



Article from

## **The Stepping Stone**

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# What Would You Do? Responses to “Too Close for Comfort”

By John West Hadley

In the **May 2020 issue** of *The Stepping Stone*, I presented the following situation faced by an actuarial manager. Here are selected responses and excerpts, edited for space and clarity, followed by the real-life conclusion. (Please note that inclusion of responses should not be taken as an endorsement by either the section council or the Society of Actuaries of the positions presented.) Send your own ideas for situations to pose in upcoming issues to [SteppingStone@JHACareers.com](mailto:SteppingStone@JHACareers.com).

## TOO CLOSE FOR COMFORT?

Fernando has been an FSA for five years and has built up a small actuarial department from scratch at his company. The company has recently entered the universal life market, and Fernando has almost no experience with that line. So far he has relied heavily on actuarial consulting help, and he has decided to fill that gap with a new hire.

Jason is an FSA with substantial interest-sensitive product expertise. Fernando is impressed with Jason’s savvy and professional maturity and the way he presents himself. His boss, Cynthia, the chief actuary, is equally impressed. She points out that to attract Jason, they would need to bring him in at a salary just shy of Fernando’s.

Fernando is sure that Jason would be a strong addition to his team. However, he wonders if it might be better to seek a more recent FSA, or even a senior ASA. Jason got his FSA only one year before Fernando earned his, and coming in so close to his own salary might create budgetary issues. He could foresee pressure to reorganize the department to give Jason a bigger role that would justify his salary. In fact, Jason might quickly turn into Fernando’s competitor for any future promotion.

If you were Fernando, what would you do?



*This actuary broke the decision down into three options:*

1. Don’t offer Jason the job. Cynthia already likes Jason and this option might not be possible if Fernando wants to keep his job. Plus, unless he can prove that there is not a good business reason to do this, he risks looking petty.
2. Offer Jason less than what he is worth—and then Jason won’t take the job. Fernando looks like he failed to recruit the best.
3. Hire Jason and pay him what he is worth. Support Jason to do the best he can, and take (partial) credit for his success.

I like the last choice. Good leaders look really impressive when they have good people achieving on their teams. Granted, the close salaries could be a concern, but if Jason is as good as Fernando, they will both work harder and more effectively together to achieve success for the team and the company. There should be room for the leader and the expert. No reason they can’t both win.

*While this one presented a different perspective:*

Whenever you hire an elite candidate to join your team, you should be expecting that they will do well and outgrow their role over time, perhaps moving up to your level and becoming “competition” for you. We should always be looking to make

our teams and the company stronger by bringing in strong hires. The better consideration is the actual business need:

- If the need is someone smart but more junior who can learn about the universal life market over time, seek someone more affordable and avoid a budget issue.
- If the need is for immediate universal life experience to address the gap right away, hire Jason.

*This respondent was pessimistic:*

A larger insurance company typically wouldn't encounter this situation, because each role must be posted within a specified job title and pay grade. If a candidate falls outside of the pay range, it is unlikely that hiring could proceed. A smaller company without this infrastructure should move forward only if it is interested in this candidate from a long-term perspective and feels there will be plans for the individual to have mobility. The hiring manager should be fully aware of the budget and that should be a limiting factor on presenting an offer.

Bottom line: Without adequate boundaries about the role and salary, it's really important to proceed only if the compensation will be commensurate with the responsibilities and needs of the company. Otherwise, it seems like a bad idea from a budgetary/organizational perspective, no matter how good a candidate the individual may be.

*While this one suggested there might have been a communication issue at the outset:*

These questions suggest Fernando didn't do a good enough job in sketching out the job requirements and salary. Doing so up front helps keep focus on the desired candidate. If someone "better" than sought comes along, adjust expectations accordingly if there is sufficient business justification for the higher-qualified candidate.

If Fernando has legitimate budget and organizational concerns, he must discuss these candidly with his boss. If his underlying concern is just about having someone reporting to him making close to the same amount, Fernando needs to do a personal inventory of his own motivating interests. If his primary interest is in the betterment of his company, he should work to hire the very best and not let relative salaries drive the conversation, unless there is true underlying inequity or inappropriate salary distribution taking place. Fernando can use the element of competition to strive to be better himself, and work toward the best interests of the company and its customers. This could be one of his hardest tests as a manager, and how he handles it could greatly impact his future advancement opportunities.

*Some actuaries expressed caution:*

I would first consult with Cynthia to make sure that the company is truly looking for someone of Jason's caliber and that they

can justify a place for him in the company both short and long term. Both Jason and Fernando should feel that upward mobility is a possibility, and if that's not the case, then they shouldn't hire Jason, or should hire him as a temporary addition to help launch the products.

The answer is in the projected growth and salary budget rather than picking a future winner in an unknown contest. If continued growth will require Jason's talents in the short and mid-term and hiring a less-experienced candidate will be less than ideal and possibly slow growth, then hiring Jason makes sense. If, on the other hand, the organization has the time to bring in someone more junior and develop them under Fernando, then that road should be taken, not to ease Fernando's fears but because it will give the new hire a longer runway before they run out of career upside and become a flight risk. Fernando sounds like a team builder and Jason sounds like a technical expert. There should be room in a growing organization for both, and everyone should be thinking team success rather than individual interests.

It really hinges on how good Jason is and whether Fernando is willing to put the corporate interest before his own. That takes courage and can end disastrously. If the enterprise applauds talent, then it will see the merit in Fernando hiring Jason, even if he is paid more than Fernando. If all goes right, the corporate execs will then recognize Fernando's vision and courage and restore equity by adjusting Fernando to the market value for someone of his caliber. If the enterprise is sclerotic with mediocrity and drift, it's better for Fernando to find out at this stage of his career instead of clinging to a false security hoping for a gold watch and pension at retirement.

*This one felt limiting beliefs about actuarial career paths might be clouding Jason's judgment:*

There are ways to approach the compensation issue. For example, structure potential bonuses and deferred compensation based on performance goals, or provide for other variable compensation that is not an ongoing burden to the departmental budget. On the other hand, Fernando needs to consider the amount of time he would commit to developing a less-experienced hire. It may be easier to negotiate a flexible compensation arrangement for Jason.

If Fernando's biggest worry is about Jason usurping either his current role or his next promotion, he should seriously look at his potential paths. Having a reputation of being able to bring in skilled people is a boon and could be a selling point for other positions within the organization or in other organizations.

It is a cliché that we actuaries think too linearly with respect to careers, which can result from the very small, specifically actuarial career paths people think of. We can branch out within our industries into nonactuarial roles.

*Others were more certain that hiring Jason was the right move:*

Fernando should hire Jason to build up expertise in universal life, and discuss with Jason why he is interested in the role and his career aspirations. Be transparent and provide a pathway for Jason to continue to thrive. Managers do not need to know more or make more money than their employees.

Make the hire. I lack the skills needed to manage a new market—and if we're destined to grow in that space, I want a seasoned member of my staff working on it. If I pass up Jason in hopes of finding a less-seasoned employee with a solid set of skills, nobody knows how long that would take. The threat of competition for future opportunities can still work out in the long run, so I wouldn't let that be something that prevented me from adding a great member to my team.

Fernando should hire Jason. This is his opportunity to learn about a new product line from an expert. Fernando needs to have a growth mindset. Jason can help grow a bigger pie that opens up new potential for both of them. Fernando should feel good about his contribution and the relationships built within the company and leverage it to elevate his leadership position with the addition of Jason.

I would definitely hire Jason, even if that poses competition. Fernando has a chance to learn from a high-caliber colleague. The alternative of hiring a less-experienced person will not bring about the opportunity to grow and learn. People should always try to be around smart, intelligent, business-savvy people.

Fernando can't look backward or under him; the race is going forward. He has to think "big." Bringing good talent to

the organization will allow him to off-load and grow in other ways and pick up new responsibilities. It's hard to see that opportunity when it's happening, but it really does occur if you are talented and ambitious—and, of course, patient. Good organizations value good talent and always find a way to make things work. Good people are most often worth more than their cost to the budget. This is one out of the playbook of the New York Yankees!

### WHAT ACTUALLY HAPPENED?

Fernando didn't hesitate to hire Jason. Sure enough, after 18 months, Cynthia reorganized the operation to make Jason his peer and give him a piece of Fernando's actuarial department. But in return, she added a much larger (and troubled) nonactuarial unit into Fernando's operation.

Fernando found Jason to be an invaluable mentor as he successfully navigated the challenge of turning around his new unit. This opened up his own leadership abilities in ways he hadn't anticipated. Jason ultimately moved into a product line leadership role, and Fernando progressed to chief actuary. He and Jason continued to be good friends and allies, and he never regretted his decision. ■



John Hadley is a career counselor who works with job seekers frustrated with their search, and professionals struggling to increase their visibility and influence. He can be reached at [John@JHACareers.com](mailto:John@JHACareers.com) or 908.725.2437. Find his free Career Tips newsletter and other resources at [www.JHACareers.com](http://www.JHACareers.com).