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THE INDEPENDENT CONSULTANT

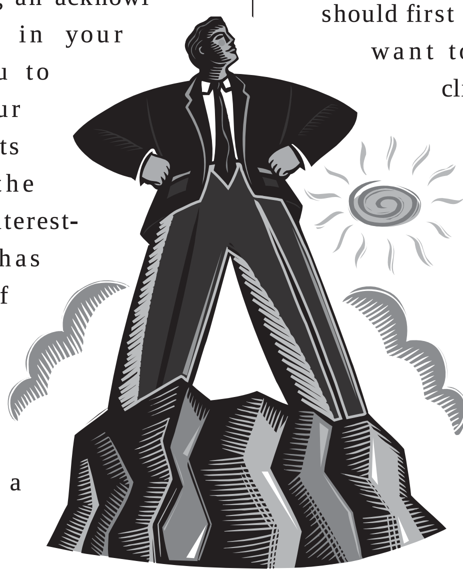
NEWSLETTER OF THE SMALLER CONSULTING FIRM SECTION

Stand Out From The Crowd Through Articles In Magazines

by Carl Friesen

Many actuaries find themselves trapped on a downward spiral. To get more work they reduce their fees, which means that they need to work more hours to keep their billings level. Working more means less time for the business-development work that they need to fill the top of their funnel. This, in turn, means that they need to compete for possible work through even lower fees.

Now imagine yourself being on an upward spiral. Being an acknowledged "authority" in your market allows you to charge more for your time and also attracts clients who want the best. You get more interesting work and this has the side- benefit of broadening your skill base, making you even more valuable to clients. Higher rates means a higher income, as well as more time to hone your skills and network yourself into your target market.



What's the difference? Partly, it's through the body of work you've done, and your qualifications, but largely, it's a matter of client perception, and their perception is their reality. A variety of marketing tools can help you build that perception—your Web site, newsletters and speeches; however, one of the most accessible marketing tools is writing useful, informative articles in publications read by people in your market.

Pick publications that reach your market

In planning your article program, you should first think of the markets you want to reach—your current clients, prospective clients and referral sources. Each group reads different publications. For example, if your current business is mostly with human resources departments and you want to get referral work from lawyers, you need to get your message into legal publications.

To find out what people in your market read, take a second look at what publications are in their waiting

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PREMIERE ISSUE!!

Inside...

THE INDEPENDENT CONSULTANT

Issue No. 1 | January 2003

This newsletter is free to Section members. A subscription is $10.00 for nonmembers. Current-year issues are available from the Publications Orders Department. Back issues of Section newsletters have been placed in the Society library, and are on the SOA Web site, *www.soa.org*. Photocopies of back issues may be requested for a nominal fee.

The purpose of the Section shall be to encourage and facilitate the professional development of actuaries at smaller consulting firms through assistance with the educational, research, networking and other special needs that arise in their practice.

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Smaller Consulting Firm Section Poised For Growth

The Smaller Consulting Firm Section is the newest and smallest member of the Society's family of sections, but this challenges us to serve the membership and build membership by showing value. Less than one year old, our active membership is 275, including 10 section members who are not members of the Society. Just for comparison, the Society's largest section is the Investment Section with 3,987 members; the Pension and Health Sections, to which many of our members belong, have 3,906 and 3,369 active members, respectively.

Because the section opened for business during the year, it was not included in the offering of sections that was presented to members at annual renewal for 2002. Much of our target audience, including independent actuaries, those working for smaller consulting firms and actuaries who provide consulting services for employers whose primary function is not consulting (for example, software vendors), are not aware of the section or its benefits.

To inform actuaries about the section, we approached a targeted subset of actuaries with a small "membership campaign," consisting of a "blast" e-mail in September. A total of 1,900 actuaries were identified as "primarily consultants," who work for firms with fewer than 10 member-actuaries. Because we have a relatively small number of members, current members were not excluded from the mailing. (We apologize to members who received the e-mail in error; we will try to do a better job of segmenting the database in the future!) So far, about 25 actuaries have submitted membership applications as a result of the campaign, and applications are coming in daily. Because we are close to year-end, the applications are being held until year-end and will be activated for 2003 so that the new members will not be charged a second time.

We encourage all members to spread the word about the section and to encourage enrollment growth.

Editor's Column

by Ian Duncan

Welcome to the first issue of *The Independent Consultant*. The title of our newsletter says it all—we are dedicated to serving the needs of independent, creative, thinking-out-of-the-box consultants from all disciplines.

The mission of the Smaller Consulting Firms' section is: "to encourage and facilitate the professional development of actuaries at smaller consulting firms through assistance with the educational, research networking and other special needs that arise in their practice."

This is an exciting time for all of us, as we begin a new section, define its mission and determine its priorities. The newsletters of the SOA sections serve an important role in providing the forum for different types of communication such as:

- Ongoing information about happenings within the section and within other related organizations that are of interest to the membership. We welcome contributions from members or suggestions about organizations whose activities we should be monitoring

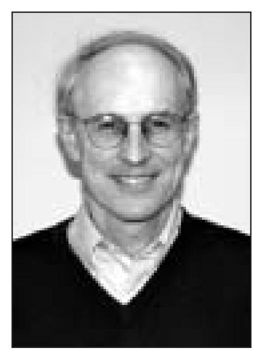
- Opportunities for the membership to communicate with each other and the council. Letters, articles and suggestions for topics or speakers, are all welcome. In this edition, you will find information about members of the council, including their contact information

- A forum of record for technical content. The SOA newsletters fulfill an important function in communicating technical topics to members. I know that I save issues of newsletters from other sections to which I belong because I refer to them for technical content when researching a topic. Our newsletter will be successful if members share their expertise via its pages and use it as a resource.

What do we have planned for the first few issues? This first issue addresses several aspects of the new section—its mission, its officers and its priorities. In addition to features about the section, we address some of the key issues of our members—staying up-to-date with technical developments when there is neither time nor a budget for attending professional meetings; professional standards and protection against malpractice claims; and publicizing your practice through writing articles. This issue also includes a feature on an independent consultant who built and sold a successful actuarial consulting company, now who shares some of his insights with us. Future issues will continue to highlight professionalism, quality of work, peer review, networking and business development, as well as featuring contributions from other successful independent consultants and actuarial entrepreneurs.

On a logistical note—because this is the first edition of *The Independent Consultant* it is being produced in both hard-copy and electronic format. Future editions will be produced electronically. They will appear three or four times a year. All editions will, however, be available on the SCF home page (*www.soa.org/sections/scf.html*).

We welcome comments and contributions from members—actuaries or non-actuaries—whether you work for a smaller consulting firm or not.



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rooms, on their office desks and in their briefcases for evening reading. Ask them. Consult directories of publications such as Bacons (*www.bacons.com*), which is available in most central libraries.

You will likely find that there are three possible ways to reach most decision-makers. This is because most trade magazines segment themselves one of three ways—according to profession, industry or geography.

Say, for example, you have expertise in oil patch issues and you want to reach lawyers in this sector. You can target your message for legal publications or you can approach oil and gas publications or you can look to local publications in oil patch capitals such as Houston or Denver.

Some professionals make the mistake of targeting publications that they themselves read, forgetting that they are not their market.

Some professionals make the mistake of targeting publications that they themselves read, forgetting that they are not their market. Think of what your market reads. For example, I recently worked with a Massachusetts-based actuary who wants to help Canadian companies set up benefit plans for their U.S. subsidiaries. To help with this, we published an article in a Toronto-based benefits and compensation magazine, which is widely read by the target market.

Presenting Your Idea

You may have had the experience of spending weeks crafting an article and then sending it to the editor, only to get a rejection note in return. It is much better to present the article idea to the editor first, and gain buy-in to your idea.

To present your idea, you should write what journalists call a "query" letter. It should contain four points:

1. Your article concept, in one or two sentences
2. Reasons why this magazine's readers will be interested in the idea
3. A brief outline of the article, in bullet-point form
4. Reasons why you are the best person to write this article (your qualifications)

All of this should fit into a one-page letter or an e-mail of equivalent length. After you send the query, follow up by phone to see if the editor is interested. If the editor shows interest, do your best to gain a commitment to space in an upcoming issue of the magazine. You can then be confident that your time will not be wasted.

Going Beyond The How-To Article

In writing, choose your article theme wisely. Many professionals, including actuaries, limit themselves through their choice of theme. They may only consider the *how-to* article, which is a journalistic term that, not surprisingly, tells the reader how to do something. It might be on how to design a benefits plan, a pension plan or another program. A case in point is a Boston-based employee benefits consulting firm, that I helped to write an article for describing the steps that companies can take to rein in the spiraling costs of pharmaceuticals.

The how-to is a good way to position the writer as being able to implement a plan, and this is important. However, you may also want to be seen as a strategic advisor, and this may lead you to other article themes.

One such theme is the *trend* article. An example of this is the annual economic forecast survey compiled by the former Actuarial, Benefits and Compensation practice of my previous employer, KPMG LLP. Each year the firm would solicit the projections of many economists and combine them into a meta-survey. The partners used the data in their expert witness work, but also found it a good source of news coverage that positioned their practice as being current up with the trends. Similar survey ideas can help your practice.

You might consider an article on what trends are affecting pension plans, such as the aging population, and describe the effect these trends will have. Such an article positions you as a source of wisdom, able to help with strategic issues rather than just implementation.

Another type of article is the *opinion* article, in which the writer takes a point of view and gives reasons for those beliefs. One example is an actuary who wanted to comment on what is often called the "Enron mess." In the article I wrote on his behalf, he told why he felt that aspects of defined benefit plans, including the more strict oversight and diversification requirements, should be incorporated into defined contribution plans.

Remember that your purpose in writing articles is not so much to inform the reader (although this must happen), but rather to persuade her or him that you can be a good solution to the issues being faced. If a "trend" or "opinion" article can do this, as well as demonstrate your ability to think strategically, your purpose is served. You will probably find that a contrarian article, well thought through, gets passed around to many more people than the most helpful how-to article.

Academic articles can be a valuable tool for actuaries, particularly those that do expert witness work. Having been published in one's professional journal can be a good way to build credibility with the opposing side in a case being settled, and also during litigation with juries and judges.

Getting The Article Written

So you hate writing, do you? Is writing so painful that you'll keep putting it off until the editor's deadline has passed?

There is hope, in the form of ghost-writers. Many professionals either don't consider themselves good enough writers, or put a high value on their time. They would prefer working with a "ghost" than doing the writing themselves.

I think that, in many cases, it's a wise investment. You probably know exactly how much your time is worth. Even if you're not completely billable, your time is probably better spent networking, meeting with prospects and gaining the confidence of referral sources, than it is writing.

A good ghost-writer should be able to interview you on half hour, and based on that, be able to write a credible article that will fill two pages of a magazine. The fee for such work will range somewhere between $1000 and $2000. Consider how long it would take you to do the same work (several hours?) and the answer should be clear. There is no more shame in outsourcing to a ghost than there is in outsourcing your dental work.

Most communities have a large group of freelance writers only too glad to do corporate writing assignments, and local writers' groups can help you find an experienced writer. Alternatively, you can ask the editor of the magazine for a recommendation.

Article writing is a valuable part of any actuary's marketing toolbox. For it to work effectively, you need to choose publications that reach your market, select an article style that is most effective for you and make sure your time is used wisely.

Carl Friesen is a former journalist who works with professionals to help them build their practices, through increased publicity and by providing coaching support. He spent six years in the Marketing department of KPMG LLP. He left KPMG in 1998 to form his own company, Global Reach Communications. He can be reached at tel. 416.410.4527; cfriesen@globalreachcom.com; www.globalreachcom.com.

Malpractice Claims:

What You Can Do To Protect Yourself

by David R. Godofsky

Actuaries have a liability problem common to many professionals—the dollar impact of the work product is disproportionate to the fees. As a result, a single malpractice claim could easily wipe out the typical actuarial firm. Even firms with significant Errors and Omissions coverage could be ruined by claims exceeding the insurance limit, claims that the insurer refuses to cover, loss of key clients and loss of income as the key consultants spend their time defending themselves.

Well-written letters help the client as much as the actuary, as they spell out billing procedures and dispute resolution procedures, as well as clarify the work to be performed.

What should you do to protect your firm from financial ruin? Here are a few suggestions.

1. **Engagement Letters**

   More and more, actuarial firms insist on engagement letters with all clients. The letter should include:

   - An explanation of the work to be performed
   - The basis on which fees will be charged and paid
   - Whether the work product may be withheld if fees are not paid
   - Limitations such as work that will not be performed (for example notification of amendments required by new legislation or review of existing plan documents to ensure compliance with ERISA)
   - Dispute resolution procedures,
   - Limitations on liability (both quantitative and qualitative)

In numerous presentations on this topic at Enrolled Actuaries Meetings and other actuarial conferences over the last several years, I have heard many practitioners protest that they can not, or should not, insist on engagement letters. The most common concerns I have heard expressed are listed below..

I can't ask for an engagement letter from my existing clients.

Most clients don't object to engagement letters. Well-written letters help the client as much as the actuary, as they spell out billing procedures and dispute resolution procedures, as well as clarify the work to be performed. Clients are accustomed to having contracts or engagement letters with their lawyers, trustees and accountants. The terms of the letter may be negotiated. Many actuaries have a hard time explaining why they need a letter this year when they didn't last year. The answer is simple—that was then and this is now. We're improving our business practices and need to do this.

Clients will object to limitations on liability.

Not if the limitations are reasonable. If you attempt to disclaim all liability entirely, many clients will object or negotiate. If you limit liability so as to eliminate various forms of spurious "damages" (such as consequential damages, punitive damages, contributions that the employer would have had to put into the plan anyway, the effect of changes in the law due to new legislation or new interpretations from Court decisions) you will be protecting yourself from 90% of all financial risk. And the clients, viewing it objectively before there is a conflict, will most likely agree the limitations are reasonable. You may also include quantitative limitations such as two times annual revenue. Clients may negotiate as to the amount, but rarely object in concept to the idea of limitations in amount of liability. As a practical matter, they know there is only so much they can squeeze out of you anyway. (There is a significant exception for some multi-employer plans. This category of clients involves issues that can't be discussed here due to space limitations.)

Limiting liability is unprofessional.
Many malpractice claims are spurious. Even where the actuary made a legitimate mistake, litigation has often ensued after the plaintiffs refused a reasonable settlement offer and asked for damage amounts that were unreasonable. Limitations on liability, both qualitative and quantitative, are a reasonable response to protect you, your family, your partners, your employees, your other creditors and your other clients who rely on you to be there next year.

The client needs the work right away.
There's no time to negotiate an engagement letter. I submit to you that this is the best possible time to insist on an engagement letter. Most mistakes and disagreements occur when the client needs something right away. Further, this is when you are in the best bargaining position.

2. The Arbitration Clause
This is part of the engagement letter, but it is so important it deserves special mention. Most of my clients are plan sponsors. When they hire an actuary, the last thing they want to do is get into a lawsuit. In general, clients like the idea of resolving conflicts through arbitration. I've handled several arbitrations with actuaries as the arbitrators, and have found them to be very fair to both parties. Arbitration is much less expensive than litigation, and the awards bear a reasonable relationship to the real damages to the client.

3. Know your insurance coverage
Many liability insurance policies will not cover the claim if you admit liability to the client. You need to understand the procedure and explain it to your client. It is possible to say to a client, in a professional way, "We can't discuss with you directly whether we are liable to you for this claim, because it would void our insurance coverage." Not only will the client understand your predicament, it is to the client's advantage not to void your insurance coverage.

4. Talk to your lawyer as soon as you are aware of a potential claim
Your lawyer can obtain peer review and damage assessment for you from another actuary, under the cloak of attorney-client privilege. The last thing you need is to get peer review from someone who will later be forced to testify that you did indeed make a mistake and caused serious damages.

Your lawyer can also help you understand the ramifications of the error. For example, suppose you incorrectly calculated pension benefits giving the pensioners more than they were entitled to. It may well be possible to reduce their benefits to the correct level, or even retrieve a portion of a lump sum. Many errors are a result of incorrect or incomplete data. In my experience, actuaries tend to take responsibility for these errors thinking they should have noticed the data was incorrect or incomplete; however, that may not be the legal standard to which they will be held.

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About the author. David Godofsky, FSA is an attorney in private practice and a partner in the Washington, DC office of Alston & Bird, LLP. He represents both actuaries and employers and is a frequent speaker on the topics of actuarial ethics and professionalism. Mr. Godofsky can be reached at dgodofsky@ alston.com.

Remember, if you really think professionalism requires you to pay the client, you can always do that later after obtaining professional advice.

5. Before you discuss one mistake with a client, find out if you made any other mistakes on the same project

You may be surprised to find out how often an actuary's "mistake" is offset by some other mistake or turns out to not be a mistake at all.

6. Solve the problem

When you discover a mistake, deal with the consequences to the client. Counsel the client on practical ways to minimize the impact of the error. This can be done without admitting liability, by focusing on the problem and the solution rather than blame.

7. Have a realistic quality control process

Failure to follow your own process can prove negligence. Make sure your quality control process—worksheets, checklists, etc.—are not only helpful, but realistic in your day to day practice.

8. Plan to make mistakes

Humans make mistakes. Assume that sometime, somewhere, you will make a mistake and it will be a whopper. Now make sure your business is run so that mistake doesn't ruin you.

9. Quality control should be proportional to the dollar amount involved

This recommendation has generated more controversy than any other, but when I have spoken at actuarial conferences, the audiences have always agreed in the end. I've heard many actuaries say that every client deserves a quality product. This is true, but do you have mechanics examine your vehicle every time you drive your car? The airlines do every time a plane takes off. Why? Because the consequences of error are more severe. I've heard actuaries say that the complexity of the task should determine the quality control and peer review required. Not so. If you were to invest $500,000 of your own money in one stock, how carefully would you read the prospectus? Now suppose the investment is $5,000. The complexity of the task—determining the value of one share—is exactly the same, but you would do more due diligence for the $500,000 investment. It's the same thing with your clients. A $1 million lump sum calculation requires more peer review than a $1,000 lump sum calculation, even if the complexity is exactly the same. I'm not saying you should be careless with small clients, but the amount of quality control and peer review needs to be greater with the bigger clients, bigger matters and bigger dollar amounts.

You should also pay attention to the dollar amount of the potential loss. If you get the annual contribution amount wrong, it can generally be corrected by increasing or decreasing future contributions; however, if you are costing a proposed benefit increase, the loss may accrue as soon as the benefit increase is adopted. Corporate transactions where plan funds are spun off or the purchase price depends on actuarial calculations also involve greater financial risk, and, therefore, so deserve more peer review or quality control.

Distance Learning Up Close

by John Riley

How does a nonprofit organization create a robust, growing campus of online programs when development costs are out of sight and members are reluctant to pay even a modest sum for online training?

If you are thinking, "Well, you can't," then you are not far from the truth. The SOA finds itself struggling to balance the sentiment to "get continuing education (CE) into cyberspace" where it is available to all at any time against the reality that this goal is both expensive, time-consuming and does not always result in a high level of utilization by the membership.

There are 10 programs currently on the SOA Virtual Campus. Most were created from live sessions at major meetings, which made them relatively inexpensive to produce. These have provided us with our own experience study as to whether members would be interested in paying for online programs on a "retail" basis. For the most part, they have not. In the last six months since seven programs were added to the campus, we have had less than 50 paying customers; the return on investment has been awful. It should be noted that the free program on "Tailoring Products for the Bancassurance Market" has done very well with over 200 people signing up within the same time span.

With apologies for elevating the financial side of things, the point must be made that money remains an excellent barometer for all things CE. Nonprofits make a mistake if they expect online training to play by the same rules as live meetings and seminars. Absent some organization-wide commitment to sacrifice resources, online programming cannot flourish without using some creativity in funding and without targeting the right audience.

The SOA has recently released two voluntary distance learning subscriptions for pension actuaries and candidates involved in the Professional Development program. In both cases, all the programs on the Virtual Campus are provided to the subscriber as part of the fee along with several audio tapes. Early response to these programs has been very good, most likely due to the fact that both groups face a continuing education requirement.

In theses cases, distance learning has a powerful appeal. The subscriptions provide credits (or units) more conveniently and at a far less cost than attendance at "live" events. Given the variety of audio tapes available, it also lets individuals fashion a very specific and relevant course of study. The SOA CE department is investigating the possibility of creating a program to assist actuaries who must meet the qualification requirements for signing prescribed statements of actuarial opinion. Distance learning might be a good option here for the six hours per year of individual study.

So, like many dot-com organizations who championed it, the bloom is off the computer-based training rose, but all is not lost. The fact that you can sit at your computer and get credible continuing education at the touch of a finger means that distance learning is here to stay. If and when the SOA mandates a continuing education requirement for all of its members, it will most certainly become an extremely important delivery method.

Until then, I would love to chat about its virtues at one of our "live" programs. See you then!

The SOA has recently released two voluntary distance learning subscriptions for pension actuaries and candidates involved in the Professional Development program.

John Riley is the managing directory of the Continuing Education Department at the Society of Actuaries in Schaumburg, IL. He can be reached at jriley@soa.org.

Smaller Consulting Firm Section—Goals

by Mitchell I. Serota

As members of the Smaller Consulting Firm (SCF) Section, we are primarily entrepreneurs, trying to build our own businesses. We foresee that the growth of traditional, corporate (or larger consulting firm) employment will probably slow, and more actuaries will find employment as sole practitioners or within smaller firms, groupings or alliances. To address the issues relevant to Section members, I suggest the following specific section goals.

1. Marketing and Business Development

Other actuarial bodies, for example the Conference of Consulting Actuaries (CCA) and the American Society of Pension Actuaries (ASPA), have offered sessions and seminars in growing small businesses. We would like to know how the SCF membership feels about approaching the topic: do we attend CCA and ASPA sessions because they offer this type of instruction; do we obtain the support and information from other (non-actuarial) sources; or do we try to do something ourselves to fill in a gap? In particular, can smaller consulting firms, that represent all fields of actuarial expertise, share knowledge that is not unique to our disciplines, but is unique to marketing strategy? One way we will try to fill this gap (or to provoke debate among membership) is by profiling successful actuarial entrepreneurs in *The Independent Consultant*. We also propose to explore a directory of members (similar to the successful "Product/Channel Directory" of the Nontraditional Marketing Section) that will give users more detailed information about areas of practice and expertise of members.

Mitchell I. Serota, FSA, MAAA, is president of Mitchell I. Serota & Associates in Skokie, IL, and is vice-chairperson of the Smaller Consulting Firm Section. He can be reached at actuary@miserota.com.

2. Professional Education and Training

What can we do to better meet our members' professional education needs? What types of topics are they interested in? What alternative (e.g., electronic) media can we leverage to support members? We begin the discussion on this topic with an article on Distance Learning written by the SOA's managing director of continuing education, John Riley.

3. New Areas of Professional Opportunity

Many of our members have been employed as expert witnesses, and this is an area of practice in which independent actuaries will continue to dominate. There have been seminars on the topic, mostly relating to how to prepare a report and how to conduct oneself on the witness stand. I propose either an article in the newsletter, a workshop at an SOA meeting or a conversation forum on our Web site to allow us to share our successes and failures in battling (intellectually, of course) accountants and economists who purport to have expertise in actuarial concerns.

3. Tell Us What You Think!

Our section's primary function is to listen to the concerns of our membership. Actuaries always have an observation to make about virtually any given subject, but they are reticent to put their thoughts on paper (or in e-mails). We encourage our members to voice their opinions about the state of the profession, because that is a major concern of our current Board of Governors. Contact one of the section council members at the contact address in this issue. You have paid your $10 membership fee, and we thank you for the financial support. But we really need to hear from you.

Chairperson's Corner

by George W. McCauslan

First, I want to welcome all of the members of the new Smaller Consulting Firm Section. I appreciate your willingness to sign on to a concept, where the details were yet to be filled in. We are now up to almost 300 members.

A few folks have asked about how this all started…

Who would have thought that stopping to talk to Judy Anderson at an Enrolled Actuaries (EA) meeting would lead to being the chair of the newest section in the SOA? But, in a way, that's what happened. In discussions that Judy had with Rob Brown after he became president-elect, the idea arose of trying to start some sort of group for actuaries working in smaller pension consulting firms. Whether it was to be a new section, or something less formal, was not clear. So, at the EA meeting in 2001, Judy had a list for folks to sign if they would be interested in such a group. I stopped to talk with Judy, and she "encouraged" me to sign the list (my firm, with two actuaries and a total of four employees, clearly qualifies as "small"). I made the "mistake" of talking more with Judy about the idea. So, when it came time to set up a group to formalize the idea into a structure, I was one of the folks who was invited to join.

Formally, this group was the "Organizing Committee" for the new section. One of the first things that happened in our discussions was eliminating "pension" from the working name. While smaller pension firms may have been the starting point for the idea, it was clear to the organizing committee that there were actuaries working in all practice areas who were in smaller firms, and that the main issues to be addressed by the new section went beyond any one area of practice. In a series of conference calls and e-mails, the organizing committee put together a statement of what the section would do and prepared the petition to the board of governors to establish the Smaller Consulting Firm Section, as well as our by-laws.

The board approved the petition. Once we had 200 SOA members who had paid the $10 dues, we were a new section. (Because we had to wait to meet the membership hurdle and reached it mid-year, we are rather a "stealth" section for 2002 as few SOA members have heard of us. In 2003, we will make sure that more members know about us!) After that point, the last job for the organizing committee was to run the initial section council election. That's how we got here.

This section is still a work-in-progress. The main work of your first section council is to get things started and to find out what you, the members of the section, want and need. We will be asking you those questions more formally in the new year. In the meantime, if you have ideas of things that we could be doing, or if you would like to volunteer to help with any aspect of the section's activities, please contact me.

George W. McCauslan, FSA, MAAA, is a consulting actuary and works in San Francisco, CA, and is chairperson of the Smaller Consulting Firm Section. He can be reached at georgewmcc@aol.com.

Mike Miele—Entrepreneurial Actuary

Mike Miele's day begins around 8:00 a.m., taking his children to school. By 9:00 a.m., Mike is laying out the daily workplan for one of his houses that he is renovating. He explains that "Running a renovation project is pretty simple compared to running a large software implementation project." Since he sold his company, CDMS, to Landacorp Inc. in 2000, he has retired from full-time actuarial work, but not from being a full-time entrepreneur. And for Mike, a trip to the health club now means a visit to one of the health clubs he owns in northern New Jersey. "Once a pricing actuary, always a pricing actuary," Mike says. "Health club membership pricing is similar to setting up a flexible benefits pricing structure—providing incentives to enroll in different programs while protecting against adverse selection."

Mike Miele polishes his latest toy.

Mike could be the poster-child of entrepreneurial actuaries. He is one of the select band of actuarial millionaires, achieving his status well before the age of 40. He is now working on a whole new range of non-actuarial enterprises, dividing his time between identifying investment opportunities, renovating houses, running his health clubs and spending time with his family.

How did Mike do it? "It happened mostly by accident. I was in the right place at the right time," he explains. The son of an insurance executive, Mike knew he wanted to be an actuary since high school. As usual, Mike was ahead of the curve. "The guidance counselor in high school didn't even know what an actuary was," he says. Mike is always on the go, searching for ways to turn an idea into a successful, profitable business. As an actuarial student, Mike did well on his exams, but often got into trouble: "I'm not politically correct, and I love confrontation—not the ingredients for a successful corporate career," he confesses. Mike changed jobs every two years, trying consulting at various large firms, but never really finding a job to call home until 1992 when he joined Price Waterhouse. While building a health care practice at Price Waterhouse, Mike saw an emerging trend—pharmaceutical manufacturers were moving closer to the health care delivery system in the area of disease state management, where more focus is placed on managing the patient's actual disease, rather than the individual services provided to the patient by health care professionals. Managed Care

Organizations (MCOs) were asking pharmaceutical manufacturers to take a greater amount of financial risk in the form of product guarantees and capitation. To Mike, the opportunity to link the needs of pharmaceutical manufacturers and the skill sets of actuaries was the basis for a business. In late 1995, Mike left Price Waterhouse to found Capitated Disease Management Services (CDMS) in the basement of his home in Montclair, New Jersey.

For the first two years, Mike focused on his mission—providing consulting services to pharmaceutical companies. When employees came to Mike's office with new ideas, he would take out a sheet of paper with a list of great ideas formed during the early brainstorming sessions, and say "Here are 20 great ideas for related businesses. We are still working on idea number one." he adds, "For an early-stage services company to be successful, it needs to make money. Making money takes time and effort, and focus on doing it right. The customer has to perceive tremendous value from the service, and should feel that the service provided would be hard to find elsewhere."

CDMS was fortunate in the early days, landing lucrative data management and consulting contracts with several large pharmaceutical companies, providing data services and consulting for their disease management services. "We were happy to provide our services through pharmaceutical companies," Mike says, although he adds that this practice of "private labeling" services, while good during CDMS's start-up, made it difficult to add new customers. "Pharmaceutical companies demand proprietary services where we agree to not provide similar services to competitors. We were also constrained from selling directly to the MCO customers of the pharmaceutical companies."

Business grew slowly for the next two years. CDMS and Mike struggled to grow out of "the basement." Again, Mike's lack of patience for meetings, consensus-building, and other "necessary evils" of the corporate world resulted in many set-backs for the young company. "We couldn't gain any traction in the market. We needed a product that automated many of the services we provided and we needed to start to provide disease management services directly to HMOs," he explains. CDMS began to develop software products that streamlined many of the complex analyses done for its consulting business.

In late 1998, several large MCOs expressed interest in directly contracting with CDMS for services and software. "It was a tough sell at first, since MCOs we were used to performing these services internally, or getting these value-added services from the pharmaceutical companies. Also, we wanted this move to be viewed as a positive for our pharmaceutical customers," he explains. At the time, CDMS had about 12 employees and revenues of about $1.5 million. Finally, in 1999, the big break came—CDMS had a chance to work directly with an HMO. The deal was to provide approximately $1 million in services, on an at-risk basis—that is, no payments (other than for travel) would be paid until CDMS could demonstrate that its services saved the HMO money. If and when the customer was convinced that the program saved money, the fees would be paid. "1999 was a tough year. We had to save that customer money or we would be out of business. By October of that year we had demonstrated enough savings to get paid, as well as receive, a multi-million dollar contract going forward," he says. CDMS staff numbers grew to a high of 26 in 2000, and there were more customers, as well as potential buyers for the company.

By mid-2000, CDMS as growing fast, forecasting $5 million dollars in revenues for the full year. Suitors were holding discussions with Mike about potential mergers and

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CDMS was fortunate in the early days, landing lucrative data management and consulting contracts with several large pharmaceutical companies, providing data services and consulting for their disease management services.

acquisitions. By the end of the summer, CDMS agreed to be sold to Landacorp, a large medical management software company. "The deal looked great. A real software company with a real research and development group, a trained sales force and established management team," he says. As often happens following a merger, however, almost the entire CDMS management team, including Mike, left within the first six months. He explains that "Landacorp was a much bigger, older, established company. Originally we hoped the two different cultures would fit, but, for a variety of reasons, it just didn't happen."

Today, other than his seat on the Landacorp board of directors, Mike has not been involved in the business, preferring to pursue other business interests and to catch up on lost time with his family. "I was pretty burned out by the time we sold. I worked seven days a week and traveled all the time. It just wasn't fun anymore. In retrospect, I guess we sold at the right time. I miss having such a successful business and team, but I'm glad to be free. Having your own business with employees and customers is a tremendous responsibility. You can't just change jobs if things don't work out. You have to provide great service to your customers and to provide a stable work environment and benefits for employees and, after all that, pay yourself some money," he says.

How did Mike Miele do it? He applied many of the characteristics of a classic entrepreneur to an actuarial business:

- He recognized opportunities early. In Mike's case it was:
  - ☐ Data analysis and
  - ☐ Risk management
- He was able to articulate his vision clearly, not just to customers, but also to employees.
- Mike had a large network of contacts and was able to lever age them successfully.
- Mike believed in himself and his product and was able to convey this belief to clients.
- Mike realized that he needed to develop a repetitive income stream. To do so, he migrated the company from pure consulting to data management and software tool development.
- Once Mike determined the mission of the company, he focused all attention on the mission.

Like other entrepreneurs, Mike made mistakes. Some of these include:

- The focus on the company mission meant that other opinions and ideas were not heard.
- Mike insisted on keeping control to himself and did not delegate, even when the company grew larger.
- Mike hired his relatives. This ensured staff loyalty, but was perceived negatively by non-family employees.
- He underestimated the difficulties of integrating a start-up, entrepreneurial company into an established organization.

SOA Names Insurance Administrator—Marsh Affinity Group Services

submitted by Marsh Affinity Group Services

Editor's Note: As David Godofsky's article on page six reminds us, actuaries, like all professionals, are at risk of professional liability lawsuits and claims. The SOA has not historically offered access to group coverage for Professional Liability Insurance (which was therefore difficult and costly to obtain). This announcement of group coverage through Marsh Affinity Group Services is timely.

We are pleased to announce that the SOA has appointed Marsh Affinity Group Services to administer insurance programs for society members.

Marsh is a full-service insurance broker and administrator for affinity groups. A pioneer in the concept of association-sponsored insurance plans since 1949, Marsh Affinity Group Services has earned a reputation for the innovative design and administration of a wide range of insurance and financial products, and has become a leading provider of insurance program management and underwriting services in North America. Marsh Affinity Group Services is a part of Marsh & McLennan Companies, a multinational corporation and one of the world's foremost leaders in insurance administration.

By purchasing insurance programs through the SOA, members can take advantage of a wide variety of benefits. These programs have been researched by the SOA and have been proven to be an excellent source of protection for members. Also, with the mass-purchasing power of the SOA, members can benefit from the group rates offered.

Insurance plans currently being made available to SOA members include:

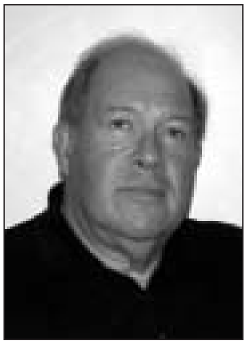
- Professional liability insurance
- Disability income insurance
- Term life insurance
- Ten-year term life insurance
- Catastrophe major medical insurance
- Major medical market basket

Members who have any questions, or who would like more information, may contact the insurance administrator at:

Marsh Affinity Group Services, a service of Seabury & Smith
Phone: 1-800-503-9230
Web: *www.seaburychicago.com*

Wanted: Contributing editors for *The Independent Consultant*. Do you have a piece of technology, software or hardware that you have found particularly useful for your practice? Want to share your experience with other independent consultants? Then write it up and send it to the Editor. We welcome technical contributions of all types.

Profiles of the Council Members



Carl Shalit

Carl Shalit, FSA (1976), MSPA, MAAA, EA.

Founder and president of Carl Shalit & Associates, Inc., an actuarial consulting firm located in Salem, Massachusetts.

Contact: *cshalit@juno.com*

Major Fields of Professional Activity:
Actuarial consulting to third party pension plan administrators.

Society Activities:
SOA/ASPA EA-2 Examination Committee, 1986-1992; vice-chairman, 1988-1990; chairman, 1990-1992; advisor to all enrollment examinations, 1992–present; The SOA Macrodemographic Model Project Oversight Group, 1995-present.

Other Professional Activities:
ASPA Board of Directors, 1989-1994. COP Task Force on Professionalism, 1990.

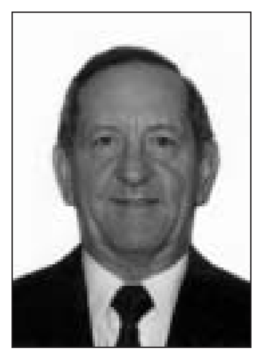
COP Task Force for the Implementation of the Professionalism Task Force Recommendations, 1991-1992.

ASPA Principles, Practices and Risk Management Committee, 1986-1991; chairman 1990-1991; ASPA Government Affairs Committee, 1995-present.

AAA Planning Committee, 1994; AAA Committee on Professional Responsibility, 1996-present; AAA Committee on Qualifications, 1997-present.

JBEA Advisory Committee on Actuarial Examinations, 1992-present; coordinator, 1997-present. Shalit has also written several articles for *The Pension Actuary* and is a frequent speaker on Professionalism at ASPA conferences.

Allen D. Booth, FSA (1973), MAAA.



Allen Booth

Consulting actuary; former president, Liberty Bankers Life Insurance Company.

Contact: *abooth@execpc.com*

Major Fields of Professional Activity:
Life insurance and annuity product development, valuation and mergers & acquisitions

Society Activities:
Valuation Section member; Product Development Section member; former member—Education & Examination Committee; and Program Representative, SCF Section.

Other Professional Activities:
Wisconsin Actuarial Club member, past president.

Daniel Cassidy

Daniel P. Cassidy, FSA (1995), MAAA, EA.

President, Argus Consulting Limited, Concord, Massachusetts.

Contact: *danc@arguscl.com*

Major Fields of Professional Activity:
Cassidy leads a retirement consulting firm with clients in the United States, Canada and the United Kingdom whose practice focuses on the integration of benefits and assets to maximize value to plan sponsors and participants.

He has spoken several times at various conferences on the issues surrounding pension plans, including asset smoothing and fiduciary duty. He has also been published in Employee Benefit News, Mass High Tech, Pension & Investments, has been interviewed by Wall Street Journal radio and quoted in many other publications.

Society Activities:
Spring Pension Examinations Committee, Vice-Chairperson-Courses P-363 and P-461U, 1995-1999; Course 8 Retirement Benefits Education Objectives Committee, Chairperson, 1999-2002; Education and Examination Steering and Coordinating Committee, 1999-present (Retirement Benefits, 1999-2001; Training, 2001-present); Retirement Systems Practice Advancement Committee, 1999-present; Organizing Committee—Smaller Consulting Firm Section, 2001-present; Meeting moderator, 2001; Meeting panelist, 1995, 1997, 1999 and 2001, Secretary and Treasurer, SCF Section.

Other Professional Activities:
Faculty, Bentley College—Pension and Employee Benefits Administration Program (Course: "Tax Aspects of Pension Plans"). Member, Investment Management Consultants Association. Panelist, Conference of Consulting Actuaries, 1997.

George W. McCauslan, FSA (1977), MAAA, EA.

Independent consulting actuary, San Francisco, California.

George McCauslan
(not pictured)

Contact: *georgewmcc@aol.com*

Major Fields of Professional Activity:
McCauslan is involved in consulting to small pension plans; expert witness and related services for marital dissolutions and other litigation; training for attorneys on handling pension; and other benefits in marital dissolutions.

Society Activities:
Chair, Organizing Committee for Smaller Consulting Firms Section 2001-2002; Education and Examination Committee—(Course 100 & 110 Committee 1979-1986, 1993-1996, vice chair 1984-85, Chair 1985-86; examination general officer, 1986-1990; education general officer, 1990-1991; F.A.C. facilitator 1994-present—program speaker, 1999; seminar speaker, 1988, Chairperson, SCF Section.

Other Professional Activities:
Program speaker, CCA Meeting, 1998; speaker for various pension and family law groups; San Francisco Actuarial Club, president, 1988-1990.

Publications:
Various articles for Family Law News (California State Bar Family Law Section)

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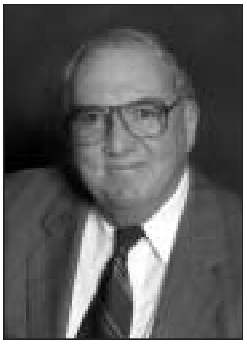


Ken Hartwell

Ken Hartwell, FIA (1965), FSA (2000), MAAA.

Part-time consulting from home in Cumberland, Maine.

Contact: *gnubeest@maine.rr.com*

Major Fields of Professional Activity:
Life insurance (including annuities) and disability consulting. Hartwell has worked on the Hancock, Prudential and Principal demutualizations, and has over 40 years of varied actuarial experience. He retired from full-time work at the end of 2001.

Society Activities:
Prior to serving this Council to date, Hartwell has not been involved in SOA activities due to Academy involvement. Having been an ASA (by virtue of the FIA) since the 1970s, Hartwell was granted an FSA in 2000 under the new mutual recognition arrangements. He serves as Assistant Editor of the SCF newsletter.

Other Professional Activities:
Member of the Actuarial Standards Board since January, 1999; Served as Academy vice-president for professionalism, 1996-1998; member of the Academy's Committee on Professional Responsibility, from 1990-1995; and chair of the Academy's Committee on Professional Responsibility, 1992-1995.

Mitchell I. Serota, FSA (1983), MAAA, EA, FCA.

Mitchell Serota

Contact: *actuary@miserota.com*

Major Fields of Professional Activity:
Serota is involved in defined-benefit pension plan consulting, self-funded group health consulting; expert witness; and QDRO preparation.

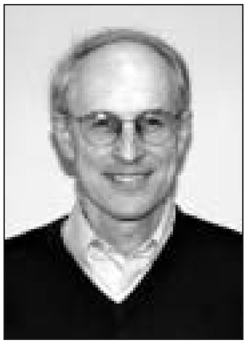
Society Activities:
Examination 9 committee member, 1984-1987; Examination 9 education coordinator, 1986-1987; speaker, 1983, 2000, 2001; lead workshop co-chair, 1989; Smaller Consulting Firm organizing committee, 2001; member of Pension and Health councils; intermittent member of Investment and International councils. He serves as Vice-Chairperson and Web Liaison of the SCF Section.

Other Professional Activities:
Chicago Actuarial Association vice-president (Public Relations) 1980-1985.

Publications:
"QDROs with Fewer Hassles," Pension Section News, June 2001.

"Actuarial Considerations," Employee Benefits Law Handbook, Chapter 20, Illinois Institute for Continuing Legal Education, May, 1994.

"Government Health and Welfare Programs in the United States and West Germany," Benefits International, December, 1979, pp. 15-18.



Ian Duncan

Ian Duncan, FSA (2002), FIA (1982), FCIA, MAAA.

Major Fields of Professional Activity:

Partner, Lotter Actuarial Partners, New York, NY. Consulting actuary since 1989. Consulting services to companies in the health, group and direct-marketing insurance sectors. Current areas of focus include health-risk management, claims-based underwriting and direct-marketing campaign management.

Society Activities:

Panelist and moderator, SOA meetings, 1988, 1999, 2002; contributor to SOA and Industry publications; "friend," Non-traditional Marketing Section Council, SOA (1999-present). He also serves as Newsletter Editor for the SCF Section.

Other Professional Activities:

Panelist, Washington Business Group on Health, American Risk and Insurance Association; research associate, Healthcare Delivery Policy Program—Kennedy School of Government at Harvard University.

Publications:

"Benchmarking and Cost Control" in Janet R. Douglas: Managing Workers' Compensation. John Wiley, 1994.

"Measuring the Total Cost of Lost Time" (with Jonathon Crane, Ph. D.) in Janet R. Douglas: Managing Workers' Compensation. John Wiley, 1996.

"Population Risk Management" Health Section News, June, 2002.

"A Claims-based Prediction Model for Targeting members of Managed Care Organizations" (with Henry Dove, Ph.D. and Arthur Robb, Ph.D.) American Journal of Managed Care (forthcoming, 2003).

Population Risk Management: Reducing Costs and Managing Risk in Health Insurance." (with Arthur Robb, Ph.D.). in Arnold Shapiro, ed. "Intelligent Techniques for the Insurance Industry" (forthcoming, 2003).

Pamela L. Marlin, FSA (1995), EA (1992), MAAA.

Contact: *pam.marlin@mckeogh.com*

Pamela Martin (not pictured)

Major Fields of Professional Activity:

Marlin is involved in Pension and Employee Benefits consulting and she serves as a consultant to the McKeogh Company in West Consohohocken, PA.

Society Activities:

Member, Course 8 Retirement Education Objectives Committee; pre-tester—EA examinations; member, Smaller Consulting Firm Organizing Committee; former vice-chair, fall pension examinations.

Other Professional Activities:

Speaker at Philadelphia Actuarial Club meeting, high school and college math classes.

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Marcus Robertson (not pictured)

Marcus A. Robertson, FSA (1990), FCIA (1990).

Marcus Robertson is a partner of Robertson, Eadie & Associates in Oakville, Ontario. He has 23 years of pension consulting experience. Prior to his consulting career, Robertson spent over two years with a life insurance company.

Contact: *mrobertson@re-a.com*

Major Fields of Professional Activity:

All aspects of pension consulting, including the design, implementation and administration of both defined benefit and defined contribution pension plans. Assists clients in the establishment of their investment policies and in the selection of investment managers for their pension funds. Also has experience in both the wind-up of existing pension plans and the partial spin-off of plans after a sale. Has extensive valuation experience.

Society Activities:
General Officer, Education and Examination Committee; Member, Retirement Systems Practice Advancement Committee (CIA Liaison).

Other Professional Activities:
Frequent public speaker to industry groups and to employee groups on pension matters. Participated in the Canadian Bar Association-Ontario Annual Institute of Continuing Legal Education. Member, Canadian Institute of Actuaries' Committee on Liaison with Government Authorities on Pension and Social Security Matters. Member, Actuarial Advisory Committee for the Financial Services Commission of Ontario. Member, Association of Canadian Pension Management.

Society of Actuaries

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