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Personal Financial Planning—What's in It for Me?

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Recorder: EDWARD H. COLTON

Summary: Financial planning is a natural area for actuarial expertise. Financial planning today is fairly sophisticated. The increasing use of computers creates the potential for greater creativity and sophistication in developing financial plans. This session is an open discussion of opportunities for actuaries in the financial planning arena.

Mr. Edward H. Colton: There are two presenters for this session: Bruce Temkin and Ed Colton. The lead presenter is Bruce Temkin, and Bruce is a licensed and an enrolled actuary. He is a nationally recognized expert on qualified retirement plans, their distributions and retirement planning. He has written, taught, and published numerous advanced continuing education programs on these subjects. Recent programs include national conferences sponsored by Stanford Law School, the American Institute of Certified Public Accountants (AICPA), the American College of Trust and Estate Council, the American Law Institute, the American Bar Association (ABA), the College for Financial Planning, the Institute for Certified Financial Planners (ICFA), and the International Association of Financial Planners (IAFP), just to name a few. Mr. Temkin is a sought-after speaker for various financial planning, legal and accounting societies, and business and civic groups throughout the U.S. He has chaired numerous national programs on the impact of tax reform. He has the distinction of both developing and chairing the American Law Institute, ABA national program on financial decision-making for lawyers and their clients. Mr. Temkin is a frequently quoted resource in various news and financial publications, such as *Newsweek, Forbes*, *The New York Times, The Wall Street*

Journal, and *Nation's Business,* on a variety of retirement and investment issues. Mr. Temkin serves on the board of directors for numerous financial organizations. He is a nationally recognized authority on retirement and financial decision making. Recent works include "Course Distributions from Individual Retirement Account (IRAs) and Qualified Plans" in the upcoming book, *The Terrible Truth About Investing.*

Mr. Bruce J. Temkin: Let's think about the title of the session, Financial Planning—What's in It for You? Well, what's in it for you is we hope that your participation will make the presentation. I'd like to have Ed give the audience a little bit of information about his background. I think it will be real helpful.

Mr. Colton: I am a Fellow of the Society of Actuaries (SOA). My actuarial career began at a large mutual company. Apart from several years of pricing and product design for individual products, I was primarily involved in administration and financial functions. Under the direction of the actuarial department, I prepared the financial statements and calculated miscellaneous liabilities. Under the direction of the controller, I was responsible at different times for the accurate and timely filings of tax returns, company involvement in the development of the industry audit guide, and general accounting and financial reporting.

My career took a shift toward client service when I joined one of the Big Six accounting firms. In addition to providing audit support to insurance company clients, I was involved in the evaluation of generally accepted accounting principles (GAAP) and management-based financial information for mutual companies. More recently, I served as the chief financial officer of a financial services company that manufactured, marketed, and administered deferred-annuity and other financial products. As an adjunct to my financial roles, I was the president of a family of mutual funds, a real estate partnership, and an investment management company. In 1995, I completed a 32-credit program at the University of California, Los Angeles, and earned a professional designation in personal financial planning.

Mr. Temkin: What I'd like to do is just talk a little bit about the field itself. I have a short outline that I've prepared. I also have an actual case study that I hope we can get into. It is just one aspect of financial analysis done on a qualified plan distribution.

Let's just talk about the field generally. I feel that a lot of the actuaries indirectly or directly are going to find themselves participating in financial planning. Many of you at this session may someday want to possibly retire. So it becomes a part of your own lives. How much money do you need to retire or what is your asset base? So one of the things that I find is that there's always kind of a personal aspect to this no matter who one is. The second thing might be the fact that, when you think about actuaries and financial planning, it's not something that there's a general association with. But if we go back historically about 15 years ago, the accounting profession had that same feeling. It just didn't see itself as a profession that would be doing financial planning or advising.

That's dramatically starting to shift. There's a real paradigm shift going on in this country in that area, and I've seen that in terms of just speaking at national conferences. Right now the actuarial field, in my opinion, is at a point where the accounting field was at 10, 12, or 15 years ago, in that there weren't the associations with financial planning. By show of hands, how many people right now are actually engaged in giving financial advice to clients for some type of fee for service? Hey, great! You have a couple who are actively doing it now. They can bring their own personal experiences to the dialogue here.

Some actuaries may just consider this as a second career after retirement. Some actuaries may find this an integral part of what they may be doing now or in the future. But we cannot deny the demographics. It is nothing new to anybody that the baby boomers are getting to a point of turning 50. We have their parents getting to ages old enough where there will be a transfer of wealth for 10% of the population of this country over the next 10 or 15 years. There's never been anything like it anywhere in history.

So you have the dynamics of the baby-boom generation dealing with issues of their own retirement planning, and the wealth transfer that will be going on with their parents. Throw that into the stew that is going on right now, and there's going to be an explosion. By the year 2000, there's going to be 60 million people in this country who are going to be 55 years of age or older. Also there is the explosion of the 401(k) plans. This is the paradigm shift again, the movement away from defined-benefit plans, which puts the responsibility on literally tens of millions of workers to make decisions on how they're going to manage their portfolios. No one knows what's going to occur concerning the possible success of that venture, or what the eventual outcome is going to be. But the success of that venture, or getting good advice in that area, may make the difference in having enough money on which to retire. Then you have the other demographics. I heard some terminology called "boomerang." Anybody heard that terminology? The baby boomers were supposed to send their children out to college. The baby boomers who got married young enough have children who have finished college and, instead of going on to careers are "boomeranging" back home.

To move on, Ed is coming from a very traditional background in terms of his career and has recently gone through an extensive program at UCLA on financial planning to get a certification. What Ed's going to do now is to take us through that program.

Also I have a case that I'd like to share with you, if we have some time, on some financial modeling that I did on qualified plan distributions. The whole area of qualified plan distributions is something I've done a lot of writing on. There's a tremendous desire for people to get qualified advice in this area. Many people want advice, but I don't feel the supply of people to give it actually is there. Now that might be surprising to people. That's just on the supply side. It's not that I have gotten any type of awards for economics, but the supply/demand relationship is particularly out of balance in the area of plan distributions.

Mr. Colton: My main purpose is to give a uniform floor to what financial planning looks like on the outside. Who is calling himself or herself a financial planner? What are people doing in order to earn a designation as a financial planner?

As Bruce has told us, personal financial planning is getting a lot of attention, and there are many reasons why.

The program at UCLA attracts established insurance agents and stockbrokers. But it also attracts people who want to make a career change, and people for whom a career change is involuntary.

We'll get a chance to take a quick look at each course in just a moment.

One good thing that I find about the UCLA course is that it has a practical approach that provides a window into the real world of financial planning.

The survey course introduces the scope of the considerations in financial planning. It goes from information gathering, to technical considerations, to actual financial plan preparation.

The acronym "RETIRE" is used to underscore the need to touch every base if you're going to do a complete financial plan:

- *R*isk management
- *E*xpense management
- *T*ax management
- *I*nvestment management
- *R*etirement planning, and
- *E*state planning.

Required knowledge of the tax code is very deep, particularly in view of the availability of software to grind out the calculations when you get to actual practice. Investment matters seem to be taking a more dominant role in financial planning.

Real estate was a really hot financial planning vehicle before the tax law changed. A deal has to be valued on its economic merits. Failure to incorporate risk management into the process can turn an otherwise well-thought-out plan into a financial disaster.

The pension course is very detailed, covering a ton of rules and regulations. Also, the concept of a fiduciary is explored at some length.

Estate planning is perhaps the most useful course on a stand-alone basis. Even actuaries have reluctance to deal with their own mortality.

The practicum employs the case method. However, there are several supplemental offerings by visiting practitioners.

The road to a CFP designation is evolving, and the education, examination, and experience requirements are quite fluid.

A student financial planner is required to carry around a good deal of information. The financial planner also has to be aware of the merits of each of the various business forms: partnership, and corporate and direct participation.

There are several approaches to determining the amount of life insurance to include in a financial plan.

Investment planning is often centered on maximizing expected returns for a given risk profile. Diversification is a central theme in investment planning, but some risks just won't go away.

Gifting while alive is often used to reduce future estate taxes, but gifting must be done with care. Otherwise you'll find that the gift is back in the donor's estate.

Consider this example. We are told that a mother has left her son $100,000. We might wonder whether the mother intended for her son to get the $100,000 net of taxes. If so, she should have put it in writing.

Shifting income to children used to be a popular plan feature, but the "Kiddy Tax" eliminated most of the benefit. I think this is a good example of tax detail that's difficult to retain unless you use it routinely.

Every so often, the term actuarial appears in the study material. But I can't recall a situation where the planner comes face to face with the actuary. I hope that will change.

Finally, the vesting schedule, at least for testing purposes, is chosen so as to maximize the benefit to the owner of the business, from expected employee terminations. If the plan is top-heavy, the choice of vesting schedules is limited.

Mr. Temkin: One of the things I'd like to point out is that, as actuaries giving financial counseling to people, one does not have to do what is called a comprehensive financial plan. A lot of planning goes on, and there's all different types of planning. Some people may say, look, what I'd like to do is get advice on qualified plan distributions. They may want some retirement analysis. They may want specific advice on the placement of insurance. They may want advice on some form of financial analysis.

So I don't think it's necessarily appropriate that a person has to fill out 800 pieces of information about every aspect of their life, and go through what has technically been referred to historically in the field as the comprehensive financial plan. I'm not suggesting it is a bad idea, and I'm not suggesting that practitioners should not pursue that. But there's a whole other world out there. People are using modular types of planning where someone is retained for a specific part of a financial decision. In such instances it is not required to have every single one of the pieces interact. I've been involved in this area over 25 years. I'll ask two people in the audience, are you giving any type of investment advice in your area of financial advising?

From the Floor: I'm not really giving advice on making investments. I give advice purely on the evaluation of the implications of alternative investments.

Mr. Temkin: You're working with them, but not giving them specific investment advice. Investment education is a big area. Someone could take the position that my role is now to empower the individual about something I'll call risk management. This could relate to investment education, not necessarily to giving actual investment advice. Again, I'm going to use the AICPA. The AICPA has an annual conference on financial planning that didn't exist 15 years ago. I remember, five or six years ago, asking the audience, how many people would ever consider giving investment advice? Maybe 2 out of 500 responded. Last year I asked the same question, and it was more than 50% of the audience. There can be limitations within your own comfort level, and you can still render advice on the investment area without specifically having to give a client investment advice. This is another area that is again, given the demographics, something that has very interesting opportunities. Would you want to share at all what you're doing?

From the Floor: I might have misunderstood your question. I'm a consulting actuary and give financial advice to all my clients, but not in this specific area. I provide advice to clients, corporations and associations, and health care organizations.

Mr. Temkin: But it has a financial base connotation. That's part of why I wanted to be here. I recently spoke to a large group of certified public accountant (CPAs) and lawyers in the tax area and I said, well, you can call yourself accountants and lawyers, but what you are is financial economists. Let's really break down and study what you do. If you do estate planning, if you give advice on taxes, what is it that you're doing professionally? Are you simply filling out returns? You're providing economic alternatives using the tax system to reduce taxes or possibly do other economic modeling. Should a person take five-year averaging, which will not be in existence in another year? I mean there's no question that lump-sum distribution law will be changed. It could live two years; that is certainly the guess of most individuals. If the minimum wage bill passes in this Congress, the pension simplification will pass, and with that will go five-year averaging. But also, on the other side of the coin, will be the required distributions at 70.5 for people who don't have more than 5% ownership of a business. So that's going to change some of the dynamics, in terms of planning, not having to have required distributions at 70.5, going back to old law.

So what I'm attempting to draw out is the fact that you are giving some form of financial counseling in the work that you're doing, whether you are a lawyer, a tax lawyer, an estate planning lawyer, or a CPA. I am just trying to explain and share my perception about what they were providing.

Within the field of financial advising is a perception about actuaries. They are thought of as accountants without personality or CPAs without feeling. I try to explain to people that there are many actuaries who actually meet with people, and they talk to them. Many people who are in the actuarial field are meeting with clients or potential employees and interacting. Part of the financial process of giving financial advice is the interactiveness. I know in talking to Dave Diesslin, who was unfortunately not able to make it to this session, that he has been doing financial planning for a number of years. One of the things that he himself had a concern with is whether the actuary is going to have the people skills necessary to be in this area. I shared with him that there are many actuaries out there for which a part of their work is people skills oriented.

But clients or individuals are not concerned about perceptions. When they meet somebody, they're only concerned about whether or not they are able to interact. Are they able to facilitate; are they able to further the process? This is because making better financial decisions, given what is going on in this country, is going to make a great deal of difference in people being able to have enough money to retire and not run out of money during retirement. If we also take a look at other demographic shots, we've always had a country where every generation was going to do better than the previous. I'm not sure we can say that anymore. And so, planning for people in the field may make the difference for clients. Good planning can make the difference that people will have enough assets to be able to assist children or grandchildren who never would have been able to afford to buy a house or to fund education. So the implications of this incredible, dynamic population like no one's ever seen before has significant social overtones.

From the Floor: Where are demographics now, and what in the future will be the driving force behind what you're saying?

Mr. Temkin: There are so many different studies. Just start with the fact that the baby boomers are turning 50, and there are many of them, and add to that the 401(k). If we just took those two pieces and didn't add a lot of the other pieces, such as when baby boomers' parents die or who will be inheriting assets, the demographics are off the charts. And then we have the other aspect; that is, the parents of the baby boomers are now reaching a point where again they are needing advice as to whether they have enough to retire. I always thought that Americans didn't live as long as some of our European counterparts. Then this Duke University study comes out and says that in the industrialized world, half of all women will at least see their 50th birthday, and then any woman who sees her 50th birthday at least on average will see her 80th birthday. Then Duke University comes in and says, if American women see their 80th birthday, or men, we cream the rest of the world in terms of how long we live. It was not even close. I always thought the Scandinavians or Japanese lived longer.

Let's take a look at just living an extra few years. What does it mean in terms of how much you need to retire? The easiest way for me to look at it is, if you have a 35-year mortgage on your house as opposed to 30 years, there's a bit of difference in how much money we pay that mortgage company. This is without any major breakthroughs in terms of genetic engineering that could occur in the next 15 or 20 years. Just how long are we going to live? No one knows what part of the curve they're going to be on, and so the planning associated with that is difficult. It kind of reminds me of the line that someone once said, "Death doesn't bother me, I just don't want to be there when it happens." So in response to your general question, if I just take a look at those few blocks, I find that the demographics are just mind-boggling. They're beyond comprehension because there has never been a time in the history of the world when there have been so many people needing so much advice.

From the Floor: Regarding the case study that you handed out, first of all, what kind of a fee would this generate from a retail customer that needs it, and how many people are we talking about? How many people are likely to be in the market?

Mr. Temkin: I'm going to spend a couple of moments on a case study. There's an analysis for someone who is 65 years of age. It is a person with a higher net worth, who has $1 million at age 65 in his IRA, has some other assets, and happens to be single. The real question is, will people pay to have this type of analysis done? Can I presume that's the heart of the question?

From the Floor: Yes. How much will it cost?

Mr. Temkin: What I have found for this particular type of illustration or modeling, using software that was done on a Lotus spreadsheet and given the information, it probably took a couple of hours to actually do the financial modeling. In the area of distributions, the amount of software that is now available that fortunately someone wouldn't have to write himself or herself is just exploding.

Now in response to that, you might see a fee here of $2,000. The person whom we're talking about is potentially someone who has $1 million in an IRA. I'll talk a little bit about what's included in the case study. There are a great many people in this country who are unaware that, after death, money in an IRA could benefit from 50–70 years of continued deferral to a child or a grandchild. When people are aware of this, their response is just, "What? 50–70 years!" One does not have to be an investment expert. There was, in 1974, a major piece published by Ebbets and Singfield on the history of stocks, bonds, and inflation from 1926 to the present and they update it every year. No one really understood what the Standard and Poor's (S&P) did from 1926–74, so it has been updated. If someone in 1926 bought all of the S&P 500—the largest companies make up about 70% of the market—and held it for a 70-year period to 1995, almost 50% of the 10.5% compounded return would be dividends. I would have thought it had been about 20%. You have to call someone who bought stock in 1926, the whole group, and held on for 70 years, a buy-and-hold investor. I'm bringing in the dividend issue in the distribution because if a child or grandchild will get 50–70 years of continued deferral after the participant's death 30–40 years, the implications of the value of this distribution analysis are tremendous. So if someone asks whether someone is willing to pay a couple thousand dollars for a proper analysis in this area, I'd say some people will and some will not. Part of what might entice someone to want to spend the time to have the analysis done is a triggering mechanism—the understanding that there is a potential, either on special rollovers or naming children or grandchildren as beneficiaries, which runs into millions of dollars.

From the Floor: So where does that lead you in terms of your estimate of the size of the market of people who have $1 million balances?

Mr. Temkin: The answer is, what are the demographics? What it does is bring home the fact that you don't have to have $1 million to have a very powerful implication. With the demographic shift moving toward more emphasis on the 401(k), the people who don't have a half million to a million dollars, have a different problem. Their problem is not going to be passing on deferment after death for 50–70 years to children. Their problem is they're not going to have enough money on which to retire. So I'm just picking a piece out, but there are many individuals in this country who are going to have half a million to a million dollar accounts in their IRAs.

Mr. Colton: I think that where we are in history, there has not been much exposure to people accumulating this kind of IRA wealth and dying. So the word isn't out yet. In a worst-case scenario, poor planning can result in the heirs receiving only 25% of this $2-million estate. When the word gets out that, after estate taxes and income taxes, the government can walk away with three-quarters of the estate, then I think people will become more willing to spend a few dollars.

Mr. Temkin: The issue is the proper planning in this area. If you only have $100,000 or $200,000 in an IRA, it's going to have significant financial implications.

From the Floor: I thought that the people who were less ready would be paying huge fees, at least what looked to them to be huge fees.

Mr. Temkin: If we're talking about resistance, the client who has $1 million may not necessarily feel that $2,000 is a huge fee. We don't know. I can suggest to you that the million-dollar client does not necessarily feel that $2,000 is a huge fee. On the other side of the coin, this is a very comprehensive study. Somebody could do a much shorter version of a study, give some quick advice (more like investment education), and do it for $500. So we're not limited; there isn't an all-or-nothing environment if we just take out a piece such as distributions as an example.

From the Floor: You better point out that many employers are providing this service to their employees, and they're putting in 401(k) plans. They understand that these balances have to last to retirement, have to be lived on through retirement, and many employers feel it's in their interest to give useful education in financial planning.

Mr. Temkin: If we just sit back and relax, watch what's going to happen over the next 15 years as the size of the 401(k) plans start to grow and employers themselves recognize the fact that, with this very large box of money, getting advice may also just be part of the module that I'm talking about. Someone in the field of financial advising, maybe an actuary, will be part of that advice that is going to be given. Actuaries might help in developing the education material to actually give advice to groups. Someone's going to have to do it, and so the question then becomes, will some people in this audience want to do it? Also, some employers may feel a social responsibility and want the best type of education possible. If we take a look at the individual who might be sitting there, because of the type of background you all have, this would be a natural place for many of you. So I see a need and also an opportunity to make a difference to those individuals who would be your clients.

From the Floor: It seems to me that there's a natural bridge going from traditional actuarial rules into this newer area in which you demonstrate value. Then the fees and the job satisfaction will take care of themselves. If you demonstrate some value, a fee of $500 or $2,000, takes care of itself. If you can demonstrate value, you get a fee for your service.

Mr. Temkin: Let's move out of the financial arena for a second. We have to prove value. Well, is that different from a lot of professions? Whether it be the employer or the individual, we have to demonstrate there's a value to what we have.

From the Floor: What advantage does an actuary who turns financial planner and who is competing with a lawyer, an accountant, or a salesperson, have over these other people?

Mr. Temkin: The field is so large. Now for instance, I'll just take a piece. Now how many here come from the pension field by a show of hands? How many are from health care? The majority. I'm going to just use distributions because it's a part of the 401(k) that there are so many people who are going to need advice on distributions that there's room for everybody, people who are qualified to render the advice. I just think that because of computer-based mathematical modeling that there can be a real edge in that particular area to people who have some of the skill set that is a part of the regimen that you came through to become actuaries. There are competing people. There are people in different fields who are going to be rendering similar services. The field is so wide, and there is a need for quality people who can really sit down and analyze it and quantify it.

Mr. Colton: I'd just like to add to that. In many instances, the whole arena of financial planning is networking and team building. Very often, the actuary, should he or she become involved, will join this team of accountants and lawyers and investment managers that's already in existence. I think that, if you focus on a very specific issue, like writing a will as part of the financial plan, neither the financial planner generalist nor the financial planner actuary is going to write that will. An attorney's going to be called in. Conversely, the attorney is not going to go through some of the considerations that Bruce mentioned. Rather, the attorney will network with an actuary to do some of these things.

Mr. Temkin: The legal community in this country does not necessarily want to do an analysis on such things as distributions. Lawyers would like to do a lot of other things, and would not want to do that piece of the puzzle.

From the Floor: I have just a couple of comments and a question. To put the comments in context, I should probably tell you that I'm an actuary from Canada, and I normally do expert evidence work, but I'm thinking of doing some of this work because it keeps coming up. People who get a court award wonder what to do with it. People who are getting divorced are looking at organizing their financial affairs. Even most of my relatives know something about pensions. Half of them figure I know when they're going to die, and so it keeps coming up.

To mention a bit more about the demographic aspect that came up earlier, David Foot, who's a demographer at the University of Toronto, wrote a book called *Boom Bust & Echo, How to Profit from the Coming Demographic Shift* (published by Macfarlane Walter & Ross, Toronto, 1996) and I recommend it to anybody who wants to look into the demographics. But as I look at these people who ask me for advice, I can see that there's a demand for it, and yet I wonder if the key is maybe that, particularly with my relatives, they know I'm not going to charge them for it. Maybe if I was a brain surgeon, they'd ask me what to do about their headaches. But if I was charging them, they'd go to a general practitioner. So as I look at the people I know here giving this kind of advice, they generally charge a lesser hourly rate than what I'm charging for going to court. They're often accountants or certified financial analysts, that sort of thing. So in looking at it, I guess I'm getting at the same question the other gentleman asked but maybe relating it more to hourly rates and given the amount of time you can reasonably recover. I won't talk specific numbers because I'm sure it's different in the States than it is in Canada, but can you actually recover the same kind of hourly rates that you would get for other types of actuarial consulting?

Mr. Temkin: We're coming back to the issue of the realistic economics in terms of appropriate hourly rates. What kind of hourly rate are we talking about?

From the Floor: In Canada, an actuary is likely to be charging $250–300 an hour and remember that's Canadian dollars.

Mr. Temkin: You're pointing out that there might be a little bit of a discount on $300 an hour Canadian.

From the Floor: Realistically, the people I know who are doing the financial planning are probably charging about two thirds of what say a pension actuary might be charging. I don't know if that's realistic or not.

Mr. Temkin: I think you bring up a real important issue, which is, if somebody is working with let's say a major actuarial consulting firm and let's assume in American dollars they're charging $250 an hour, will the client pay the $250 an hour? My suggestion is going to be, if we take a look at the individual, the person is going to be a higher-net-worth client. Lower-net-worth people are not going to pay $250 an hour. Large corporate employers, seeing that there's a need for some type of work in this area, I believe, are willing and do pay the traditional hourly rates. On the personal side, however, the $250 an hour rate in American dollars will be tolerated more by higher-net-worth individuals. So, yes, there are people who will pay these hourly rates.

On the other side of the coin, because this is evolving, it's a brand new field. If we take a look at the cost factor in moving into group dynamics, you could say, it's $25 per person for every ten people who are going to be taught some generic things they need to understand to assist them. The issue is what are we going to do, forgetting about the economics for a second, with this large number of people in this country desperately needing financial advice and that advice means so much to them? How do we make it affordable if we need to charge $250 an hour?

From the Floor: Can you talk a little bit about how you market your services? Who do you see as your competition?

Mr. Temkin: Anybody who knows me, knows that I actually do not accept the word *competition* because of the fact there are so many people who need the work. So I would love to see more accountants and more actuaries enter this field, if this is what they want to do. I want more financial planners. I want people who are qualified, who care, who bring an expertise, who bring a good educational background and desire.

I'll give a contrasting example. Everybody is fighting it out on who's giving the best 401(k) assets. Now that's competition. It's pretty tough out there in terms of in the investment field; a war is going on to get assets under management. I'm not talking about this type of war; this is a different battlefront. I truly am sincere when I suggest to you that there are so many people who need this advice, and it's not the competition that's the issue, it's people getting back to what someone mentioned earlier—displaying how this can bring value. That is going to more of the issue as opposed to the competition.

From the Floor: And how do your clients find out about you?

Mr. Temkin: Now if we talk about myself or others, there can be a whole session some day about how people in the financial services area or financial planning get clients. For some they do seminars; some get their business from lawyers and accountants; for others it's direct referral from clients; for others it's large corporations retaining them to give advice to retiring executives. I wrote a series for the State of New York retirement system, that was just an educational-based series. I received calls from people who never made more than $50,000 a year who had $1.5 million in their retirement plans. I was stunned. Well, after 40 years of putting money in their 403(b) plans and investing a part of it in equity growth, $7,000–$8,000 becomes $1 million. And I thought people like that wouldn't have that type of an account balance. That was my reaction.

From the Floor: Given that we have a very litigious society, short of only taking on clients who are younger than you so that you die first, how do you insulate yourself from lawsuits?

Mr. Temkin: Well, the question we have is there's a rumor going out that lawyers sue. I know it shocks everybody, but obviously we have the most litigious society in the world. It's a very good question. People deal with this issue in a number of ways. They buy errors and omissions insurance, which is available. The kinds of policies that are available now weren't available five years ago. The other thing has to do with, again, whether you have an engagement letter with a client spelling out exactly what you're doing and going through. You might go through a lot of the same processes if you're doing consulting in other areas. This session is not for people to feel that they must run out and do something. This session is to kind of say, let's sit back and look at these demographics and look at our lives and look at the future. For some people, this could be an area worthy of exploring.

From the Floor: What kinds of licensing requirements are there?

Mr. Temkin: If someone wants to pursue this area, I can tell you that every single state may have different regulatory requirements. It's all over the place. I can't give you an answer. What Washington state might require and what the Carolinas might require could be completely different.

From the Floor: You talked about the team approach where the actuary is part of a team with the lawyer, perhaps, and the accountant, both perhaps. To what extent are the personal services of the actuary in competition with any software alternatives that are available to the lawyer and accountant who think they might be able to try a do-it-yourself alternative to getting your personal services? I know Mr. Temkin has referred to software, but I'm just wondering what you have seen as to software alternatives that present competition to actuaries?

Mr. Colton: I think that there's a lot of software out there. Much of it is directed at doing regression lines on past investment experience, and forming risk-versus-reward curves based on historical factors. There's very little software that will address the probability of death involving multiple lives, in terms of alternatives for plan distribution. Even those that are out there are far from client specific. So there is a whole world of potential actuarial involvement. Another aspect of a team is that it has to have a quarterback, and there is a potential for the actuary as quarterback of that team.

Mr. Temkin: In some ways I hope that this session will get people just thinking about this area. I wish you had more time because the whole area of probabilistic outcome and Monte Carlo simulations and mathematical modeling is going to start to go through a renaissance in the next decade. If ever there was a group of people who are desirous of possibly entering the field and have the right background, it's actuaries, if this is an area that actuaries find interesting.