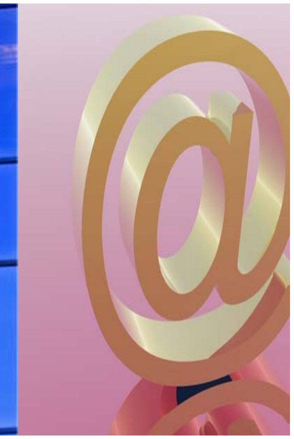





# *The Call Pay Income Strate*

## Our Primary Strategy for 2011

- **Help our clients reduce their operating expenses associated with:**
- **Compensations programs**
- **Benefit Plans**
- **Physician Integration / Relationships**
- **Develop partnerships that are beneficial to our clients**

## We developed a call pay program designed to meet the following goals:

- Transition from a cash payment philosophy to the
- development and implementation of a retirement program
- opportunity
- Maintain integrity of medical staff process
- Generate immediate and long-term savings
- Control future escalation in call pay amount
- Flexibility in implementation
- Provide a competitive differentiation
- Encourage long-term retention

## Call Pay Facts

- 2008 - 36% of hospitals provided on-call pay to at least one Service
- 2009 - 86% of hospitals provided on-call pay to at least one Service
- From 2007-2010 call pay expenses have increased:
  - 88% in trauma centers
  - 91% in non-trauma centers

# Call Pay Dilemma – Systems

- Paying cash for call typically undermines the established medical staff process
- Cost of call is becoming a significant burden on hospital operating margins
- Current structure unsustainable as costs are escalating yearly at unacceptable rates
- Hospital systems face increasing call pay requests – inevitably becoming the industry standard
- Increasing strain on emergency departments – increasing number of uninsured patients

## Call Dilemma — Physicians

- Perception that "On-Call" problem for physicians is unreimbursed care

- In reality, "On-Call" is a time (lifestyle) issue

- Historical attempts have been to solve this with monetary Payment

- Payment is made/taxed/spent – money is gone and the time (lifestyle) issue is unchanged

- Current call pay structure will never be enough to reimburse for excess time away from family

## Additional Physician Issues

- Call time adds increasing burden to physician work schedules
- Call time limits physicians' opportunity to maximize income
- Reduces in-clinic time
- Reduces opportunity to schedule elective cases
- Increases exposure to uninsured patients and corresponding legal risk
- Private practice physicians have difficult time sheltering money for retirement
- Qualified plans inadequate to meet the needs of highly compensated physicians – increased exposure to market risk

# Solution

## Our approach to solving the call pay issue is focused on answering four key questions:

- How do we generate immediate savings for systems?
- Can we offset physician time issues by addressing another critical issue?
- How do we design a plan to more adequately reward physicians for time commitment?
- How do we stabilize and support the existing medical staff process?

# Solution

## *Hospital Issues*

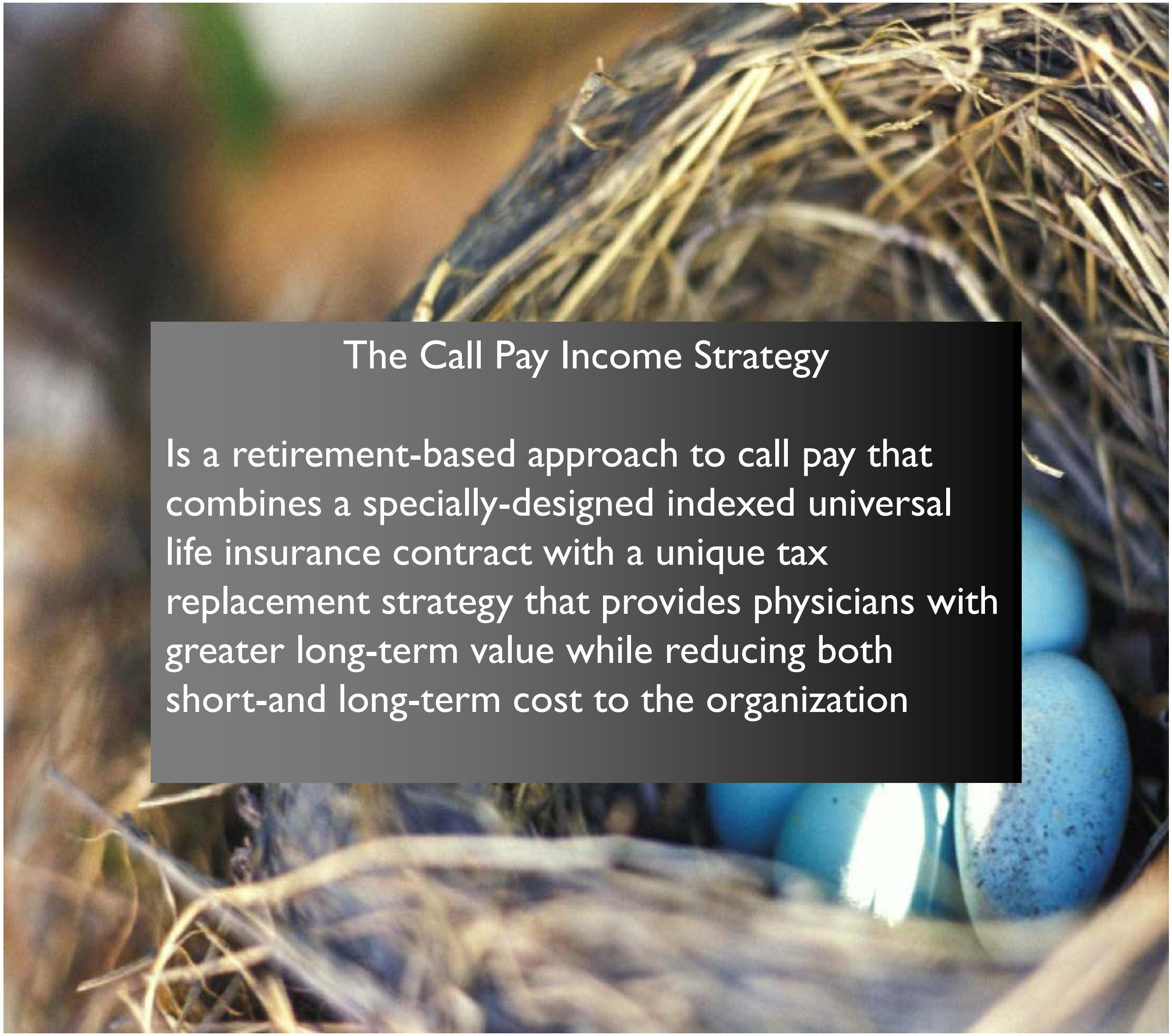
Need:

- Physician's time to cover call
- To maintain integrity of medical staff process

## *Physician Issues*

- Time away from clinic
- Time away from family
- Increased malpractice exposure
- Negative impact on practice

**Cost of Retirement Savings**



## The Call Pay Income Strategy

Is a retirement-based approach to call pay that combines a specially-designed indexed universal life insurance contract with a unique tax replacement strategy that provides physicians with greater long-term value while reducing both short-and long-term cost to the organization

# The Call Pay Income Strategy

**Designed to provide a tax leveraged savings opportunity similar to a Roth IRA**

Similarities

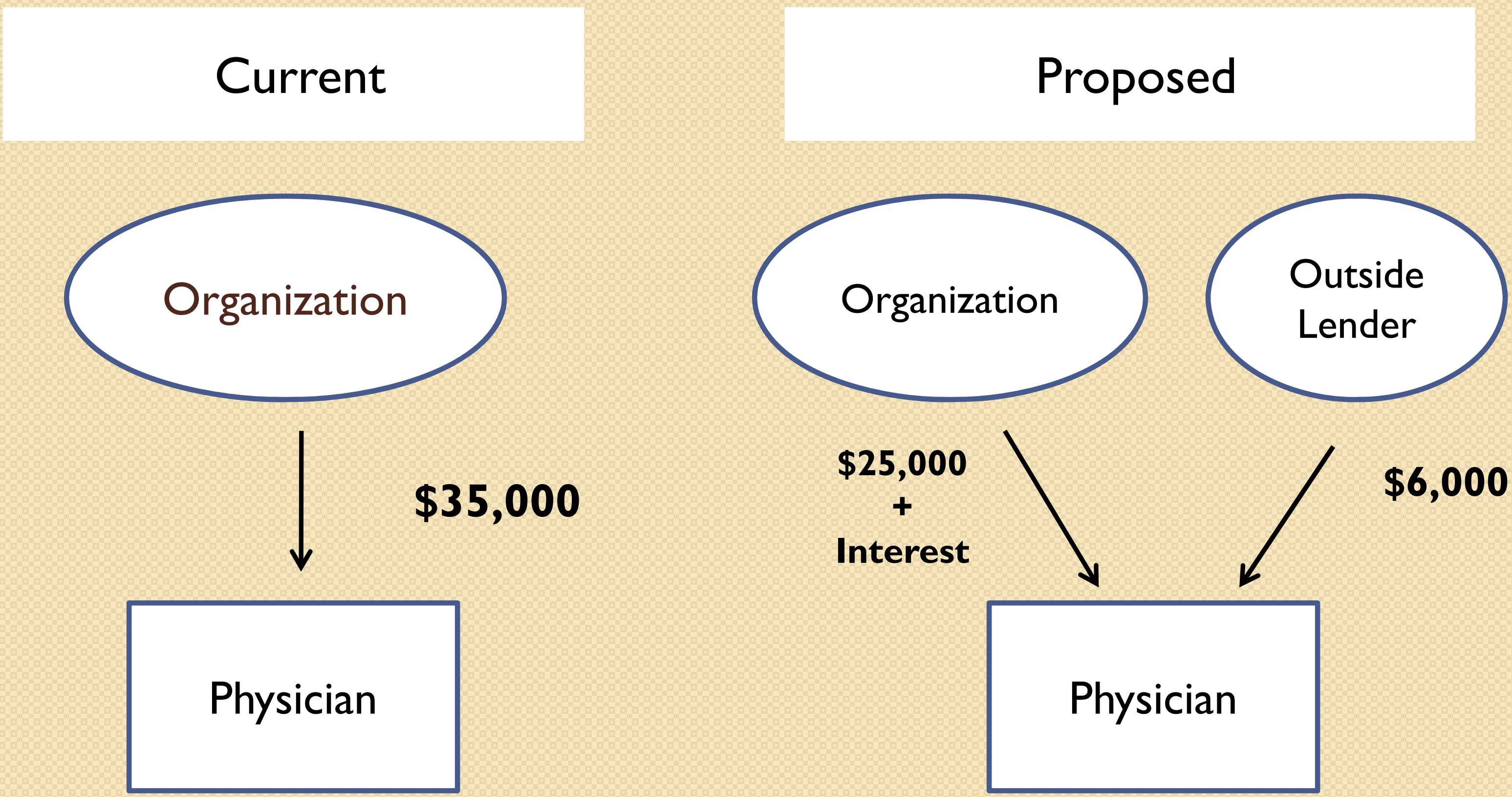
- Contributions made after-tax
- Account grows tax-deferred
- Distributions are tax-free

Differences

- No income limits for participation/No limit on contributions
- Provides a gross up of up to 40% on after-tax contributions to replace potential taxes paid
- Contributions are invested in a highly tax-efficient indexed universal life insurance contract
- Provides minimum annual guaranteed return

***"Dollar for Dollar, A Roth IRA may just be the best savings plan in America."***
**- Money Magazine, October 2008**

# Call Pay Comparison




- 1099 of $35,000
- Taxes at 40%: $14,000
- Net of $21,000

- 1099 of $25,000
- Taxes @ 40%: $10,000
- Net contribution: $15,000
- Gross-up loan: $6,000
- Net investment: $21,000

# Comparison of Call Pay options

**Current annual call pay obligation of $35,000 reduced to $25,000 (plus interest) in the CPIS Program**

Impact to organization using CPIS scenario

| Year | Proposed call pay | Match / Loan | Annual interest on Loan | | Total Annual cost to Organization |
|---|---|---|---|---|---|
| 1 | $25,000 | $6,000 | $575 | | $25,575 |
| 2 | $25,000 | $6,000 | $1,150 | | $26,150 |
| 3 | $25,000 | $6,000 | $1,725 | | $26,725 |
| 4 | $25,000 | $6,000 | $2,300 | | $27,300 |
| 5 | $25,000 | $6,000 | $2,875 | | $27,300 |
| : | | | | | |
| 20 | $25,000 | $6,000 | $11,500 | | $36,500 |

| | | | | | |
|---|---|---|---|---|---|
| **Totals** | **$500,000** | **$120,000** | **$120,750** | | **$620,750** |
| **NPV @ 6%** | **$286,748** | **$68,820** | **$56,753** | | **$343,501** |

**Assumptions:** Annual increase in Call Pay (if paid in cash): 3%
Tax rate: 40%
Loan interest rate: 6.0%
Carrier: Penn Mutual Life

Impact of organization if Call Pay is paid in cash annually

| Year | Call Pay |
|---|---|
| 1 | $35,000 |
| 2 | $36,050 |
| 3 | $37,132 |
| 4 | $38,248 |
| 5 | $39,393 |
| : | |
| 20 | $61,373 |

| | |
|---|---|
| **Totals** | **$940,463** |
| **NPV @ 6%** | **$509,654** |
| | |

## The Call Pay Income Strategy

- Provided on an after-tax basis
- Outside of IRS deferred compensation scrutiny
- Utilizes a highly tax-efficient indexed universal life insurance Product
- Immediately vested – fully portable
- Provides a match on contributions
- Participant contribution is matched annually up to 40%
- Match funded internally through a policy loan
- Match not reportable on 990
- Organization pays annual financing cost on the match
- Only vehicle that offers tax-deferred earnings and tax-free distributions
- Provides minimum annual guaranteed return
- Tax-free distributions reduce exposure to increasing tax rates
- Assets protected from malpractice claims (in most states)

# The Call Pay Income Strategy

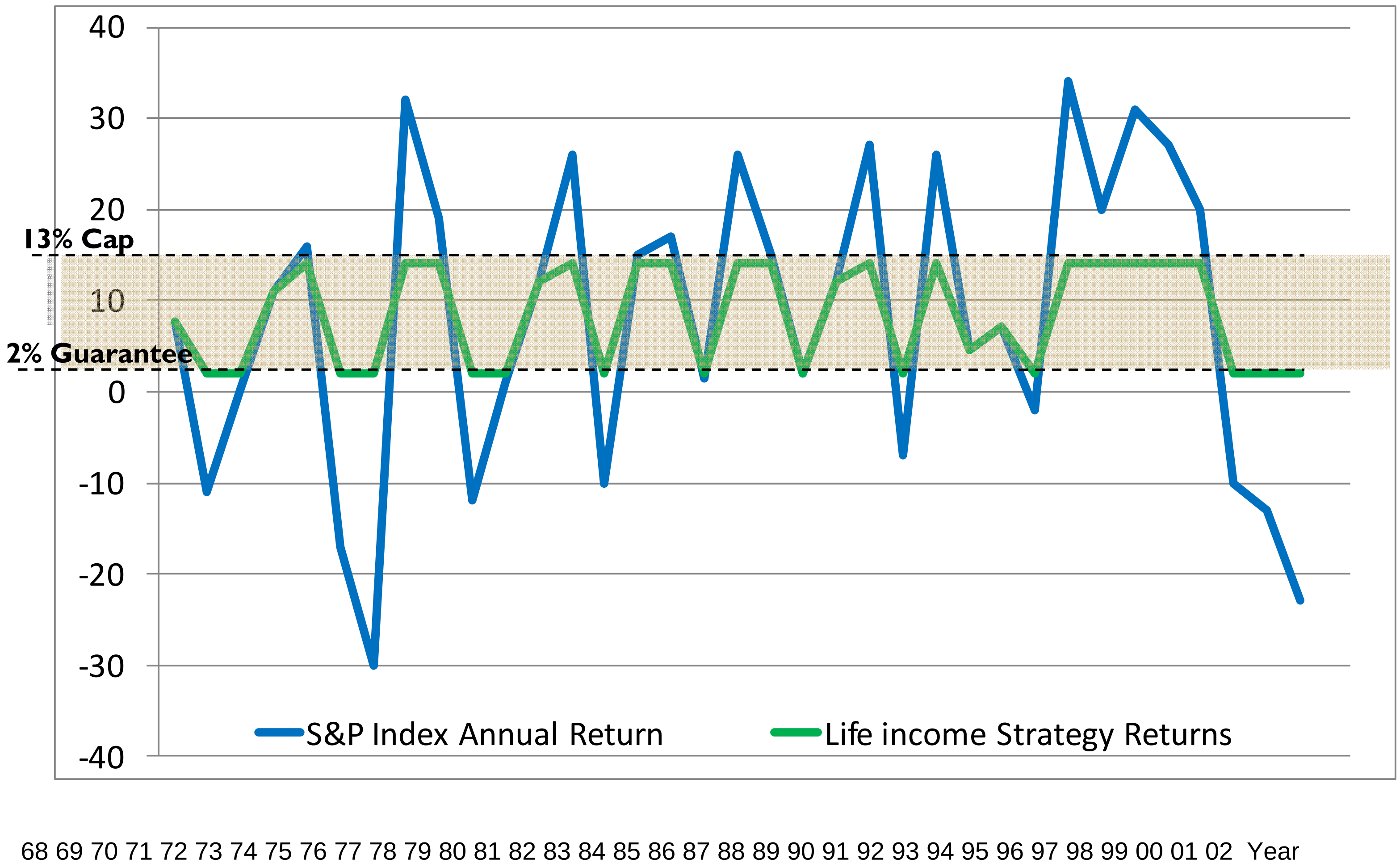
- 2% Minimum Guaranteed Return
- Annual Crediting Options
- Greater of 2% minimum guarantee or performance of S&P 500 (capped at 14%)
- Fixed crediting rate (currently 5%)
- Tax-Free Death Benefit
- Tax-Free Retirement Income for Life
- Optional Gross-Up Loan
- Available immediately
- Up to 40% of contribution to reinvest in contract
- Loan interest capped at 6%

## The Call Pay Income Strategy

- 2% Minimum Guaranteed Return
- Annual Crediting Options
- Greater of 2% minimum guarantee or performance of S&P 500 (capped at 13%)
- Fixed crediting rate (currently 5.25%)
- Tax-Free Death Benefit
- Tax-Free Retirement Income for Life
- Optional Gross-Up Loan
- Available immediately
- Up to 40% of contribution to reinvest in contract
- Loan interest capped at 6%

**Between 1984 and 2003, the S&P 500 Index grew by 12.98%. During that time the average investor, however, earned only 3.51% while the average market timer lost 3.29%**

**DALBAR Quantitative Analysis of Investor Behavior, 1984-2003.**




Represents 34 years of S&P 500 returns

Represents the application of the Life Income Strategy over the same period (never goes negative)

# *The Call Pay Income Strategy– Contract Details*

| Earning a Return Greater Than | Annual Returns | 3-yr Returns | 5-yr Returns | 10-yr Returns | 20-yr Returns |
|---|---|---|---|---|---|
| 5.0% | 70.2% | 92.7% | 98.1% | 100.0% | 100.0% |
| 6.0% | 68.2% | 84.4% | 90.4% | 100.0% | 100.0% |
| 6.5% | 66.0% | 82.4% | 87.8% | 100.0% | 100.0% |
| 7.0% | 63.0% | 78.0% | 83.8% | 100.0% | 99.3% |
| 7.5% | 61.0% | 73.3% | 77.7% | 100.0% | 95.9% |
| 8.0% | 58.7% | 68.1% | 72.4% | 97.3% | 85.8% |
| 8.5% | 57.7% | 61.6% | 65.2% | 89.6% | 71.0% |
| 9.0% | 55.4% | 55.1% | 56.8% | 72.0% | 48.6% |
| 10.0% | 51.5% | 28.9% | 34.1% | 25.1% | 8.7% |

# The Call Pay Income Strategy

## Retirement Funding Comparison- 45 Year Old

| | Call Pay paid in cash (25 year stream) | Call Pay Income Strategy (income stream to Age 121) |
|---|---|---|
| Call Pay Amount | $35,000 | $25,000 |
| Income Tax Paid | ($14,000) | ($10,000) |
| Contribution Gross up Loan | 0 | $6,000 |
| Amount to defer of invest annually | $21,000 | $21,000 |
| Annual after-tax retirement income | ***$63,156*** | ***$87,500*** |
| Total after-tax retirement income | ***$1,578,900*** | ***$4,375,000*** |
| Free of forfeiture risk | Yes | Yes |
| Free of corporate insolvency risk | Yes | Yes |
| Protection from increasing tax rates | No | Yes |
| Tax-free life insurance death benefit | No | Yes |

The Call Pay Income Strategy delivers a **38%** increase in after-tax retirement income versus cash in a 25 year income stream.

Assumptions: Tax rate: 40%; investment yield of 7% gross during accumulation phase and 5.5% during distribution phase; investment yield of 7% for CPIS; annual call pay increase of 3%; income stream begins at Age 71.