

# RECORD, Volume 31, Number 1\*

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New Orleans Life Spring Meeting  
May 23-24, 2005

## Session 47 PD The Personal Actuary

**Track:** Actuary of the Future, Smaller Consulting Firm

**Panelists:** JAMES C. BROOKS, JR.  
PAUL V. BRUCE  
PAUL T. RICHMOND

**Moderator:** JAMES C. BROOKS, JR.

Summary: The eternal question, "What does an actuary do?" is about to have an entirely new answer. At this session, participants are introduced to the burgeoning field of the "personal actuary."

**MR. BROOKS:** This is the session on "The Personal Actuary," an interesting title for a session at a Society of Actuaries Meeting. People have personal trainers, personal physicians, some people have personal psychiatrists, personal dentists or personal lawyers. What we are finding is that there are a lot of individuals who have a need for a personal actuary. We hope to tell you a little bit about what that's all about. Who's working on these initiatives to help support the personal actuaries who are slowly being identified? That's what we're going to do today. When you leave here you'll have some idea of this emerging area of practice for actuaries.

My name is Jim Brooks. I'm an FSA, 1972, and a lot of things have changed since I became an FSA. I'm a retired CEO with a couple of ING companies in the United States. I have also worked internationally with them. When I retired the first time I decided that I needed to stay engaged, and the thing I knew most about was actuarial science. So I began to work on the cutting edge through networking with people I knew. I began to get all kinds of questions for help and assistance from people who were dealing with personal risk or situations involving future contingent payments. They didn't know how to evaluate the many different types of personal risk. So we're going to give you some examples today.

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**Note:** The chart(s) referred to in the text can be downloaded at:  
[http://handouts.soa.org/conted/cearchive/NewOrleans-May05/047\\_bk.pdf](http://handouts.soa.org/conted/cearchive/NewOrleans-May05/047_bk.pdf).

I chair the Actuary of the Future Section Council, which is co-sponsoring this session with the Smaller Consulting Firm Section. So we're glad you're here.

I will introduce our panelists one at a time before their remarks. The Actuary of the Future Section has a working group on the personal actuary. It was formerly under the finance practice area and was created about 13 to 15 years ago. Over this period, there have been articles and there has been research and work going on to help identify and define the role of the personal actuary.

Our first panelist is Paul Bruce. Paul is a member of the Actuary of the Future Section Council. Paul is also a member of the working group on the personal actuary, and part of the marketplace relevant strategic action team, the MRSAT. If you were at the General Session yesterday morning and you did not know about the strategic action team before, then you do now. Paul is vice president and chief compliance officer of Capitol Professional Advisers, a Minneapolis-based financial services provider. He's been with that company since 2003, and is responsible for overseeing all legal and compliance functions. He also serves as president of their broker/dealer. Paul also has his own consulting practice through which he works on compliance matters. But every once in a while Paul finds himself doing some personal actuarial work as well. So Paul is going to tell us about the background. What is a personal actuary? What's been going on during these last 12 to 15 years with the working group?

Then our second speaker, Paul Richmond, whom I will introduce more fully before his remarks, is a practicing personal actuary. Paul is going to tell you about his practice. Then I'll come back with some remarks at the end. What does all this mean and where do we think we're going from here?

**MR. PAUL BRUCE:** The story goes back about 20 years, and I was probably not even an FSA at that time when one of the legends had passed through the members of the actuarial group where I worked at IDS Life in Minneapolis. It was the story of a sole practitioner actuary in Ohio someplace who was sitting at his desk working away at something. His phone rings and it's a woman on the other end who says, "I found you in the Yellow Pages; you're the only actuary I could find. Are you really an actuary?" And he said, "Well, yes ma'am, I certainly am." And she says, "Oh good. My house is full if termites."

So part of our goal here is to dig ourselves out of that hole and into one in which the general public understands what actuaries do.

As Jim said, I'm serving as the president of a broker dealer. I do some consulting in compliance and litigation as a sideline. To me that's just one more step in a pretty nontraditional career, which is what got me interested in the Actuary of the Future Section to begin with. I worked in internal audit, compliance and litigation. I ran an operations area for a while. I think these are just things I got interested in and I believe my actuarial background and training opened those doors. But then I

had to find my way through them.

I believe actuaries have a lot of unrecognized, misunderstood and untapped skills that we can all leverage to go off and do bolder and better things.

The hardest part of being an actuary is explaining to people what you do. That's true inside the areas where we're at least somewhat known. That's even harder when you get outside those areas. Now we've got a working group focused on trying to help the general public understand what we do, and that is a stretch.

The purpose of my talk, as Jim said, is to try to cover some of the things that personal actuaries are doing in the marketplace and can do in the marketplace. The purpose is not to have you all well trained and certified in each of those areas by the time we walk out of here. But it's to open your eyes to think about the kinds of things that can be done in this arena. You probably have your own list or will create this list as we go through our time this morning. I think the other thing is, as Jim said, people approach you. People ask me, can you help me solve this problem? As a profession we have to be very careful not to start answering questions that we don't know much about. But there are areas in which we really can help people in an unfettered and unbiased way. That's the basis of being a personal actuary: helping individuals solve their own problems.

First, let's start with the definition, and I've covered this. It's someone who performs actuarial services for individuals. The individuals could be other parties working to support those individuals. You could be called by an attorney to help a client with a specific litigation matter or estate planning matter. You could be called by an accountant who's helping someone. Those people will often know enough to retain the services of actuaries where the individual client might not.

Again, these are high-level and broad personal evaluations. Some of the things that could be covered here include evaluations of just the same thing we do for a life insurance company, for a pension sponsor, risks and opportunities. What are things we can do to solve problems? And what can we do to leverage opportunities on an individual basis? Examples include personal risk management, life, health, finance, and matters involving claims and entitlements.

Some very high-profile divorces have made the papers. Some of these guys are being shepherded off to prison because of things like Enron and WorldCom. There's another group who are divorcing, generally men divorcing women or vice versa, where the man has earned a ton of money, but a lot of that money is tied up in stock in the company or in long-term incentive programs. Somebody has to value that to determine what it's worth. That is not a simple matter.

When it comes to investments, I'll offer my first early warning. If you start giving financial advice you might find you need to have licenses and registrations as a financial adviser. No matter how smart you are, how much you already know,

there are simply state and SEC requirements on that matter. Other areas might involve taxes and life settlements, which is an area I'll touch on a little bit more later.

Yet another area involves personal evaluations including life expectancy. I'll assume that since we're actuaries a lot of us have spent a lot of time on life expectancy. We are also asked for help in evaluation of retirement options. Insurance review can cover a lot of things, including life settlements. Is it time to completely unwind someone's life insurance package because of the position he's in in his life and do something entirely different? Or do we want to determine if maybe he is on the right track?

Let's go to health expectancy. Health expectancy is an actuarial measure of the healthy portion of one's future life, the portion requiring assistance with two or more activities and the portion requiring skilled nursing care. Again, we all have some knowledge of life expectancy. Most of us could find the right mortality table and take a shot at how long we think we're going to live.

Bragg Associates in Atlanta developed this analysis. I think is incredibly useful given today's current and coming world of retirement. Our parents' generation more likely than not said, "I will work until I'm 65 and then I will do fun stuff until I can't anymore and then I'll probably die."

Retirement, because of the early age at which it's starting, is being much more and much better viewed as stages. The 55 to 65, 65 to 75, later years. I work in a financial advice shop, and I think financial advisers often do a disservice to their clients by putting out a number and saying, "Here's how much money you'll need to live given the travel you plan to do and the lifestyle you plan to live, and you'll need that for based on your life expectancy." Let's pick on a male nonsmoker, age 55. Until you're 86 you've got 31 years to live at that pace, and it could be longer. But you're going to spend that \$127,000 a year for 31 years, plus inflation! In reality, there are stages. There are years during which you'll spend a lot of money because you're still young and able to spend a lot of money. There are ages, those different phases where your different financial needs change. This draws this out. It says, "Yes, you might have a 31-year life expectancy, but you've probably got about 24 of those years when you can expect to be healthy and doing the things you want to do on a daily basis." Don't underestimate the fact that you're going to need some number of years of less active living, but more health in your life.

This is a very useful thing when you start looking at a 40-year retirement that some of us might face. The other thing is some of us retire saying, "Well, I can retire now, or I'm being told to retire now because I'm part of corporate America." But I will still go out and earn some money. Well, this may help you figure out just how long you really plan to, can, or want to do that.

Let's consider some of the questions in evaluating retirement options. Should I

take the early retirement package? Is it actuarially sound? Should I take a lump sum? Should I take a monthly payout? How should pension assets be divided in divorce cases?

Other situations involve tools to help determine the value of your life insurance policy, whether you need long-term care, or assisted living contracts. All of that is impacted by your risk tolerance. Again, the focus is on an individual level.

Here's a tool. This is some positive ink in the *Wall Street Journal*. It's the retirement calculator, dubbed the retirement probability analyzer, available from the Society of Actuaries Web site. It's for people who want their projections to be a bit more sophisticated than those offered by most online calculators. This is another means of helping people understand the probability of outliving their pension or retirement assets in light of what they have in the bank. This was developed with the help of the Society.

My favorite part is that the calculator relies on partial differential equations, which are sophisticated enough to remove the need for Monte Carlo simulations. When was the last time one of you used a partial differential equation? I'm really curious here. I think I put that book away the day I finished college. It's way deep in some pile. So, unless you'd be inclined to develop this yourself, there is one out there.

This is the Bragg Index, which Jack Bragg put together. Jack has been the catalyst for much of this thought and work. Jack's defining the life expectancy tables he helped develop, and he's still working diligently on this stuff in his mid-80s. In the Army, you do more work by 9 a.m. than most people do all day. Jack's done more work after retirement than most people do in their careers.

But this is an analysis that takes a given life insurance policy, size, premiums, takes a look at the guaranteed and current assumptions and creates an index. A perfect policy would have a score of 100; this one started out 72.7, so it's just another indication of a tool that's out there that can be applied on an individual basis.

Back to investments, incorporating actuarial and life risks into investment planning. Any financial planner who hangs out a shingle can talk about saving money: Here's how much you need to save, risk tolerance, all that kind of stuff, kind of requirements of the regulators and just good business practice. I think there's an element of that, which is for any good financial plan. There are also risks or obstacles that can get in the way of that plan being the right plan. I think an actuary can help clients take a look at those risks and say, "Yes, this might be the right plan if every assumption is met. But which of those assumptions might not be met and where are my risks? Where would I get into trouble with this financial plan?"

I'll talk a little bit about life settlements. They come through my brokerage shop

from time to time and I'm very leery of them. I don't know if any of you are in the business. It's a little bit of a scary business right now. It's not well regulated. It's hard to get good, clear data, it's a bidding process, it's hard to assure the client that he's getting the best possible deal after everybody in the process has taken their slices and passes up or down the ladder. I think anybody who is considering such a step; in other words, selling his or her life insurance policy for a number more than the cash value probably needs some unbiased help with a pretty analytical bent.

Life settlements is a market that's out there and growing. Again, I think this is a market very heavily focused on the elderly. The regulators are very focused on the elderly in terms of protecting them. I think we maybe have a calling here in terms of helping people understand whether they're going to get good deals or not.

Here's another kind of analysis: Individual life evaluation. You've got a person who is apparently 85 years old. Taking account of his medical conditions, the probability of living for a year or two or three can be estimated. Here's another one that takes this a step further. In my side role as a consultant, I try to recognize when I'm outside my area, and a guy I work with is married to woman who's a controller for a chain of nursing homes in the Twin Cities. Presbyterian Homes. They have assisted living apartments, and part of the contract that the client signs when he enters these apartments gives them life-long access to the skilled nursing home that they're attached to. And they were holding on their books a liability for each of those people, given that they would go into the nursing home. They knew that they were overstating that liability because they just assumed that everybody went and they all stayed for 10 years. Of course, you get some pretty big numbers that way.

I knew that Jim and Jack were working on this health expectancy and life expectancy. We actually didn't land Jim and Jack the work in this case; they took a shortcut and they cut their liability in half. I could have done that. That's the back-of-the-envelope-type thing if I ever saw it. But it only cost them \$2,500. But this is where health expectancy could very well be a very useful tool for that group home. They were holding \$1.2 million in liability; they cut it to \$600,000. Half of that is probably still plenty given the fact that a lot of these people will die before they go in the nursing home, or they'll move out of the assisted living apartment because they got better and lost that benefit. So there are a lot of ways that they would not be collecting on that, or a lot of people just don't live that long once they take that step. There's an opportunity to use that on a consulting or even a group basis.

Claims and entitlements, Social Security, early retirement; I talked about structured settlements. Structured settlements are very complex. You've got different mortality; you've got different health expectancy. What is the best deal? If you're in an accident, you get a medical award. Somebody should be your advocate not just from the legal side, but also from the numerical side. So if you

know any good ambulance-chasing lawyers, you might want to pass them business cards and say, "When you get to the point that you get a case like this, give me a call." And you have to take a look at it.

We already talked about divorce, personal injury. Taxes, again, you know giving tax advice is always a little bit dicey. Help with tax returns, estate and gift tax consequences, maybe the need for life insurance for estate-planning purposes. And that leads me to take all of that stuff, all those things out there, and I hope that has generated some ideas. Maybe you've even been approached by somebody who said, "Can I help with this?" Maybe you've even done some of that work for free, because it was your mom or your mom's friend or your cousin or somebody like that.

The Personal Actuary Working Group has been around conceptually for 10 or 15 years. I think through the recent Society reorganization and some efforts of our own, we are now very well connected to the Society. We now are kind of a subgroup of the Actuary of the Future Section. There's a lot of overlay there. There are a lot of the same people, a lot of the same interest. The Actuary of the Future Section is looking for nontraditional opportunities. This is one area of nontraditional opportunity. The Actuary of the Future Section, as Jim mentioned, and the personal actuary group are connected to the marketplace relevance strategic action team. Our goal is to make sure that this area is represented when the Society does its work, sets its goals, and that we're connected, and that these opportunities are being created for actuaries more broadly than they are today. More broadly than the Paul Richmonds of the world who just figured out how to go off and do this by himself. There's some support and structure there. And ultimately, even part of the Society of Actuaries marketing plan to the general public.

We are pretty active. We meet by conference call every other month. We report back and forth with the Actuary of the Future Section. And again, I sit in the marketplace relevance SAT, so I hope we are staying well connected there.

We put a Web page out that is connected to the SOA Web site. Jack wrote a personal actuary guidebook many years ago that we've taken a cut at rewriting to cover more of these topics, not just the kinds of things he was looking at 10 or so years ago. We've done some market research and taken that into consideration. We've looked for people who are practicing as personal actuaries to try to collect those stories, those ideas, how to start a business, how to get going in this, as well as the obstacles, which we'll cover in a minute.

We've had several names over the years. But I tried to tie it to individual cases in order to try to narrow the scope a bit. And trying to increase visibility, public relations and, again, find synergy with other things going on at the Society and elsewhere.

There are obviously some challenges. Practicing this way, it's very hard to get liability insurance or other coverage. The Conference of Consulting Actuaries has struggled with this for years. There is lack of public recognition and understanding, and unless you know really what to do about termites, you might want to pick your work carefully.

Actuaries typically make pretty good money. But the other issue is simply how to charge. I think this also brings to light an important thing that we bring to the table. One is an unbiased perspective. If you're a broker, an insurance agent or a financial planner, your ultimate goal is to sell something. You're saying at the end of the day I want to be managing this client's assets, I want to sell a life insurance policy, I want to have their brokerage account, I want to get those commissions. There are two things we bring to the table that are different than that. One is probably much stronger peer analytical tools than most people walk around with and have at their disposal. The second is an unbiased perspective. You know we don't care whether you go with Plan A, Plan B, buy life insurance or not, we're going to help you get to the right answer. But the question is, how do you talk people into paying for that? Or how do you charge for that so it doesn't create bias?

For those of you who aren't natural salespeople, the first step in the sales process is making sure they understand they have a problem. The second step in making a sale, for those of you who aren't natural salespeople, and some actuaries aren't, believe it or not, is helping somebody solve the problem. Again, I must warn that if you're going to hang out a shingle that says "Financial Advisor." Be careful, the SEC might find you.

You can find some research links through the SOA Web site. They're results of the research projects on marketing. Actuaries serve individuals on a research project on vatical and life settlement, new perspectives. I guess the point of this is, this isn't some small enclave of inbred people trying to do something weird. This is a very broad group with a lot of knowledge and perspective trying to create something that really is Society-wide. There is a lot of opportunity here. We just need to figure out how to get support from the Society. What's interesting is when we go to the Society, we don't know what to ask for yet. Can we have some money? For what? Well, I don't know, but we sure could use some money. You know that doesn't go over really well. But we are well connected. So I'll turn it back over to Jim.

**MR. BROOKS:** Paul did a great job of giving you an overview of some of the tools available for personal actuaries and also of some of the kinds of things we do. It's a pleasure to introduce Paul Richmond. Paul read an article I wrote in the *Actuary of the Future* newsletter last October. It was the lead article entitled, "Emerging Areas of Practice," and it was called "The Personal Actuary." Paul called me up to thank me for putting a name to what he believes he is. I think I'm one of those people. I asked him what he was doing, and I was fascinated when I heard about



how he got into it, and what a wonderful niche he created for himself. I asked him if he would take the time to come here and share that with you as an example of somebody who has gone out now as a pioneer in this arena we're calling "The Personal Actuary" and building a business. What motivated him? What are the challenges that he's faced? What are the successes that he's had? And how does he find his customers and so forth? Paul is a pension actuary in the traditional sense. He spent 11 or so years with the New York State Teachers Retirement plan, and then 18 more years with Mercer in Pittsburgh, where he was a real pension consultant and a principal of the firm. When he left that traditional arena he sort of sat back and he said, I dismantled all of my capabilities and competencies and put them back together again in a different way, which has resulted in this area of practice he's now going to tell us about.

**MR. RICHMOND:** Six years ago I was enjoying a career at Wayman & Mercer as a pension consultant, and I really enjoyed doing what I was doing. Then I spent two years of misery at elsewhere. I don't know who was changing, maybe this particular company was changing, maybe I was changing, probably both of us were changing, and it took two years for us to figure out that I shouldn't be there any longer. Then it took me a while to figure out what I was going to do. Gradually this idea of working as a personal actuary emerged, so this is going to be my story. We'll talk a little bit about one of my clients and what I do for them and get into some detail about their situation. Then I'll look back and talk about what led up to this.

Meet the Morrisons. Mr. Morrison is 89 years old, doesn't wear glasses, doesn't have a hearing aid, works hard, can work physically harder than I can. He goes down to the farm and gets on his tractor and brushes hides all day; he's an amazing person. Mrs. Morrison, his wife, is 83; she's pretty vibrant also. Both of them are in good health. Art's had two or three heart bypasses, but you'd never know it by what he's able to do.

And then Mr. Morrison's sister, who's 83 years old, was recently diagnosed with Alzheimer's. This is the description of the setting that in which I was brought in to assist.

Mr. and Mrs. Morrison had a residence in a bedroom community of Pittsburgh; it's about a \$150,000 residence, and Mount Lebanon is a very nice section of Pittsburgh. They had a \$100,000 mortgage. They had just recently taken that mortgage out and essentially had spent the \$100,000 paying off some bills that accumulated while he ran the farm. He had a 300-acre farm about 40 miles from the residence down near the West Virginia border. The farm and residence had a value somewhere around \$900,000 to \$1 million. We might sell it for about \$1.2, \$1.3 million. He was offered at one time \$400,000 for it and almost took it, but he had a \$140,000 mortgage on the farm, with the Farm Service Agency. He stopped farming in 2001; the price of milk had gone down and he could no longer afford to run the farm. His current annual income was \$6,000 a year. There was Social Security and some rent they got from the farmhouse that he rented out. That was

his income. Almost all of it was taken for their health insurance.

He had three children who were fairly disinterested in mom and dad. And what's going to happen to mom and dad? The issue was he had great wealth, but was at risk of losing it all. He had a three-year tax liability on the farm of about \$14,000 that was at risk of sheriff sales. He had a three-year tax liability on his home in Mount Lebanon. He had an annual payment of about \$15,000 a year to make to the Farm Service Agency. And he was delinquent on one annual payment. He had no savings, and obviously his income was significantly less than his expenses.

It got to a point where when I first started working with him, they didn't have the cash to even buy groceries. Let me tell you how I got introduced to the Morrisons. The Morrisons attend the same church as I do, and my wife's a clergy member. She's in charge of care-giving ministries at our church. She works very actively with Mrs. Morrison and one of the groups that she has at church. She had heard that they were having some financial difficulties. And so she said to me, "Paul, can you help out the Morrisons?" I said, "I'll try."

Obviously, there was a solution, but the challenge was to find a pathway to get from where they were to solvency and to be able to apply those assets in a way that would be good for them and so they could live comfortably.

One of the first things we thought was let's get a reverse mortgage. Let's get a reverse mortgage, cancel their traditional mortgage and pay that off. Well, we couldn't get a reverse mortgage because they had a roof that was 30 years old and was leaking. So we had to negotiate with the reverse mortgage people to give them a portion of the funds and then escrow the amount to have the roof repaired. We had to get some other things tidied up in the residence, so we were able to help orchestrate that. It was touch and go, because fortunately they were old enough that they could get a large enough reverse mortgage, but it was unclear as to whether the reverse mortgage was going to be sufficient to pay off the traditional mortgage. Because interest rates were beginning to increase, the amount that they could get was beginning to decrease. When we first started the process, it looked like there would be a surplus of about \$10,000. By the time we could get Mr. Morrison to a point where he was willing to go along with this, it evaporated and it was down to \$2,000, but we finally were able to negotiate that with them.

We had to negotiate with the Farm Service Agency; they wanted to foreclose. And we had to step in several times and negotiate with the Farm Service Agency. One of their roles is to facilitate farming and that sort of thing, so there were some interesting conversations there.

Mr. Morrison stopped farming in 2001 and he had equipment that was lying around the farm deteriorating. We finally said to Mr. Morrison. "Look, Art, you aren't going to be farming anymore. Don't you think we ought to get rid of this equipment?" It took a little while, but finally we convinced him to conduct a farm auction. We

raised \$30,000 out of the farm auction selling the equipment. We orchestrated that, got an auctioneer, so that gave him some breathing room. Then the Farm Service Agency they wanted the \$30,000. I said, "Wait a minute, if you take the \$30,000 these people aren't going to live." They said, "All right, just don't tell us." All right, I'm not telling you that he had this auction.

Then we had to come up with a subdivision strategy for the farm. It's difficult to sell 300 acres; there are not a lot of people out there running around with \$1 million in their pockets willing to pay \$1 million for a farm that's not been farmed for two years. Some of the barns were falling in; there was a lot of deterioration.

There was an oil and gas lease on the farm that we had to work through. So we worked through a real estate agent and helped negotiate with potential buyers. If somebody wanted to buy a piece of property, he would pay for the cost of the subdivision and getting it surveyed, getting the plans drawn up, the subdivision plan drawn up, getting it through the Washington County Planning Commission and the local Township Planning Commission, getting it filed for tax purposes, etc. They would pay the closing costs. Mr. Morrison didn't have any money to do that, so that was part of the strategy we had.

We had to develop a tax strategy. Mr. Morrison ran this farm as a business. He had fully depreciated the value of the land and the property. So any sales he had were going to get hit with capital gains and get hit big time. So we had to take that into consideration and make sure that, at least initially, we sold enough that he would be able to pay the taxes that would come due. Then we developed an overall estate plan and it's still in the mid-processing stage.

He wants to give some money to charity, to the church. We have some strategies that will allow him to give that to the church on a tax-free basis. We won't sell all the land right away, and ultimately we'll allow the land to pass to his children and then they will get the step-up in basis upon his death or his spouse's death. Those all come into the strategy that we developed for them.

I got a call from Mr. Morrison soon after working with him about his sister Marge. He said, "I got a call from the Maryland State Police. Marge had gotten lost and had an accident down in Maryland." She had gone out to buy dog food for her dog five miles away, gotten lost and ended up 120 miles away from home and had an accident driving erratically. She was hospitalized. That was the first time that he realized that she had some difficulties with Alzheimer's. We had to figure out that he had no idea what her assets were. She couldn't explain. We went into her home and she had stacks of mail all over her table. We had no idea what she had and no way of finding out except to go through that very rigorously and do an inventory of her assets and liabilities based on what records we could find.

Then, based on that information, we began to project her solvency under various alternative situations. What if we tried to find somebody to help her continue to

live independently? How long would her assets last? What if we sold her home and used those assets and put her in an assisted living facility? So we did some of these what-if games and did some projections of her solvency under various scenarios. The basic thing was to help develop a strategy to effectively use the wealth that she had. She owned a duplex in Mount Lebanon worth probably around \$170,000, so she had some resources that she could bring to bear.

Because of her low income, about \$9,000 a year, we were able to get her medical assistance through the Pennsylvania Medical Assistance Program to cover her hospital stay. She broke her hip soon after she had Alzheimer's. We were able to find an assisted living facility for her. We applied for Veterans benefits; she was a veteran of World War II. So we were able to get Veterans benefits for her to improve her income. That also began to offset some of her need for savings. But one of the problems with Veterans benefits is that once she sold her house she'd come into assets, and those benefits would go away until she spent down to about \$80,000. So those are some of the puzzles that you had to go through the arithmetic to figure out how can we apply her assets most effectively for her?

This hasn't fully come about yet; we're still working on this. So we have to continue to monitor solvency and we just recently sold her home. It's going to close June 1. At that point in time we will develop an investment strategy that will provide a flow that will meet her needs probably for the rest of her life.

So where are the Morrisons now? They got the reverse mortgage on their residence. They got the farm mortgage paid off; we sold a couple parcels of land. They have about \$100,000 in savings that produces about a \$30,000 annual income. We have enough that they can live comfortably for a three- or four-year period, with Social Security. And seeing that he's 89 years old and she's 83, how much land do we have to sell off? And why sell off the property? It's in a place that's only going to appreciate in value. The potential there for the land to appreciate in value is very, very great.

He's receiving some Veterans benefits and he still owns more than 200 acres of land. The sister is now living in an assisted living facility. She's receiving Veteran's benefits that will cease once the home is sold. But she has income sufficient to pay for her living arrangements. And right now she has \$150,000 in savings. We're pretty sure she's going to have financial security for the rest of her life.

What did I bring to bear on these two cases? Well, first of all, it was the willingness to learn. When I was evaluating what I wanted to do for the rest of my life I tried to go through what skills I had and tried to apply them in the marketplace. I was kind of bored with pension actuarial work. My wife came up with these cases and I found that this type of problem solving is fun. But what am I bringing to bear? Actuarial skills, hard math. But not only the hard math, but a lot of the soft stuff you had to learn about the Social Security net, the safety net that we have in this country—the financial skills that we're trained as actuaries to have. The accounting

skills, the legal skills, some basic legal knowledge. When do you answer a question yourself and when do you say "Oh, that's beyond my knowledge; that's beyond general knowledge; this needs the expertise of an attorney."

Well, I have knowledge of social welfare programs, real estate skills, investment skills. I had to study for Series Six; I'm a Series Six registered rep working with a broker/dealer. I had to learn some estate planning skills. Brush up on some tax knowledge. I'm still going to the IRS Web site and researching stuff and figuring out how I do this or how I take care of this tax issue. Finally, you need a bit of courage. I don't know what I'm doing fully, but let's step out and try because there's a need.

How did I get there? Well, I graduated from the State University of New York in Albany in 1971, worked for the New York State Teacher Retirement system as an actuary in training from 1971 to 1983. I left there in 1983 to go to William M. Mercer, or Mercer Consulting, and really went from being an in-house actuary, a very shy person, and decided I wanted to do some consulting. I don't know how I did that, but I found I really loved it. It was just loads of fun. I didn't want to give that up when I left Mercer. I still wanted to talk with people, meet with people and help people. I started Richmond Retirement Services when I left. I thought I was a retirement playing consultant and I had all this knowledge. I was working with large retirement plans and worked with the University of Pittsburgh Medical System, a 30,000-employee organization. I had clients and did some international consulting. So I thought, boy, I've got a lot of knowledge. But found out I had a lot of knowledge about a little bit of an area. I also found out that I just couldn't bring the credibility that—even though I was the same person that had the same amount of knowledge, the fact that I didn't have that big corporate name under my name made it very difficult to find clients. I consider myself a fairly good marketer and I did a lot of that while I was at Mercer. It was very, very difficult getting that credibility.

Finally, after struggling for a year or so, I realized I wasn't really excited about retirement plans anymore. All that was probably why I wasn't successful. I just wasn't excited about it. People know that. If you're not excited about what you're doing it's hard to disguise that.

But then in September 2003, one of my wife's friends got married. She was 53 years old; she married a man who was 72 or 73 years old, they both had children by a former marriage. And they had a number of issues about wanting to preserve their own assets for their family. And my wife asked if I would be willing to help out. So I did that. And then as I did that my wife got a little bit more confidence in me and began to overcome her fear that her husband would do something unscrupulous and jeopardize her clergy status. She was just concerned, but she began asking me more and more frequently to help with her parishioners' financial issues.

The first real case that she sent me was Mrs. DeValle, a 78-year-old widow. Her husband just passed away. She had never written a check in her life. So what was I to do? I stepped in and helped out. We found \$10,000 in cash in the house; we found insurance policies that she didn't know about, that he didn't know about. We found other insurance policies that had expired. But at the end of the day we found about \$70,000 of assets that she had no idea about. It was very interesting. The issues we encountered are, "You can't do that, you're not an attorney. Or you can't do that; you're not an accountant. Or you can't do that; you're not licensed to sell investments." That was the only true one there. "You can't do that; you're taking advantage of people. You can't do that; you'll be sued." I just had to figure those things out. How to run a business—in the corporate world all those things are taken care of for you. What kind of legal entity should you be? A partnership, sole enterprise, sole proprietorship, should you incorporate? All the government forms you've got to fill out. It's just unbelievable. There are taxes to pay, particularly if you have employees.

I always considered myself a person of integrity, but as a sole practitioner I made up my mind that if I said something I was going to stick to it. Learning on the job, how to charge for services, I did a lot of free work at first because I didn't know what to charge. So I just said, "I'll do it for nothing or you can pay me what you think it's worth at the end of the day; we'll figure that out." I had to get additional credentials and figure out what to do, what not to do. How involved do you get? How much do you allow the client to do for himself? Right now I have 14 personal business clients covering these areas. And I have two clients for whom I essentially manage the finances for their two businesses. In 2004 my business revenue was about \$80,000. I didn't make a lot of money, but I gave away a lot of work. That was my training ground.

I have one employee, my son Daniel, who graduated from the University of Pittsburgh a year ago in May. My goal is to build a business with Daniel that will be able to support him and his family at a reasonably high standard of living by the time I retire in nine years. That's my goal. He's going to focus more in the investment area and take the exams that are necessary to have those qualifications. I expect this year that my revenue will approach \$120,000, and I think my income should approach \$60,000. I pay my son close to \$30,000, so there's real growth and there's no shortage of opportunities.

**MR. BROOKS:** Thank you, Paul. As to where we are today, we submitted a backgrounder on the personal actuary to the Marketplace Relevance Strategic Action Team, and we've gotten a lot of encouragement, a lot of very positive feedback. Three of us from the Actuary of the Future Section Council are supporting the actuarial pioneers initiative, which originated in the Actuary of the Future Section. It has new life now as part of the SOA image campaign. Personal actuaries are a special case of actuarial pioneers. There's no doubt about it that. Paul Richmond is a pioneer in the work he's doing. Everybody who is a member of this Personal Actuary Working Group, as well as many of our Actuary of the Future

Section members are pioneers. And we're helping the Society of Actuaries to try to identify who those people are.

We're encouraged by our work and by the recent Board of Governors approval of the expanded enterprise risk management initiatives that President Steve Kellison has been talking about. We need to reach out across the entire actuarial profession—the Casualty Actuarial Society, for example. We're taking encouragement from the recent developments with the ERM initiative in that regard, even though we're not yet sure what we need to ask for from the board. We're working on it. So here are some of the things we think we need to do. We need a study to answer some of the questions and issues that Paul had. We think we can learn from other professionals about how they address advertising, how they address markets and customer research. How should personal actuaries get paid? What are different models for compensation? That was an issue with Paul; it has been with me as well. Certification and state licensing—we've done some work on these. A couple of our members have offered a paper on the last topic that's awaiting review and approval for publication. And we need to educate.

First we need to educate within the actuarial profession; all branches of the actuarial profession in the United States and North America. Once we have answered many of these issues and questions, we need to educate new entrants into the actuarial career about the opportunities for personal actuaries. Finally, we need to educate the general public about who we are. I have found most of the business that I've done has been for people I have not known who have been referred to me by people I do know. They have not come to me because they know I'm an actuary. They've come to me because of the recommendations about what I can do to help them deal with future contingent payments or personal risk. Because of the network I have, I can reach out for questions I can't answer. And they find out later that I'm an actuary. Then they say, "So that's what an actuary does." And I say, "Well, that's what some actuaries do."

We need to sharpen our abilities to perform in this area of credentials and licensing that Paul Richmond was talking about. We're trying to identify and register personal actuaries. On the Web page for personal actuaries there is a place to put your name if you think you would like to be supported as a personal actuary. A big one is the E and O risk. Part of the work that I've been asked to do is litigation support, personal injury situations, and if you're a small, single proprietor like Paul or myself, nobody is going to sell you personal liability insurance or professional liability insurance. You just can't get it. I've tried and you're too small. It's not a question of expense; they just won't sell it to you. That's a big one that needs to be addressed.

Comparison and analysis of the B to B versus B to C approaches need to be made.—Do personal actuaries work better as members of a team who are already working on behalf of the individual as opposed to trying to reach out and get individuals ourselves? Or the compensation model I mentioned, we need to define what works

best there. So there's a lot of research we need to do. We need to reach beyond the SOA at some point to other branches of the actuarial profession. At some point we need a pretty significant institutional media campaign that includes identifying the areas we need it in, the selected subjects to target audiences, types of media. This costs money, unfortunately. But we're going to need that if we're going to get to the public as part of the image campaign.

So what are we doing right now? What's the next step? Well, we, along with the Smaller Consulting Firm Section, are cosponsoring a special newsletter that will go out to the Society of Actuaries membership. We're underwriting the cost of that. Some of it is bringing together articles that have already been written. Like the one I wrote in the Actuary of the Future newsletter. Some of it is new articles. It won't be a long, comprehensive thing as much as it will be giving you links to other research, but it will describe better than what we're doing today what this is all about. That will probably be in late summer or early fall. We'll probably do the distribution electronically. So people will not ignore it when it's blasted out to everybody, we're thinking about sending a postcard like the Society does to say "Be on the lookout." We'll have an eye-catching message on this postcard that says, here comes this exciting news and information about this emerging area of practice.

We are developing a strategic framework for moving forward. This will go through the Personal Actuary Working Group and then up to the Actuary of the Future Section Council. When we have that strategic framework we need to then begin to identify strategic initiatives and priorities. And we hope that before the year is over we'll have a phased approach proposal to send up to the Issues Advisory Council and/or the Board of Governors, whatever the appropriate avenue is from the Actuary of the Future Section Council.

You have heard about a lot of tools. You've heard from Paul about his particular business. I could tell you about mine, which is different. Some of our folks have had to broaden their area of thinking a little bit. They want to think immediately about, well, we're financial planners. But it's a lot broader than that. I'm not doing so much financial planning as I am helping people evaluate things. Like I've had a golden parachute, I've been called by attorneys who are working with CEOs that are being golden parachuted, and they've got these different options and they've got contingencies in them. They don't know which option to take. I help them evaluate which option is worth more. That may be a sort of financial planning, but not in the sense that a lot of people think about it.

**MR. NICHOLAS SIMONELLI:** Do you ever feel the need to get peer review and how does that work?

**MR. RICHMOND:** I would say as an individual that's a challenge, particularly when you're doing something that you don't know too many other people are doing. That was a struggle that I had to contend with because I was used to getting peer review. What I have done is try to find an attorney who I could work with, and I've



gone through a couple of attorneys. First I was unsuccessful in finding an attorney that I felt comfortable with who understood what I was doing and what I was trying to do. It's only been in the last two or three months that I finally have an attorney who I work with who provides me with some peer review in case I feel like I'm maybe out on the edge. Is it something I do consistently? No. Is it when I feel uncomfortable? Yes, then I seek some additional advice.

**MR. BROOKS:** That's definitely one to add to the list that I showed you of some issues that we need to address. I happen to be networked with some other actuaries who are personal actuaries and I am fortunate. In Atlanta I'm able to bounce things off of them from time to time as they are to me. So the peer review is certainly different and more of a challenge in these unique areas of practice.

**MR. BRUCE:** Let me respond to that, too, because I think you're going to find there are three different answers here. I work alone, but I do have someone underneath me. I've taken a different business model than Paul has. I'm trying to make sure that everybody who works with me is an independent contractor. And everything that goes up and down is 1099 not W2 income. I think that keeps your fixed costs under control and when there's work there's work, and when there isn't there isn't. So right now I've got more work than I can figure out what to do with. Luckily, I do have a very good independent contractor under me and I specifically picked her because I know she's smart. She's an accountant and not an actuary, but she does good work. Part of what makes this particular career path work is the stage of life that all of us are at. We have strong networks of people. I call back to people in IDS Life; I'm working on a case right now where it's about joint survivor life insurance. I called a guy at IDS Life who designs and runs those products. When I've done something that almost doesn't make sense or that I question, I'll call and ask questions. Maybe for the price of a lunch I get some good help that way. But I'm really careful not to go out on limbs. You really have to watch it on your own and find different ways to do it.

The woman who works for me doing all the basic analytical stuff, she in turn has networks of people she works with to bounce things off of and make sure that she's getting her stuff and her models built correctly. So it really does involve a lot of networking. The peer review that I find sometimes most instructive and least pleasant is expert witness work. When you're explaining what you've done to opposing counsel, that's pretty tough peer review. You know they tend to find the flaws in what you've done. So you know when you do that kind of work, at every step you take you say, "OK, if the other side asks me about this I better be able to explain it and understand it, and have a good answer." But I think that's part of what makes this challenging and interesting. You have to find some way to bounce your ideas around and make sure you're not just sitting in a room making stuff up.

**MR. BROOKS:** I'll take that lead and plug some sessions at future meetings. . At the Annual Meeting in New York, our section is, in cooperation with at least one other section, hosting a session on the actuary as expert witness. Some of that is

about personal actuaries. I have done that and I agree with what Paul says. It's a very nervous kind of situation when you're on your own. But we will talk at that session in New York about the difference between providing litigation support as an actuary and actually being an expert witness. We'll talk about the issues and the differences. It's from both an attorney's perspective and from the actuary's.

At the same time that this session is going on, The Actuary of the Future Section and two other sections are sponsoring a session on the education of the actuary in the future. The Education and Research Section is co-sponsoring that. And then there's a session this morning on the actuary running his own business.

**MS. LOUISE MACKY:** When you're working with people who barely understand what an actuary does, do you have trouble with people thinking that when you do calculations with probabilities that these are predictions? And if you say well, the life expectancy is a certain amount and then the person dies at a much younger age and the scenario is completely different, is that an issue?

**MR. BROOKS:** Yes, that is a very big issue. And in this huge emerging life settlement business where investors are putting money together to buy life insurance policies, they're getting life expectancy, believe it or not, from people who aren't actuaries in a lot of cases. Now the actuaries are beginning to make inroads there, and I've done some life expectancy work. The investors are betting, so instead of giving them just the life expectancy I also give them the probabilities—a whole 20 years worth of probabilities. At least I can say this is generally for older people who have some impairment. You have to do two things right. You have to have the underlying mortality right for older ages, and you have to have the mortality ratio right for the particular multiple impairments individuals have. Then you have to explain that it's based on huge numbers of people just like that. The life expectancy is average. Half the people are going to live longer and half the people are going to die sooner. So what I've been trying to do in some of the life settlement work where this is a very big issue, is educate the people where I'm getting a lot of the business from. I say you should be more concerned with these 20 years of probabilities because you've got a group of these things and I give you the 20-year accumulative probability of dying on or before the end of each year for 20 years for each person. And I've got 100 of them. Add those accumulative probabilities across, and guess what I've got? I've got the expected number of deaths from that 100 in each of the first 20 years. And they say, "You mean to tell me that you're expecting two people to die in the first year when nobody's life expectancy was that short?" I said, "Yes." So it's the same thing with individuals. You've got the real communication issue.

**MR. BRUCE:** That's exactly it; it's communication. And I think that the Actuary of the Future and, the Management and Personal Development Sections have all really focused on helping actuaries become better communicators.

Paul Richmond has his Series Six. The two things you learn to keep you out of

trouble with a Series Six are suitability and disclosure. The investments, the recommendations you make have to be appropriate for the individual and you have to make sure he understands what he is and isn't buying. It's the same thing in any of this business when you're dealing with individuals. It's suitability. Are you doing the right work for them? Are you doing the right analysis? Are you doing everything you can to make sure they understand what you're selling and telling? You do a lot of that by getting signatures back that say, I got this thing. We talk about liability and risks, and I know others in this room have done some expert witness work.

Paul Richmond has a little exposure with the Morrisons here. No matter how disinterested those kids are today, when Mom and Dad die, and they don't think they've got enough out of Mom and Dad, they could sue. That is one of your most likely lawsuit probabilities down the road when you're working with the elderly, that the kids will turn around and say, "Boy, I thought they were worth more than that and you probably screwed it all up for me." And that's where your risk comes from—the people who haven't been getting the disclosure and you haven't been communicating with them.

**MR. RICHMOND:** It's particularly challenging in the work that I do, because I work with the elderly. In most cases they have deficiencies in understanding even a lot of basic things. So what I generally do if at all possible is almost require that the elderly person I'm working with have one of his children or someone else who is younger participate in whatever meetings I have with him. With the Morrisons I did get a daughter who lives locally and I got the Morrisons' permission to include her and make sure that she attends any meetings we have so she hears and understands what it is that we're trying to accomplish. It's a real challenge with the elderly, because I could take advantage of these people very easily. I'm almost embarrassed to tell you how easy it is to take advantage of these people. That's why I took that vow of integrity, my own personal vow, because I saw so many situations where people just came in and they wanted to sell an insurance product, they wanted to sell an investment product, and it was an easy sale. The people had no idea what it was that they were buying even though they signed the form that said, 'I understand.' Communication is very, very critical and, particularly with the elderly, involving somebody in the next generation is very critical.

**MR. BROOKS:** Communication is very important even with younger clients who are sophisticated and intelligent. I found myself creating very simple examples for people who don't understand why a joint second-to-die life product costs so much less than two individual policies. I've used an example of tossing two coins. If I toss a coin in the air I'm going to get a head pretty soon. Now, I might not get it on the first couple tries, but I'm going to get a head pretty quick. And if I toss another coin, the same thing will happen. With two separate life insurance policies, if a head represents a death, I'm going to get a head pretty quick. If I toss both of them at the same time it's going to take a lot longer to get two heads if two heads represent both dead. They understand that. I said, "I'm not going to get two

heads as quick as I get one head tossing one coin over here and one over there." And I go from there. It's exactly the same deal when you're talking about one person insuring one-person life over here and one person over here versus insuring both, and you're not going to pay anything until they're both dead.