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Actuary tapped to aid Orange County

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The business acumen of at least one actuary has been tapped to address the thorny bankruptcy of Orange County, California. Thomas C. Sutton, FSA, chairman and CEO of California's largest life insurance company, is part of a three-man team that has attempted to bring together the claimants and Orange County in a cost-saving settlement. The other two were George Argyros, president of Arnel & Affiliates, a property development and management firm, and Gary H. Hunt, executive vice president of the Irvine Co., a land development company. The team addressed, in general terms, the necessary steps to implement the settlement plan.

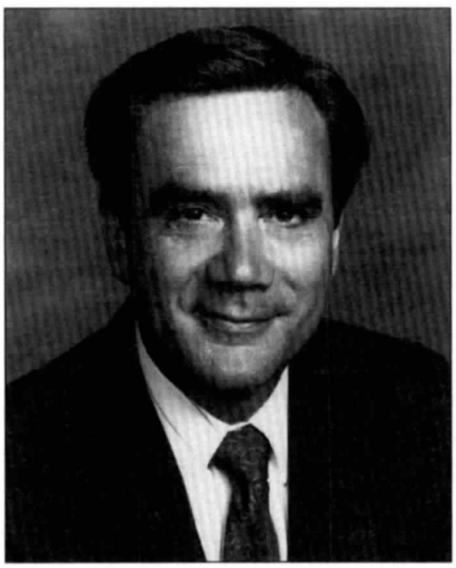
In a recent phone interview, Sutton described his involvement. His company, Pacific Mutual Life Insurance, had memberships in Orange County's erstwhile business organizations, the Chamber of Commerce and Industry and the Industrial League of Orange County. The groups merged at about the time the bankruptcy was declared in early December 1994. The new entity, the 6,000-member Business Council, immediately brought together 20-30 local CEOs in a day-long session. The intent was to choose a panel mandated to come up with a settlement between the county and the investors in its bankrupt investment pool. The hope was to avoid the massive litigation imminent, as panicked investors, including school corporations and other official entities, sued to recoup at least portions of their losses.

Normally, a bankruptcy takes years to settle," said Sutton. He said the biggest problem is that each claimant/creditor thinks its claim should be pre-eminent.

"As a citizen, I don't care which investor — a school district or a water district or some other special district — gets disproportionately more or less, especially when all these parties are using our tax dollars to pay attorney fees in fighting one another. That's why it's so important to have a settlement."

He and his fellow problem-solvers put in an intense three weeks, Sutton said. Their plan, which was unanimously approved by the Orange County Board of Supervisors on February 7, predictably drew fire. Sutton, Argyros, and Hunt had to explain the plan and act as its advocates with such investors as cities, school boards, sewer commissions, and transportation departments.

Asked whether being an actuary gives him a unique perspective on the bankruptcy, Sutton said that the perspective is probably not unique to actuaries, but that the actuarial emphasis on analytical thinking is certainly helpful. The longer view of the actuary is critical in bankruptcy, because the issues can be so emotional. Parents with children in the county's broke school systems would agree.



Thomas C. Sutton
Chairman of the Board and Chief Executive Officer
Pacific Mutual Life Insurance Company

"The more global view is important," Sutton said.

All in all, 187 entities participated in the bankrupt pool. Sutton says total losses approach $2 billion when money lost by the pool investments and some ancillary costs the county had outstanding are combined. To date, it is this country's largest municipal bankruptcy, attributed to portfolio losses from financial derivatives with predictions based on low interest rates, a strategy that backfired when interest rates rose.

Sutton said the plan calls for the county to pay investors 77 cents on the dollar — the amount that can be paid without bouncing the checks. "After that, everything is a promise," Sutton said.

As for the remaining 23 cents, the most secure promise the county would make would take the form of recovery notes. They are designed so they can be converted to cash within 90 days, Sutton explained.

Schools, which faced layoffs in March, barring relief from their losses in the pool, would get top priority with 13 cents in recovery notes. Non-schools would receive 3 cents and also would receive a priority distribution of 70% of any litigation proceeds up to another 9 cents. Finally, the last 10 cents for schools and 11 cents for non-schools would be a subordinated claim.

But that scenario is the easy half of the equation. The trick is determining how the county should raise the money it doesn't have. Sutton and his fellow committee members say they have no personal interest in one method or another, but suspect it will take a sales tax increase.

Publicly sharing that belief has provoked streams of protest in tax-averse Orange County. County supervisors have all denied any need to raise taxes and have pledged to oppose any increases.

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make the copies and deliver them to the meeting room if the original is sent on time.

Speakers were poorly prepared

This should not happen. Most of us are talking on topics about which we are very knowledgeable. The problem occurs when we try to talk about it without adequate preparation. Lack of preparation is related more to the flow of the presentation than the content. Because we are talking about something that is "near and dear" to us, we tend to try to cram in too much.

Even an expert on a topic should avoid the temptation to talk extemporaneously. Planning is essential to providing an efficient and understandable presentation. By not planning, you run the risk of rambling or getting into too much detail. The best way to avoid the appearance of being ill-prepared is to practice, practice, practice.

Preparation well in advance also gives time for peer review. I suggest asking two colleagues to review your outline and draft slides, as well as your presentation. This can be enhanced further if one of them is not knowledgeable in your topic area. Peer review with a "novice" audience can quickly identify items that are hard to grasp or easily overlooked.

General rules

One general rule is limit the points to be made to no more than three or four. Then the presentation will be more focused, and the audience won't be lost in the details.

Another good rule to follow relates to the structure of the content: Tell 'em what you're going to say, say it, then tell 'em what you said. Repetition is the key to learning, and practice, practice, practice is the key to a good presentation.

Robert Omdal is assistant vice president and actuary for Aid Association for Lutherans in Appleton, Wisconsin. He was a member of the SOA Committee on Management and Personal Development for the past four years and is currently on the 1995 Annual Meeting Planning Committee.

Checklist

Cut out this checklist and tape it by your PC screen the next time you're preparing your presentation for an SOA meeting.

1) Prepare the presentation
   - Well in advance
   - Limit the major points to 3
2) Practice, practice, practice many times
   - In front of a video camera (or mirror)
   - In front of peers
3) Time the presentation
   - Limit it to 65% of allotted time
4) Prepare hard copy of slides
   - Place 4 slides per page
   - Leave 35% of the page blank
   - Send to SOA for approval

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Sutton said, "Some people have estimated you can get $1-1.5 billion by selling off county assets." These would include county-run John Wayne Airport and other properties.

"Some of these sales would require authority from the state, others from the federal government, others would involve constraints placed on them by environmental law, governmental regulations, and required approvals. You also have to find buyers willing to pay the prices."

Sutton explains he has nothing against this idea. Restructuring, downsizing, privatizing, and asset sales are all a part of his committee's plan. "If you can raise that money by selling off assets, great. If you downsize the county government and can raise money that way, fine — if it's possible.

"But if it's not, then the voters of this county would have to decide whether to abrogate the county's responsibility to its creditors or to have a tax increase," said Sutton. He believes the county, like business, must accept its moral and practical responsibility to pay off its debt. Paying your debts, he added, is a pragmatic consideration. If you don't, no one will want to do business with you in the future.

Sutton comes to the Orange County imbroglio fresh from the health care reform debate. He spent much of last year working on it in Washington in his role as chairman of the Health Insurance Association of America. The Orange County debacle doesn't represent that kind of commitment for him.

"It's really a quality of life issue for our employees," he explained. A colleague on the Business Council, Wayne Wedin, said in a recent interview that Sutton was motivated solely because involvement was "the right thing to do." He came "out of a protected, cloistered world to do this," Wedin said.

In fact, Sutton has spent his working life with one company, starting at Pacific Mutual as a summer intern. He earned his FSA in 1973.

He said taking actuarial exams impressed him with the combination of math and analytical skills actuaries bring to highly subjective issues. It's not just analysis in a vacuum.

"That's one of the interesting things about the profession. A lot of things that occur in business have to do with perception. You can tell people the right thing to do, but that doesn't mean they'll do it," said the Newport Beach resident.