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## **Session 60PD**

### **Session Title: Managing an Actuarial Practice**

Track: Pension/Management and Personal Development

Moderator: DANIEL P. CASSIDY  
Panelists: DANIEL P. CASSIDY  
              JOANNE F. JANSSEN

*Summary: Many actuaries work as independent pension consultants or heads of actuarial departments. This session provides some useful insights into managing an effective and successful business operation.*

*This session covers a checklist of how-tos and how not-tos, in the various areas of the operation, such as: structuring your practice, setting business objectives and market strategies, evaluating human and technical resource needs, understanding client needs, keeping up to date with the competition and new ideas, time and financial management.*

MR. DANIEL P. CASSIDY: This session should be fairly informal, with just two actuaries telling you what we've done in our experience coming from large firms and going down to small firms. We'll take questions as we go along, so feel free.

The agenda for my portion is focused on discussing how I've dealt with the things happening inside and outside the firm – sales and marketing, advertising and the Web. Joanne is going to speak much more on the Web. She has much more experience actually using the Web in her business. I'm just in the midst of developing that, so if you're looking for a Web expert, you're talking to the wrong guy, so hold onto your questions.

First, I will focus on inside issues, and I will cover three points here. First, to review my background, I worked at Towers Perrin and also at William Mercer. I left there four years ago to set up my own firm. I always thought I would like to work at a small firm, but several things always hindered me from taking that risk and that jump. In hindsight, after four years of doing it, a lot of those things that I thought were hurdles did not actually become hurdles. Other things became hurdles and

made things, shall I say, interesting.

The first thing I would recommend to somebody is to get help with noncore functions. By that I mean accounting, bookkeeping, secretarial help – really anything that does not help you get in front of your clients and prospects. At the start, I think that it was the money I thought I could probably “save” by doing it myself, but in hindsight it pays multiple times over getting the right help for those type of functions and that allows you to really focus on what you do best.

The next issue is to outsource actuarial software. This is probably the biggest hurdle. Coming from a large firm, I was used to having a technical support group that produces all this different stuff for you – comes out with new updates all the time. Going off to a small firm on my own, the lack of support was really a big hurdle to get over. Knowing the back office would not be there, I found out there are actually several firms that provide actuarial software. My firm uses a product from Winklevass Consultants called ProVal. I have found out it is probably better than the stuff I used previously and actually easier to use, much friendlier, simpler to get plans up and running, and it has actually has been a real bonus to my work. One little added benefit of these firms is that often they will provide you with more back-office support. For example, they come up with upgrades to their software. Also, they have consultants. Most of their firms are staffed with former colleagues from the big firms. The one I use has, I think, about a dozen FSAs on staff and probably another dozen or so ASA-type level and they are more than willing to do all the work for you. You send everything down to them and they produce the valuation, and then send it right back up for you. They charge you for it – but then again, if you feel that you need that back-office support and you want to keep your firm very small, there are other avenues to explore.

The next topic is staff issues. We could probably spend the whole session talking about this. The one point I wanted to bring up is the issue in the U.S. of contract employees. In my firm, we've primarily used contractors and have hesitated to add staff. Our idea of a firm is trying to keep it very small and use other people's expertise to contribute at the appropriate time, so we've used contractors. Some of these contractors have been very long-term and perform substantial work, and it's been very successful for my firm. However, we're getting to the point now where we're actually thinking we do need some more employees to be around the office during regular business hours.

In Canada – I'm not sure of the laws in Canada versus contractor and employee – but we are very careful when we do engage contractors and getting a contract and trying to stay clear of the rules in the U.S. concerning whether they are considered common law employees.

As my firm has grown I try to spend more and more of my time, both nonbillable and billable, outside the firm. I say network, network, network. It's amazing where you find clients. I started with one client four years ago and now I serve probably about 40 clients. They have come from all different sources. The majority of them have come from referrals, either prior clients, ERISA attorneys, SOA committee

members, other actuaries in other firms in Canada and the U.S. I have a client in Canada that came through a relationship I had developed through an Education and Examination Committee member. Similarly, one of my former clients called me up – they were in the U.K. – they found me and that has now blossomed into a handful of clients. You really never know where your clients are going to come from. Just stay out there and stay positive and to talk to as many people as possible.

The last bullet here: Industry Groups – non-actuarial and non-benefit. As an example, I speak at a conference in Washington for some nonprofits and I usually give a half-hour talk and I've done that for three years. It seemed like a lot of effort. I actually had no clients that came out of that until this year. So I would just hope and encourage you to keep doing it and not get frustrated if it doesn't work after a year or two, or even three years.

Sales and Marketing – I would say this is the biggest issue by far and it's the one that really wasn't dealt with in my training at Mercer and Towers. Really, I had not developed those skills to the level I need to have now or the level I am at now. Maybe it would have happened anyway if I had stayed at the big firm, but I think a little testing by fire has increased my ability to sell and to market my firm. Actuarial work is easy by comparison. I say that to warn people – if they think going off on their own, they'll just be able to sit at their computer and kind of tap away and do actuarial valuations, that is far from the truth or the reality. I probably spend upwards of three-quarters of my time selling, marketing, and dealing with clients. Probably less than ten percent of my time would actually be spent doing actuarial work. It is a surprisingly low number. Joanne, is that similar to your experience?

MS. JOANNE F. JANSSEN: I probably did a little bit more than that, but, of course, as management practice grows, too, you start handing off the technical work to people who work for you. You really do become a manager and a sales department and all else.

MR. CASSIDY: I listed the three things that prospects can say to you. Yes, is always nice – do work, that's always positive. No, I actually enjoy when people say "no." That's the second best compared to yes because then you don't have to waste any more time on them. It's not personal. I guess initially I always took the no very poorly, but after four years, a no is great. I am more than happy to say, "Can I call you in a year or two years – six months?" And they say fine. The worst ones are the maybes, because then you actually have to think about whether you want to continue to try to get that client to work with you. I've worked on maybes since the day I came and started my own firm. There are still some maybes I still call and still spend time on. I spend less and less time on them, but it still drives me crazy that people – they like me, they know what my firm can do, but they still are just dragging along. Those are the tough ones to deal with and I guess I would encourage people to maybe cut off the cord earlier than I have been able to in certain circumstances.

One last thing I want to mention about industry groups, like in Boston there's a

New England Human Resources Association, NEHRA or SHIRM or some of the others you might be familiar with. I've actually hesitated – I do participate in those occasionally, but I haven't been very successful. I think the Towers and Mercers of the world and the other large firms are pretty well entrenched there and are probably successful in getting business, but it seems like it's hard for me to stand out as a small firm. I've actually tried to find places where the other firms are not looking and have been more successful that way, so I would just encourage you to perhaps think that way. The big firms, they try to be everywhere and be everything to everybody. You can't do that in a small firm, so I only try to be who I am for a small section of the clients out there.

Continuing on Sales and Marketing. Again, what works for me – personal attention. Probably the biggest thing that I sell to my clients is that when they hire my firm they will work with me and my staff and we really respond to their phone calls or talk to them. They are not going to be handed off to some lower level staff to deal with their valuation or their situation. My clients and my firm really like that in comparison to say, some of the larger firms where there would be the senior manager in charge, the partner, and then some mid-level staff people actually doing the work and then you're down to the analyst level. The clients really like the single point of contact and knowing that you actually are doing the work, so that's been very successful.

I would encourage you, if you are in a small firm, that the value of your services is not necessarily small because you're at a small firm. I will mention later on a book that has really helped my thinking about this. I think clients' perception of value is oftentimes associated with what you charge, and so I would encourage people to think about that and not necessarily just try to charge the least amount that's in your marketplace.

Last bullet here – don't waste time on RFPs. I've only responded to maybe one or two RFPs in four years and, of course, I lost both of those, so I don't spend any time on those and it hasn't hurt me at all. I don't know if anyone else here has been more successful in responding to RFPs than that, but even in my experience before, RFPs are always very tough because you spend so much time putting it together and the pay-off is not always there. That ultimately comes down to who you know. That's been successful and that's what I work on every day at the office.

Read, or listen to, as many business books as possible. As actuaries, we took all these exams, and we never really studied sales and marketing. I have probably read 200 or so business books, and listened to 40 or 50 tapes on this issue. Those have been very helpful in my transition from actuary to businessperson. I highlight one, I would say, must read. If you had to read one business book it would be this one called, *Selling the Invisible: A Field Guide to Modern Marketing* by Harry Beckwith. There's also a follow-up book *The Invisible Touch: The Four Keys to Modern Marketing* by Harry Beckwith. I think he's only published those two books. It will change the way you operate your business – whether you're at a big firm or a small firm. Really, I would highly recommend it. It's a very short book actually – a

very quick read, well worth the investment in time. Fantastic.

Confidence is king. Really, the clients that I try to attract and deal with, they really are people who have a problem – a real pressing problem – and they want a solution and they're not looking to go out and get six proposals from all these different firms to have a solution. They really are looking at me and looking at my firm and saying, "All right, can I trust them to actually get this job done?" That was a big transition from my thinking before where I always felt that you had to be competitive on all fronts in trying to sell to clients. I would say that you don't have to be competitive at all. My firm would be considered when you look at it in comparison to the number of participants involved or the asset size. But what I do is actually more than just actuarial crunch the numbers; it's more a management service and so it's really a change in how I deal with my clients.

Make the logo stand out – don't use blue; this is just a general comment. Most professional services firms use blue; I don't know if you've noticed that, but I did and I actually hired a design firm to come up with my logo. It stands out. Clients love it and it really has helped, I think, in giving an image of – yes, this guy is different; this firm is different; they're not just going to do the same thing over and over again. If you ever look on the Web, there's a lot of blue out there in the world. Think of another color, perhaps.

Advertising. Again, I read all those books and they said you've got to advertise and I remember one quote from one of the books saying, "If you run a business and you don't advertise, that's like winking at a pretty girl in the dark." That one got me thinking I should advertise. I've got this little business, I shouldn't just sit there in my little office and not advertise – so I did it. I advertised in a local business journal. I do some advertising at some Web sites; do some sponsorship of sporting events in my city and other things, brochures and things like that – and I would say I've had some success, but very limited. The best is when I can combine it with, say, speaking at a conference – sponsoring that conference or being one of the sponsors and then getting a speaking engagement at the conference. But I've advertised in this business journal once a week for four years, and my colleague and I have just decided to cut that because we've got one client out of that whole time, which is not so bad. I didn't mind spending the money because I think it raised the awareness of my firm and maybe I didn't get clients, but people knew about me. I did that for a lot of different reasons, but ultimately I don't think it was successful in getting clients.

The Web. Again, I wanted to mention – I am just really starting to design the Web site and I've hesitated to use a Web site just because I've gotten clients mostly by referrals, and not really people coming through the door, contacting me or finding me through a Web listing. I have advertised in "Benefitslink," a Web site that most people probably know about and I actually haven't received any referrals from that, but I know Joanne has and that's been successful for her. I actually like to support that site and still maintain ads on there because I think it's a great service to a lot of independent people and many people at the big firms use it. I think it's a great site. In terms of spending the time and energy to design my own Web site for the

firm, I was really hesitant to spend my mental energy thinking about it. But now I've actually gone over that hurdle, hired an outside firm and we spend most of our time talking about the goals of the site. I listed my goals that we came up with. The primary one at this time is really a backstop for prospects. If a prospect does find out about me or my firm, they'll have a place to go check me out on the Web and there will be something there, and they'll say, "Okay, it's a firm; they exist; they're not nobody."

Our second goal, and this is probably going to work more and more in the future, is actually as a resource for clients. We're putting on a client site and in the future we will post reports on this client area so the clients could get it at any time in the future. If they wanted their auditors to receive the material, they could just point to this client area site and pull that down. We're putting that in as a real resource for the client. The last role is the development of leads, but ultimately, I don't know if I'll be too successful with that.

And that's it. Joanne is going to continue the presentation.

MS. JANSSEN: . I'll tell you a little about my background first. I started out as an actuarial student right out of college at Aetna. I got my fellowship there, and then decided I was going to become rich and famous in the consulting world so I went to Detroit and joined Mercer. I spent a little while there and then moved over to Towers Perrin and spent some time there. It's a total coincidence that both Dan and I have been at Mercer and Towers Perrin. We were not in the same office and I don't think we were at the respective firms at the same time. Then I decided to go out on my own, because corporate life was not very attractive at that point. I started my own firm, Janssen Actuarial Services, and for ten years, and I worked out of my home, which I loved doing and loved having my dog and my two cats helping me work. I liked setting my own hours. I liked having the flexibility of taking days off when I wanted to; when I had big projects going I would work like crazy, 12-14 hours a day, but then I could take the next week off. Then I started doing some contract work for a firm called Gabriel, Roeder Smith in Southfield, Michigan. GRS has been around since 1938. I guess you would say that it specializes in public sector pension consulting, and it has some of the biggest public sector pension plans in the country including Calpers as an example. Gabriel, Roeder Smith is establishing a new health care consulting practice, so they hired or took me on as a contractor part time to help them get that started from the actuarial perspective. After a year of doing that, I seemed to be working just about full time so they said, "It's time for you to become an employee," so I'm now back in the corporate world. I still have my company, but any leads or anything that comes to the company that I own flow directly to Gabriel, Roeder Smith. You may have noticed the little plug I put in there for GRS. When you're managing an actuarial practice, that's something you need to do at any opportunity you have to promote your company and your services

I'm going to speak from the context of both the period of time during which I was running a solo practice and also from the last year during which I've been building a practice or helping build a practice at GRS. I will be talking a little bit more about

marketing – adding a little to what Dan has said already. I will mention that Dan has been a pension actuary for the most part and I've been on the health side since the very beginning, so all I know about pensions is what I had to learn for the exams. I'll also talk about peer review and I'll talk about how running an actuarial practice is not necessarily as much about actuarial work as it is about people. If you expect to sit at your desk and do number crunching you could be a very lonely actuary with no clients, too. When Dan was speaking he said I would make another comment about contractors. In our health care practice at GRS we have four full-time people. For a health care practice that's doing both consulting to employer plans, and also consulting to providers (for example, HMOs or what are called limited health care service organizations), doing capitated rates, that sort of thing – four people is just nowhere near the depth of experience you need. For example, sometimes we need a medical director, or a claims editor. Sometimes we need just any number of different types of expertise that we are too small to have in house so we rely heavily on contractors. One of our most recent clients is the government of Aruba, and we are trying to make sure that the recently national health care plan in Aruba doesn't go insolvent. One of the things we need to do is help select and train a medical director down there and for that we've hired a doctor that we know through our networking to go down there and help us with it. As far as the client is concerned, he is working with GRS, but he is a contractor. The one thing we do make clear especially for people who are perhaps young and maybe not very familiar with business practices, we make it abundantly clear (in writing if necessary) that they are contractors and not employees and they're responsible for their own taxes and so on. I have a near ASA who does technical work for me. She stays at home with her four-year-old twins and works from home, and we don't worry about her understanding the contracting end of it because her husband is a contractor, too, so they very well know how to take care of their tax returns.

On Web sites – do you remember when, if you didn't have a fax number, people didn't take you seriously in the business world? And then, if you didn't have e-mail people were wondering, "Well, what's the matter with you?" Well, guess what? Today, if you don't have a Web site people are saying, "Where have you been and why haven't you kept up with the times?" If you are going to run an actuarial practice, you really do have to have a Web site. I really recommend that you use a professional to help you out with this. Even if you elect to do some of the design, you still need the professional to help you get that site found by the search engines – that is the main thing. How many millions of sites are out there now? Does anybody know? Millions and millions, right? So what are the chances that your site is going to be actually found by a search engine like Google or Yahoo or one of those. You can have the best Web site in the world; if nobody can find it, it's useless.

There are some criteria. One is the length of time that your site has been on the Web. If you don't have a Web site right now, and I would really recommend registering a domain name and setting up a site even if all it says is, "Under Construction." You do need to register with Yahoo and whatever other directory type – I won't call them search engines because they're directories – but Yahoo is a directory type of way of finding Web sites and you do need to register with those.

For some of the other search engines, I use what are called spiders. Spiders go out and look at Web sites and they pick up on two things: one, I believe it's called a tag line, and it's almost like the heading of your Web site. The other thing they look at it is a list of key words – about 20 different key words. And the spider goes out, gathers that information about your Web site and sort of keeps track of it somehow. I don't really know the technical details. You have to have the right tag lines – you have to optimize your tag lines and your key words. I found out that one Web site that I knew of, people were saying to me, "How come your Web site is getting hits and ours isn't getting any hits?" I had our Web site designer come in and examine the other Web site and he said, "They have no tag line and no key words." How are you going to get found if you don't have any tag line and key words? This is what happens when you don't have a professional helping you out. It's really worth the money it costs to hire somebody to do that for you.

Another thing you can think about is having multiple sites that are linked together. Maybe you have two different main areas of your practice. For part of our practice we focus on employer plans, and another part on services to health care providers. We might want to have two separate Web sites for those things, each with their own list of key words and their own tag lines and that sort of doubles the chance that we're going to get hits on those Web sites.

Now, on to peer review. This is an area where we get lazy. You know what? It doesn't have to be a chore. It can be a really mutually beneficial thing. If you're in a small firm, you need to find a colleague – possibly another person who is independent or who is in a small firm – and make it a long-term and mutually beneficial relationship. Now, I happen to have a peer reviewer who has his own firm in Chicago. He has three employees, I believe, but we share data. We send each other articles of interest. Whenever we've got a problem that's kind of strange, we just call each other on the phone and talk through what all the issues are. If he does a significant amount of work for me he'll bill me for it – and the converse is true too. Just for the conversations – we don't usually charge each other. This is an Academy standard, so we really need to pay attention to the peer review.

Another thing you should do, you should have a peer review policy. If you're on your own, I will have anything significant peer reviewed or anything that I'm unsure about, but if you're working in a larger firm, you really probably need a formal policy.

I'm going to talk about the context of the team that we're building at GRS right now. Again, this is kind of a new effort. We're doing a lot of marketing, and we're having some growing pains. We never have enough clerical support; we are always short of something; and we've had a lot of disappointments. Like Dan said with RFPs, we've written a lot of responses to RFPs and gotten shot down. I think that's partly because we're just not very well known on the health care side. We're not known very well among the public sector clients from whom we're getting these RFPs. But here are some things that I have found useful. (1) Get organized. This is much easier said than done. I try to take my own advice, but it's not always successful. (2) Tell your team what's going on. This is so critical. This is just



absolutely critical. If you are not telling your team members what's going on, especially the people who report to you, they're going to feel anxious because they may feel angry that you're leaving them out. They're not buying into the process. The bottom line is, they're not going to be as productive as they could be. If you tell them what's going on, they'll be more likely to tell you what's going on. I know right now one of the analysts who works for us used to be a pension analyst and he tells us what's going on in the rest of the office. I'm not so sure he would do that if I didn't let him know what was going on with the team. Team meetings are important. Our goal is to have a very brief team meeting every morning – just, what's everybody doing today – but also I think maybe a more extensive, in-depth discussion of goals, strategies, strengths, weaknesses and that sort of thing needs to happen on a regular basis.

(3) Be loyal to your team. This means sticking up for them and being their advocate, and again, you will be repaid many times over for being loyal to your team. The only problem this has caused me in the past, is that I have had employees tell me, when they were supposed to be transferred to another area, they refused to go; because they wanted to work for me and weren't going to work for this other person.

(4) Set expectations: be clear about what you expect. If you're not good verbally, put it in writing. Your team can't know what they're supposed to be doing, if you don't tell them. I have the perspective of working for somebody who wasn't able to tell me what they wanted. It was the most frustrating thing in the world to get the wrong message about what I'm supposed to be doing. You work really, really hard and then find out that you were doing the wrong thing. It makes me very angry; it's a waste of time, so you have to be very clear.

(5) Manage your own time well. This is a challenge, too, and it also sets a good example for your team members. (6) Give frequent feedback to team members. This is a corollary to the frequent discussions type of thing. Every time you finish a task or a project, it's a good idea to sit down and say, "What went well and what didn't go so well with this project? What would we do differently if we had this to do over again? Were there circumstances beyond our control that caused problems, or could we have started things a couple of days earlier?" And so on. (7) Get input from team members. Hopefully you will have set up an atmosphere where everyone feels free to talk to you about what's going on – whether they feel comfortable in bringing both their problems and their successes to you. (8) Have a daily organizational meeting, which I've mentioned before. It doesn't have to be long; you don't even have to sit down. We have a lot where we don't even sit down – just, what's everybody doing today? (9) If you're a control freak, give it up. If you make a mistake, confess and fix it right away. Dan told me and someone told him that bad news is not like wine – it does not age well. (10) Have the courage to cut your losses. If something is just not working – if it's possible maybe, you should just give it up and move on to something else. (11) Make up your own rules to fit your situation.

That's the end of our formal presentation. At this point we would like to take

comments and questions.

MR. NICKOLAS J. ORTNER: I work with Millman & Robertson Inc. U.S.A. in Milwaukee and this is directed towards Dan, although you both can answer this. Dan, you recommended that "must read" book, but are there any other either management or consultants' seminars, books, regular publications, that sort of thing, that you could recommend? Obviously the question is directed to Joanne as well, that input you gave us here was certainly helpful, but anything else you might recommend would be great.

MS. JANSSEN: I know Dan has a lot more to say than I do, so I'll just get this out of the way. Have you heard of the psychologist who talks about, I think it's seven different types of intelligence: verbal, mathematical, musical, emotional, social and there's two more. Actuaries are notoriously bad at the social and emotional intelligences and there is a book called *Emotional Intelligence* by Daniel Goleman that I really would recommend to anyone who wants to be able to tune in more to what's going on with other people. That's my recommendation.

MR. CASSIDY: I would just again recommend *Selling the Invisible* and *The Invisible Touch* by Harry Beckwith; they are in most of the bookstores. I don't think I have ever gone to a seminar personally, specifically like one of those Dale Carnegie or one of those; I've heard they are very good. In terms of the books, I guess there are several different categories that I read that I would encourage people to read as well. One big one was, if you can believe it, cold calling books. There are a ton of them out there. I don't do much cold calling at all, but I think what it has done has helped me focus on some of the points that are necessary in our work in dealing with clients over the phone and I think it has made me a better conversationalist on the phone. I think that was a big thing lacking. When you're trying to communicate information over the phone to a client, actuarial information, sometimes we forget and sometimes these books are very helpful for that. There are good ones and there are some bad ones. I usually buy them all and the good ones I read through, the bad ones I'll skip around on. There are a lot of "guerilla books" – guerilla marketing, the whole series of those. I've read several of those and have enjoyed the earlier ones. I think they have a brand that they've extended a little too far. The one that I pointed out, by Harry Beckwith, was really head and shoulders above the others, but in that second tier there are a lot of very good and helpful books. There are a lot in the bottom tier, but in my way of thinking for 20 bucks, I'll buy it and even if it's bad, I'll pick one or two good things out.

In terms of the tapes, I think I signed up for one of these series of tapes, "The Executive Series." They send you a tape a month or two or three tapes a month and they summarize business books. That was very helpful for the first year or so and I do have a large selection of these tapes around. I stopped that subscription because it seemed to be repeating the messages. I think that was helpful as you were driving to a client or whatever, pop it in and think about it.

MR. DENNIS GORGAN: I run a one-man actuarial firm, and I want to follow up on what you were saying about the pricing of actuarial services, Dan. I'm sensitive to

the problems of the antitrust so anybody who has the expertise – bear in mind, please stop me if I get out of line here. A friend of mine, who is a lawyer, and works on the same sort of structure that we do with billable hours, cautioned me against discounting fees too much from what the big firms are charging. He said, occasionally they might, behind your back say, “Look, this is the kind of product you’re getting; that’s what it’s worth.” And I guess it goes to a question about values – the perceived value. I’ve always felt that it’s useful for somebody just starting out to compete on that basis, basically, to discount the fee somewhat. And particularly to refrain from billing for particular hours if I feel that I’ve spun my wheels to a certain extent. I make the point to clients that, “Well, I did this much work; I’m only billing you for this much.” I think it gains some trust, because after all, how do they know, how many hours that you spent on it. I’m just interested in any comments you might have about that.

MR. CASSIDY: I have several comments and I wanted to talk about this before and I’ll try to be sensitive to the antitrust. My experience has been in terms of dealing with clients and billable hours and things like that. Actually in the first three and a half years of my business, I totally value billed, in a sense, and so whatever it took to do the job is what it took and I expressed that to the client. I think that was a very positive thing from a client’s perspective that Dan doesn’t charge me for this phone call per se – it doesn’t show up on a bill anywhere. That was one aspect of going small that I think I have promoted and talked to my clients about. That doesn’t equate to saying, “I don’t charge for my services or don’t think about the hours. I guess, a couple of points I’d like to make. When I went off on my own and started the firm, it was such a direct relationship between sending out a bill and the client sending money, that I got over the whole thing of charging a lot for my time. That was such a direct relationship – no fear; totally no fear. If I did the work, if it was worthwhile, I billed it and if they didn’t like it, we had a conversation about it. We actually have not had conversations about it, so I think I need to raise my prices and I actually have this year. I actually had only one or two conversations about a bill and the particular level in the three and a half years so I think we should not discount our fees because we’re in a small firm. The value the client receives – I think they receive more value from my firm than they do from a larger firm. I do the majority of the work, when they’re dealing with me, I’m highly responsive, so I think they get more value.

MS. JANSSEN: As long as I wasn’t working at capacity, there’s a different fee sensitivity among the different clients and there are some clients that just were literally not capable of paying the higher rates; for example, small non-profits. For those clients, I was willing to discount my fees and then for the larger commercial clients, charge more of what the market rate was.

MR. CASSIDY: My business is a low number client business. I don’t have 100 six-person DB plans that I do valuations for. Like I mentioned before, I have a dozen core clients that are substantial with unique situations. If they actually went to a big firm, it would be very hard for them to actually service these clients because my services go across the whole spectrum of the DB valuation or DC 401(k). Also I do a lot more investment consulting than I did before. It’s a different relationship and

I'm sitting more on their management side than I used to in terms of just delivering a service X-Y-Z and helping them more in terms of the overall management of their plan. It's really a different level, a different type of service and I try not to compete on the other ones.

FROM THE FLOOR: A related follow-up question, if there's time for that. My client base is somewhat different, in the health reinsurance field, so it tends to be larger companies. With one of these I've succeeded now in getting a retainer arrangement set up, or at least set up in principle and now I come to the brass tacks of, how do you cost something like that? I thought perhaps to set aside a certain number of guaranteed hours per month for them and prepare a bill on that basis. And perhaps again, discount the number of hours that go into that so that if those hours aren't used in a particular month that would be how that kind of pricing policy would work. Is that anything like, in your experience, for instance?

MS. JANSSEN: We have retainer clients that we do work for where they pay let's say \$20,000 a month that we bill for, and then at the end of a five-year contract, we settle up if it doesn't come out even. I don't know – it depends on what kind of services you're offering. If it were just straight calculations or something, I think I would price it more on the job. If it's for you to be available for consulting and answering questions, then maybe a fixed fee per month is exactly what it should be, and you wouldn't even need to keep track of your hours.

MR. CASSIDY: I've only entered into one real retainer relationship and that was for a particularly long project, spanning a year, and we did come to some agreement. Otherwise, I guess I work on more of a project basis. I take, a much longer term picture of a client relationship and I don't mind necessarily losing money if maybe next year it will turn the other way. One nice thing with a small firm, I think the clients and I have a much more even relationship than I used to in terms of business. They've been very open in terms of who "wins or loses" in those types of situations and we typically work it out.

Could I just get a show of hands of those who work at small firms versus large firms? Small firms are one, two – you're kind of a medium firm – and the rest are large firms. We were wondering whether people from large firms would come here to see or think about whether they wanted to leave the large firm. Not that we are going to divulge your identity. One thing, when I first started, it definitely was frightening to go off – very frightening – and I had one client and that one client allowed me six months of a project and since then it really has developed. After that first period, the fear has gone away completely and I really enjoy it and would be very hard pressed to go back.

MS. JANSSEN: I felt exactly the same way. It was terrifying at first. Then when I went back it was terrifying, too, because I really had to think about it a long time. Just having to get dressed in business attire every day was something to think about.

MR. CASSIDY: One thing I don't think we mentioned, in terms of talking with

clients. I have an office in my home; I also have an office in the town I live in, but a client has never come nor asked to come by my home office. I usually go to see them. That was a big question of mine when I started off. Also, clients have been very open in working with smaller firms. I've been in business for four years. It's never been a major issue that they're working with a small firm, because it's really the confidence and the trust of the assignment and the issue you're dealing with.

MS. JANSSEN: Ten years ago, when I started my own business, I hid the fact that I was working at home and on my own. Attitudes really shifted in the last ten years, and I think it was caused when all the big companies started laying people off in the recession in the '80s. The bond between the employer and the employee really weakened quite a bit and I think it's quite acceptable now for people to be working at home in a home office. I guess there are lots of people doing it now. The number eight million comes to mind that I had heard, but I'm not sure. That can't be right, can it? I don't know. In any event, there are just so many more people now working out of their homes that it's not a stigma, I don't think. I even have my dog barking in the background and don't worry about it.

#### Addendum to Session 60 – Managing an Actuarial Practice

MR. ALAN FINKELSTEIN: I work for Prudential, but at one time in my actuarial career I worked as an independent contractor. I was unable to attend the Dallas meeting, but having reviewed the tape and transcript, I note there was little discussion about the business risks small companies are faced with, notably professional liability. Clients depend on actuaries' work products and, to the extent the client suffers financially (due to unanticipated events, miscalculations, etc.), the actuaries could be at risk.

Following my brief stint as a consultant, I wondered, what if I were running my own company? Should I purchase this insurance and, if so, how much coverage would I need? Or, should I incorporate, thus limiting my losses in the event of litigation, but at the cost of additional legal work from an attorney?"

MS. JANSSEN: Whether you purchase professional liability insurance depends on many factors, including:

- Are you required to carry insurance by any firm for which you are a subcontractor?
- Do you have dependents who need to be protected financially?
- Do you have significant assets you want to protect?
- Discuss the liability issue and your corporation's status in great detail with your attorney.
- Plaintiff's bar is more and more aware of the actuarial profession as time passes.
- If you have more than a part-time practice, professional liability premiums should be relatively affordable. In 2000, I was able to get coverage as a solo practitioner for \$2,500 per year for \$1,000,000 coverage. This was a minimum premium amount, so larger amounts of coverage would have cost

proportionally less. Of course the premium is tax deductible as a business expense.

As a single person with no dependents, and without a large estate, I was less concerned than many actuaries might be about the financial consequences of litigation.

With respect to incorporation, that is really a separate question. For example, I have a regular corporation so that I can deduct all my medical expenses. Discussions with your accountant and your attorney are needed to determine what is best, both legally and financially.

MR. CASSIDY: Many firms can/will sell E&O insurance to small firms. I use a program through CallInsurance – a broker – that is especially designed for retirement firms – administrators, actuaries, etc. with Fireman's fund providing the coverage. They offer various levels of coverage with premiums based on revenue. My firm with around 500K of revenue has a premium of \$3K. I believe ASPA also has a program.

Regarding establishing a legal entity, my firm is an S-Corp. I would recommend anyone setting up a firm to speak with a local attorney since state law has major impact on that decision. I would also recommend using a qualified accounting firm for all corporate work. It's too easy to mess up.