



Physicians' Retirement Savings Program

Physician's Retirement Savings Plan



The Physician's Retirement Savings Program (PRSP) offers an alternative solution to the limiting requirements associated with traditional retirement programs while providing hospitals an effective means to recruit and retain top revenue generating physicians.

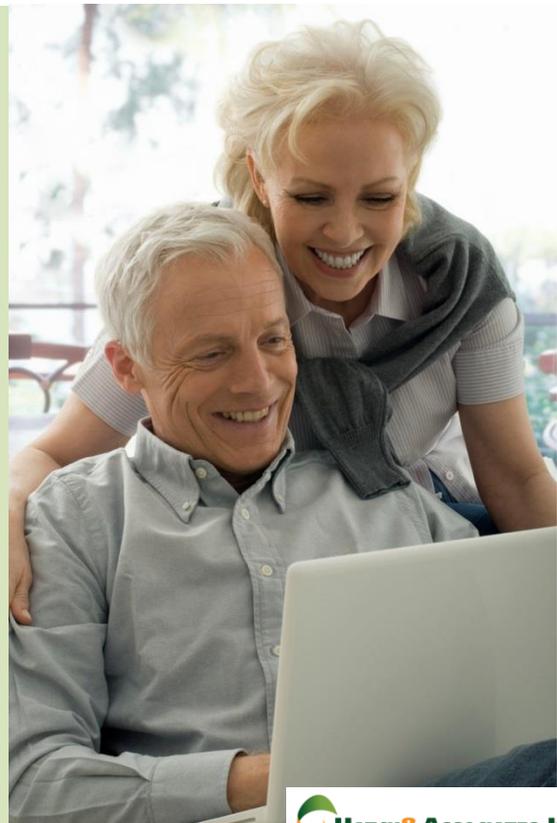
Industry forces and, in particular, the enactment of ACA are causing many health care organizations (**HCO**) to move towards a physician employment model. This has created a highly competitive market for physician acquisition and retention. However, many physicians do not favor becoming employees of hospitals or health care organizations. As such, **HCOs are highly motivated to provide performance-based incentive compensation for the purposes of recruiting and retaining executive and physician talent.**

Compensation strategies such as stock options, restricted stock, performance shares and other strategies commonly used in for-profit industries are ineffective for not-for-profit organizations. Furthermore, 457(b) and 403(b) retirement plans are

limited by maximum deferral limits and are of little value for the purposes of recruitment and retention. 457(f) nonqualified deferred compensation plans have no contribution limits, but have risk of benefit forfeiture provisions. If physicians leave the hospital before vesting, benefits are lost. In an effort to address the risk of forfeiture issue, vesting schedules have typically been collapsed to a maximum of 5 years and many to as few as 2 years. This has created a dilemma; although the risk of forfeiture is mitigated by abbreviated vesting periods, participants obtain marginal tax benefit, and the plan delivers little, if any, retention value. Lastly, 457(f) plans are subject to strict IRS compliance requirements, the violation of which exposes participants to highly punitive financial penalties often exceeding 70% of their plan balances.

Physician's Retirement Savings Plan Key Features

- Bonuses and/or base compensation are invested in a unique, tax-advantaged product that currently offers an investment return floor of 0% and a cap of 12%.
- Plan balances and credited gains are protected from investment loss.
- The plan and benefits are portable and 100% vested at all times.
- Investments grow tax-free.
- Physicians may withdraw funds and gains from policy cash values during retirement, tax-free.
- Tax-free survivor benefits are available for family members or estate liquidity needs.



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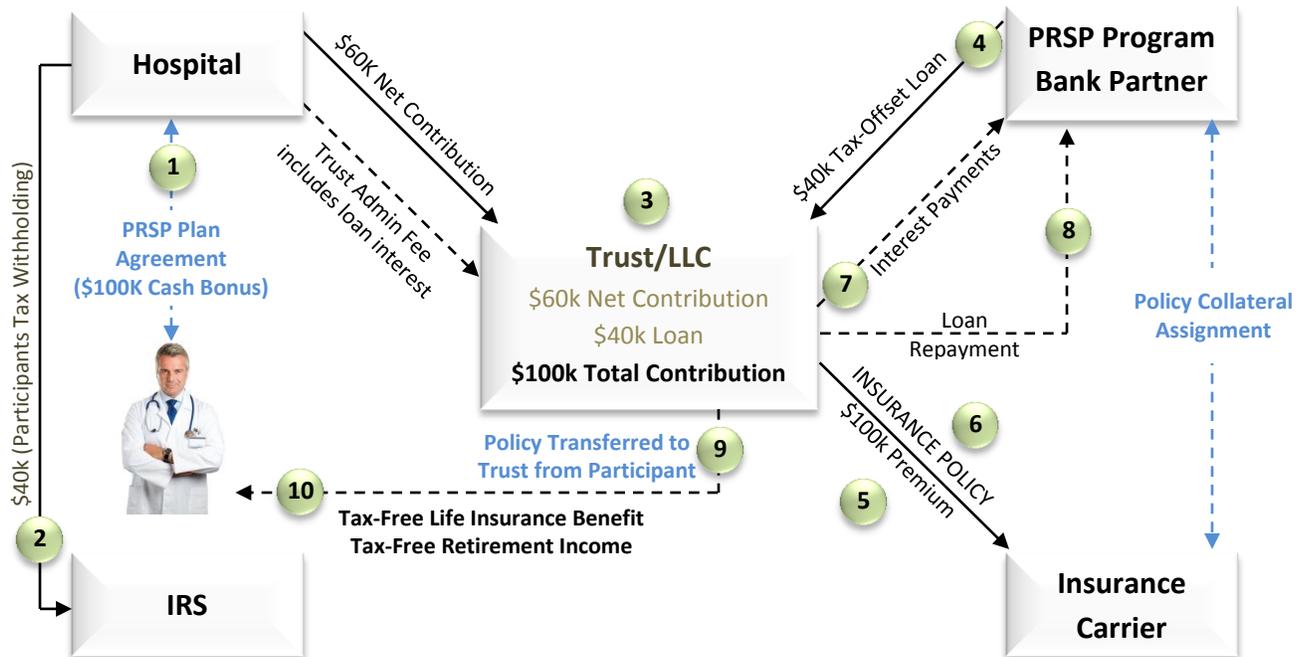
Assumes a \$50,000 annual bonus, 40% tax rate, 7% crediting rate, held for 10 years with benefits paid out over 15 years beginning at age 65. As shown in the table below, the PRSP would provide significantly higher retirement savings and estate benefits compared to traditional after-tax alternatives.

Physicians Retirement Savings Plan						
Physician Age	Annual Investment Net of Taxes	Total Investment	Annual After-Tax Benefits at 65	Total Benefits over 15 Years	Post-Benefit Account Value at 80	Initial Life Insurance Benefits
55	\$50,000	\$500,000	\$68,333	\$1,025,000	\$154,883	\$812,632
50	\$50,000	\$500,000	\$99,167	\$1,487,500	\$152,261	\$960,821
45	\$50,000	\$500,000	\$140,833	\$2,112,500	\$176,351	\$1,175,198
40	\$50,000	\$500,000	\$199,167	\$2,987,500	\$155,491	\$1,433,718
Totals	\$200,000	\$2,000,000	\$507,500	\$7,612,500	\$638,986	\$4,382,369

AFTER-TAX SAVINGS Plan						
Physician Age	Annual Investment Net of Taxes	Total Investment	Annual After-Tax Benefits at 65	Total Benefits over 15 Years	Post-Benefit Account Value at 80	Initial Life Insurance Benefits
55	\$30,000	\$500,000	\$59,900	\$895,500	\$0	\$0
50	\$30,000	\$500,000	\$76,087	\$1,141,300	\$0	\$0
45	\$30,000	\$500,000	\$96,645	\$1,449,675	\$0	\$0
40	\$30,000	\$500,000	\$122,763	\$1,841,450	\$0	\$0
Totals	\$120,000	\$1,200,000	\$355,395	\$5,330,925	\$0	\$0



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CONSIDERATIONS:

- What is the financial strength and credit quality of the underlying insurance carrier offering the Indexed Universal Life product (IUL)?
- Cap rates of return and the cost of insurance can change depending on market conditions; however, the floor rates are guaranteed not to go below 0%.
- It is recommended that the hospital provide benefits to the physicians with payments for advisors regarding the implementation and the ongoing administration of the PRSP.
- Should the physicians invest a portion of base salary in the plan as well as bonuses?
 - The insurance policy needs to stay in force until death to avoid taxes.

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HATCH & ASSOCIATES HEALTH CARE ADVISORY SERVICES:

Hatch & Associates uses its professional expertise, human capital advisory expertise to work with health care organizations and physicians to structure tax effective and competitive compensation packages. These tax and advisory services include:

- Deferred compensation strategies for physicians.
- Compensation design.
- Competitive compensation assessment.
- Strategic business planning.

ABOUT HATCH & ASSOCIATES

Hospitals face increasingly complex issues regarding the structure, funding, and plan design of the compensation and benefits programs for executives and highly paid professionals. The consultants of Hatch & Associates act as independent, outside advisors to compensation committees and senior management. The consultants at the firm have a minimum of 20 years' experience assisting organizations develop tax effective deferred compensation arrangements. We help management work with their HR team to develop comprehensive compensation and benefits strategies and programs for executives and professionals. We have assisted scores of companies both for profit and not-for-profit on design, fund, and implement programs that allow executives and professionals to accumulate capital to secure their retirement.





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