

Trends / Sales Ideas for Hospitals and Physician Groups



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What types of benefits are used?

- Supplemental retirement benefits
- Supplemental disability benefits
 - Physicians
 - Executives and administrators
- Group term life carve outs
- Long term care (healthcare organizations are aware of and sympathetic to the need)
- Compensation consulting engagements

Where do these benefits get used?

Hospitals



- Not for Profit
 - Stand Alone
 - Systems
 - Teaching/University
- For Profit

Note: These benefits are often found in other tax exempt organizations

Physician Groups



- Pass through entities
- Groups within hospitals as employees

Where do you start?

- Assuming a not for profit –
 - Board members (annual report online)
 - CEO/CFO
 - HR Director (typically very influential in larger organizations)
- Highly paid persons and their personal retirement adequacy
- Benefit Survey Information – essentially prevalence data
 - For example: http://www.yaffeco.com/site/wp-content/uploads/2011/07/2011-Executive-Benefits-Supplement-for-Non-Profit-Hospitals-Systems_New.pdf
- IRS form 990 review for tax exempts

IRC 4958

- High profile compensation abuses
 - Can risk the tax exempt status of the organization
 - Less severe are “intermediate sanctions”
 - Claw-back of the benefit
 - Up to 200% excise penalty
 - \$10,000 per violation collectively & severally
- “Authorizing body” must obtain and rely on comparability data and must document that the data was analyzed
- Opinion of reasonableness

Supplemental Retirement Benefits

- Needs / problems
 - Compensation and contribution limits in the IRC
 - \$250,000 / \$17,000
 - Discrimination testing results in 401(k)
 - 403(b) plans continue to have limited test requirements
 - Lack of equity based compensation
 - The dilemma of IRC 457
 - (b) contribution limits & automatic vesting
 - (f) vesting vs. taxation trade-off
 - Historic split dollar plans that didn't work

Historical practices

- 457 (b) & (f)
- Equity Split Dollar
 - Less prevalent today than in the past
 - Some synthetic versions:
 - Use of third party lenders
 - Multiple policies
- Deeply discounted stock options
- Flex benefits combinations of available options

Split dollar

- Had several advantages
 - Premium payments were not considered compensation
 - Imputed income was minimal – *was policy value in excess of premium paid taxable?*
 - Payout arrangements were pretty flexible
- Current environment
 - Loan regime
 - Abnormally low interest rates (each premium is a new loan)
 - Seems to address taxation of the “equity”
 - Still need a rollout
 - Economic Benefit (endorsement) under Table 2001
 - Effective for pre-retirement arrangements

Retirement Planning Options

457 (b)

Pretax Savings

EE or ER \$

Vesting

Contribution Limit
\$17K

Exempt from 409A

457 (f)

Pretax Savings

Usually ER \$

Substantial Risk of
Forfeiture

No Contribution
Limit

Pretax / After-tax \$

After tax plans

Insurance - 162

Tax Deferred Growth

Tax Free Death
Benefits

Flexibility

Comparison of key plan features

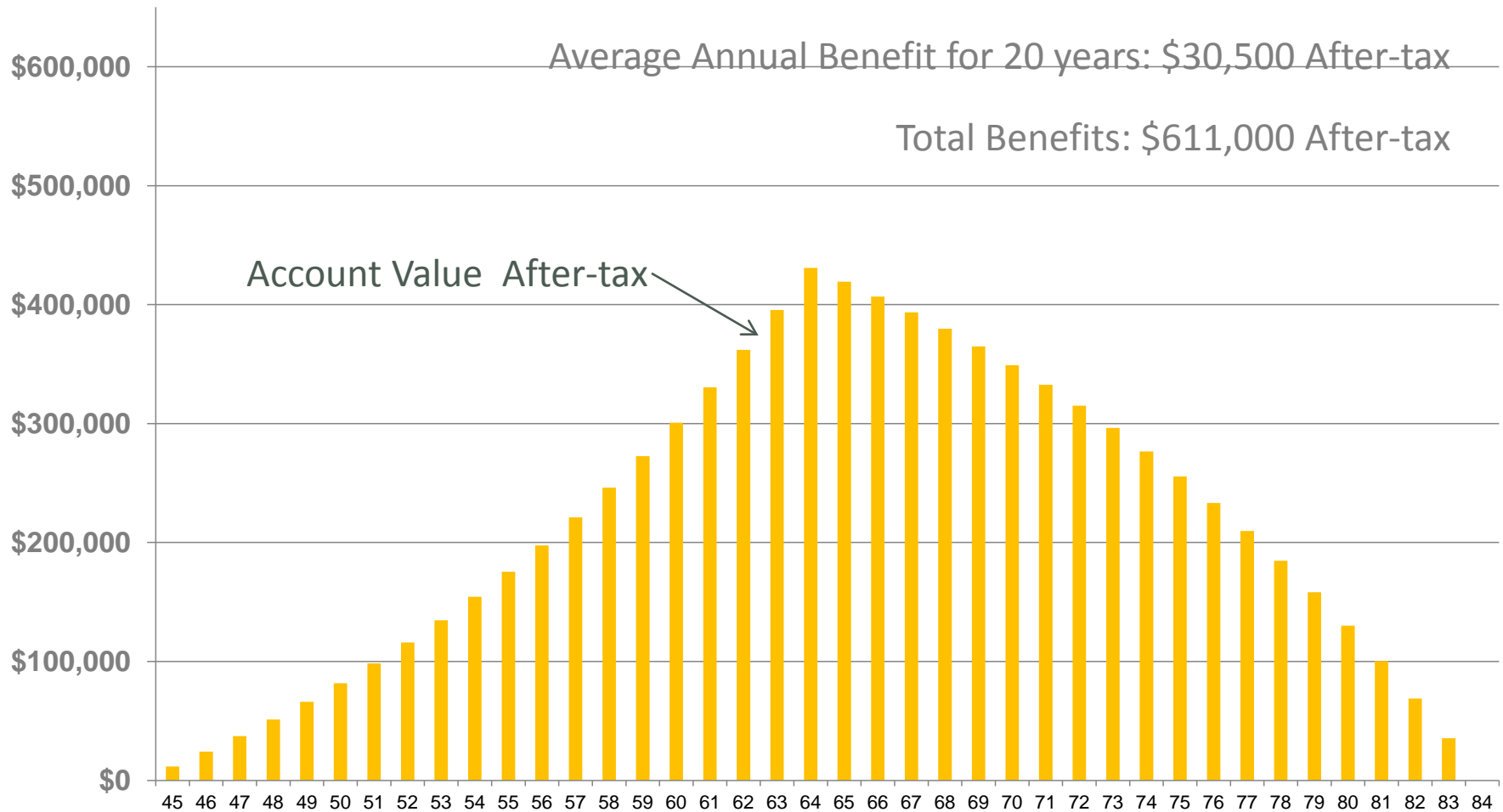
	457(b)	457(f)	After-tax Bonus Plan
Tax status of Contributions	Pretax	Pretax	After-tax
Contribution Limits	\$17,000	No limit	No limit but subject to reasonable compensation
Vesting	Yes	Yes - but amounts vested are taxable	No
General Creditor Risk	Yes	Yes	No
Additional Survivor Benefits	No	No	Yes
Administrative Requirements	Possible	Possible	No
Fees	Yes Plan Documents and or Administration	Yes Plan Documents and or Administration	No
Asset Growth	Tax deferred then taxable at ordinary income tax rates	Tax deferred then taxable at ordinary income tax rates	Tax deferred then tax free if held until death
Investments	Mutual funds or Annuities	Mutual funds or Annuities	Life Insurance

Case example – SERP

- Participant age 45
- \$17,000 contributed each year to 457 plan
- Contributions are made to age 65
- Interest credited to participant account: 6%
- Benefit paid to participant at age 65 and taxed
- Ordinary income tax rate: 35%
- Account Balance at age 65:
 - \$662K pretax ; \$430K after-tax

This example is hypothetical and is for illustrative purposes only. It should not be deemed as a representation of past or future results.

SERP Benefit Results



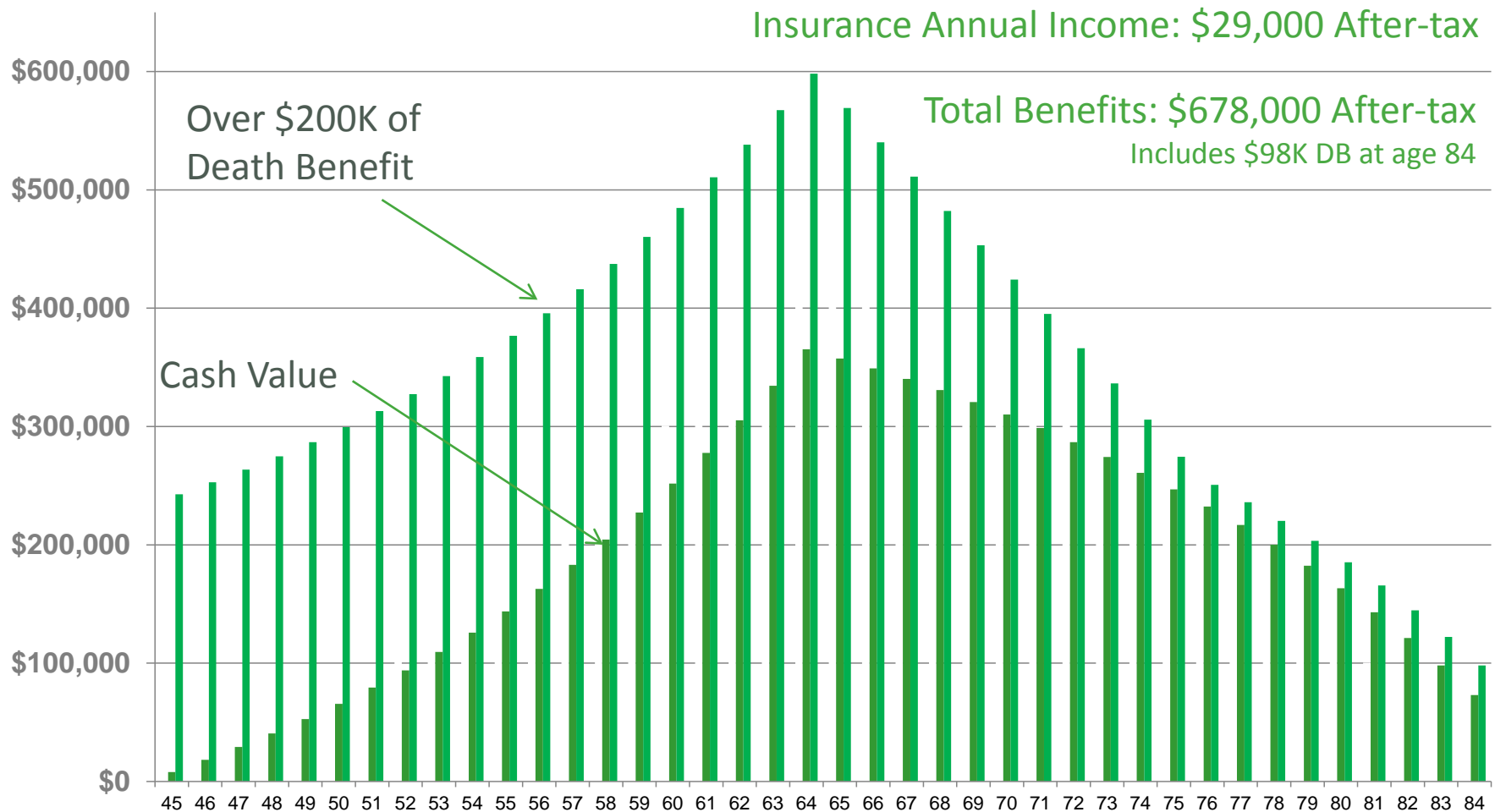
Hypothetical, for illustrative purposes only.

After-Tax Alternative using Life insurance

- Participant age 45
- \$17,000 contribution target
 - \$11,050 after-tax
- COLI policy
- Hypothetical investment yield: 6%
- Income Duration: 20 years
 - via withdrawals to basis then loans

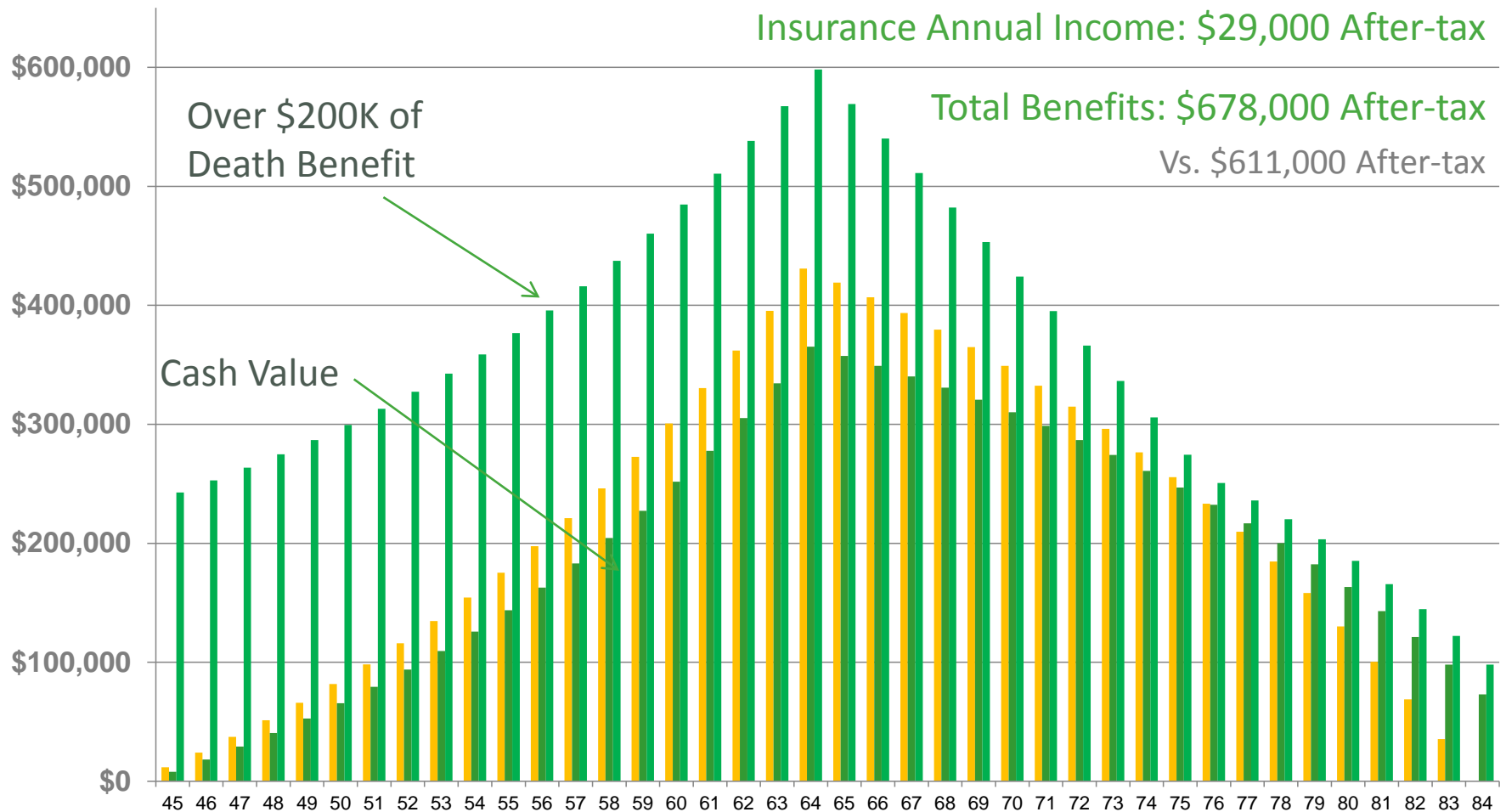
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Insurance Results



Hypothetical, for illustrative purposes only.

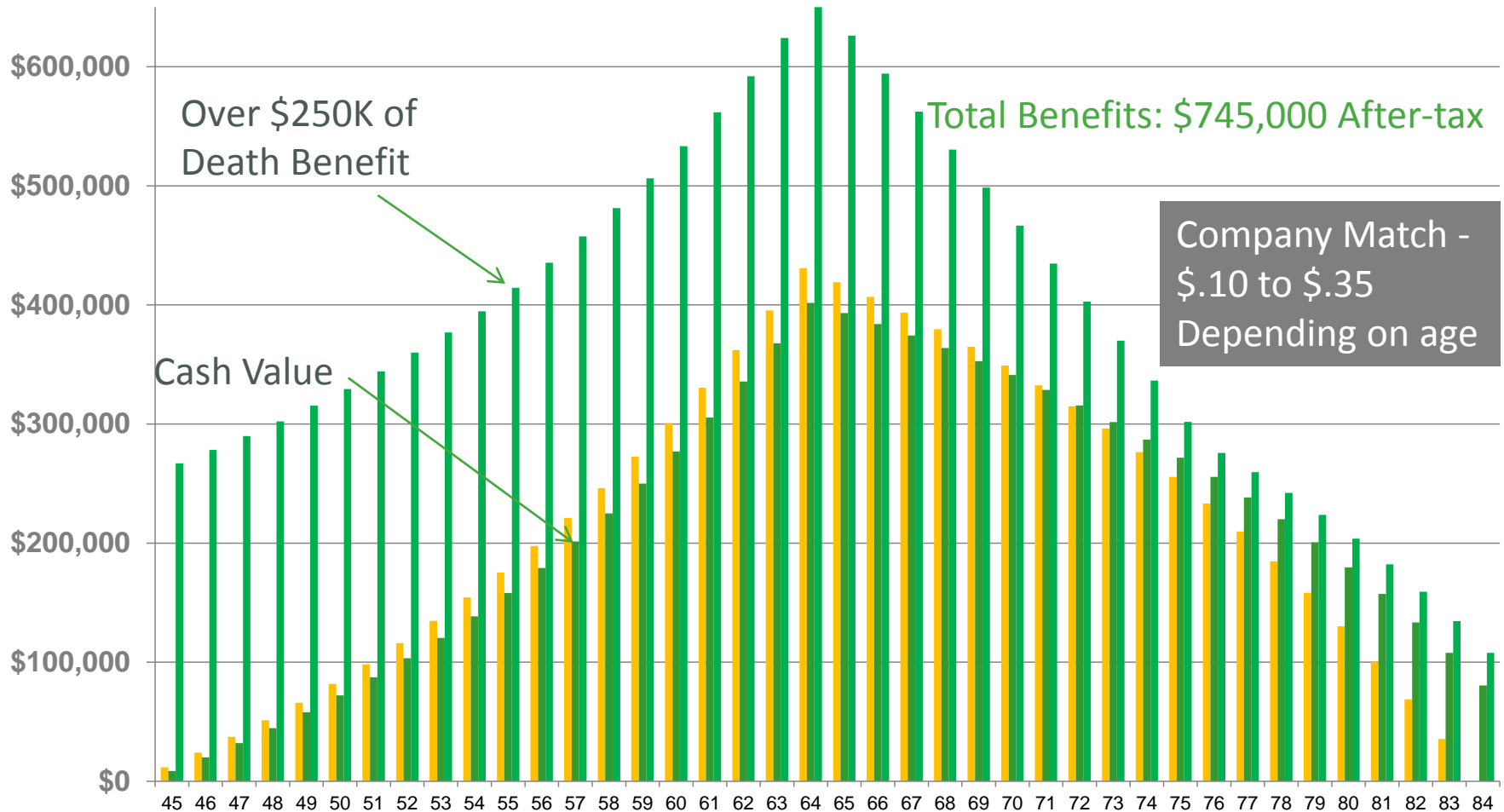
Insurance Results



Hypothetical, for illustrative purposes only.

Insurance Results – with company match

Insurance Annual Income: \$31,000 After-tax



Hypothetical, for illustrative purposes only.

Supplemental Disability

- Restore coverage on higher compensation
- Market has opened as to the attractiveness of physicians
 - Limits have increased
 - Rates can be better on new policies vs. old
 - Definitions are “better” re-filed physician groups
 - Own occupation
 - Lifetime benefits
 - Return of premium
- GI limits can be higher than in the past
 - Some carriers will offer GI on voluntary plans with participation requirements

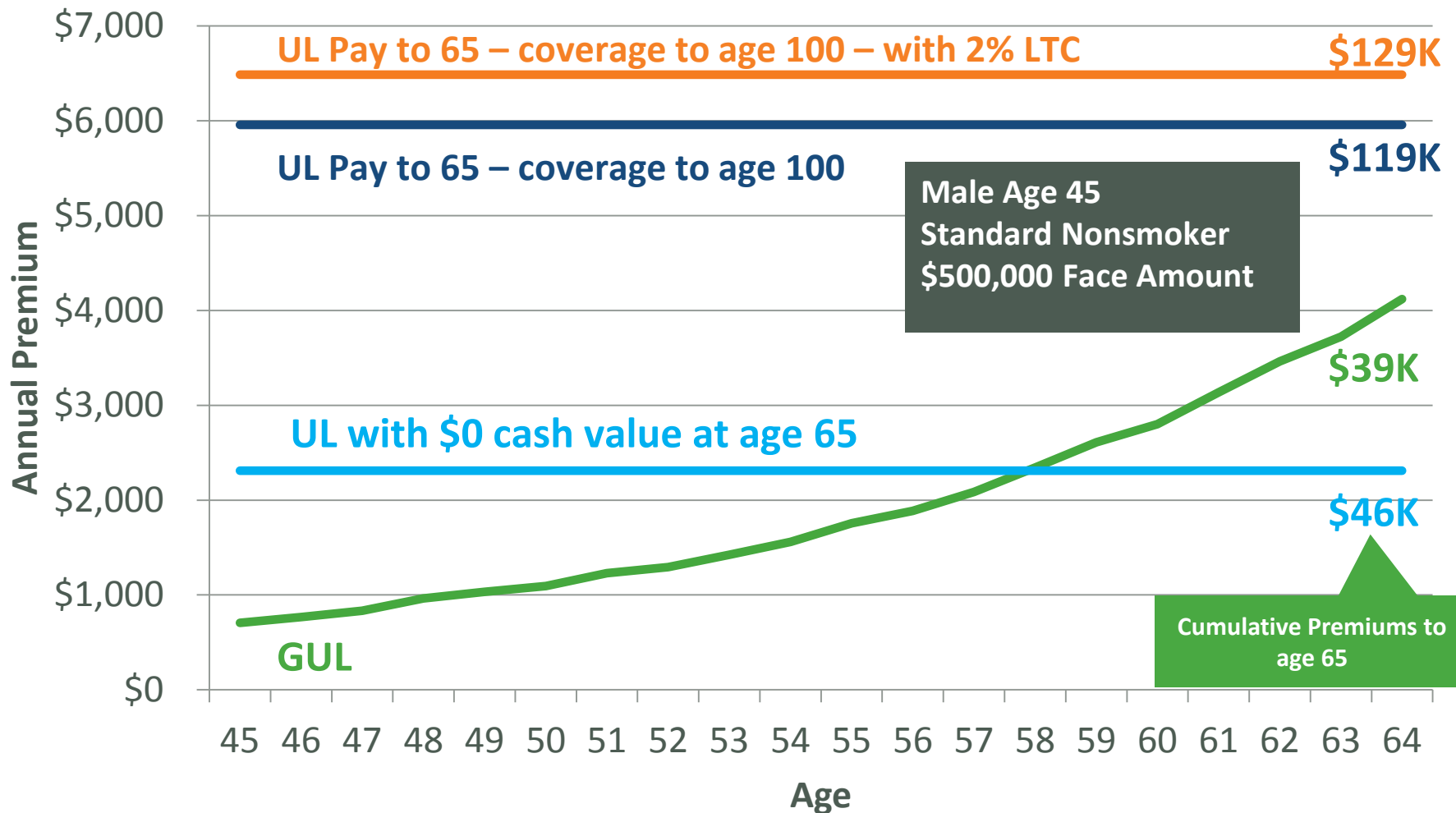
Long term Care Insurance

- The medical market is attuned to the need
- Employer paid for a basic amount of coverage with buy-ups to higher levels and/or inclusion of spouses
- Might consider combination riders inside life policies,
 - Probably best where the policy is used for death benefits

Life Insurance

- Split Dollar
- 162 Bonus
- Section 79 carve-outs
- Combinations:
 - Endorsement split dollar @ 3 times pay
 - At retirement it reduces to 1.5 times and the policy is bonused to the executive
 - If this idea is promised then the estimated cash value at retirement needs to be accrued as an expense – probably under the rules of 457(f)

Life Insurance Sample



Hypothetical, for illustrative purposes only.

Summary

- The needs are similar to all other corporations
- The planning tools are somewhat different due to:
 - Lack of a tax bracket to leverage using life insurance
 - IRC Section 457
 - Lack of equity based compensation
- Because of the involvement of compensation committees etc., there is a tendency to take a holistic approach
 - Combination programs are common