AN ACTUARY'S ODYSSEY

STORY BY RICHARD F. STOLZ

Gene Kalwarski's long career as an actuary belies the introverted stereotypes, while his new firm, Cheiron, brings leading-edge modeling to its efforts for large pension and benefit plans. The result is greater employee security.

Actuaries are supposed to be nerdy and socially inept. You've heard the jokes: What's an actuary? An accountant without the personality. Or this one: How can you tell the difference between an actuary and an accountant? The accountant looks at your shoes when he's talking to you. The actuary looks at his own.

And beyond the matter of personality, actuaries, whose analytical skills can mesmerize mere mathematical mortals, aren't generally known as great innovators. Which is what sometimes puzzles—yet pleases—clients of Gene Kalwarski, who defies the actuarial stereotype on both counts.

"He's a character, I'll say that," confides one loyal client, who won't go so far as to critique Kalwarski's taste in vibrant neckties, or his offbeat sense of humor. "And he's very creative," he adds.

Last fall the colorful Kalwarski's iconoclastic 25-year career culminated in the launching of a new actuarial and financial-consulting company based outside of Washington, D.C., in Vienna, Va. The firm's name, **Cheiron**, is intended to communicate its mission and origins.

"Cheiron was a mythological Greek centaur who broke away from the pack, was educated by Apollo and Artemis and then, sharing his virtue and advanced knowledge, became the mentor and tutor of the heroes of *The Iliad* and *The Odyssey*," according to Kalwarski, 50.

Indeed, after a bitter falling out with his former partners at a large actuarial consulting firm that culminated in legal skirmishes, Kalwarski and a former client, Ben Shaver, launched Cheiron under the banner of "classic values, innovative advice" in November 2002.

Cheiron's clients—large pension and welfare benefit plans—are facing titanic struggles today in the face of significant fund investment losses, a sluggish economy and employee demographic shifts. They seek to nimbly maneuver through painful and complex decisions about plan design, benefit projections, and funding that require the insights that are the unique province of actuaries.

"The most innovative thing Gene and his people have done," according to Bruce Kallos, executive director of the $1 billion **Arlington County** (Virginia) **Employees' Retirement System**, "is to build dynamic models so they can show us, graphically, changes in plan assumptions and how those changes impact contributions—not just now but over a long period of time."

"Other firms have made stabs at this, but they're static," he adds.

In a conventional situation, Kallos says, benefit plan trustees would pose a series of questions to their actuaries, who in turn would return to their offices and, days or weeks later, come back with answers to the questions posed. "With Gene, we can bring the modeling tool right into the meeting. When trustees ask questions, we can show the answers right away; you don't have to say, 'I'll get back to you,'" Kallos says.

"There are never questions that fester," he adds.

Cheiron's Kalwarski: Looking beyond the conventions of pension planning.

Ahead of the Curve

That instant gratification proved particularly valuable to Arlington County prior to (and since) the stock market downturn in March 2000, when Kalwarski was the managing partner for the Washington, D.C., regional office of **Milliman USA**.

Like most pension plans at the time, Arlington County's, which covers 7,700 active and retired employees, was overfunded, thanks to the run-up in equity values during the 1990s. The strong temptation, Kallos recalls, was to take a fiscal breather and suspend fund contributions until the ongoing accrual of benefit liabilities had whittled away at the fund surplus.

"But by looking at different scenarios we could easily see that if we amortized the surplus [and the booming stock market reversed course], how quickly we'd work up to having to begin contributing 12–14 percent of payroll, and we didn't want that to happen," Kallos says. "So we convinced the trustees to maintain a minimum level of funding, and that has allowed us to still have a surplus today when so many other funds are in a deficit."

"Convincing" trustees to do anything in particular isn't necessarily an actuary's responsibility. But helping them to understand the choices and challenges they face is—and it's no small task. That's particularly the case with Taft-Hartley plans, with their split union and management-trustee governing bodies.

"I've been in this business for 27 years," says Eric Weiss, VP of Labor Relations for **Giant Food, Inc.**, "and Gene's techniques are quite different from anybody I've encountered."

"He is right down the center of the fairway; he does not favor one side or the other; he's about as apolitical a consultant as I've seen," Weiss says.

That assessment is shared by David Blitzstein, who directs the negotiated benefits department of the United Food and Commercial Workers Union, representing 1.4 million members in North America. "He brings so much credibility that it helps us overcome any suspicions that may exist" between union and management camps, says Blitzstein.

And by "breaking the time warp" with real-time simulations, Kalwarski "puts the board in a position to do a series of what-ifs and interact with one another in a meeting—this is a critical breakthrough," Blitzstein adds.

Connecticut Yankee

Kalwarski's track record as an innovator dates back to his first job as a computer programmer for a road construction company in 1974 in his native Connecticut. "I was asked to build software to monitor equipment wear and tear on a weekly basis, so executives could price their bids more accurately," Kalwarski recalls.

The following year, in a move that foreshadowed his work in building visually compelling actuarial-simulation tools, Kalwarski introduced graphics to Census Bureau industry statistical reports, supplementing mind-numbing tabular data.

And in 1975, when he heard that a federally chartered insurance company (the **Pension Benefit Guaranty Corp.**) was being established to guarantee minimum benefits participants of bankrupted pensions, Kalwarski talked his way into his first bona fide actuarial job. At the PGBC, Kalwarski established spreadsheet modeling systems to perform actuarial forecasts for troubled pension funds, and to test the financial implications of proposed reforms to the laws governing pension insurance.

His early track record at the PGBC and another actuarial firm (**Towers Perrin**) gave him the professional foundation to launch and begin building a successful Washington-based actuarial consulting practice for Milliman USA in 1981. Three years later, he became the firm's youngest equity principal. In 1982, Kalwarski recalls, he bought a PC and created applications to do pension valuations.

"Back then the other firms were using mainframes, and the output was manually posted to report drafts," he says. "As a result of substantial cost savings, which I was able to pass on to my clients, I was able to propose services that undercut the competition"—and build a substantial client base of "jumbo" ($1 billion-plus) pension clients.

While the result was positive for his firm and practice, competitors were not cheerful about losing lucrative contracts with blue-chip clients. "I was accused of 'buying the business' and being unprofessional," Kalwarski recalls.

Undaunted, he continued to build a diverse client base (including the **World Bank** and the **Polish Social Security System**), with help from a talented staff, by designing and offering interactive analytical tools "to assist with complex financial issues," Kalwarski says.

Now with Cheiron, Kalwarski and his dozen colleagues continue to introduce unique new services (including "B-Scan," an employee benefit administrative product) with the common theme of giving clients hands-on tools to evaluate and manage complex decisions.

The result for Kalwarski clients, as David Blitzstein describes it, is "we often discover we have more alternatives than we thought, which makes long-term decision-making more effective and allows us to be better long-term thinkers."

Richard F. Stolz can be reached at letters@innovatormedia.com

> ***Like most pension plans at the time, Arlington County's, which covers 7,700 active and retired employees, was overfunded, thanks to the run-up in equity values during the 1990s. The strong temptation… was to take a fiscal breather and suspend fund contributions until the ongoing accrual of benefit liabilities had whittled away at the fund surplus.***