reports and the like. You need an office manager or a manager of profes-sional services, a person who makes things hold together, who makes sure that meetings are being called every week to find out where all the projects stand, who's doing what on what projects. Those are very real, practical activities that really provide you with a means of having the lifeblood of your organization maintained. I would not want to go into my office and call them grinders, although I have, but I think if the environment is right, the word *grinder* means nothing, because they know that if they really produce, they can move on to become, maybe not a minder, but a finder. I'm looking for more finders, by the way. If there's a finder out there, I'd like to talk with you.

We don't have too many minders, but we do have people who think out the solutions to very complex problems. One of the great advantages that I have found with multiemployer plans that you don't find, in my humble opinion, with corporate plans is that we have extraordinarily complex problems that we're faced with because with multiemployer plans, there are opposing sides on trust funds. The management trustees on one side are pulling in one direction, the direction of keeping benefits down and keeping the vested benefit liabilities fully funded. The union representatives are trying to improve benefits and are not caring too much about fully-funded vested benefit liabilities. So there are many pressures and we wind up being forced to test how sensitive a suggested benefit improvement is from the point of view of its impact on the long-term relationship between the asset growth and the liability growth of the plan. So it becomes very sophisticated; it becomes very exciting. I think it's exciting. Most trustees think it's a big bore, except that they pay the charges that we make. Anyway, the minders are the people who dream up the ways of getting these calculations performed. Basically it would include, in my view, the actuarial valuation supervisor who would perform and manage, usually manage, the plan-design activities. Very often we get involved with population and financial modeling for multiemployer plans. They're deeply involved with all of that. We have PC-driven systems where we have the capacity of up to 29 positive and negative decrements. As a result, we have arrays of benefits that we can dream up for purposes of providing advice to the clients, and it doesn't hurt from the point of view of generating income.

Further, we have the finders, and those are the people, as I see it, who go out and get the clients and find a way to keep the clients. From my view, a finder is a professional who has obtained widespread recognition as a successful, knowledgeable professional. But that person is also published. He or she gets recognized by being published. They put news into newsletters. I see newsletters that consulting firms produce and basically they recite what an IRS regulation has stated, or they review some mundane technical aspect of employee benefit plan design. It takes a small firm, I think, to actually put professional opinions and news into newsletters. So we make it a practice to have continuous contact with our clients through a newsletter that we publish at a rate of roughly about two every quarter. I think it's important that the finder, because we're talking about an actuary, has peer acceptance both within the firm and outside of the firm, especially as you come into the area of litigation. He or she has to be involved with networking relationships. They have relationships oftentimes as a result of articles written, speeches given, books published, or what have you, and it's their job to find a way to keep those contacts alive and to enhance those contacts by making those contacts grow new and additional helpful contacts.

But the biggest, single aspect of a finder is what I call the X-factor, the unknown that helps him or her get the business. Really, if anybody tried to define what that is, I'd love to hear the definition. I think it is, among other things, being in the right place at the right time. I think it's a case of developing through experience some kind of uniqueness that in some fashion is recognized by different organizations, whether they be corporations or multiemployer plan trustees, or even public entities, and they perceive through recognition of that uniqueness the use of your services. That's what I view as what a finder is.

I have a very real example of an X-factor. About a year-and-a-half ago, I gave a talk on the topic of full-funding limitations and overfunding and underfunding of pension plans. I didn't know there was somebody in the audience who was involved with a very big multiemployer plan with an overfunding problem. The employer trustees weren't sure of the actuary, because the actuary was recommending very big benefit improvements, and so we were asked to audit the work of the actuary. We audited the work of the actuary. We found nothing wrong with any of the calculations made. We just found that they didn't make enough calculations. They left out about 500 people, which meant many millions of dollars in understatement of liabilities. That actuarial firm was terminated, and we were hired. That's what I think is the X-factor; being at the right place at the right time and perhaps discussing the right topic. But there's nobody, from my knowledge, who can really define what the X-factor is.

As far as minders, these are the professionals in our office, and I think every office, who maintain an awareness of what's really going on so that the finders don't suffer from what I've called future shock. They don't go into meetings unprepared. These are the people who dream up solutions to complicated problems, and they also keep up with legislation, the interpretation of the legislation, the application of the legislation, and how that affects the various clients needs. So they solve problems by what I call mind-bending and brain-stretching. They develop staffs who can benefit from their efforts. They ensure that we have peer review of all of our work products. They help develop company practices and procedures, and they anticipate actions that might prompt problems that would involve errors and omissions, difficulties or bugaboos. They manage projects to meet deadlines and keep costs under control. As I see it, they're not and they can't be just theorists. They have to be theorists and practitioners. From my own personal viewpoint, they do have client contacts.

They are limited, but their limits are usually with the administrative offices of the trust funds that we serve.

Finally, are the support people, who we all have to live with and whom we can't live without. We have a very flexible arrangement in one situation. We have a very fine actuary, an FSA, who comes into the office only three times a week. She has a computer, a fax machine, she works at home, and she lives many miles away from our office. But the contact and the relationship we have with that actuary is so strong that it's as though she is in the office every single day. I think that we have to be flexible in the area of the so-called grinders. I shouldn't call her a grinder. I called her a minder before, but sometimes she grinds out an awful lot of work. We actually have quite a few people now with computers and fax machines at home, who do work at home and in the office, and who have a much more flexible, pliable working relationship. These people are excellent, but they live too far away from our office in Whittier. One person lives 72 miles away and another person lives 65 miles away. I happen to live close by. I'm only 46 miles away from my office in Whittier.

The next thing that I mention here as a concept for the so-called grinders is the use of a safety back-up system. Make sure that as you move along and do your various tasks, all the work is backed-up. Don't wind up being in a situation where an important client's almost completed work product has been lost because somebody failed to back it up and there was some kind of a power failure in the office, or a shutdown of your computer operation in the office.

We try to get the grinders, primarily the actuarial students, to be creative. Periodically we let them do a little dreaming and try to give us a little theoretical input into some of the work that we have to perform. It makes them a little happier, gives them a chance to do their thing, something they've learned out of the textbooks. We're not telling them what to do all the time.

The last two concepts are that operational flexibility and creative environment mean agreeable workers. I think we do have agreeable workers most of the time, not all the time. They operate with definite work-product standards, and that's very, very important. There should be appropriate user file access and coherency of operation. We don't want a situation where the supervisor is looking at what the actuarial student is doing and says, "What on earth is this junk?" and the student says, "I haven't any idea why I'm doing it." That, in many organizations, is exactly where the actuarial students are. They are told to do things but the meaning of what they are doing is never explained. Also picture the supervisor saying, "Who gave you access to these confidential files?" and the young technician replying, "No one. They were just sitting here in the general access subdirectory." That's one thing you don't want to have happen. You have to maintain control over your operations. So it may seem a little silly, but that's probably one of the better parts of this talk.

The minders are people who dream up solutions to complex problems. Basically they are supposed to be involved with at least three very important matters: staff development, peer review of all work products, and making sure that company practices are properly implemented. We don't want them to be the ones who point out to everybody that they are the bosses and everybody else is below them and better do what they say, because they are going to make sure that it's going to be done right.

The finders get all the business. We don't want the person so self-satisfied that as he's reading *The Wall Street Journal* and he's so happy about getting his client, the client effectively gets away. The person who becomes a finder, in our view, is a person who somehow gets published and develops relationships and networks those relationships.

MR. KILBOURNE: I think I now know a good deal more about grinders, minders, and finders, and how all of us, especially in the small firms, have to be a little bit of each.

MR. MARTIN STEMPEL: I think that everyone here, regardless of where they're working, can come away with something that was interesting and of value. But I was sitting with the Pension Section and next door was the Health Section. It was the 10th anniversary of the Pension Section and someone at the table said, "Will there be a 20th?" And I wondered what they were saying in the next room, which sort of leads me to my question. In particular, as I said, I did enjoy everyone's talks, especially Dan McGinn's, but I wanted to congratulate Curt Hamilton for having the wisdom several years ago to start the strategic planning and to diversify in his business. The people at my table at the Pension Section luncheon all talk about that, but very few people actually do anything about it. But you started to get involved with the health-and-welfare and now the investment area. If you could share with us how you did that and whether you did that internally or whether you hired particular people to do that. What were your first steps in getting down that path?

MR. HAMILTON: I'm happy to share that with you. As all of us know who run businesses, everything you learn, all your experience, has a price tag. Whether that's emotional or financial or both and whether you survive the cost of that experience is really a key issue. Every time we make a transition in the development of our practice, it's a significant cost effect to our people. It's also interesting because there are territorial issues involved. Certainly going from a retirement-plan practice to a health-and-welfare practice had that implication to us. It was of pivotal importance, or I guess very fundamental importance, when we made the decision to create the registered investment advisory firm. That was largely a problem of my own and I'll get to that one in a moment.

But when we first began the health-and-welfare practice, we did it incorrectly, I think. A few years ago, when we saw on the horizon the growth of Section 125 plans, we decided that we would get into that business. We didn't really have any experience, but we thought we could administer that, and it was akin to qualified retirement plans. It wasn't a tremendous revenue producer, but it was a skill that we had developed, and we thought we could train the people for it. So I began in Section 125 business, staffed up for that, bought the hardware and software, and hired some people. At the time I had an association with a fellow who had a practice of retirement plans. He had actually been a grinder as I characterized it, and he hadn't been able to get over that threshold, and so we made a joint venture. He wanted to merge and I wasn't interested in that, and I wasn't interested in buying his practice, but we took on a joint-venture relationship. We provided the work on those plans, we did all the administrative work, and he did the marketing. He was doing that. That was at the time that Section 89 was about to hit. Section 89 got cratered, fortunately, but we had spent quite a bit of money on gearing up for that, and we decided that we'd market the Section 125 administrative work. So we were doing that, but I always had the nagging feeling that that was going to be building that practice from the bottom up, and I was going to have a tough time making the leap into providing full health and welfare and cafeteria consulting and all of the other ramifications or aspects of a managed care and health-and-welfare practice.

So I decided, for a variety of other reasons, not necessarily just exclusively for that track of business, that the relationship we had with the fellow was not going to work in the long term and so I severed that. It also gave me an opportunity to look carefully at whether I could switch and build that practice from the top down. As fate would have it, there was a young health actuary who was looking to make a new home for himself, and so we spent a lot of time talking about that. It was my direct intent to create the health-and-welfare practice and let him run that and give him the authority. It was a great opportunity for him, I think, because where else could he go in and have somebody say, "Okay, I don't know anything about this business. You're going to build it, and you can have full, free rein to do that. All I want to make sure of is that the standard of practice and our image and our reputation and so forth is maintained, but I'm not going to be riding real close herd on you, because I don't know that practice, and I'll learn that as we go." That's worked out to be great, but that, I think, was the development of the top-down concept then, where we continued to do the Section 125 business and we could provide that service. But with Geoff's addition to the firm, because of the nature of the target market that he has, which is probably a minimum size of 300 employees and larger, it has also helped us in the marketing of our plan services. Because of the nature of the client, that means that we can offer more services to that client. So that's sort of the health-and-welfare issue.

Then when we made the decision to become a registered investment advisor that was traumatic for me because we had never been involved in commissionable products, and we still aren't, but we had never been advisors regarding the assets of the retirement plans. While I may be naive and dumb, I don't think I was stupid, and I knew that the money was really in the investments. That's where everybody's making all the money and where we were doing all the garbage work. I said, "You know, we've been doing this for a long time and maybe we ought to take another look at that." Also, I felt confident after I examined that process and got down to the very nitty-gritty question. For 18 or 19 years I looked at other people who were advising our clients and their investments and who were not doing very well, who hadn't made very much money, or who hadn't performed very well. I thought if we could create an alliance with an organization that would differentiate our services from everybody else's, whose judgment I trust more to provide services to our client – our firm's or somebody else's? Fundamentally, the answer was ours. So once I got to that bottom-line issue, entering the registered-investment advisory business wasn't that tough. I had a client who had been a client of ours for about 15 years and who sold his practice as an investment advisor, and who had been retired for four or five years, and I lured him back out of retirement to run that.

We made an alliance with the Frank Russell organization in Tacoma, Washington. It is a management selection and evaluation organization. It doesn't manage money either but it picks the managers. That's sort of the evolution of how we teamed up. We also did it for a very practical reason, and that was to try to get on a level playing field in the 401(k) business. Because of daily recordkeeping, voice-response systems, and our fees, I felt I had to be tied to the assets or we would lose money. It seemed we just couldn't provide traditional recordkeeping services to 401(k) plans competitively. We were just getting creamed. So we made the decision to try to tie our fees to the assets. It's been a great learning experience, because I found out how people are making money in the investment area, really without disclosure. It's been a fascinating experience for us, and it's been great for our clients. We are able to go to them and just disclose all aspects of it and say, "Here's what we have to do to make a living and a profit and here's how our fees can be structured."

MR. ROBERT G. PLUMB: In this context, I started up on my own last July, so I'm actually the sum total of one at the moment. I've had to differentiate and "cut my coat to my cloth," which is the U.K. expression, and specialize in the health market. Here I'm having some fun and learning a lot. We're interested to hear reminiscences from all four of you about how you actually started up and actually how you got to the first stage on your plateau of business, because that's where I am at the moment.

MR. KILBOURNE: Curt, what did you do? Just hang out a shingle?

MR. HAMILTON: Yes, I did. I started with $1,000 and a 1972 Mustang as the capital assets in my corporation, so I can really identify with you, sir. Those were lean years. I think anybody starting a business needs to recognize it's going to take, in my opinion, and I don't have any empirical facts for this other than personal experience, three or four years to build a practice. I spent a lot of time knocking on doors. "Well, what can you offer us as a single practitioner that we can't get from somebody else?" I said, "Try me and you'll find out." You've just got to stay the course and just make as many alliances as possible with people. I guess that there's some creativity in trying to figure out what that X-factor is. Is it going to attorneys or accountants? Who would have closest access to the clients that you want to market to? There are probably human resource kinds of associations that you would want to participate in and meetings to attend and speak at. Get your name out in the marketplace to anybody who would be in that human resource area. Clearly, the competition to a consulting actuary is the broker. In San Diego, I know it's kind of an entrenched process. The brokers really are very well rooted, and clients have not really thought about how they could hire a consultant to displace that brokerage relationship and save an awful lot of money in the process. So getting over that, I think, has to be done through the human resources, raising their knowledge. That's how I might go about it.

MR. KILBOURNE: I started with Milliman & Robertson, which was basically a group of small practices, or sometimes larger practices, that operated together. I think I was the 12th or 13th partner in the firm back in 1966, and the main competition was from the other partners, so I had to find something to do on my own. I was working as a life and health actuary, but I'd always gotten a lot of encouragement from Wendell Milliman to pursue this casualty actuarial angle. Although I've retained some noncasualty business (a couple of our clients started with us in the 1960s), the casualty actuarial work has been our mainstay. The practice has had a lot of continuity, going all the way back to the mid-1960s through several different incarnations, starting with Milliman & Robertson and then with a couple of other large firms. I've also started a couple of independent practices along the way, one of which is my current employer.

Jeff, you started your consulting with Coopers but then you must have been with Tillinghast when you started your existing practice?

MR. MILLER: I suppose that's true. Another thing that's helped me along the way is that my father's been in this business and was involved in the reinsurance business in health care, and so many of the contacts I've made over the years are people who knew me when I was very young, so that's been a big help, too.

MR. KILBOURNE: I think we've learned a few secrets. The ultimate secret, of course, in any kind of consulting is to meet the needs of your clients, the public, your employees, and your co-workers, by doing a good, professional job. That is the best way to stay in business.