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Session 56PD
Consulting in a Down Economy

Track: Pension

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Summary: As of 2003, many plan sponsors must contribute to pension plans that have not required cash contributions in several years. The same plans are experiencing substantial changes in pension expense and liabilities. At the same time, participants are placing increased administrative burdens on the plans. These trends are causing the annual pension actuarial valuations and pension administration to receive a level of scrutiny that they have not received in many years. This session includes discussion of the economic conditions that are causing these changes and their implications on the funding and administration of pension plans, external issues affecting plan sponsors that put more pressure on their benefit plans, and the use of early retirement windows to help manage downsizing and client education.

MR. JOHN KALNBERG: We're talking about "Consulting in a Down Economy," which seems to be a theme running through all the meetings here. Today we have Tonya Manning, a vice president at Aon Consulting in Winston-Salem, NC, and she is a member of the Pension Section Council and the EA Program Committee. She will talk about what plan sponsors are doing differently for plan design. As true evidence of consulting in a down economy, Curt Morgan, who was supposed to be speaking next, is with one of his major clients at a command performance meeting. I'm filling in for him. I will talk about early retirement windows and some plan administration issues. Then Dan Cassidy will bat cleanup. Dan is the president of Argus Consulting. He has presented and written about various employee benefit issues, and he is on the faculty at Bentley College in Waltham, MA. That leads into bridge jobs and early-phase retirement, so we'll cover everything. He's going to talk about some of the consultant's issues on this whole thing.

MS. TONYA MANNING: I'd like to say that I was hoping that we wouldn't have to do this presentation and that the down economy would be just a historical fact. Unfortunately, we're still in a down economy, and there are still some things to talk about and a lot of commotion along the lines of our plan sponsors. I'm going to talk to you first about what the plan sponsors are looking at from a plan design perspective.

To give an orientation of where we are, we are in stormy times. Plan sponsors are feeling cost pressures from many areas, including employee benefits. When you go to clients and they're feeling pressure from the benefit plan, it's usually just one of the many things that are a pain in their side right now. They look at the employee benefits as a possible solution. You wonder sometimes if the employee benefits aren't the balancing item for the budget when they come to you and want you to cut back so that they can meet whatever budget constraints they have. There are a lot of pressures coming around, and clients are looking for ways to cut costs.

When you go to a defined benefit (DB) plan or a health plan, you've got employee resistance and a lot of employee morale issues, and you've got a lot of communication problems on the regulatory issue side. You've got administration costs. If you want to change a plan, maybe shut it down or freeze it, it costs you a lot to get out of the game even in that respect.

Again, the pressure points are not just on the benefit side; it's just general business pressure. There's a lot of pressure from all vendors of all types, not just on the consultants for the cost of your services, but the services that you provide and the results that you're giving. There is increased cost in benefits. We will talk about this later, but it's not just an increase in retirement benefits; there is an increase in health-care benefits. You have to look at the whole picture, because if you're cutting back in more than one area, you can make a dramatic change in what employees will look at when they ultimately retire.

There are growing numbers of plan sponsors in depressed positions, meaning that they have increased contributions and they have decreasing cash to be able to pay those contribution requirements, so you're looking at different types of plan sponsor issues. They don't like the results, but maybe they can't handle the results, and they're looking at possible funding waivers, which are very difficult to get through. You have to be able to get approval to prove that you are in bad times, but things will get better, so you have plan sponsors who can't afford to make contribution requirements, even if they have an increase. You have a growing number of bankruptcies, and there are a lot of different issues that you have to walk around. If you have a client who goes into bankruptcy, one of the first people you probably need to call is the account manager to make sure you understand how you're going to handle it. From a business perspective, there can be a lot of filings that have to go on and a lot of issues if they're downsizing or entering.

Unfortunately, there's no sharp market upswing predicted to counter the sharp downswing, and some people are fearful that what we've seen so far in 2003 is the market upswing. People have different philosophies on that. I think the general consensus is that there's not going to be a huge bubble up after the big slope down. The general conclusion is that they should cut the cost.

We're looking at the increased costs in the benefits on the DB plan (clearly it's in funding), where all the risk of poor asset performance is borne by the plan sponsor, so they're having tremendous funding issues. On the defined contribution (DC) side, there are some issues on the administration because you've got some folks who have DC plans, where benefits are declining or going away and participants don't understand that. There are a lot of questions that are being answered by plan sponsors. At the same time, you've got a lot of people looking at cost distribution issues. There's a lot of concern about walking into areas where you shouldn't be and getting into trouble. The plan participants are getting very weary and distrustful of plan sponsors, and the plan sponsors are taking on a "cover-yourself" type of philosophy. It takes a lot of time and money to set things up and get things right. The plan sponsor could have been administering the plan correctly before, and they're doing it more correctly now, if that is possible. Plan sponsors are making sure they document procedure and that type of thing, so that's driving up the cost. You have the balance going down at the same time that the administration cost is going up.

You also have executive stock options with recent shareholder dissent on excessive stock option awards to top executives. You see a lot of people balking on all of these executive stock options, and you're seeing a lot of withdrawal on that type of benefit. There's also a lot of pressure on executive benefits in general. A lot of clients are very conscious of their financial statements. These are usually financial institutions. They are very sensitive to what's shown on their financial statements, and over time they accumulate a lot of these pretty big nonqualified plans. The problem with that is they've got big expenses, and then they look at cutting costs, depending on how they're funding. Maybe that's not the big hit, but if you're looking at ways to give relief to your financial statements, you've got these executive benefits that are getting some scrutiny. It's quite a dilemma because the people making the decisions are the people hurt. Then, of course, you have the health-care benefits.

What are the complications of the DB plans? Of course, you have the increased contributions, and you have the financial statement issues. Usually a client is concerned more about one than the other, but sometimes both. You have PBGC premiums, which is money out the door from the pension plan for the additional variable premium if that comes into play. Then you have the notification and filings, and you have to go back and look at all of those different things that you might have to file for, and it may not be just on a plan basis, but on a plan sponsor or controlled group basis. What could your plan sponsor be doing that would require them to file? Often you're not aware of the different things that are going on in the business, such as renegotiating loans. Something like that could require a filing related to the DB plans, because they look to you to keep them aware of it. That is difficult because you don't know all the ins and outs of the business, so things are getting a little bit difficult to keep your plans in line in that regard as well.

Let's look at plan design. How many people have been doing plan design studies for clients recently? That's about 50 percent. Would you say that you have an increased number of plan design requests? I see some shaking of heads. I certainly have. I can think of maybe two out of my 20 clients for whom we haven't gone in and done a plan design study. (On one of them we would, but they're in bankruptcy so there are no design issues there; we know where that one is going.) I've had questions upon questions about what they can do with this DB plan. Should the employer's risk exposure in the DB plan be reduced? I think there was an article in *The Wall Street Journal* or some publication where they refer to the DB plan. If you're investing in or sponsoring a DB plan, it's almost like gambling because it seems like such a high-risk type of benefit to provide to participants.

Here's another issue. Are DC benefits alone sufficient? There are some plan sponsors who are concerned about that, and there are definitely plan participants who are concerned. Now that we've had the big hit to the DC balances, maybe we're a little bit skewed to stock. Are they going to be sufficient to provide income to these retirees? Is the retirement program serving the majority of the employees? Do you have a plan that provides a very nice DB plan to a population that's fairly young and isn't getting a lot of benefits and quits before they accumulate anything, or do you have a savings-only type of plan where you're hiring older employees who don't have enough time to accumulate any type of benefit? Is the retirement program serving the target employees? I've seen a lot of employers, particularly hospitals, who are looking at their retirement plans more on a recruitment than on a retention basis. They want to attract employees and get them in with their retirement plans, and they're basically comparing the programs on a piece of paper.

What are some of the reactions? Some of those plan sponsors are looking at increasing the education regarding benefits, but I'd have to say with all the cost consciousness of plan sponsors, that has certainly waned in the last year or two. In the first year that we had a little bit of a down market and downswing in the balances, people wanted to go out and communicate their DB plan or help people understand the market volatility that can be associated with a DC plan. But in the last year or so, we've seen that wane as plan sponsors are just looking for ways to save money. You see them focus on that shift of the benefit risk of DB to DC or vice versa—and I do believe that the first, DB to DC, is the most common approach—and then lower benefits.

Some reactions are to not update the benefits such as a dollar per year-of-service DB plan. I think it's a little easier to get some possible understanding that the benefit level cannot be increased when they have some clear projections of the high costs that are coming down the chain. We're seeing a lot of plans that were typically updated every three years (or whatever the negotiation cycle is) to pass on or do a token increase, so we're seeing a lot of pressure on that. Probably the biggest thing we're seeing is the freezing of benefit accruals or freezing of participation. How many people have seen a lot of plan sponsors moving toward this with their DB plans? Just a few people. Maybe it's just with my plan sponsors, but I get this question all the time: What if we just don't let anyone else come in and participate in the DB plan? You don't have to go in and tell anyone you're taking anything away. That seems to be a very common approach, and you can set up a different program going forward. The problem with that is you often have a doubling up of cost, because as all of you actuaries know, most of the cost of DB plans is associated with the older people who have been there for a while. If you're not taking away their benefits or changing what they were promised, then you're going to keep your cost level until you have enough turnover to make a difference. If you're increasing the DC plan for all the new people, then you have this big increase in cost at the beginning. A lot of plan sponsors can't get to where they want to be because of that, so some just freeze the benefit accruals altogether.

Some people would terminate the plan, but that really isn't affordable. The plan termination frenzy has definitely waned because people can't afford it. People say it's like buying high and selling low, so to speak, so it's not the way to go. Then there are early retirement windows, which John is going to talk about.

There are conflicting issues, and when you go to plan sponsors and talk about redesigning their plan, often they ask the right questions. What does my retirement program need to do for my employees? Why do we set it up? What do we want to offer them? What do we want our employees to have a shot at when they retire? They're asking the right questions, but sometimes as I'm talking to the plan sponsors, I feel that they've already got the answer. The answer is they've got to cut the cost. Maybe the right answer is to keep the DB plan because it's at the right level and it's doing the right thing, but they simply can't afford it. I see a lot of plan sponsors asking the right questions and we give them the right answers, but then the choice is really dictated from another angle. The conflicting issues are reducing the DB benefits, because that is going to reduce the employer cost and the employer risk, but at the same time they're looking at participants who have these suppressed DC balances and they're not going to be able to meet their needs at retirement. They're simply not going to be there, so you do these projections. I don't know if you have done this, but you project out what the retirement benefits are going to be under a DC-only approach and the employees—if you're optimistic and everyone is going to participate at the highest level possible and get a 7 percent return—will be okay. But we know that's not going to happen and clearly people are going to have a shortfall.

Another issue is that employees right now are confused with a depressed market. Maybe they caught on after the third year in a row, but I think employees are still confused. I talked to plan sponsors and they confirmed with data that participants are cutting back on their DC plan contributions. They think they can do better just keeping their contribution in a savings account or whatever, but they're afraid to put the money in there because they don't understand when the account balance goes down. They're also withdrawing their money. They're taking their money out. They have immediate needs now. Maybe they're unemployed, and they have to take the money out of their DC balances to meet day-to-day needs, or they're choosing really conservative investments. I hesitate when I say "conservative," because I think "conservative" is being redefined as we speak. There are probably a lot of sessions today that are looking at the future of equity returns and those types of things, so what is conservative? Maybe that's being redefined, but generally participants tend to be more conservative in their investment choices. When you map out a plan design study and there's a 7 percent or an 8 percent return, that might be more aggressive than you think.

Older employees do not have time to recover with extra savings. That's another problem. You have that line in the sand where you decide who you're going to grandfather and who you aren't, and you go in and you look. It's getting more difficult when you look at the grandfathering issue, because the work force is aging. It used to be that you would get maybe 25 percent or a smaller percentage of the employees above that line of age 50 or 55 years, but I'm seeing plan sponsors that used to be friendly to the 45 years and older, and now it's maybe 55 years and over to get a reasonable cost savings. If you go too far, you have almost all of your costs associated with the people grandfathering, and you might as well freeze participation.

Here's a question: Should we shift focus to the DB plan? Everyone was optimistic when the market was up. The only thing people can be optimistic about when the market is going down is that perhaps there will be some appreciation for the DB plan from participants, because it offers a lot with regards to there being no risk for the participant. I personally think that if the market went down for one year or maybe stopped at two years, there might have been a chance for a resurgence of DB plans. But I think that the length of the period that the market hasn't made a good recovery has shot the chances for the DB plan. The costs are prohibitive, and there's no relief to that. Shifting the focus to the DB plan again may be the right answer, but it's not going to be the answer because it's not affordable to many clients. In the DB plan, there still are some issues that are not easily communicated, understood or appreciated by participants. They understand their DC plans very easily. There's also employee confidence, with employers acting as responsible fiduciaries. In other words, even though they've seen what's happened to their account balances, the DC plan participants still feel like they have some control over that savings account or that 401(k) account. Compare that to the DB plan where they are completely relying on whether the employer funds it or continues the plan.

We haven't seen an employee demand for DB plans. I don't know if we will, but we certainly haven't seen it yet, and most importantly, the cutback to the DC plan is more visible. When plan sponsors say that we need to look at our retirement plans, part of the problem is that you cut back that DC plan and everyone knows what you did and by how much. If you change the DB formula around, and even if you comply with your 204(h) notices and give illustrations, it just isn't as visible to plan participants. They sometimes don't understand what's been taken away from them.

I want to talk a little bit about health care. Health care spending is now $1.5 trillion. Once they said the U.S. economy is getting huge, and costs are still growing at a double-digit annual rate. There are some folks walking around who know a lot more about this than I do who are health actuaries, but I do know that it's still growing tremendously, and health care costs are increasing at 12 percent or more per year.

According to the Employment Policy Foundation Report, if things keep going as they have, employee health benefits will be 16.5 percent of total compensation by 2010. You should care about health benefits other than that they are part of the benefits you get as an employee, because if the employer-provided health care benefits are taking up 16.5 percent of total compensation, how much room is left for retirement benefits? The point is that additional cost sharing by the employees is all related. The additional cost sharing, the things that people are doing, and the health benefits and reactions consist of shifting more of the cost to the employees because the pension plans are shifting the risk and some of the cost, but health care is just simply shifting the cost to the employees or increasing the contributions, deductions and co-payments. They might also look at a DC approach, which is a bit of a risk shift in a different paradigm for employees, and they're changing agreements with vendors and those health maintenance organizations that still exist out there.

On the post-retirement side, they're looking at reducing or eliminating post-retirement health benefits. Those that survived Financial Accounting Standard 106 and are still around are looking to be cut. You can see in the numbers that the percentage of the large employers offering health benefits to retirees is declining. It was 46 percent in 1991 and 34 percent in 2001 (from the *Journal of Health Affairs*). I'm not exactly sure how they defined large employers, but the point is that it was more than a 10 percent drop in a very short period of time. Fifty-one percent of large employers plan to increase cost sharing for drug benefits.

The reason, again, that we're talking about health benefits is that it's all related. A decrease in post-retirement medical benefits exacerbates the problem of the employees not being able to retire due to depressed DC balances and, I would add, cutbacks in DB benefits. When you start talking to plan sponsors about the benefit design, you can't leave out the health-care benefits and what they are going to do about those. You go out and project the retirement income needs. Make sure they understand that even if they're not providing health-care benefits, the fact that they're going to use their retirement income to get those benefits from somewhere needs to be considered.

Again, the solution must be based on the full picture. The solution of retirement benefits may hide the issue of health benefits and vice versa, so they will put pressure on each other, and there will not be a perfect solution. You've got to balance that effect on the employer and the employees.

My last statement is to keep in mind that there are no benefits without an employer. The employees may not like the cutback in benefits, but a cutback in the job is probably more severe.

MR. KALNBERG: First I want to give a brief refresher course on early retirement windows. One thing to think about early retirement windows is that you've got people going up a hill to retirement, and the early retirement window is enough to push them up to the top of the hill. Now that we've been in a recession for a while, many of the sponsors that were going to do windows have done their first one, so we're looking at places where people are going back to a second or a third window. That opens up some new issues that you have to think about. In the first one, a lot of the people who were close to the top of the hill went. Now, as the subsequent windows come on, you have to push people a little farther up the hill, and the larger the bridge you have to gap, the harder it's going to be. You have some things to consider, like the impact of the past offers. You've gotten the people who were at the borderline of retirement. If you had a series of offers, you start to get people feeling that this is just the 2003 window—they don't want to go this year, they'll take the 2004 window. I've seen some places where that happened.

You have to consider the local economy. This goes into a later session about phased retirement. If you have people who are 58 or 59 years of age, what are they going to do when they go home? Are they going to try to get some kind of bridge job? If there are no other opportunities in the economy of the town where they live, it's going to be a lot harder to get people to go. You have questions about the kind of post-retirement benefits available to them. What's their pension like? What are the medical benefits?

If the savings plan balances are depressed, people are going to look at their total retirement package. If there's not a whole lot sitting around in the 401(k) plan because the economy has been down, you're going to have to give them that much more to get them to go. These things all tie into what you have to do and what kind of encouragement you have to give to people.

Then you have the ever-popular problem: Will the right people leave? Of course they won't. You come down to that in many employment decisions. The people who can easily get other jobs, the people who are most mobile, tend to be the people you want to keep. You have to be careful in doing this. You have to provide incentives sweet enough for people to leave, but not so sweet that your senior managers leave and you have to bring them all back in consulting arrangements, which I know some governmental systems fell into.

Then we're talking about the added cost of the second or third round. Then there is added pre-Medicare retirement medical eligibility to go with it. If you have post-retirement medical benefits, there's a sneaky cost there that you have to take into account when looking at the full package for the employer.

There are restaffing issues. To some extent we've gotten past this, but when you lose the person who has been doing a job for 30 years, often there are no backup plans. That leads to a lot of re-training. There are some legal costs and some communications issues. You have to make sure that the election process is managed. You give people the right number of days to make their election; 45 days tends to be the norm now. Who is going to keep track of the waivers? Who is going to look at the employee waivers and review each one of them to make sure that they're signed properly and that somebody didn't cross out a sentence in the middle of it and sign it there? It's very important to review each one of these waivers to make sure that they don't jump up and bite you down the road.

Then what will be the impact of the window to all the people who are left behind? If all the senior managers, who have a lot of practical knowledge and experience, leave, then everybody below them, at least for the near term, will have a lot more work to do. If you're in a place where there's a lot of opportunity, the good people there are going to be able to get jobs elsewhere, too. If the work is going to become a lot worse for the people at the next tier, you're going to have a lot more turnover here, at best, because of the retirement window. Sometimes there's a trickle-down effect that you need to think about when you're planning one of these early retirement windows.

Let's look at the administration issues. I'm at Mellon Human Resources Solutions, where Curt Morgan is from, and we do a lot of outsourcing. When you look at it, you see some real effects of the economy in the statistics of people coming to our call center. First you see it from the clients, with the demand for key reductions or to increase levels of automation. Five years ago, a smaller population was saying that some things were not worth automating, and they would do those things manually. Now there's more pressure to automate every last piece. Partly it's a cost savings and partly it's a quality thing, because automating means that you have another level of review on it.

There is reduction of service levels. Some clients have come to us saying that instead of completing all of the answers in a month, we'll let you finish the last one in two months. We'll let you stretch it out. Instead of answering 85 percent in a day, we'll let you go to only 70 percent in a day. By stretching that out, it reduces the number of people in the call center and on the operations team supporting it, so it reduces the cost of administering it. The clients are getting savvy enough about how the business works that they're starting to ask for things like that.

We wind up having to justify a cost basis of outsourcing decisions. We are asked for a lot more cost-benefit analyses. If we do this group, this group is done specially.

What's it going to cost and what are we going to save long term? There's a lot more evaluation of those kinds of things.

Then there is looking at new service offerings. In the spirit of increasing automation, we're moving more toward paperless open enrollment. People do their open enrollment over the Web. There are no worksheets sent out to them because everything is available on the Web and the final thing is out there. There are electronic confirmations so when people make changes, notes will be sent to an in-box on the benefits Web site to confirm what they did, as opposed to some paper being sent out to them. This paperless enrollment and working off of the Web constitute a growing trend.

It's interesting as we go forward that the percentage of people who are attached to the Web is increasing, so this is becoming a lot more doable. One of the things that had been a problem initially was dealing with retiree populations who did not have access to the Web. I once dreaded the thought of my mother having to figure out her benefits on the Web, but now when I talk to my mother and some of her friends, everybody is on the Web. Everybody has e-mail. Grandchildren's pictures go over e-mail all the time. It's a great way to push people forward on technology, so it's becoming a lot easier to maintain addresses and do some retirement and pension-election things on the Web.

For the people who are still active, the economy has an interesting impact on the plan administration. This is interesting because the way people are reacting helps when you're thinking about how you're going to change the plan and what the impact of participants' decisions is going to be.

One thing that happens is that people make more calls to the service center and ask for more projections. In one of our large clients in the last quarter of last year, benefit projections went up 24 percent, and it's largely related to the bad press that DB plans are getting and the bad economy. People are unsure of their benefits. For a lot of people, especially people closer to retirement, the DB benefit is a big piece of what they're planning to get. It's still a bit of mumbo jumbo. They'll read an article in *USA Today* and suddenly they'll be worried about the security of their pension, so they'll do a projection. We see a great increase in the number of people asking for information about their plans.

There are more questions coming in about PBGC and what's going to happen, especially if certain information comes out about the plan sponsor. There's more information about funded status. There are more questions about funded status and PBGC coverage.

People tend to go in a couple of different directions. You tend to have a lot of people accelerating their retirement decisions. If they feel like something is liable to happen to the company in the near future, they are taking the money and running. They want to get their early retirement subsidy. They want to protect their nonguaranteed benefits. My wife is a great example of this. Our company was bought by another company, and she retired. They had a good subsidized early retirement, and they were going to cut back the plan for future accruals, so she took her early retirement, got out, and she has actually been retired for three years. It's becoming more popular. People want to get the money while it's still there. They want to get in and get retired.

The other side of it for some people is that because their savings plans are now worth a lot less than what they were a couple of years ago, they don't have the money to retire and they are putting off their retirement decisions. With this many people thinking about retirement, a lot more people are focusing on the DB issue.

I have one other thing on the DB plans. I see that a lot of sponsors are worrying more about getting the message out. There's a sponsor that I'm dealing with who is going through some amendments to convert a large part of that population from a final-average-salary formula to a career-average formula going forward. The sponsor is very concerned about getting the statement out now, getting as much information out to participants explaining the rationale behind it and tying that into talking about the importance of the company lasting. Also, there are more people looking to do combined statements, so they're giving a little bit of money into the 401(k) match at the expense of the DB plan, and they're very concerned about wanting to do a combined statement so that they can show the net effect. We're taking it away from here, but we're giving it to you there. At least they can give whatever good news there is, and they can help temper the bad news. People seem to be in reduction situations. They want to get the story out about why they're reducing benefits and to get people to understand.

On the DC side, for you who are in 401(k) plans, how religiously are you opening your statements when they come up now, or how often, if they're available on the Web, do you go look? Two or three years ago it was a lot of fun. You came home every day and the market went up 200 points; you went to check out your 401(k) balance. It's not nearly as much fun as it used to be. People are in sticker shock. They're afraid of opening the statements; there are fewer Web sessions. People tend to leave the stuff there. The old tradition of DC plans is occurring, and people are selling low and buying high. The statement comes out, and everybody hears that the balances went up awhile, so suddenly lots of people are looking to buy. There's less day trading. Fewer people are poking around trying to do something better. Everybody knows it rots and it's going to rot, and there's nothing they can do about it, so they just leave it there. Part of that demonstrates the need for better communication and better training. There's more demand. There are more tools available to let people set some goals for themselves, model future scenarios and make some investment goals. I think there's going to be even more demand for that, and more education and participant communication will be available. Unfortunately, tying in with what Tonya said and a lot of sponsors say when money is bad, it's hard to get money to do that. I think a lot of what we're seeing shows that there's more need for that, and I think that's going to go forward. You're going to see a lot more of that.

In health and welfare, you see the sticker shock. Every year there's a little more cost sharing. The deductibles are a little bigger. The monthly employee-paid portion is a little higher. There are fewer working families, with more people being laid off, so you have fewer places where the husband and wife are both working. You have a lot more employees who elect employer plans as opposed to letting their spouse take care of it.

The life insurance costs are even going up these days. There tends to be this hit every time you do open enrollment and you see the premiums. There's this communication, and everybody is feeling like they're getting gypped that much more by their employer.

There are fewer fringe benefits being offered. Fewer new things are being picked up. The employers are still pursuing no-cost additional offerings, or low-cost things are good. There are fewer health maintenance organizations around and tiered preferred provider organizations are becoming a lot more popular, so people can choose among a couple of different levels of coverage or something with very high or very low cost sharing. People can tailor things more, and with more flexibility, they can tailor it more to their needs.

At the other end, I noticed one of the papers on the SOA table. I think one thing that's becoming popular is much more like a defined contribution medical plan, so that the risk starts to be borne by the employee. I know that Health Pride has a session on that at this meeting. I think that's going to become a bigger trend.

On the administration side, one of the ways to deal with the bad news is more decision support, so you're going to see more tools available that help you compare plans for both premium and how the costs meet your needs, so you can do some financial modeling of premium costs. The other side is more rating of doctors and hospitals, quality indices and more of that kind of comparison. There will be more selection-modeling tools and a lot more things to help people make the best selection and the most efficient use of their health care dollars. It's a lot easier when the company is paying the full boat, so I usually tell people what they are. As you're cutting back each year and the employees are picking up more and more, there's going to be more demand for the employees to have a say in it.

I think you will see a lot more expense control. There will be more paperwork. There will be a lot more Web-based electronic confirms and a lot less stuff coming through the mail. I think that's something that we're all going to go through, and we're going to see that more and more. I see that on a lot of my utility bills now and some credit card bills. They'll give you a break if you have it all done electronically, and I think you're going to see that on the benefit side as well.

Now, we leave it to Dan to talk about consultants.

MR. DANIEL CASSIDY: You just heard from John and Tonya, who have focused on the issues our clients are facing both in terms of plan design and plan administration. I'm here to talk about how we do our work. To give you a little background on myself, I've been running a small actuarial consulting firm for about six years. I do a lot of thinking about how we do our work with three actuaries in our shop and how we're different than other firms. I've done some thinking about the how, the Zen, of being an actuarial consultant and in addition to that, to prepare for this session, I've done a little unscientific survey of my cronies who are at other small consulting firms as well as large consulting firms, to see how we have changed the actual act of doing our work in our business.

To warm us up, let's review the changes since the last down economy, which you would call the early 1990s. There have been a host of changes out there. Probably the biggest one is technology. Back in the early 1990s, e-mail wasn't used in our business or in our activities. I can remember a consulting firm where we were discouraged from using e-mail with a client because it wasn't normal business practice at the time.

Everyone had mainframe valuation systems in the old days, and now everybody is running their PC valuations. With mobile telephones, clients can get us 24 hours a day, seven days a week, if they'd like. In addition, there are different types of plans, such as 401(k) plans and cash balance plans.

Back when I was an officer at Mercer, my business was probably two-thirds DB work and about one-third 401(k) and investment consulting. Now at my small firm, it's totally flipped over. I do probably two-thirds of my work in the DC area and only about one-third in the DB area.

Employers of pension actuaries have changed. I've watched from the outside as people like Fidelity buy consulting firms, diversified investment advisors buy consulting firms and Mellon buys consulting firms. The financial services firms have recognized that they need to buy actuarial consultants and bring them in-house to provide the bundle of services that they think the market desires.

You've heard about outsourcing and some client administration from John. In addition to that, my clients have smaller human resources (HR) compliance departments, and that really impacts how we're working. They are very lean, and they don't have the staff to support maintaining these plans in-house. A lot of our business is supporting them through outsourcing and being a bigger part of the actual management of the plans.

As for visibility, during the last down economy I didn't get a letter from the SEC to defend the return on asset assumptions of my public clients. One of my clients actually got a letter like that this year, and we had to prepare a response. We successfully defended it, but the SEC was asking for an expanded disclosure. Can I ask one question? I asked this at an EA session on this SEC or assumption setting. Have any of your clients received an SEC letter in the earlier part of this year, like in the January-February time frame, to defend an assumption? Nobody. At the EA meeting, about 5 percent or 10 percent of a room probably three times this size actually raised their hand saying they had received a letter, so I wouldn't be surprised if you get one in the future.

FROM THE FLOOR: What was the return?

MR. CASSIDY: The return was a whopping 9 percent, and they were questioning last year's assumption. They responded with a paragraph or two about the historical returns as well as the asset allocation, and it went away pretty quickly, but the client did reduce the return assumption for the first time in quite a while.

Are actuarial careers and fellowship in the SOA dead? I do a lot of work on the education and examination (E&E) system. I'm on the executive committee of the SOA's E&E system, and I was part of the Course 8 Retirement plan for several years. I'm very committed to training Fellows in the future, but from what I hear from my friends in major consulting firms, the push to get your FSA is not as great as when I started in the 1980s; it's different.

To give you a picture of the employment picture, here are some statistics that I pulled off the Web from the Department of Labor back when we were preparing this presentation in April. Unemployment was 6 percent. Monthly CPI was actually negative at 0.3 percent, and the monthly producer's price index was actually down 1.9 percent. When Alan Greenspan saw these numbers he was thinking deflation, and he's still thinking deflation here in June. *The Wall Street Journal* had an article a couple of days ago about Germany also being faced with deflation. Nobody knows what's going to happen in the future with employment in our entire economy.

If you go to the Department of Labor Web site, they talk about the future expected employment of actuaries. We're a category. (I never knew that.) This is the exact quote from the Department of Labor: It "is expected to grow more slowly than average of all occupations through 2010." It was sobering to see that that's what the Department of Labor thinks about an entire industry. I will caution you that they include life insurance actuaries. It's the entire breadth, not just pension actuaries, but that's what the Department of Labor is saying. You have heard the presidential candidates of the SOA; one of them said that one of his goals would be to try to increase the demand for actuarial services. There's a significant issue of unemployed actuaries.

I'd like to talk about some of the externally focused changes in how we do our work, and then we'll talk about some internally focused changes.
Starting with the externally focused changes, communication is part of the number-one difference since the last down economy. I would briefly call it the freer flow of

information between client and consultant. By "freer flow," I mean that a client sends us an e-mail, there are four people—the chief financial officer, the vice president of HR and the benefits manager—copied on it, and they send it to us. They're expecting a response back pretty quickly, and the e-mail tree expands from that. Within 24 hours, about 16 messages go back and forth because our clients are in different locations and then we're in a different location. That's what I mean by a "freer flow of information" between everybody involved. The challenges that I face and that my colleagues face include the onslaught of communication, and trying to keep ahead. I am at a meeting here in Vancouver, with a three-hour time difference from the east coast, and client projects are ongoing. I'm getting up at five o'clock and checking e-mail and doing all of that just to keep things going. Now, I expect that at a smaller consulting firm, but from what I hear, my buddies at the major consulting firms are doing exactly the same thing. I think it's really an issue for actuaries in trying to think strategically if we always have to keep ahead of this onslaught of communication.

The other thing that comes up in my mind is errors and omission exposure. What messages do you store? How do you store them? I work in a small shop, and we have a small LAN, but where do these messages go? How long do we store them? I can only imagine what it would be like at large consulting companies to try to deal with these issues.

The next change would be the client staff resources. Again, these are external issues. The benefit is, they're a leaner corporate staff out there. The challenge for us is trying to manage plan changes with stretched client resources. As an example, a DB plan may change its plan provision. Ten years ago, the client would have a couple of staff members involved in discussions about the plan changes, then you might hand it off to them and they might do a lot of rollout, write some of the communications, and do some of those services after the analysis was done. I find in my work, and in that of some of the other people I talk to, that we're stepping in at the analysis stage, but also continuing to stay involved much more in the actual implementation of plan changes than we ever did.

Related to this, we were talking at breakfast before the session about how we are organized back in-house. This will transition us to the internally focused issue. I grew up in an apprentice model of training actuaries where I worked with one FSA, maybe two FSAs, and there was a whole little pyramid underneath those one or two key consultants. It was clearly written that you were sort of an apprentice, and you were treated like that for 5 or 7 years. The expectation was that you would work with those primary people for a very long time. You got to know their style, they got to know you, and it was a very nice way to grow up as a consultant. Now, a lot of firms are going to more of a pooled resource model where all the analysts and all the younger consultants are in a pool and the senior consultants, the FSAs, are talking to that manager who controls the goals in getting resources on a project-by-project basis. It's not that apprentice model that I and a lot of other people grew up with.

MS. MANNING: You would call it the gatekeeper model.

MR. CASSIDY: I actually don't have that at my small firm. We all work together, so it doesn't affect me, but it was a major issue that my colleagues from the major firms are talking about. They're not sure what the long-term impact of this will be.

As for other internally focused changes, I had mentioned earlier the re-emergence of financial services firms and financial services. Going back to pre-ERISA or right around ERISA, the life insurance companies dominated the pension business, and now we have the Fidelities, the Mellons and those types of firms with their diversified offering to the marketplace, and the marketplace is demanding these bundled services. I think the challenges are out there, and I'm not sure they are being talked about as much as they should be. One is the independent model, and from what I hear from my friends at these firms, they feel like the independence is not a big issue. They deal with it with their clients and get them over that issue pretty quickly. I think of it as more of a long-term issue. How will this serve us in the future if we as actuaries are tied to investment firms?

Maybe this shows my bias from growing up at a consulting firm. The other challenge that I would put out there and discuss is on the plan design side. The consulting firms are always trying to push the envelope and be innovative in trying for the new solution that's out there, whereas my colleagues at the other firms are still doing that, but they're thinking more about how they would actually administer these plans online, on the Web. They're not thinking about pushing the envelope; they're actually thinking of contrasting the envelope and making it more streamlined for future administration. I guess you would call that innovative in the future, but it's a different type of innovation. Ultimately, I don't know where this will end up, but I think it would be interesting for us to talk about as a challenge.

Finally, wrapping up here, what is the actuarial career path? There are some benefits of a broader focus. The SOA did its strategic plan, and the employers have said that they want to employ actuaries, but with a broader focus. They should be able to handle asset issues, investment issues, general business issues that are out there and also sales. You can't be an actuary anymore and sit back at the office and never go out on a sales meeting.

The challenge is motivating people to finish their FSA. The competing designations that are out there are the chartered financial analyst and the master of business administration. We need to motivate these people to complete it and have value in that FSA and being a fellow. I think it's going to be a challenge for all of us to work on in the future.

Those are my comments. Are there any questions?

MS. MANNING: The first time that you mentioned that there might be a decline in the FSA, I heard a few comments and saw some concerned looks. Are you all seeing where you work that there is less of a desire to go for the gold and go for the FSA, and that people are stopping short in that?

MR. DONALD SEGAL: I don't agree. I do not see any lessening of the desire for the FSA. I think we've been through a period where a lot of people in retirement plans were stopping at the enrolled actuaries. They weren't even going for the ASA, much less the FSA. Part of the problem was the examination syllabus of the SOA. Fortunately, consulting firms consisting of consultants who are willing to speak their minds spoke up and said to the SOA, "You are not meeting our needs." Saying that showed the desirability of the FSA because if there was a whole bunch of enrolled actuaries telling the SOA that it's not meeting their educational needs, that means something. As you're aware, the Society has an examination task force that is revamping the examinations, and they are finally paying attention to the customer. I would say, yes, that desire is still there because the customers, meaning the consulting firms, want their actuaries to be FSAs. They saw that it was growing very difficult to be an FSA, so they said that something is wrong with the process. Fortunately, I do not believe that there is less of a desire to have the actuaries achieve the FSA. It is still the hallmark of the profession.

MS. MANNING: I have another comment to follow up on what you said. You touched on the difference in the storage of e-mails and how you wander around on the LAN. I did a presentation at the EA meeting and part of what we said was, everyone has heard this called the "perfect storm" for plan sponsors with the contribution requirements. They're under the low interest rates, and everything is combining with the low assets, but I think it's a more perfect storm than we even thought if you become narrowly focused on your own life as a DB consultant.

I'm making some notes here. First of all, we've got clients who aren't happy with what we're telling them, and they're asking more questions and asking for more work, but at the same time they are conscious of their fees. You're also probably having staff cutbacks. It's harder to get new people to come work for you and say, "I want to be an actuary for a DB plan—that declining industry that you keep talking about. It sounds great; hire me on." You're having trouble getting people, so you have some staff problems.

Another thing that's coming into play is all this pressure on the fiduciary side. Smaller firms become bigger firms as you keep acquiring and patching on these little firms. The combination of the size of the firm and the pressure on the fiduciary side or just the liability side leads to a lot more standardization of practice at the firms where you work. I'm definitely seeing this in my company, but I talk to people in other companies, and they're going through the same thing, where there's a lot more effort put into standardizing procedure such as your documentation standards. How many people have started looking at their company's policy on what you document or what you retain in your files? How many of you are actually getting serious about it and talking to your legal advisors and making sure you've got all your ducks in a row? This is all hitting at the same time that you've got a lot of other concerns, and now you've also got a lot of liability and possible suits by plan sponsors that you've got to worry about. Admittedly I did have a lot of consulting work in the first down economy, but with this one it just seems that not only do you have to do a lot more reaction to the clients in explaining that you've got to do it cheaper, but at the same time you've got to be very sure that you do it carefully. I think that's just another added glitch.

MR. KALNBERG: Cheaper and faster. The clients are demanding faster turnaround and faster response time.

MR. SEGAL: One of the things with e-mail is the "24/7" that Dan was talking about. It's always there. There are legal implications of keeping the e-mails around. There are cost implications because they take up a tremendous amount of space on file servers. As legal implications, I think you see a lot of companies start to have policies of a 60-day life for e-mails unless you go and save them some place. There's a lot more of that kind of stuff. Also, they tend to have this waterfall effect. I grimace that the e-mail that you talked about starts with a plan sponsor sending you one e-mail and copying to two people, and I get this constantly in requests for stuff that we're doing. Then the real request requires you to piece together 15 subsequent e-mails and getting all the decent points. Probably it's those of us who have worked on both sides. I'm now in the systems area a lot, and I think we're getting to a point where it becomes more important to get a written documentation of the full requirements of what somebody's asking you for, because you go through these 27 different e-mails and some of them contradict each other. That gets horrid. You always read the one from the chief financial officer and the chief executive officer, but there might be one little important fact that the administration person sent you that gets missed. So I think it's a lot more important to document what your requests are, and it becomes hard as you go through and give this overnight service. Then it gets hard to sustain the value for their services. If you can give an answer in 20 minutes, then it couldn't have been that hard an answer to get to, so it gets a lot harder to manage.

MR. CASSIDY: I run a small firm. I bill my clients. In the other days I would go get the correspondence file and the time sheets and I'd look at both and come up with an invoice. Now, I don't even look at the correspondence file. I look at the e-mails that come in and the responses, what we responded to and the work produced. That's how I make an invoice, so e-mails are part of our billing cycle.

MS. GRACE CARESS: You were talking about trains of e-mails, but at the end of the day I assume that there's a telephone call that happens between you and the client, because that constantly happens to me. To stop the chains of e-mails, I just pick up the telephone and confirm exactly what they're asking me to do. Sometimes it's not very clear, and with e-mails it gets very impersonal, but I think at some point you have to talk to the client and understand what they're looking for.

MS. MANNING: Yes, we had an example of that with one of our consultants who had a plan sponsor. He said, “I need this information on May 20.” So they got together and they e-mailed it to him on May 20. Before they could do that, they got a call from the plan sponsors. “Where’s my information? I’m heading to my 9 o’clock meeting and I told you I needed it for May 20.” The difference was between "for" May 20 and "on" May 20. It was a difference of one day, so the client was upset. Often it’s just getting on the telephone and clarifying exactly what you’re going to do. The e-mails are often a terrible mode of communication. E-mail can convey technical information, but it can’t convey consulting information.

MR. CASSIDY: It’s difficult because our clients are using e-mails in their own business and they think of it one way and we, like you just said, try to parse what you can communicate in another. In my business we do some investment performance monitoring, so e-mails will often be sent to me as well as the investment manager, and the project is kind of a dual project. We have to respond to that, and the investment managers are responding as well, so it becomes a tricky area of project management.

MR. SEGAL: I’d like to raise an issue that you didn’t touch on, but I’d like to hear the thoughts of the panel. It’s part of consulting in the down economy. It’s part of what we were just talking about in terms of the e-mail and the documentation. It seems that now we are operating in an increasingly litigious environment, especially with the clients. I see part of it as a result of the economy, and in certain areas they’re looking for someone to blame as opposed to taking the responsibility for making a decision. Therefore, touching on some of the things you mentioned, we document everything now, and document it better. If you have a telephone call with a client, put it in an e-mail, and make sure it’s there. At the same time, look out for what’s in the e-mails. I’d be interested in the panel’s comments on how this affects consulting these days.

MS. MANNING: It’s a pinch, because now you have to spend more time documenting. You heard about how health care costs were increasing because they do more defensive medicine or provide defensive health care. They run tests they don’t really have to just to be sure, because they don’t want to have any lawsuits coming back around. Maybe we’re doing that a little now. We’re documenting things that normally we wouldn’t; we know the assumption is good and we don’t document that. We ran some sort of analysis and confirmed that, but we’re making sure, especially if you have clients who might get a call from the SEC. You’re making sure that you’ve got that your files properly documented, because sometimes they ask a little later than when you can recall off the top of your head how you got to that answer. It adds a lot more work to a lot quicker turnaround time. Unfortunately, the quicker turnaround time gives you less time to go through your formal peer review process. I know that’s difficult at smaller firms, but you have your check and checkpoints. If you have to get something out by the end of the day in an e-mail and you can’t wait until the last mail drop like you used to, then it’s sometimes difficult to get all that done. As far as keeping up the filing, I’m really into this because I worked on a document retention policy for my company.

We thought about renaming it the document destruction policy, because we decided it was just as important to make people destroy items that could and should be destroyed as it was for different reasons to have people likewise retain the information.

MR. CASSIDY: For another angle on this is, I've used e-mails successfully in my client relationships when there's a disagreement of expectation. When a client forgets a conversation or an e-mail that we had one or two months ago and he or she says something about it, it's very nice to pull out that old e-mail, shoot it back to the client and say, "By the way, you were supposed to be get XYZ." It helps on the other side as well. I don't know about you, but most of the actuarial consultants I know are fairly good in terms of remembering things. Clients sometimes have selective memory, and so e-mail has helped my practice to move very successfully to the next stage of a relationship.

MR. KALNBERG: As we've gone to these bigger teams of shared resources to use, people start documenting the processes a whole lot more. There's a process you have to follow. You have to fill out this form. You have to send this thing to here. You have to document this. You have to fill out the spreadsheet.

One of the things I see more and more, is that people do processes that they don't understand, but they know they have to do the process because managers are in there facing that process all the time. People lose sight of what it is that you are after in the first place. I find I spend a lot of time with junior people saying, "Fine, we have to do this form, but what did we promise the client? What are we working on?" At the end of the day if you don't deliver the things to the client, you're hosed. I find there's a lot more bureaucracy. When the actuarial firms grew up, the structure was very lean and mean. The structure of a senior actuary with a few people working for the senior actuary is a very close, tight structure and it was very easy to do. I notice our projects have gotten bigger and as there's more of a resource crunch, we're working with more teams and there's less lag time between projects, so you wind up sharing much more closely. You don't have the opportunity to say that you're going to be a week late on a project, so you'll just keep this person working on it for an extra week. That person has already been assigned to three other projects during the week because they thought that you were going to be done by this day. These processes become more important, and it becomes a lot more important to keep managing the process and making sure it doesn't go awry and that people are keeping their eye on the prize.

MS. MANNING: Getting back to the fiduciary issues or the litigation issues that Don brought up, we're seeing our clients cutting back their staff. Often the person that gets cut back is the person who knew that DB plan inside and out. You worked with this client and finally you got them to understand the plan, and then they're let go. Suddenly you have someone who is really almost an administrative assistant, who has a 5500 to file and benefit calculations to submit and no idea what's going on. You're getting involved in more of the plan administration. I don't know if any of you have seen that, but I see some heads being shaken. Suddenly you're put into the position where you're explaining the plan to someone, and there are a lot more grounds for things to go wrong. You've got to watch yourself, like Don was saying, because the responsibility can swing around back to you if you're assuming that what your prior contact knew to do, your new contact is still doing. It's very touchy.

MR. KALNBERG: One of the things I see in outsourcing is that people don't outsource benefits because everything's going wonderfully when they insource it, right?

MS. MANNING: We have a nice, easy plan.

MR. KALNBERG: Yes, right. They outsource it because something is messed up, and once they've gone through outsourcing, one of the benefits that they have is that when you're firing the outsourcer, it's not like going down and firing the person who has been working on your benefits for 30 years. You're firing a firm that you're paying tons and tons and money, so it's a lot easier, and it preserves that ability to fire somebody else and make some kind of radical change without having to face the people that you're firing.

MR. CASSIDY: I made one thesis about the innovation vis-à-vis the trend in the industry with people like Mellon and Fidelity buying actuarial consulting firms. Do you see that? Is that a concern of yours and also, is the independence of actuaries being involved in the asset scene at the same firm a concern of yours?

MR. KALNBERG: I don't know that the independence is a problem as much as the focus, and to some extent, some of it is good. You were saying that when you have to administer the plan, you're going to design a different plan than you might if you were just thinking from a purely creative point of view. I'm not sure that's so bad. When you make a plan where you're thinking about some of the administration decisions, it often winds up being easier for the participants to understand. As I've seen in some governmental plans, where they rotate the actuary every few years, every actuary comes on and leaves a few bright ideas. Then that actuary rotates off and the next person comes on. Each actuary leaves a few bright ideas and at the end of the day, you have this collection of really bright ideas. It's just monstrous to administer.

MS. MANNING: Yes, how many people have picked up a document and asked, "Who brought this up?" You're trying to figure out how you're going to code it in and get it administered, much less explain it to a participant.

MR. KALNBERG: For some stuff, I think that's probably a benefit for the participants. Then you get into other things, and start dealing with companies who also want to hold the assets. As wonderful as all the work that we do is, the money that comes in from the actuarial businesses is a spit in the bucket compared with the money that comes in from the asset holders.

We've seen this on the defined contribution plans for years; it's been very difficult for the consulting firms to compete because of the soft dollar thing. You go in and say that you do wonderful recordkeeping. They'll say that they do it free. Yes, that's hard to compete with. As you get into more of the financial firms doing the DB and the DC, they're really after the assets. A lot of the actuarial stuff is a loss leader. I think that poses some problems because that changes the focus of the company, and it changes some of the focus in that you have to be able to design creative plans.

MR. SEGAL: John, I'd like to follow up with a hypothetical. Let's assume you're an actuary who is working for an actuarial firm that basically provides actuarial services and outsourcing services. You're then acquired by an accounting firm, and you're then subsequently spun off and acquired by a financial services firm. How does it change your perspective on what you're doing? Does it?

I talked about this with a friend who works at a mutual funds company that does actuarial services. He feels sometimes like the loss leader. He feels like he can't stretch or motivate his employees to become FSAs and have the creativity to do things because they're just getting the work out and the administration done. He feels encumbered by the current structure. They're not valued very highly, shall we say, by the asset people, who are ultimately their sales channel and where they are getting the majority of their leads.

MR. KALNBERG: I think the most interesting part is the cultural assimilations that go on. Let me not talk about any real company names, but trying to merge something like a traditional consulting firm and then getting involved with trying to make your case for people who are worrying about the assets, you go through things like salary structures that are totally different, so retaining people becomes a little difficult. This is something that our clients go through constantly—the angst that goes on among all the staff who are going through the mergers, because you don't know where you're going to be a year from now. I think that makes it a lot harder for many of the people working on it.

One of the interesting things that I had always thought, being at one of the firms that was similar to this before I moved to the last one, is that the company that bought them had been a client for years, and the actuarial firm had helped them to design and fund their plans and do all that. All of a sudden that actuarial firm became participants in that plan. The hue and cry was fascinating. I always thought it was kind of ironic

MR. KALNBERG: It is interesting, and from having gone through this, you get a perception of some morbid goings-on in the field. There are things that I personally learned. I'm referring to the chief executive officer of a mid-sized company. From talking to him, I realize there's a whole different perspective that we tend to be insulated from. We'll think about the benefits, but then he starts talking about how this is an old company and he's competing against a lot of start-ups and paying three times what all his competitors are paying. The first thing he did when he took over the company was freeze the DB plans. Being a good card-carrying actuary, I start to tell him that that's a bad thing to do. He says that none of my competitors have it, and he can't afford it. That opens up a perspective that we don't necessarily see living in the part of the world that we do.

MS. MANNING: I think, from working at a company that does produce some outsourcing and consulting work in the same shop, I've learned it's a very different type of work. They are the same plans, but it's a different type of work, different type of employees, and a different type of culture that's surrounding it with different types of goals. We have pretty separate divisions in those areas, but you see it's a different game when you get into the administration. You're looking at different priorities and different ways of getting things done. To me it's very interesting.

MR. CASSIDY: A lot of outsourcing shops started as an outgrowth of retirement practices. Back in the 1970s, none of the firms went into DC recordkeeping because they wanted to. Everybody went into it to keep other people from stealing their clients. When you have this high-margin actuarial gig, why would you want to go into some low-margin thing where you're dealing with real money? It was a defensive thing. I think outsourcing started the same way. What happens that made it harder and makes it such a different business is, if you look at a good actuarial client and then you look at a good outsourcing client, the annual billings are probably something like 10 times as much for a good outsourcing client. With a lot of actuarial clients, you work very closely for three or four months a year while you're doing the valuation, and then there's little going on the rest of the year. With an outsourcing client, especially in large companies, you tend to talk every day of the week. There are a lot more people involved, and when you start trying to manage an outsourcing project the way you manage an actuarial project, you start to have trouble. They're not giving you 10 times the money because they like you; it's because there are 10 times more people involved. Now there are a lot more people to keep track of you, and there's a lot more management. Unfortunately, I spend a lot of my life these days with people like project managers, because it just becomes important. It's this whole role of keeping track of all the work that you're doing. I don't think that happens quite so much on the retirement practice now, although as you get into these pooled groups of assistants, I think you wind up having to do that.

MR. KALNBERG: Thanks very much.