

RECORD, Volume 23, No. 3*

Washington Annual Meeting
October 26–29, 1997

Session 65PD

“Actuarial Counseling”—A New Role for the Actuarial Profession

Track: Actuary of the Future
Key words: Actuarial Profession, Investment Products

Moderator: JOHN M. BRAGG
Panelists: DAVID G. W. BRAGG†
GARY J. MEVORAH
TERESA RUSS WINER
THOMAS J. WALKER
Recorder: JOHN M. BRAGG

Summary: The panel explores the present status and future potential of actuarial counseling, which is essentially risk management on an impartial basis for individuals. Issues to be discussed include:

- *risk management for individuals,*
- *product ratings,*
- *claim and benefit entitlement strategies,*
- *financial counseling,*
- *defined-benefit plans for very small employers,*
- *life/health expectancy and legal testimony,*
- *educational needs called for by this new role,*
- *recognition package,*
- *need for registry of practitioners,*
- *pro bono actuarial counseling for the aged,*
- *scheduling and capacity management.*

Mr. John M. Bragg: Our present customer list consists of the insurance companies and pension plan sponsors, and it appears we need to get a new practice area going—actuarial counseling. In a way you’re going to be dealing with the iceberg

*Copyright © 1998, Society of Actuaries

†Mr. David Bragg, not a member of the sponsoring organizations, is President of Bragg Associates in Atlanta, GA.

instead of just the tip. There are an enormous number of individuals who do need actuarial counseling. It is a very widespread field. Some of the typical areas are product counseling, product rating, settlement counseling, life and health expectancy, and financial counseling. The members of the panel will discuss these items and more. David Bragg, Gary Mevorah, Teresa Winer, and Tom Walker are our speakers. David Bragg will discuss the subject of product counseling and product rating.

Mr. David G. W. Bragg: The primary business activity of my small firm, Bragg Associates, has been collecting mortality experience and publishing specialized reports on subjects like mortality by policy size groups and preferred and standard differences. Every actuary I've ever known, at some stage, has been called upon to do some form of actuarial counseling. Typically a friend or a colleague or a family member would ask questions like, "Should I buy this or buy that? What should I do with my pension funds?" We have been trying to formalize the process in some way, and we have developed a product rating system. I'm going to talk a little bit about that system.

We've done a substantial number of these and I briefly want to talk about the methodology. A typical case is when somebody has a life insurance problem of some kind. A person is trying to decide whether to purchase product A or product B. The products are brought to them by agents or through any number of means, and typically there's cash involved. They are, generally speaking, willing to pay for good advice.

So using our unique knowledge of what the actual cost of insurance is from our primary business activity and because we have looked at an awful lot of illustrations, guarantees and illustrated values over the years, we have been able to come up with what we think are fair and reasonable values. Keep in mind that each case should be considered on an individualized basis. We've basically compared products relative to these fair values. We've seen all kinds of plans of insurance, including two lives and joint survivor cases. The bulk of what we have actually seen has been vanishing premium, universal life type bids. I want to talk about three or four specific cases in some detail.

You may be interested in knowing how we get these cases. We basically promote the fact that we're able to do these product ratings in a variety of places, and typically people come to us. There are a number of investment authorities who publish all kinds of newsletters and so on. We have reached some broad audiences, and we have approached a number of these people and let them know that we were doing this kind of work. They were impressed enough to promote the

fact that we are capable of performing this service and are a reasonably independent and presumably reliable source of this kind of information.

As a result of being mentioned in certain publications that have fairly substantial circulations, we have substantial responses. These people who call had a problem of some kind in every case. They'd say, "I just bought this policy, and I have ten days to return it; I have cold feet. Did I do the right thing?" We spend a period of time on the phone with these people. These cases came from all over the country, and a great many are from the West Coast, like California. A great many calls come from physicians. If you spend enough time on the phone with these people, you quickly discover they have a deep and abiding distrust of the insurance profession in general, and yet they recognize the absolute necessity to own life insurance. They are particularly concerned with things like disability coverage, and they are at a loss for credible, independent, and reliable advice on what to do. In virtually every case, there is a sum of money they are committing to make a purchase or to make a change in coverage. Out of that sum, they are more than willing to pay a fee of some kind to get decent advice. The more time you spend looking at people who contact you, the more you discover that there are all kinds of classes of people. Some have substantial sums of money at stake, and they are really almost giddy to pay a small sum to get what they believe to be unbiased and decent advice. The concept of actuaries rings a bell with them. They know who actuaries are, what they do traditionally, and they are almost astonished to find that there are people who are willing to give individuals advice. They almost always believe that actuaries are on the other side, yet their regard for the profession is astonishing.

I want to talk about some specific cases. In response to these inquiries for counseling, we prepare what we call a counseling report. We also have an assistance kit that we put together in response to people who have heard about this and who have approached us. We think it's important to have a document of some kind that brings information together in one place, so the people can refer to it. It has the information on, do you need to be licensed? How do I get clients? What sort of resources are out there? There's an awful lot of published material on things like crediting rates that are readily available; you can put your hands on them and that will help you solve these people's problems. If you can bring a little kernel of specific information to light on their particular case, they really are very impressed by this fact. Over the course of the 50 or 75 cases I've done, I've tried very hard to find a specific sort of kernel of information that sort of impresses them in a way. You may know something about the recent financial activity of a company or something that they may not have heard of. You sort of have to develop a feel for how to do this, and you also have to have some kind of interpersonal skills. You have to spend time with them on the phone and so on.

This counseling report has a few basic features. Over the years, in our little consulting practice, we do this little informational thing. People come in and we sit down with them at the computer and plug in a few basics like, birth date, height, and weight. People are surprisingly interested in things like their appraisal age, the effect of whether they smoke or don't smoke, and life expectancy. It's a conversation starter in some ways and presumably could be built into a lead generator or the kind of easily distributed free stuff that gets people talking about the subject.

Incidentally, we have just started a web site at our little business. It is a very easy thing to do. I was surprised that for about \$200, you can reserve a domain, which is that stuff between the dot after www and the dot before com. If you're the first one to register it, you own it and you can be as clever as you want. You can download web publishing software that is remarkably simple to operate. If you can come up with a page like this, you can link to it very easily and just use your imagination. Then you can register your site with all kinds of associations. Search engines are more than happy to have links. The more you explore the web, the more you find out what generates hits. You can get very detailed information on who's hitting your site. I've really just begun to do this personally. I honestly believe that there has to be a way to take advantage of that technology, which is bringing your skills and knowledge and the fact that you're in business to a very select audience, depending on how you set up your site and who's hitting on your site. This is a scenario that we're really just beginning to get into.

We do this little thing that we call status quotes and that gives us some information about the people. We do a simple questionnaire that helps us understand their particular needs. Maybe they have health problems. It's amazing how many people call me up and say something like, "My husband just had open heart surgery. Should I keep this insurance policy?" I'll say, "It's probably a good idea. Send me a check for \$195," I've literally opened packages and had \$100 bills fall out of them. People will actually pay for this service, and really believe that they're getting something real.

I'm trying to bring this around to product rating, and we think a key element of this process is reliable and presumably independent product rating. It is simple, and in most cases that I have come in contact with, people really don't want a whole lot of information. We try to provide a good bit of detail. We look at guarantees and illustrated values. We can look at downstream illustrations. I got a call from an 81-year-old-guy. He bought a single premium whole life policy, and he got a premium notice last week. He's very upset about it and doesn't understand what's going on. I said, "Are they sending you anything?" He said, "Oh yes, every year they send me all this stuff." I said, "Put it all together, write me a check, send it to

me.” There might be a need for some follow up over the phone, but I got a feel for the guy’s problem. His problem is that he is now very worried that the insurance that he believed was permanent insurance for his family has basically disappeared. In this particular case, we were able to put together a report. It was not a particularly horrible product.

Let me get back to methodology briefly. We peg a normal, average, or reasonable score at 100. It’s an open-ended scale, and we’ve seen scores ranging anywhere from the 20s to up into the 170s. The types of products you would see might affect your methodology, but essentially what people really want to know is, what’s that number? You tell them 100 is what we think is normal or good, and they say, “Well mine is 88. That’s not really good.” I say, “Well there are worse products. You can probably go get another quote from somebody else. Bring some additional information, write me another check, and I’ll do another analysis.” We provide these people with facts, not opinions. Many people really want to bear down on you, and they want you to make a commitment of opinion and say, “Yes, this company really is horrible.” They’ll tell you all kinds of horrible stories about what happened to their cousins and so on. The bottom line is, what we end up producing, packaging, and delivering to these people is a set of facts. This is the score. This is how we determine the score. If you are faced with a buying decision, this is the score of product A and this is the score of product B. We don’t tell them, “Buy A because it is wonderful,” or “I can tell you all kinds of horrible stories about company B.” That is not the kind of business you need to be in. You need to be in the fact business, and you should lead these people to draw their own conclusions.

This leads me to another case of a gentleman described as a professional, self-employed investing consultant who basically manages his own money. He has an awful lot of money, and he spends all his time worrying about what the stock market is going to do. He appears to be very wealthy, and he has some life insurance coverage in force. He was, for one reason or another, unsatisfied with a very large policy. It was something like \$8 million. He had a substantial cash inside build up in this policy and he wanted to make a change. He came up with a choice of two policies, both highly recognizable, very fine excellent companies in the business. You’d recommend either one of these products. We did an analysis, he wrote me a check, and the scores came back about 15 points apart; one was about 90 points, and the other one was about 105 points. They were both within normal range, and both were policies that were highly recommendable to anybody. The real difference in the two policies was, one had very substantial, first-duration, guaranteed cash values. If you transfer that money into this contract, at the end of the year, you ought to have something to show for it. It’s a substantial sum of money. We pointed out to him that one had guarantees that had value, and the other company’s product had a guarantee of zero in the first duration. We did not

make a recommendation other than to point this out to him. Much to our surprise, he ended up buying the lower-rated policy, which did not have the guaranteed first-duration values. We pointed this out to him and he said, "I don't care about that." So, in this case, we stuck to the facts, and he made a decision on his own. Maybe his cousin is the agent.

Mr. J. Bragg: He must have liked the agent better.

Mr. D. Bragg: He made a decision based on what he had seen. We were happy, and he was happy. He went away feeling that we had performed a valuable service, helped him make a decision, and charged him a very small amount of money relative to what he had at stake. I believe this is the kind of guy who will give us good word-of-mouth advertising over time. He will come back to me, and perhaps his children and maybe even his grandchildren will come back to me based on the service I gave him.

I think this is the way you go about building a practice. There's a central element of self-promotion. You must be willing to go out and talk to people. There's all kinds of groups you can appear before, especially if you're willing to get up for breakfast meetings. You can find all kinds of people. The essence of what we're trying to do is provide a valuable sort of stand-alone service. I really don't want to be in the counseling business myself, but I want to be delivering the ratings on an affordable basis.

Now I mentioned cost. We charge anywhere from \$200 to \$300 per person, although somebody actually paid me \$500. You just have to get a feel for what the market will bear. I think the process can be streamlined and made more efficient and delivered at a lower price. In the long run I want people to have confidence in what we're doing and I want them to send me to collect the information. Then they will see value in the fact that I'm performing this product rating, not them. It is better to have people who know what they're doing and have some kind of track record and know how this works. We say, "This is the rating on the product; you make the decision." We think that if you have somebody independent and reliable delivering the service, it adds value.

We are delivering the service at a lower price, and making it somewhat more automated, but the essence of product rating is fairly simple in our minds. You have the actual cost of insuring someone. Then you have what we believe are reasonable expenses. Companies deserve a profit, but essentially you can reduce this to a minimum that makes sense to people. They feel like they're getting an unbiased and independent opinion. So you'll hear more on product ratings. If you're interested in hearing more about how we're refining and making the process

better, please let me know. I’m trying to build up a cadre of people who are willing to develop a process and reach out into the marketplace. I believe this area has enormous growth potential, especially for people who are willing to knock on doors, talk to people, and do some public speaking.

Another source is bank trust officers. The banking industry holds an enormous amount of life insurance in trust. The banking industry is very uncomfortable doing this. It has very real concerns about whether life insurance is a reasonable asset to hold in trust, and people in the industry really lack the knowledge to make a fair valuation of these trust policies that come in. They do not know whether this is a good buy or not. They are very much afraid of the liability associated with signing off on life insurance as an asset. So if you know a trust officer, and you have a good relationship with your bank, that can be another source of people who might genuinely believe they’re being helped by the process.

Mr. Franklin C. Clapper, Jr: My question is, how do you take the company rating into account because it seems to me that would affect your values?

Mr. Clapper: In other words, it’s more than just price or guarantees or current price. How do you take into account the more esoteric parts of the product and even the agent’s credibility?

Mr. D. Bragg: There are a variety of sources for company financials. If you spend time looking at a company’s financial strength, you can single out a very small segment of the market—companies that are of concern. You should bring that to the attention of your client. The truth is, virtually every company has good products and bad products, and if you look at enough products from a given company, you can get an idea about whether it is really competitive in the term business. Have its crediting rates been a notch above somebody else’s rates. Are they trying to build business on sort of hokey enhancements, such as if you keep the policy in force for 30 years, you get a little bonus or something at the end. You can get a feel for how companies are trying to operate in a given segment. You can help someone make a decision about a company’s financial strength. The product is where the service can be delivered more effectively because virtually every company has good and bad products.

Mr. J. Bragg: Let’s go on to another phase of actuarial counseling. The life and health expectancy is an enormous field. It’s really amazing. I’m involved in two of these cases myself right now. It is for or about individuals, and therefore it is under the umbrella of actuarial counseling. We want to move on to the life and health expectancy counseling aspect and Tom is going to do that.

Mr. Thomas J. Walker: I'm with Buck Consultants in Toronto, and we have a small department of five, which consists of two fellows, an associate, an actuarial clerk, and an administrative assistant. Our department is 100% in what I would call actuarial counseling or life and health expectancy. Our particular department, to coin a phrase, is involved in forensic actuarial work. We are there anytime a lawyer needs an actuarial calculation. We are often retained by lawyers, who will usually accept responsibility for our fees. Lately, particularly when there are family law cases, which I'll get into, the individual will take responsibility for our fee and retain us directly.

You are probably familiar with the type of calculations that we get involved in. I think they are what you would expect—the present value of an income stream, the present value of an expense stream, a life interest in a property, or a reversionary annuity.

In Canada, a landmark Supreme Court case in 1978 established certain principles for valuing a future loss of income. \On an income loss, we always take the gross income and ignore the effects of income tax. The theory is that the interest earnings on the award will be taxed. Then there's more or less an offset.

However on a fatality, there is a different principle. There, you're looking at loss to a survivor. As a result, you net the tax off before you do your calculations. Once you have your calculations, your capital amount is now in after-tax dollars, and it's necessary to provide a gross up for income tax, which is a complicated calculation in which we use an iterative approach, so the funds we end up with are sufficient to provide after-tax dollars for the remaining income of the survivors.

Now the types of cases, and the things that lead to these losses or calculations are many and varied. Valuing pensions when marriages break down are probably the most frequently handled cases now. The pensions are divisible. In Ontario the lump sum is divisible, so you must put a lump-sum value on the plan. You generally consider various retirement age scenarios and give all the scenarios to the lawyers. It is up to the lawyers to apply the legal principles and pick the proper value. Other types of cases are personal injury and fatalities as a result of accidents or medical malpractice. Wrongful dismissal cases sometimes involve valuing pensions or income loss streams. We also get involved with some wills and estates; that's where we get into the life interest.

Some less common examples of cases in which we have been involved include human rights matters. We have had to make calculations in cases involving both religious and sexual orientation discrimination. We've done calculations on aboriginal life land claims, both on future and past, allocating the resources on

these land claims. Other examples are insurance buyouts, auto, disability. We've had various changes in the auto insurance acts, and there are certain disclosure requirements and sometimes the insurance companies just want to do a lump-sum buyout. We've been retained both by the insurance company or by the policyholders in situations like that.

One of the more interesting cases we've been involved with concerns the contamination of the blood supply in the early 1980s. Before all the tests for the human immunodeficiency virus (HIV) virus were put into place, there was a series of unfortunate cases of people who had hemophilia or surgery, and as a result, ended up being transfused with infected blood. We've been involved in many of those cases, and there are class action suits in a lot of cases going on right now. Those cases are particularly relevant to an actuary because you generally have substandard mortality even before the transfusion. Some of the people were severely substandard before the transfusion, so putting a proper value on the loss is definitely an application of actuarial science.

A new target area which we're hoping to get more involved in and we're just starting is individual risk management. I'm not sure if it's the same thing here in the U.S., but in Canada, I find that virtually all the advice given in the papers recommends buying mutual funds. They say you can get 15%, or returns are advertised at 34.9%. We don't see anyplace for a guaranteed income stream, regardless of what you think of annuities or defined-benefit pensions. I think it's an excellent risk management tool, and I find that many actuaries are stopping at the present value calculation. They do the present value, and then say, "Well the amount you can transfer out of your pension plan is such that you really should take it and put it into a mutual fund because you're going to do better in the long run." I don't think anyone is looking at the risk. The competition that we have in this area, in the courts, is the accountants and economists, and of course, other actuaries.

The quality of the reports you see varies greatly, especially among the accountants and economists because, of course, they do not have a professional set of standards that they have to follow. So it's very difficult to criticize an accountant for not following proper actuarial practice. There's no place you can complain about it. The sensitivity to fees is much greater than it would be if you're doing pension or insurance consulting, where it's a company you're billing. Your fee is always tax deductible if you're billing a company. When you get into a lawsuit involving personal injury or a fatality, the fee can usually be recovered from the award. If the person wins or if you're on defense, the insurance company is paying it. But when you're into a family law matter and valuing pensions, no matter how the case ends up, the actuarial fees and the legal fees will come out of the family assets. So this work is much more fee sensitive than the work you're doing for a corporation. The

key to success for an actuary in this area is you must know the local laws before you start doing the calculations. It could be embarrassing if you produce a report, which, in your opinion, presents the proper present value of a future income stream, only to find out after you've issued the report that the rules of procedure in your jurisdiction specify the discount rate that is to be used for the calculation. If you use the wrong discount rate or the wrong mortality table, compared to what is generally accepted in that area, then your report is just going to be dismissed.

It's very important to be able to explain your calculations quickly and in a form that can be understood. You have to avoid actuarial lingo. I think you can use the term initially, but then you have to simplify it. In one of the first cases I testified on, we used the phrase, *exhausting fund principal* in our report, and you can explain that by saying, we take into account, year by year, the probability of this person surviving, and we take into account the inflation on this factor and we discount it all back to the present time using current growth interest rates based on the Canada long-term bonds. However it was the judge that asked me that question. I said, "Well your honor, I can give you the long explanation or I can give you the short explanation." I said basically, "My best estimate is that Mrs. Brown and her money will run out at the same time."

I made a point and our calculations are supported. I think the actuaries are very highly respected, and in order to maintain that respect, it is important that before you do something like this, you be aware of the laws in your jurisdiction, and you check to make sure you know what actuarial standards of practice have been established for the area.

Mr. J. Bragg: I'd like to tell a little bit about cases I have been involved in recently. In life expectancy cases, the lawyers involved are using the census expectation of life figures. They look them up in the government tables, but the individuals nearly always turn out to be extremely substandard in area like height, weight, blood pressure, cholesterol, myocardial infarction, or whatever.

So the actuarial counselor's role is to determine the actual life expectancy of that individual. It usually turns out to be far less than the government numbers. It turns out that the actuarial profession has enormous resources when you really look at substandard life expectancy. The person that developed all of the fundamentals of this was Ed Lew. He spent all of his career doing this sort of thing.

There's also health expectancy. I'm involved in a health expectancy case right now that involves an 11-year-old boy who was severely injured in a go cart accident in Panama City. He lost part of his stomach, duodenum, pancreas, and liver. His family wants to know what the future health expenses will be for this boy. That's a

tough one, but we can address that question in the actuarial profession. The doctors can't, by the way. Doctors will not take any guess as to what might happen. But if you look into the actuarial resources, you find that it's possible to address a question like that. It is pure actuarial counseling. Gary Mevorah has been involved in some health expectancy. Gary will talk about how to get into business doing this sort of thing.

Mr. Gary J. Mevorah: I'm a pension actuary in Atlanta. I've been a pension actuary for close to 13 years and have worked on public and private employer-sponsored defined-benefit plans. As Jack said, I'm going to give my views on how to develop an actuarial counseling practice; at least from my experience and background. Of course, after listening to Tom, I realized that there's quite a bit I can learn from him. First, I want to give a little background on how I became a pension actuary, and how I got involved in this new role of actuarial counseling.

Back in March 1996, I read an article in the Society of Actuaries newsletter *The Actuary*. There was an article that talked about a new role in the actuarial profession called actuarial counseling, and it was to be an entrepreneurial role. All my life I've always wanted to be an entrepreneur. I've worked in large companies, some of the large consulting firms, and now I'm with a smaller company called, Pension Service Company. Nonetheless, I've always wanted to be an entrepreneur. So I was very interested in this article. It may not interest other people, but it struck a chord with me. Fortunately for me, Jack Bragg, the author of the article, was from the same town as I was, so I quickly got in touch with Jack and started a series of meetings with him beginning in April 1996. I met with Jack and his son David, and I spoke a little bit about the new role. I purchased the actuarial counseling kit, and I took that home with me.

Being that our schedules are so busy, I would have loved to have studied it that night and responded to them the next day, but you know how things get in business. I was pretty occupied. Some months later, I met up with the Braggs again, and I talked with them about my observations and the questions I had about this actuarial counseling kit. Looking at all the interesting services, I thought it's great for somebody who has a background and can do all these things, but my background was just in pensions, so I didn't know if I could apply my actuarial skills to all these other roles. John's and David's attitude was, when you get a case, just plunge in and you can learn what you need to learn as you go along. So it was an aggressive, kind of cavalier approach.

In November 1996, I got a phone call which was my first prospect who was referred to me by the Braggs. Although I didn't know if I could make a contribution, I just went along and spoke to the person and answered his questions and figured out

what I could do to help. It turns out that this person was a male in his late 30s and he was out on disability. He was getting a monthly disability pension check or a payment from an insurance company. Suddenly the insurance company got in touch with him and told him that it would like to settle the policy with him in a one-time lump-sum payment. The person was an engineer and had some education. He thought that the amount seemed kind of low. So that's when he said he needed an actuary to look at this to see if the amount was reasonable. He wanted me to prepare an extra report to determine if this amount was in fact, enough or if it was unreasonable. So I would review the assumptions and the calculations of the insurance company and then make a judgment on that and then submit what I thought to be reasonable.

It turned out that my calculation resulted in an amount that was higher than the amount the insurance company computed for a couple of reasons. I applied probabilities of remaining disabled and the time value of money and the tax implications, but another thing was that the insurance company gave them some little worksheet and it showed that they were computing and assessing the liability based on the probability that he would be disabled at 65 or that he remained disabled. We know that it should not be based on whether he'll be disabled until 65; it should be based on each month that he continues to be disabled and continues to get a payment. The insurance company came back with a counteroffer. It was about 15% higher than the original offer, and he didn't want to go to trial, so he just accepted the counteroffer. Jack and I felt I did my job because I helped him get a better settlement.

In early 1997, the Actuarial Counseling Committee had its first meeting in Atlanta. The beauty of that was that I was able to learn from a lot of other people. We had about 15 people from the U.S. and Canada with different backgrounds and skills who were already providing those services on their own already. It was a great opportunity to network and to pool resources and just learn from everybody by brainstorming.

So I left that meeting feeling a little more optimistic. I decided to first start my own side business while still working, and then go into business full-time beginning in 1998. I got the blessing of the owner of my company. He was willing to let me do this because he knew what my desires were. It sounded like a great plan in theory, but there were changes in my firm, things got too busy and the demands were too much. As such, I couldn't spend much time doing the marketing that I wanted to do. In the summer of 1997, I got my second case, and it was a divorce situation. The person thought that too much was being awarded to his ex-spouse, so I helped work on that, but that's still in the process of being settled. I haven't been able to

collect for that yet. One of the realities is that it is not like you have an employer paying you a monthly check. Getting paid is a challenge at times.

In August 1997, I decided I wasn't getting anywhere on a part-time basis. I needed to devise a plan so I could do this full time. I decided that in April 1998, I would give notice to my employer. In June 1998, I will complete my work, and then travel the country for four to six weeks. It sounded like a great idea. In July 1998, I will go into business full-time and give it the best that I can.

So how am I going to go about developing a business when the time does come? First, I'll need marketing materials. I've already gotten together business cards and letterhead and all that information. Eventually I'll put together a brochure that has things like a biography of myself and then the scope of services, such as retirement planning and pension plans and expert witness testimony. The next thing is probably going to be the most significant, which is going to be networking. I plan on calling upon every business professional in town—accountants, attorneys, financial planners, actuaries, or any type of business person that I can learn from or I think I can help.

Then I would attend professional conventions and market myself there. I'd promote myself in professional journals. I'll apply the triple play. I guess I was watching the World Series and started thinking about baseball terms. I'd call it the Triple P Play— persistence, patience, and passion. If I do all of that and just give it my best, then I feel it is worth it, and I'll accept whatever happens. I'm glad I was able to share some of my experiences and what my observations are. I look forward to being at the next meeting, talking about and updating you on my progress.

Mr. J. Bragg: Teresa has done quite bit counseling on a pro bono basis for seniors. She's also very much involved with the grants program of the Society of Actuaries Foundation. Teresa is heading up the Warren T. Jackson program in Atlanta for the Foundation. The Foundation is subsidizing five elementary schools around the country. One of them happens to be in Atlanta, at the Warren T. Jackson School, and Teresa is running that program for the Society Foundation. She also has done pro bono actuarial counseling and obviously is a person that's familiar with the matter of getting grants.

Ms. Teresa Russ Winer: I initially got started in working with retiree groups. I've been a Toastmaster for eight years, and in the last three years, I've been the speakers' bureau coordinator. I've always been very involved in the community, and I enjoy working out in the community. As the speakers' bureau coordinator, I contact groups of people that are having meetings to see if they need speakers, and I place speakers from toastmasters. I found out that there are many retiree groups.

Retirees make up the majority of the people that are holding meetings. This trend will increase and they will probably always want speakers. There's always a problem with a lot of my toastmasters who are younger. They wonder what to talk about. So I try to guide them and I personally have spoken about long-term care a few times. I've brought David Bragg with me, and we gave out the status quotes, which they enjoyed very much.

I've also counseled others to talk about Social Security and Medicare using the materials the SOA Foundation puts out. Many of you may have gone by the exhibit booth and seen the pamphlets on Social Security and Medicare. There is also information available on how to give a talk about the subject. I feel that with my experience with this Grant Program that I'm doing and the other community service, this might be the next extension of the Foundation. It's possibly something to explore. Perhaps we can take the speakers' bureau to the next level and go out and communicate and educate the public. The Foundation might be interested in allocating some kind of grant monies to cover expenses and speaking fees. Many retiree groups do not have the funds to pay for top speakers. We would need some type of grant money to really get the thing rolling. I see a huge demand out there. It'll be a great way to get involved in the community and a great way for the SOA and the Foundation to fulfill their mission of education and public service. I just want to explore whether there's any interest in that.

Mr. J. Bragg: I'm a senior, and I don't understand my insurance policies. Do you find that none of them can understand their benefit programs and that they're always needing advice?

Ms. Winer: One time I spoke they even asked me questions about their claims and what have you.

Mr. J. Bragg: So it seems to me that there is an enormous need in the senior group for what we are calling actuarial counseling and an enormous need for pro bono work. That might be a pretty good way to get into practice. There are several other people in the audience that are actually on the Actuarial Counseling Task Force, and I maybe should call on them to see if they might like to say something.

Mr. Robert W. Field: At the moment I'm just in the learning mode. I don't believe I have any practical experience in having given informal advice to people taking pension settlements and things. I haven't done anything on a fee basis.

Mr. J. Bragg: Of course everybody is just trying to learn all about this. It's a very new field, and I believe that about 25 years from now, it'll be really big. We're just in the initial phases of developing this. I know that there will be a big need for

education as well as seminars, standards, and even exam content. We’re very fortunate to have Professor Jim Hickman on our Actuarial Counseling Task Force.

Mr. James C. Hickman: You just gave my speech, Jack. All those things are needed. The best piece of advice for this and probably everywhere in life is, know what you’re talking about. Some of the activities described fit quite naturally into the mainstream of classical actuarial education. Some of them are on the edge. For example, when you get into gender and age discrimination cases, there are certain social science statistical techniques that are often used in those cases. These are not at the cutting edge of statistics, but you’ll have a bit of learning to do. If, in fact, this type of practice takes off, the Society and the whole educational establishment will have to try to help provide the tools to do those things.

Mr. J. Bragg: Absolutely. We’re really pleased to have Jim on the task force. Bill Bryan is involved in actuarial counseling through the Tennessee Insurance Department. He doesn’t work for the department, but that department and I believe any insurance department encounters people who have complaints or don’t understand their claims. I believe all the insurance departments have subdepartments that try to cope with those situations, and it can lead to the need for actuarial counseling. Bill actually is involved in that way. It would seem that people who are complaining to insurance departments about their insurance policies need actuarial counseling. Presumably the insurance department could refer such people for such a service.

Anyway, I should say something about financial counseling. We don’t have anybody, especially on the program, involved in financial counseling. It’s another big area in which to counsel people about their investments. I personally believe that we need something called an actuarial system of the economic investments world, so we would have our own actuarial attitude toward these questions, which would be different from the usual attitude of stockbrokers. To develop such a system is another big area. I think we can do it. I don’t think you’d ever go to the point of recommending specific investments or anything like that, but you could get into asset mix easily. I believe what you would normally be doing is helping this guy supervise his stockbrokers and his regular financial advisors. So I think financial counseling is one of the subgroups in this thing. There are people, including some that are on the counseling task force that are doing this such as Alan Keith in Boston is one and Gary Kane in California is another. I am trying to point out that this whole field of actuarial counseling is absolutely enormous. It seems to get bigger all the time.

Mr. Mevorah: I’ve spoken to people this week who are taking on additional professional designations like certified financial analyst to try to expand their reach

and enhance the value of what they're doing. From the limited reading I've done on the subject of financial planning, there's a shift, in general, over to a fee-based compensation system among financial planners. I think there's a lesson to be learned from how they do things.

Mr. J. Bragg: That is fine, but I still think we need our own actuarial system.

Michael M. C. Sze: I'm very glad that you talked about financial planning. I feel very strongly about financial planning, so strongly that I quit a Hewitt partnership last year to start on something that I know that I cannot make a living at, which is fine. You always need to chase your dreams, and this is my dream. I do believe that everybody needs to do financial planning, and not just look at the current budget line. Financial planning will have to go through the lifetime of each spouse, and possibly dependent children. I quit my job, and it's all planned out very well, except for the delivery. I was trying to get somebody to write a program for me and I had two false starts. In the end I wrote the program myself in Excel. The program was done in May, and I started talking to people. I always ask people to rate, on a one to ten basis, whether lifetime financial planning makes sense or not. The typical grade is eight to nine with a lot of tens in favor of the need for financial planning.

Like Jack said, when you talk about financial planning, you have to talk about life insurance and investment strategy. If you talk about financial planning, you should not just talk about those things for which you can plan, such as education, major purchases, retirement, or estate planning. You really need to think about contingencies. When I talk about contingencies, I'm not only referring to death, life insurance, disability insurance, and medical insurance. Two things that people never want to think about are two things that are quite sure to happen to a big chunk of us. When they happen, we get devastated. We don't know how to cope with them. One is job change.

Mr. J. Bragg: Absolutely, I believe that we've heard a lot lately about the exams being changed and we are to be risk managers, etc. Why can't we manage the risks for individuals as well? These individuals have what I call a risk spectrum.

Mr. Sze: The worst possible thing is for them to be all psyched up and walk themselves out of the market. If you change too radically, you are harming yourself.

The other contingency that nobody wants to think about, but half of us happened to be hit by, is divorce. Nobody knows how to deal with divorce, especially how to spread assets. If you think about it, it would help a lot. I've been pretty lucky. I always believe that, in life, you can plan all you want, but try to be lucky.

Mr. Steven R. Linney: Teresa, just a couple of weeks ago, I was called to do a presentation on insurance and taxes for the Waverly Jaycees. I guess I’m more of an actuarial counselor than I realized. I have two questions, in particular. One is do you carry any liability insurance? Are you at risk for a lawsuit? Second, I sense a tremendous demand out there, but they’re not beating down the door to us either. I personally don’t feel I want to spend a lot of time marketing to create this demand. This need is out there, but where is it? If I go to find it, it doesn’t seem to be there.

Mr. J. Bragg: Right, there are other professions, like psychologists for example, that don’t have a demand to start with either. Developing this demand, making it popular, and making it desirable is a prestige thing. How do you make it a prestigious thing so that people can come to you? That all has to be done. We are just starting to do this. We know that other professions, such as chiropractors, have done so. Anyway, the whole matter of recognition and advertising still has to be done.

You do have to worry about liability. In product counseling, we stick to facts. In other words, a product gets a certain rating on the Bragg Index. We say how we form a rating and tell how a certain product got a certain rating. We do not ever say, “You should buy this one and not that one.” We never get involved in saying one company is bad and another is good. Sticking to facts is one of the ways to protect yourself from liability. Jeff Allen is our Society staff liaison on this, and Lauren Bloom is the Academy’s legal counsel; she is working with us on the matter of possible licenses. All of that has to be investigated.

Mr. D. Bragg: Somebody told me that California has fairly strict licensing requirements. That’s a concern that would have to be looked into. Liability certainly is a concern. We live in a litigious society.

Mr. J. Bragg: If you have to have some kind of licenses, go get them. That just adds to your bag of tricks. Usually these licenses are not difficult to get.

Mr. Sze: I have a followup question. It’s related to what you just said and also to what I was asking before; I’ll ask it a different way. You talk about sticking to the facts, which is what actuaries are good at. We’re even good at assumptions where we have a history on which to base the assumptions. But in this kind of counseling, you’re also dealing with the individual’s tolerance for risk, plus his perception of risk, which may actually be different than his real tolerance for risk. So it gets very, very complicated. The policy comparison that you gave before, David, was a good example. A person may not need early cash values. I did the same thing myself when I bought a policy. I knew all the facts of the policies and the only difference was the early cash value, so I bought the cheaper one. There are all kinds of

variations on this. For example, individual stocks are riskier than mutual funds, but most people prefer individual stocks. Why? So how do you handle risk perception and tolerance?.

Mr. D. Bragg: I spend about 10 or 15 minutes on the phone trying to feel them out and establish what it is I believe they're trying to accomplish. I'm personally not an actuary and not equipped give an in-depth answer of how people cope with this situation, but it seems to me it has to be a manageable matter. I think you have to have fairly good interpersonal skills and be willing to invest the time in trying to understand what the guy's problem is. You should add value to the process.

Mr. Sze: But this is outside of your range. . . .

Mr. D. Bragg: Absolutely, my view is a relatively minor part of the process.

Mr. J. Bragg: The interesting thing about the rating is, that you've got one. They're amazed that you have one. It's sort of like rating a movie. Now they might have different attitudes about the rating we give. That's fine, but it's good that you have one.

Mr. Sze: We actuaries have a certain training in broad financial life cycles. Financial planning is not usually what we think that we're equipped to do, but that really is what people want. We can fill in the spaces, which is what Mr. Walker was sort of talking about. These are individual, very specific things we're natural at, but what people are really interested in is broader help. Most of these planning sessions that I've come to so far, suggest that we could support other professionals who are doing broader financial planning. There's an actuarial piece that fits in. I guess it's just part of actuarial arrogance, but I feel that we could probably do a better job than most of those other people, and I think that's one of the things that leads to being afraid of liability, too. I wanted to ask Mike to explore how he addresses questions of other professionals, challenging the specific actuarial expertise for overriding life cycle type of counseling.

Mr. Sze: I've been pretty lucky in the last half a year. I started doing counseling from May or June 1997. I have about 30 clients, and so far, accountants, lawyers, and other actuaries who have used the program never challenge me in terms of my expertise.

Mr. J. Bragg: We cannot just suddenly be these other professionals. We have to have our own actuarial attitude.

Mr. Sze: However, I keep a very clear distinction in the sense that I never practice law. If they want to set up a trust or a will or do estate planning, I recommend them to a lawyer. I took some courses on tax accounting for individuals and for businesses, so you need to have background knowledge. I never pretend that I’m a tax consultant. If they need detailed tax advice, they should see an accountant. As a financial planner, you need to know the basics, but you should never pretend that you know the final answers. Always tell clients to go to their experts.

Mr. Sze: I just want to conclude with one thing. There is liability involved. You better get liability insurance.

Mr. Walker: I think there are times when you must give an opinion, and if you’re testifying in court, once your qualifications have been put in, the judge specifically says that you’re entitled to give opinion evidence on actuarial matters. So when you’re in court, you are giving an opinion, but you must make sure your opinion is within your area of expertise. From one case to another, what you’re expressing an opinion on may be different. In some cases, it’s only the present value factor that you’re expressing an opinion on. In other cases, it’s the annual loss amount that you multiply the present value factor by, and you must support whatever you’re giving an opinion on.

Mr. J. Bragg: I’m going to say something about the past presidents. This is the time of year when we have three presidents. The actual president, the president-elect and the president-elect squared. We have all of them on board at this meeting, and they are all on board on this subject. They know all about it. We have their terrific support.

Mr. Gary Corbett: I’d like to ask about a subset of this problem, and I think Teresa is the one I want to ask. This is appropriate for somebody of my age. I’m no longer at the stage where I’m trying to make a living at actuarial science, but I’d like to be able to use it to help people. This gets into the pro bono actuarial counseling of the aged. Many of their questions are on things I don’t know a lot about. For instance, I don’t know a lot about Medicare coverages. It was enough of a struggle to try to replace individual coverage, which I had to do recently. It’s a complicated area, yet I know that with a little learning, I could probably appreciate the ins and outs of these issues a lot easier than the man on the street. Then I could give talks to people, and tell them what’s available in the marketplace, and what they should look out for.

Is the Society or the Foundation doing anything to support a corps of retired actuaries like the Corps of Retired Business Executives does? This corps could, within individual communities, talk about retirement, Medicaid, the things that we

have some expertise in. I'm not so much referring to individual, one-on-one counseling because I don't think that's a good use of time.

Ms. Winer: I do not specifically know what the Foundation is addressing. I don't think they're that far along in their process or their grant programs. I'm sure it's a good time to bring these issues up because, at this point, they seem to be exploring a lot of new ideas and testing things. My grant was almost a total test. It included the first five grants that the Foundation was awarded in education, so I feel the mode that they're in right now is to kind of explore these issues.

Mr. Corbett: I know nothing about this actuarial accounting task force. It's under the Society, I gather. Would it include the things I'm talking about, or is it aimed at sort of more specific assignments?

Mr. J. Bragg: It should include what you're talking about. Something should be done along the lines Gary is talking about. We have been talking a little bit to the Foundation and about maybe they should be doing that kind of thing, as well as everything else they're going to be doing.

Ms. Cecilia Green: I think I can answer your question Gary. The Medicare and the Social Security brochures come with what we call a partner package, and there are suggestions for seminars. There is one new aspect in the Medicare project. We have teamed up with the Healthcare Financial Management Association, which is giving senior fairs all over the country through its local organizations. We're suggesting that actuaries team up with them and help plan these senior fairs and be on a panel or at a breakout session that talks about financing, which is what actuaries are experts on. We are trying to make some inroads by encouraging actuaries to be active. One of the key groups that distributed the Social Security brochure for us was retired actuaries who took it upon themselves to distribute it to schools.

Mr. J. Bragg: Teresa is the person we kind of look to on the Actuarial Counseling Task Force in issues like this. I'm going to mention we have a very distinguished past president here, and he has been helping us since the very beginning on this. Jack Moorhead has been familiar all along with what we're doing and was a very early helper and participant in this whole thing.

Mr. Kent M. Bergene: I applaud your efforts, and I think it goes to the heart of this Society's mission. I also carry a certified financial planner designation. I see a number of areas where the practitioners in financial planning could be doing things better or providing better education. I think actuaries are well informed to make some of those processes happen. I was going to ask if connections have been made

with the International Association of Financial Planners or are you affiliated or assisted by the National Endowment for Financial Education.

Mr. Ernest J. Moorhead: The last time I was asked to speak on a subject and did not was 1937. I have to speak anyway, regardless of invitation. You’ve been talking about giving advice to people who need it and to people who seek it. That’s fine as far as it goes. I’m working full-time in a larger field than that—namely the field where people need advice, but would prefer not to have it. That field is exemplified by the boards and managements that run continuing care retirement communities. They are in the field. The futures of the individual entities depends on actuarial principles and devotion to those principles. Most of them ignore those possibilities, even though they’re made available to them by statute and not by personal advice. I am in a large retirement community in New Hampshire, and they receive an actuarial report under the instructions of the New Hampshire Insurance Department every year. They do not read it. They cannot be persuaded to read it. They would prefer to depend on the accounting statements that do not look into the future at all instead of the actuarial statement that does intend to probe into the long-range dangers. If you get a opportunity of working with a retirement community on its actuarial report, I hope that those of you that are interested in counseling will take an interest in this challenging task.

Mr. J. Bragg: Jack was one of the first to write a paper on this subject in 1992. He has been following this subject ever since, for which we thank him very much.