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Session 90 Seminar
Addressing the Financial Risks from Retirement Systems Seminar: Changing Our Focus: Consulting About Risk

Track: Pension

Moderator: ETHAN E. KRA

Panelists: DANIEL P. CASSIDY
WILLIAM B. GULLIVER
THOMAS S. TERRY

Summary: Before ERISA and SFAS 87, various provincial Canadian legislation and CICA 3461, there was little financial regulation of defined benefit (DB) pension plans. An actuary's advice to clients on funding and other aspects of plan financing was based on the costs and risks inherent in the plans themselves. With the passage of ERISA and parallel legislation in Canada, plan funding in most cases became a matter of meeting minimum funding standards without exceeding tax-deductible limits.

The advent of SFAS 87 and CICA 3461 set similar but different standards for reporting pension plan liability and expense on the company books. Over the last 30 years the inherent risk plan sponsors face from their pension plans has changed. Thirty years ago, DB plans were relatively smaller in relationship to the plan sponsor's core business or sponsoring government's infrastructure. A graying baby boom population, increased longevity and contraction of old-line industries have combined to increase the cost and financial risk engendered by pension plans. Once small fringe benefits, retirement plans have grown to become substantial financial commitments with the accompanying risk. Many plan sponsors have reacted by terminating or freezing plans and moving to defined contribution (DC) plans. In the meantime, the tight regulatory environment for private plans has led sponsors to lose sight of these changes in the bustle of compliance with myriad complex and obscure rules. Actuaries must help plan sponsors get back to the basics: the costs and risks inherent in DB and DC plans before the accumulated overlay of regulation. From this perspective, it is possible to

address more cogently some fundamental questions about DB and DC plans: Is eliminating DB plans the only possible solution? Are DC plans the answer? What can actuaries do to help corporate plan sponsors manage the risk of both of these types of pension plans? How can these risks be balanced to manage needs of sponsors, shareholders, plan participants, taxpayers and guaranty agencies? And what happens to a society where DB plans disappear? Do DB plans still provide other benefits to plan sponsors and overall society to make them worth the risk?

Addressing the Financial Risks from Retirement Systems seminar is designed to help actuaries better measure, discuss, manage and mitigate risks that pension plans bring to their sponsoring organizations. This session focuses exclusively on consulting and communicating these risks, risk management and mitigation strategies to plan sponsors. We'll consider the actuary's responsibility to identify multiple risk strategies, and the advantages and disadvantages of each. Finally, we'll introduce the Actuary's Guide to Pension Finance Consulting, a tool to help pension actuaries put all the issues into perspective.

MR. ETHAN E. KRA: Dan Cassidy is the president of Argus Consulting. Bill Gulliver is chief actuary, Human Resource Service of Towers-Perrin. Tom Terry is president of Chicago Consulting Actuaries. I am chief actuary of the U.S. Retirement Practice, Mercer Human Resource Consulting.

Who is your principal? Who is your client? You need to put it in big perspective. Is it the participants, management, shareholders, the pension trust itself, government or society? I'm not going to answer these questions. I'm just keying them up so you should start thinking as to where you think the responsibility lies. Does it always lie with the same principal? Are we always beholden to the same group or does it vary depending on the situation? What are some of the risks to the employer? The company that has a pension plan that's eight times the size of its market cap, an 80 percent equity and the pension plan is somewhat underfunded, how much risk can they afford to take? Who is really taking the risk? What role do we have? Is it a Pension Benefit Guaranty Corporation (PBGC) put option?

What's the risk to the management? What is the risk to the people you deal with? Is it their future compensation levels or their bonuses? Is it their future employment? What are their concerns? How are they making the decisions? Should you care? What's the risk to the shareholder? Are there companies out there that are really highly leveraged hedge funds or highly leveraged mutual funds for soft small manufacturing? Are some of the Fortune 500 companies just really hedge funds? Is that the way you think about them when you buy their stuff? Are some of the companies' shares more of a call option? Are there cheaper call options on the S&P 500 than what you buy in the futures market just because of the leverage? If the employees don't get a defined benefit from this, then what happens?

What's the underlying risk of the DC plan? Has it been properly quantified and communicated to the participants? Do they truly understand the risks that they're taking? For the asset allocation, is the risk maximizing return or minimizing risk?

Who is taking the risk as we go through all the different constituencies? What's better: greater risk or smaller benefit? Whose responsibility is communication? If not us, whom? Who has the ability to understand the issue and to communicate it? What medium? What level? Is our communication directly to the individuals involved or indirectly through various other means such as trade associations, perhaps articles, etc.?

MR. DANIEL P. CASSIDY: I have three points to cover. The first one is to give a little update on what's happening with the Financial Economics Task Force in writing its consultant's guide. Second, I just want to provide a recap of some of the high points throughout this meeting that I felt were really interesting points. Third, I would like to briefly talk about an article that I recently wrote about enterprise risk management (ERM) and some thoughts about it.

First, I'll discuss the Financial Economics Task Force. It's a Society of Actuaries and American Academy of Actuaries task force. The part that I'm helping out on is writing a consultants' guide to financial economics. There are two drafts that we're currently reviewing. They were not ready for publication. The idea is hopefully in a month or two, we'll be exposing that out to actuaries and look forward to getting your comments. It really is written for the real life, practicing actuary and talking about financial economics and how to use it in their practice.

I would like to recap some of the previous sessions at this meeting and things that I felt were very interesting and unusual. The first session I found interesting was the one that discussed the history and some of the things that happened years ago—200 years ago, 2,000 years ago. It was also about handling old age and retirement. Those are very interesting. The next high point is just Michael Peskin. I always find it fascinating listening to him talking about how bond analysts or equity analysts integrate pension accounting into their analysis. He used the term "de-risk" to pension, I had never heard that term, de-risking. That was interesting in the context he used. Also, the chief financial officer is afraid of being the first mover in de-risking the plan. I think that was very illuminating for me. Finally, the sessions talking about hedge funds were interesting. Ethan just mentioned how hedge funds have taken advantage of the mispricing inherent in pension accounting to their advantage.

In consulting to my clients, we've been having a lot of interesting conversations that I had never had with them five or 10 years ago about ERM. When looking at these retirement plans, we are getting back to our history as actuaries of pooling risk. How can reduce the overall cost of benefits? There is also the question of risk transfer. When you go from a DB plan to a DC plan and you transfer that risk to employees, are they going to demand higher pay, higher levels of benefit or other issues? Then if you compound that with say changing Social Security, taking that from an annuity program and changing that to an account-based program, how is that going to impact that risk transfer to employees? Are they then going to also demand higher wages? Those two things are on the top of Medicare changes. I'm just not sure where it's going to end and ultimately if we're going to see the employees demanding significantly higher pay in the future because we're transferring all of these risks. One of the tenets we have is the person who bears the risk should get compensated for bearing that. It's an interesting question to ask and see if that ultimately is going to ripple through our economy.

MR. WILLIAM B. GULLIVER: I will talk about our clients' perspectives on this risk management question and what they might be expecting from us. Tom will take a little bit of time talking about how we respond to that and what kinds of things we should be thinking about doing in response to that. I'll talk from a client perspective about risk management and how the pension problem fits into that.

Our clients are thinking very broadly about risk, and while we have spent a lot of time and prior presentations focus a lot of attention about financial risks, as actuaries serving pension plans we need to be broad in our thinking about risks as our clients are broad. We're seeing an emerging trend towards the CFO getting personally involved in risk management or naming someone to take that role. In a few situations, at the C-level, companies are designating a corporate risk officer who looks across all the business and thinks broadly about all kinds of risks. The key message here is: think broadly about all these implications of the operation of the pension plan, on compliance and regulatory risk, on legal risks, on human capital risks, on political and market risks associated, because you may find yourself in more situations where someone wants to talk about the risk of the plan. They're going to expect you to have a holistic view. They're going to expect you to bring rigor to the conversations about risk management. It's one thing to say, "Yes, it might be in compliance." It is another to say, "No, it's not, there's some risk here that the plan might not satisfy, age discrimination or what have you." Those are observations, but what's the rigorous process that you can bring to help me really control that? We see that as an emerging trend for an actuarial practice.

I know this point has been made in several of the prior presentations. Ethan alluded to it. Who's the client? Ethan, I usually start with who pays my bill. From my perspective, the client is the sponsor company. The company has two primary responsibilities and stake holders in this discussion. They have plan participants and they are a fiduciary with responsibility to the plan participants. They are also responsible to their shareholders and have a fiduciary responsibility to those shareholders.

Interestingly, if you look outside the United States, you'll see plenty of examples of where those two roles potentially conflict. It's a national issue. Actuaries in the Netherlands and the United Kingdom are conflicted in terms of how they serve the plan versus how they serve the sponsor company. It's not inconceivable that, in the not-too-distant future, it will be impossible for an actuary to serve both roles. That's not the case here, but there are tricky issues involved in our profession. As we serve our clients, we need to be very careful in all of our discussions to speak to the issues of those two key stakeholders and be very balanced.

For example, if you have a cash flow payment of $1,000, depending on whether you finance it, pay-as-you-go prefund it with a diversified portfolio or immunize it, it brings up different issues from the perspective of those stake holders. You need to be thoughtful in these discussions when you're talking about financing future payments to bring those kinds of thoughts in in a balanced way.

Another observation that we see as an emerging client trend is risk management—know your audience. We're very used to dealing with functional leaders, treasurers, vice presidents of human resources and corporate controllers. What do they think of when you talk risk management? It's control. I want the work done well, no mistakes. I want it on time. I want it to be done cost-effectively and most importantly, no surprises. Control the process, no surprises. If you elevate the conversation to that CFO level or that corporate risk officer level, different concepts come into play. Is this efficient? Get all the risks out of the equation to the largest possible extent. Make the outcomes more stable and more predictable for me so that you're lowering the level of risk. Are we efficient in the way we deal with the risks that are left? Whether this is a good allocation of cost of capital on a risk-adjusted basis is a common question for CFOs and CROs to ask. We think you need to be sensitive that that's really where the interests lie when we go a step up from our normal contacts on the functional level.

If you go to the highest levels of an organization, what you hear is opportunity and growth. Is this pension program something that's giving me competitive advantage and if not, how can it? If it can't, why do I have it and what do I do with it? But the conversation there goes right to what the opportunities are and the growth in business associated with having this plan. Each different level in the organization should bring a different type of focus into the conversations. We think, as actuaries, we're going to need to be responsive to that trend.

As actuaries we're expected to do a great job in all of these traditional areas of actuarial work or pension consulting work including participant communications, but what we see is another trend emerging. As we get into the risk management discussions, we need to do more than just a good job in our areas of expertise and related consulting topics. We need to start asking some more fundamental questions about the program. Does the pension program have risks that you as a company want to take? Is the reward for sponsoring this program adequate to support having it? Be thoughtful about how you respond to that question. Look at risks and the outcomes broadly and the opportunities that the sponsorship of the program afford the company as adequate compensation for the risks associated with operating the plan. If you determine yes, that's great. Suppose the answer is no. I, as a sponsor, don't want this program. It's too risky. That leads to some pretty simple questions: Can I get rid of it? If I have to keep it, what do I do with it? Be thoughtful about that answer. There are lots of ways to transfer risks associated with the operation of the pension plan to third parties. Simple examples like annuity purchases should at least be thought about and considered. More complicated hedging strategies or other mechanisms to transfer risk out of the organization are being spoken about and will likely be emerging over time in the marketplace. We need to be at a very high level directing the conversations towards questions such as: Are there opportunities to transfer this risk out? To the extent that we keep the risk, how are we going to manage it efficiently? What are the processes and policies that we're going to use to manage it? How are we going to monitor things to make sure they're going well? If you can take the conversation to that level, I think you've now positioned yourself into being responsive to what we see are some of the emerging trends around this risk question from a client's perspective. We've heard a little bit about the client perspective, what does that mean for us? What should actuaries be doing?

MR. THOMAS S. TERRY: A question that hits me as we dug into this topic is: What qualifies me as a pension actuary to consult on risk? Is risk management in the pension context all about reducing risk? It brings up the fact that in my own background I consider myself having grown up in a deterministic environment. I've gotten ahead by becoming pretty cute about how I manage around complex rules and take the rules and make them work to my or my clients' advantages. How do I remake myself as a risk management consultant?

I've had a couple of conversations lately about this, but I realize that this has been something that has gone on for me ever since the financial economics debate has come mainstream in everything that we do in the profession. I realize that what I need to do is to read, to discuss and debate. I need to disagree where I do and be open. I need to ask questions of my clients. I need to listen to what they have to say. I need to challenge conventional thinking, my own as well as others. I want to invite others, whether they be colleagues or clients, to challenge their own thinking. I have to keep an open mind. I want to incorporate new materials into my analyses whenever I can and into my client discussions, not just the rules-based stuff, the compliance-based stuff that we've all gotten so used to working with.

Here is an example of a hypothetical conversation that classic pension actuaries have with their clients in discussing DB versus DC. You first start off by saying that fundamentally there's a different application of risk. Investment risk is the real risk in the DB/DC equation. Then you say now we define the risk—it's investment risk. Let's go about reducing the risk. Let's reduce it and eventually eliminate the investment risk by eliminating our DB plan. Of course, the next level of analysis asks if we've really eliminated the risk. No, we haven't. Maybe we've just shifted the risk. Then the conversation really evolves to shifting the investment risk to the employees by replacing our DB plan with a DC plan. We haven't eliminated it, we've just shifted it. Now we've gotten a little bit more sophisticated and are talking about it. But then we say, "Wait a minute, the employee now has a risk." Maybe the question shouldn't be just shifting the risk. That shouldn't be the goal. We should ask ourselves what's the appropriate assignment of the risk, who can best bear that risk. Let's take into account that perhaps professional management can yield a better long-term result than individual management, so that gets us to reconsider the appropriate assignment.

Risk takes on a lot of different shapes and sizes in this very simple, random walk through a classic assignment that we've all been through many, many times. Risk takes on a lot of different faces and a lot of different angles and a very simple kind of assignment. I guess I would conclude that there is no one right way to think about risk. It's a process of education, learning, analysis, understanding, challenging, rethinking and exposing and making transparent. All these things are risk consulting. I don't think that it's necessarily about our traditional deterministic approach towards simplistic answers.

How to communicate about risk? This is one that I think intrigues us all. Classically we focus on different outcomes. We look at sensitivity analysis. I think we've evolved that toward stochastic analysis and the question there is, do people think that way? Do our clients think that way? If not, how do we get them to think that way? I think that's a big challenge. Something that came up in one of our discussions was, do plan participants, do employees think that way? Do they think about the risk associated with the DC plan? Do they think about ruin? Do they think about what it would take for things to go south beyond a point of no return? Do they have the tools with which to think about those sorts of things? Who, but us, ought to be helping them in that regard? It's one thing to sort of hide behind the cloak that stochastic analysis is our thing. We do it in the background and kind of keep it to ourselves because it's very complex and very hard. It's another thing entirely I think to begin to figure out ways to acquaint the world with what we know is a very powerful analytical tool.

With deterministic scenarios, tools to build a model are intuition. We're great model builders as actuaries, and to take our intuition and to begin to create models around which we can communicate that intuition in a meaningful way to our clientele is a huge challenge for us. Education of the client is key. They ask better questions when they are smarter. When we make them smart about risks, they begin to ask deeper and better questions and then they probe and push us to go further. Education leads to insight. The old model is that the actuary is the smart guru and has all the answers. The new model is that the actuary is learning about risk just as our clients are learning about risk.

Asking questions, worst case scenarios, ability to quantity different scenarios, shifting quickly as events occur, a no-surprises orientation, what does that mean? What would it have been like for us to have operated in a no surprises environment in 1999 or 2000? What would it have looked like? What kind of an analysis might we have been talking with our clients about such that they wouldn't have been horrified and shocked with the events that occurred in the next couple of years? Not if they had in some knowing way, not being happy about it, but at least saying I'm glad we had that conversation a couple of years ago with my actuary. What would it have looked like?

I'm going to close with this last point in an example of understanding risk as a better means of managing pension plans. I was with the CEO of a client a year ago.

I learned something about risk management and that is that communication is as much as anything a risk management device that's very, very useful. The financial officer was upset in general about the level of funding and contributions that have been going up and general turmoil about the funding of their pension plan. I was in a conversation with the CEO about something else. He raised the issue about funding, and he started to express a little bit of frustration. He said, "I understand on some level that yes, the environment and the perfect storm and all kinds of things, isn't there something that can be done?" I said, "Sure, you have assets and liabilities that are behaving in a very different way. It's simply a matter of taking the assets and allowing them to behave like the liabilities." He looked at me and said, "Invest in bonds?" I said, "Sure, it's that simple." He said, "I get it." Then we moved on. I never heard again from him. He felt his world is rational again. It's not a random walk. There are things he can do. He may choose not to, but at least he understood. To me that was a big win. It was an insight for me. Since that point in time, I've been taking every chance I can to acquaint my clients, regardless of their paradigm, with new ways of thinking about things because I think there's huge payoff. Now, their behavior is yet to change, but their thought process, I think, is more down the road towards a better management perspective on their pension obligations than before.

MS. ANNA M. RAPPAPORT: I have several points that I'd like to make. First, I heard a lot about integration of risk across the pension plan. I don't think I heard a lot about integration of the risk that relates to the pension for the rest of the enterprise. For example, I have a business that has foreign currency risk in Division A and foreign currency risk in Division B and Division C, if they're ERM-focused they may have discovered that instead of hedging all of that, they have natural hedges, but then I might have more foreign currency risk in the pension plan or a good amount of it. I think one of our issues is not just how to integrate across the pension, but how to integrate with the rest of the business. This truly means we need a partnership with our client. We need to find ways that go way beyond any traditional actuarial work of finding the covariances and finding ways to integrate pensions with the rest of the business.

I want to make a big plea about what I would like to see all of us walk away from here with. I think we're truly at a crossroads in America today with regard to retirement security. I think we're truly at a crossroads both with respect to private system, the employer role and Social Security. I want us to really work hard to create a good future. I'm optimistic enough, maybe dumb, but optimistic enough to think that we can make a difference. I want all of us to do that. We're doing a briefing for congressional staff on the misperceptions paper put together by the Society of Actuaries with two partners. That paper really looked at a range of studies that look at things that people don't understand. It identifies things that they need to do to do a good job on their own. We're going to tell the congress that we have to have plans that work regardless of the actions that individuals take or we're in big trouble. I would like all of you to be remembering to tell people that.

Yes, we support education, but education won't get us there and not in the misperceptions paper, but working side by side on that.

MR. KRA: For people to appreciate things differently may not be educational on action, but educational on appreciation.

MS. RAPPAPORT: Education on appreciation. I think there's a lot of education that could help and that certainly would help some. It's very interesting if you talk about education, if you think about the public sector situations, there are situations where employees do appreciate and do get it. Yes, that education would be very valuable. It would be education to help people make better decisions. There's a group that no matter what you do, isn't going to get you there.

SPEAKER: What is it you're asking congress to do?

MS. RAPPAPORT: We're actually saying to congress we need plans that work with our employee action. Therefore, it's important to choose support and help stabilize the key plans. It's also important in the D.C. arena that we have good default options and we have safe harbors for things like auto pilot plan. It is two-pronged. We recognize that Social Security is important so we're saying to Congress in terms that they're thinking about ownership of the society. They need to understand that they cannot expect that people will be able to do it on their own.

MR. KRA: Let me just try a different aspect. We've been discussing various aspects of risk and one of the key items is communicating that to the various constituencies. What do you view as our role in the communications process? Each of you may have differing views as to what the right answer is, but no matter what you view the right answer is, you have a role in communicating both views to the various constituencies. What do you view as your responsibility?

MR. GULLIVER: I'm not sure what our responsibility is, but I do know that stochastic modeling and as Tom said getting out of the deterministic approach and presenting it in a reasonably simple way to our clients and to the public is a big help. The casualty business has basically been doing that for decades and there's really no reason that we can't start to that more.

MR. KRA: Communicating it to the clients is relatively easy. You have a relationship with them. How do you view the way we should be communicating with the public? You said communicate with the public. How can we communicate with the public at large?

MR. GULLIVER: That's very difficult. You'll get different answers as to whether you're trying to deal with this for public sector entities or private sector entities. I think for the public sector entities there are national groups that can effectively deal with this and I would defer to others in the private sector in terms of the American Academy and other groups that might attempt to deal with it there, but I think that you look at your national groups to be kind of a spokesperson and leading the charge in terms of trying to communicate with both the public and with congress.

MS. RAPPAPORT: I actually have a question for the audience because we're talking about stochastic risk. How many people when they're doing stochastic forecast talk about what your insurance colleagues will refer to as the tail risk—the 5 percent or the 10 percent—we tend to show things in bands of 5–95 percent of the results or 10–90 percent. How many people look at whatever scenario they're doing, the funded status, the 5 percent of worst case results and talk about the scenarios that take you there? It looks like Matt and a couple of people. I will tell you from my position at the SOA that's one thing that pension actuaries have been criticized for, but that's one thing that we've been focusing on the rules we have ignored and are looking at ongoing plans. We're so focused on the ongoing plan we ignore what they call the tail risk.

MR. KRA: People talk about the once-in-a-century events. What are the odds that your house will burn down next year? How many of you do not have homeowner's insurance to protect you against a fire and your house burning down because after all it's a once-in-a-century event? How many of insure against that once-in-a-century event in your financial world? Is your home part of your financial assets?

MR. EDWARD F. GRODEN: I spent my first 25 years in a profession in traditional consulting and a year ago I was hired by one of my clients, the New England Teamsters Pension Fund to be their executive director so I'm now on the other side of the equation. Getting to the point of communication, I've had an opportunity since I've been there probably about six times or so to speak to groups of business agents within the teamster community about what's going on with their pension fund in attempting to get them to understand that their fund doesn't operate in isolation. It's part of this larger economic issue that the whole country is facing. Borrowing from information like the top 10 misperceptions about retirement, I have been using those ideas and presenting it to these groups to get them to understand that if they don't hang together, that the problems that we have on the funding side, trying to fix the imbalance between liabilities and assets isn't going to happen without their help. We need somebody on the front line with the public.

MR. KRA: From a different perspective, some of us deal with a different constituency. Why is it that we buy homeowner insurance and we don't buy financial insurance? Why do we have that mindset? Is homeowner insurance too expensive?

FROM THE FLOOR: The difference is that homeowner's insurance is a 1:1,000 occurrence and the price reflects that. The financial insurance you're talking about, the price would change the whole dynamic of the enterprise, so, in the examples we've been talking about, de-risking the pension plan would make the pension plan's cost go up 50–100 percent. That's just a whole different dynamic, which means that maybe it makes sense to take risk in one situation and doesn't make sense to take it in the other.

FROM THE FLOOR: The same issue right now is that you're buying high. Individual annuitization is incredibly expensive because of the low interest rates, so an individual as he retires is not going to mitigate his longevity risk because he doesn't understand it and because the event is very unpredictable for an individual to accept. As individuals they're in a single risk pool.

MR. KRA: So therefore you say that the average retiree age 65 in 1988, said interest rates are 4.5 percent, they're too low, they're going to go up?

FROM THE FLOOR: I don't think the individuals are waiting for interest rates to go up to get into the annuity market. I think that as they're looking at the annuity market they see it as expensive. They'll retain that impression because it's educating them.

MR. KRA: It's an education problem?

FROM THE FLOOR: Especially when they learn that right now lump sums are financially more advantageous for them to take if they have that option from a DB plan than to leave it as an annuity because some lessons they manage to get real well and real easy and they can select against the pension fund.

MS. RAPPAPORT: The annuitization thing isn't quite so clearcut, but because there are a lot of retirees out there with annuities and for the lump sum market we haven't seen the maturation of the DC market. People haven't seen what happens when they try to manage all their retirement assets over 40 years and Aunt Betsy ran out of money at 85. They haven't seen Aunt Betsy run out of money yet because Aunt Betsy has a DB plan, so you haven't had the consumer experience yet to know what the value of longevity insurance. We have the statistics to show that people think they're much more likely to die young than to live long. They don't understand the distribution of the probabilities.

FROM THE FLOOR: I would add to that. I just had a conversation with the CEO of a client with a DB plan and 401(k) plan. This client is going to retire in the next year, and he was concerned about the solvency of the PBGC because of all the bad press. It was the strangest conversation I've ever had with a CEO who is just about to retire. He was scared that the pension plan was going to go away, was going to become bankrupt and the PBGC would become bankrupt as well, so there's no protection and that's the risk. Participants understand that there's a lot of risk to these DB plans now and may have misperceptions, but they perceive it as a risk.

MR. MATTHEW T. SLOAN: I want to shift the question: How do we take the message to clients? Bill and Tom addressed that on the need to do that. It's one thing for Bill Gulliver to jet in from the east coast and to be the expert on risk management or Tom Terry in a casual conversation, president to president to make comments that will be accepted. You think about your organizations and who is dealing with who on the front lines where the contacts and the controllers or the assistant controllers and the assistant treasurers who are monolithically deterministically budget-minded in keeping this year's budget and they're dealing with your 27-year-old mid-level actuary who is very competent and very smart, but maybe doesn't have the business background or presence to deal at a CFO with concepts that are admittedly new and that are admittedly much broader than most of us are directly trained in. What a lot of us are struggling with is not the theory of where we'd like to be in an ideal world, but given where we're at, how do you take those first few steps to move in the right direction?

MR. GULLIVER: Don't overthink it would be my first piece of advice. One of the points I was trying to make in my presentation is that our clients are increasingly receptive to ideas around risk management and are thinking broadly about risk. We can do some pretty simple things, and there maybe sympathetic ears at our clients. If you talk about the risks of agency audits and the exposures that exist, you need to ask, "Have you done a compliance assessment of your plans? Let's go through them and make sure they're operationally conforming to the way the document is drafted and let's make sure we can comply." That may not sound like risk management, but it will sound like risk management to some organizations.

If we can go in and just talk about the design of the plan and what are some of the risks associated in the context and some of the fears an organization has, there will be receptive ears to how would you stack up versus the IBM decision or versus the what-have-you. If you start in an area that's comfortable, I think you may find, at least in some organizations, a lot more reception to those kinds of broad conversations as opposed to simply delivering the work. I think that can build into a broader relationship. I wouldn't at the outset think that you have to be able to go in and operate at a CFO level or a CEO level. I don't think you have to start with a sophisticated analysis around the financial impact of the plan and the leverage it has on the company and what's the enterprise risk at that CFO level we should be talking about. Some people can do that, but I think all of us have an opportunity to think a little more broadly about our role in an environment, which I would argue is becoming very risk sensitive and even risk-averse. We will have an invitation to play in that space if we show up with some good thoughts in our area of expertise. I think that's the beginning of sort of broadening our view of the value we can add.

MR. KRA: My experience generally in dealing with clients is that the higher up we get in the financial part of the organization, the more they're attuned to some of these risk issues. I've also found within the actuarial community that the younger actuaries are more attuned to the issues than the older ones with some significant exceptions.