



Pearl Meyer

Healthcare Executive Benefits Planning: Supplemental Executive Retirement Plans

How to Retain and Reward Top Level Talent in Today's Healthcare Industry

Presented by Pearl Meyer and Modern
Capital

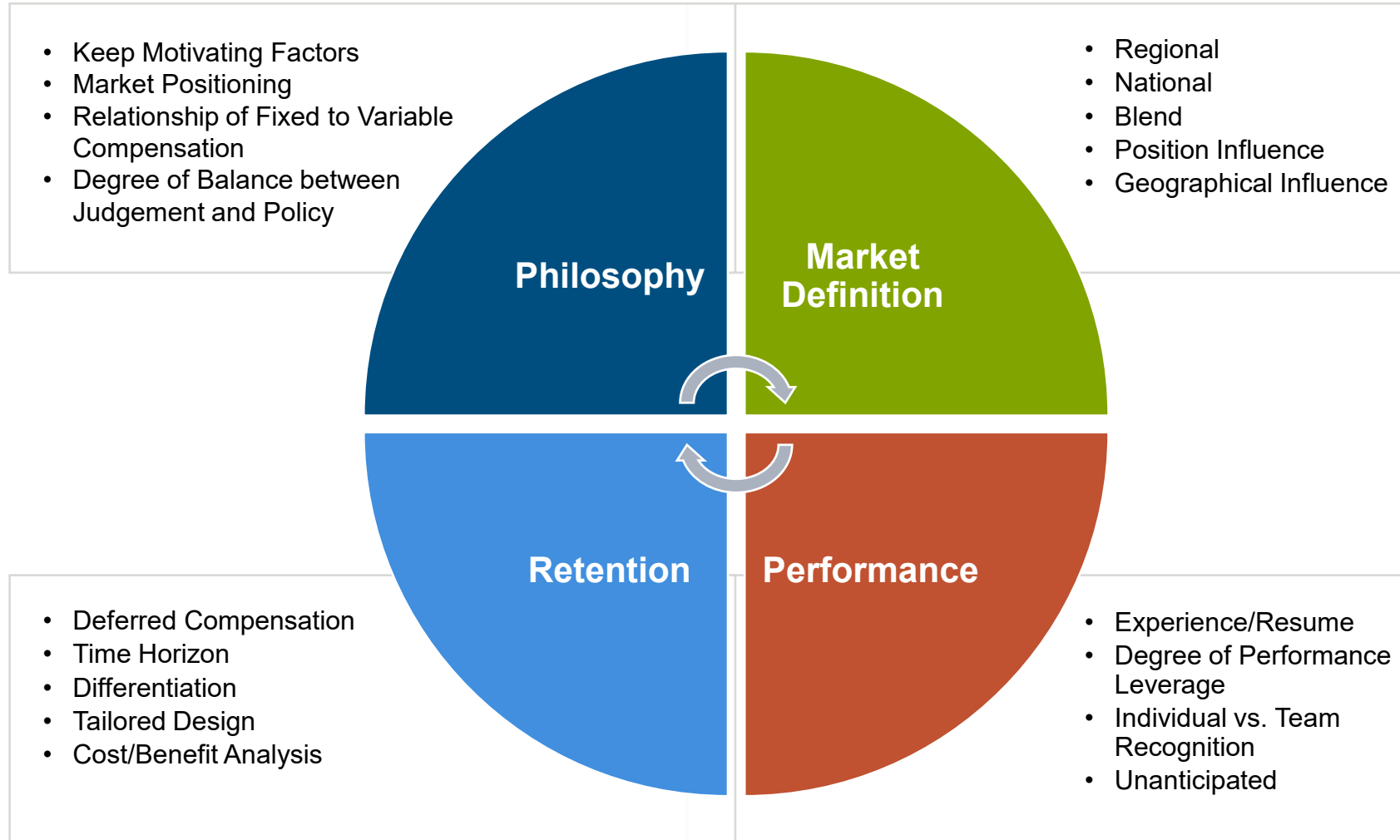
- Why Conduct Independent Remuneration Studies
- Data Gathering & Analysis
- Employer Funded SERP/NQDC Education
- Implementing SERPs for the First Time
- Enhancing a Current NQDC Package to Ensure Longer Term Retention
- Recommended Next Steps



Why Conduct Independent Remuneration Studies?

Data Gathering & Analysis

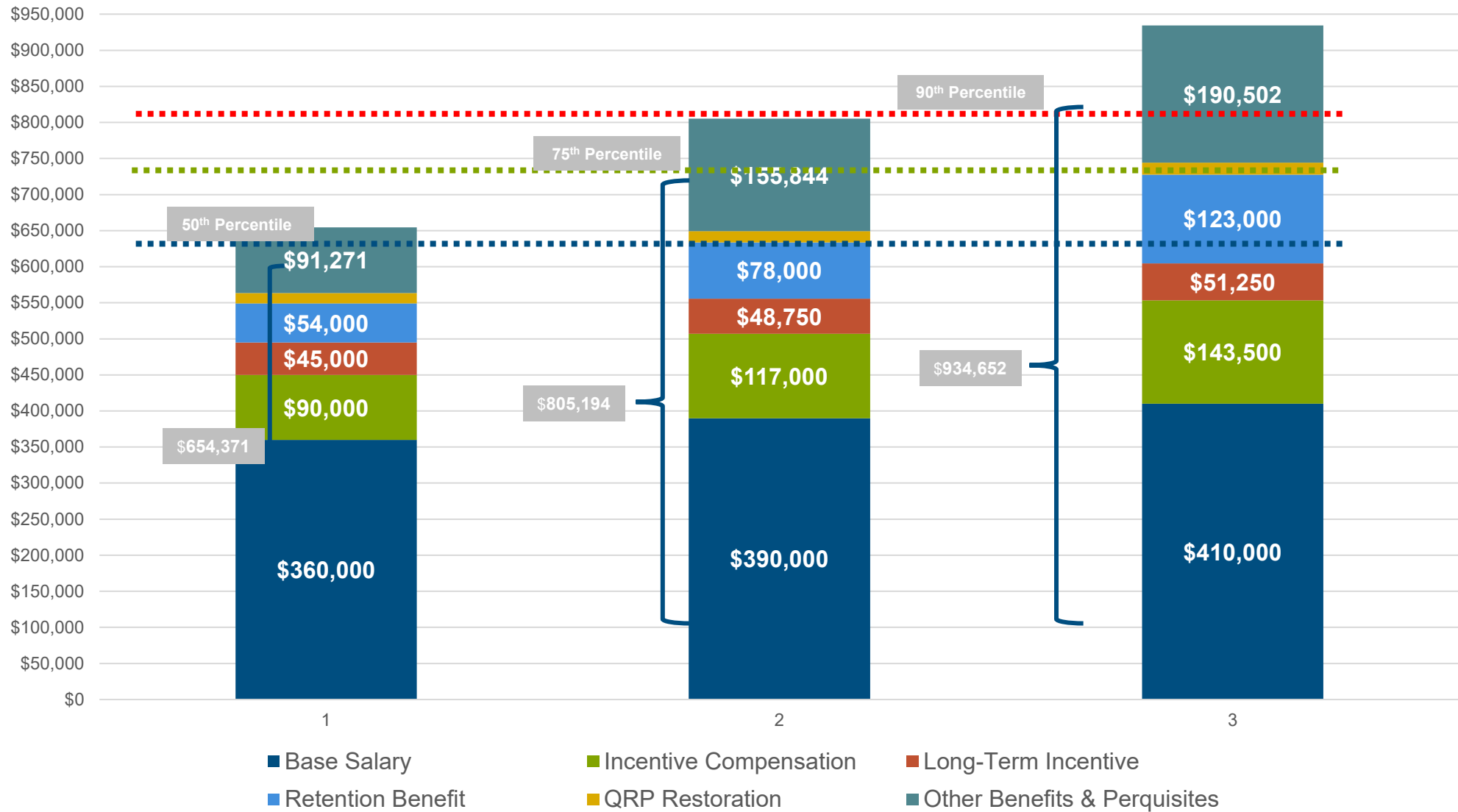
Define the "Market"



Total Compensation Theoretical Modeling



Career Horizon on Executive Compensation





Retention Plan Design Questions

- For whom are we designing this plan?
 - A single executive or an executive cabinet?
 - To what extent should the plan be the same or differ based on participants?
- What is competitive with market?
 - Conservative, aligned, or leading?
 - Should we incorporate performance into the plan?
- What are our current plans projected to provide?
 - Are our current benefits competitive?
 - Do we have a targeted retirement age?
- How do we recognize prior and future service?
- What is our perspective on near-term, long-term, or combination benefit recognition?

Getting a Baseline | Conducting a Retirement Benefit Analysis

	Five-Year Horizon	10-Year Horizon	20-Year Horizon
Name	Robert Barker	Robert Barker	Robert Barker
Position	President & CEO	President & CEO	President & CEO
Years of Service at Retirement	20 Years	20 Years	20 Years
Target Benefit %	60%	60%	60%
3-Year Final Average Base	\$450,000	\$450,000	\$450,000
Target Retirement Benefit	\$270,000	\$270,000	\$270,000
<i>Employer Provided Benefits:</i>			
Qualified Retirement Plan	\$73,300	\$73,300	\$73,300
Social Security	\$23,500	\$23,500	\$23,500
Annual Shortfall	\$173,200	\$173,200	\$173,200
Lump Sum Present Value @ Retirement	\$1,958,100	\$1,958,100	\$1,958,100
Annual Funding (\$)	\$331,500	\$143,000	\$67,000



Employer Funded SERP/NQDC Education

Employer Funded | IRC 457(f)



Defined Contribution (DC)

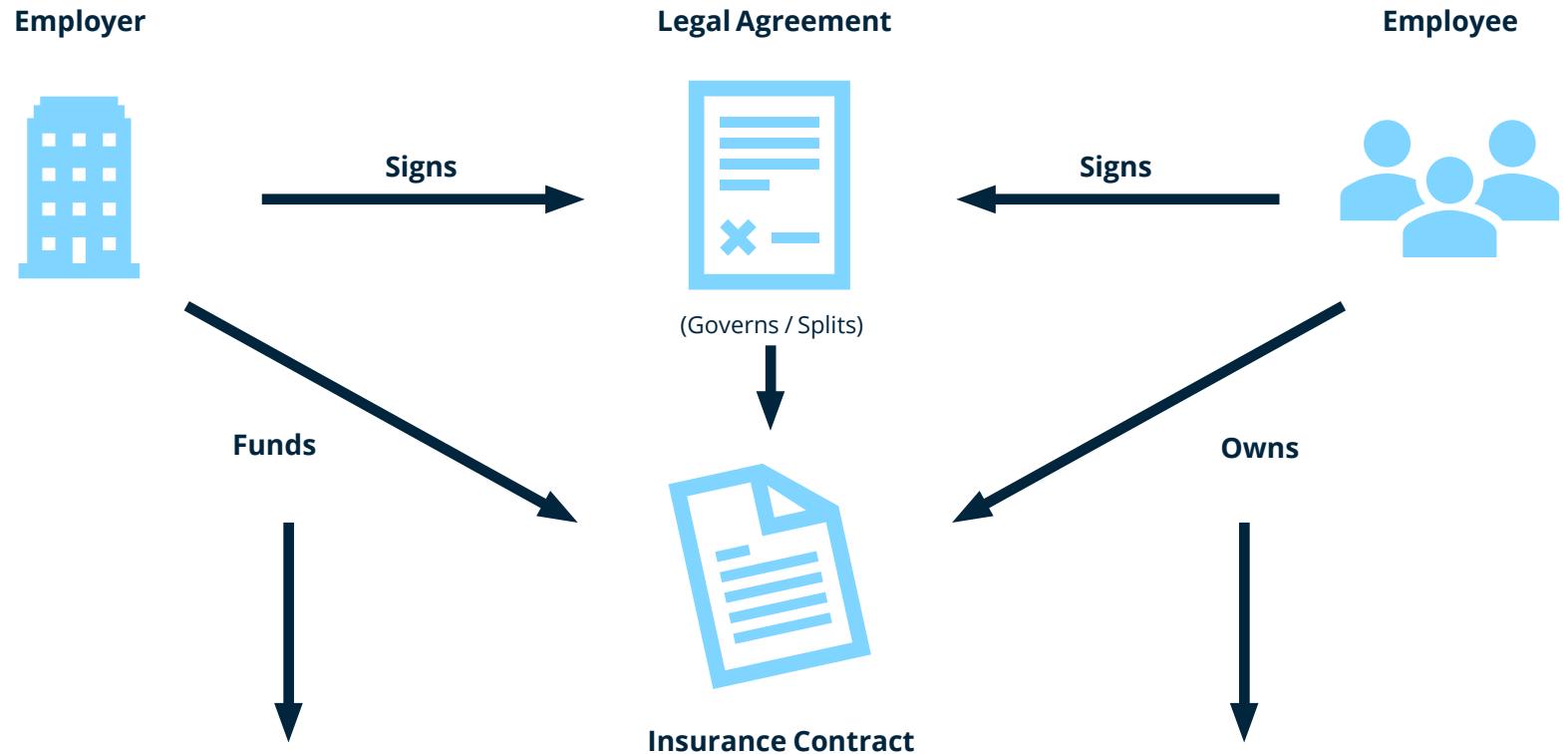
- Employer either makes an upfront investment, or defines an annual contribution
- Employee benefit(s) equal to earnings on the upfront investment, or annual contributions plus any stated earnings, to be paid out in a lump sum at a future benefit date(s)
- Employer expenses benefit(s) annually, as required under GAAP
- Employer has OPTION to purchase investment(s) to offset annual expense accrual with annual contribution option
- Employee fully vests on stated payment date(s), and is paid stated benefit(s) at that time
- Employee pays ordinary income and FICA tax on benefit(s) when vested, and uses net proceeds as they deem appropriate
- With upfront investment option, principal retained by Employer

Defined Benefit (DB)

- Employer defines stated benefit(s) to be paid at stated future payment date(s)
- Employer expenses benefit(s) annually, as required under GAAP
- Employer has OPTION to purchase investment(s) to offset annual expense accrual
- Employee fully vests on stated payment date(s), and is paid stated benefit(s) at that time
- Employee pays ordinary income and FICA tax on benefit(s) when vested, and uses net proceeds as they deem appropriate

With either option (DC or DB), the goal of the investment is a \$0 cumulative net impact to the Employer's bottom line at the time of the final benefit payment to Employee

Employer Funded | Collateral Assignment Split Dollar (IRC 7872)



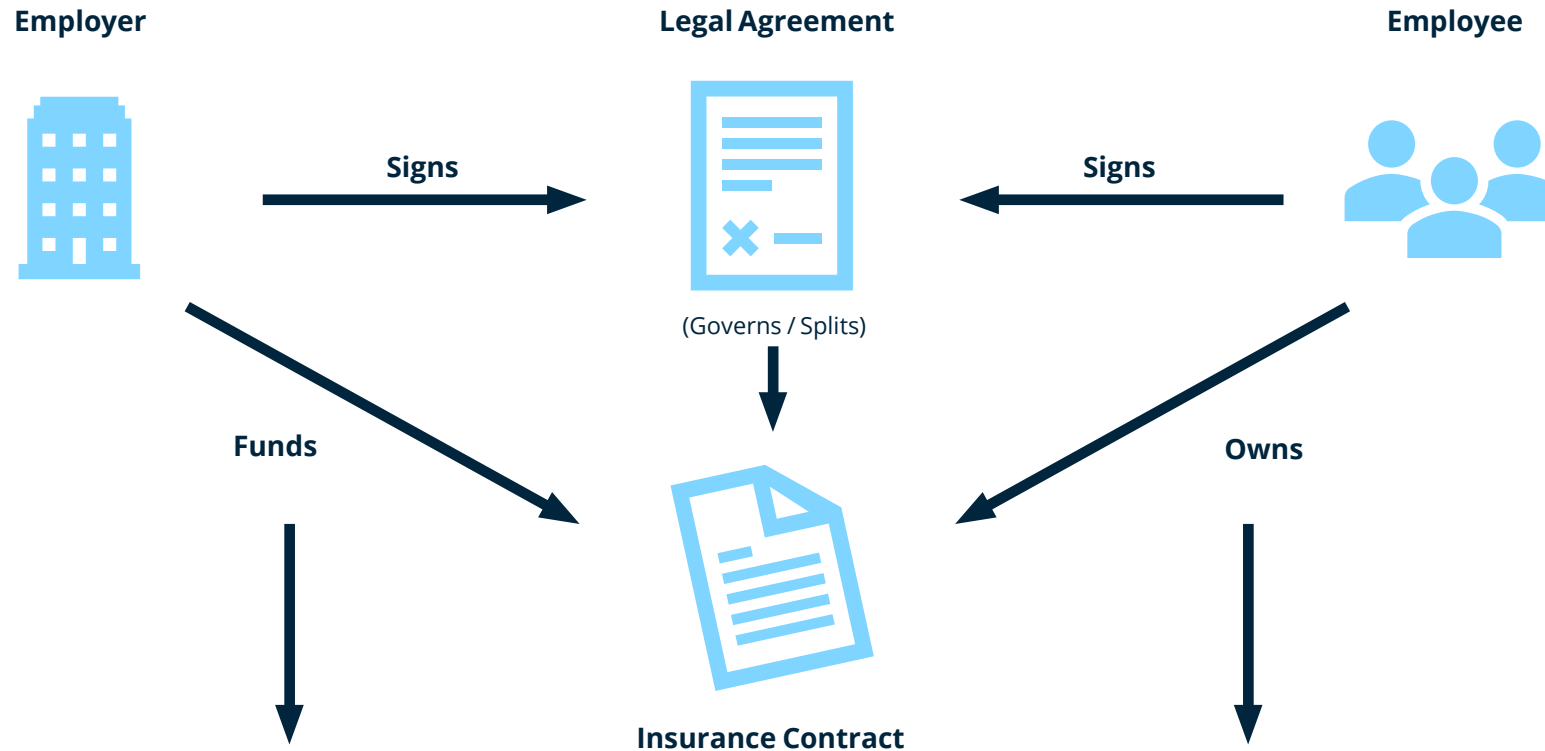
Component #1 (Employer)

- Policy has enough death benefit to repay investment + interest at all times
- Interest on investment accrues each year set at Long-Term Applicable Federal Rate (AFR), or higher
- Plan ends upon Employee/Insured death; death proceeds repay Employer its investment + interest, plus any excess death benefit as defined

Component #2 (Employee)

- Vesting schedule and benefit start date(s) govern when Employee can access policy for income and how much income is available
- Upon vesting and reaching access date(s), Employee has flexibility as to when and how income is taken
- All income is received tax-free
- Upon Employee/Insured death, tax-free death benefit as defined is paid to Employee's designated beneficiary

Employer Funded | Restricted Bonus (IRC 162)



Employer Involvement

- Funds the plan via bonus to the Employee
- Bonus covers:
 1. annual premium, and
 2. tax on the annual premium/bonus
- Annual expense equal to the premium plus tax gross-up
- Once earlier of end of scheduled premiums or Employee termination of employment, Employer's involvement ends

Employee Interest

- Vesting schedule and benefit start date(s) govern when Employee can access policy for income and how much income is available
- Upon vesting, and reaching access date(s), Employee has full autonomy in when and how income is taken
- All income is received tax-free
- Upon Employee death, tax-free death benefit is paid to Employee's designated beneficiary

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Implementing SERPs for the First Time

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Values are based on current assumptions. Actual results may vary.

	EMPLOYEE							ORGANIZATION				
	IRC 457(f)											
	Lump Sum Tax Benefit(s)	Number of Distributions	Access Age(s)	Total After Tax Distributions	Death Benefit	Yearly Tax Obligation	Tax Expense (Out-of-Pocket)	Investment Principal	Expense	Aggregate Interest	Excess Death Benefit	Net Gain (Loss) at Retirement
Robert Barker	\$1,958,100	1	65	\$1,174,860	Account Balance	N/A	\$783,240	\$0	(\$1,960,100)	\$0	N/A	(\$2,017,012)
	Collateral Assignment Split Dollar (CASD)											
	Annual Tax-Free Benefits	Number of Distributions	Access Age(s)	Total Tax-Free Distributions	Tax-Free Death Benefit	Yearly Tax Obligation	Tax Expense (Out-of-Pocket)	Investment Principal	Expense	Aggregate Interest	Excess Death Benefit	Net Gain (Loss) at Death
Robert Barker	\$173,200	20	65	\$3,464,000	\$415,620	N/A	N/A	\$1,340,000	(\$4,500)	\$1,547,346	\$415,620	\$1,958,467
	IRC 162 Restrictive Bonus Arrangement											
	Annual Tax-Free Benefits	Number of Distributions	Access Age(s)	Total Tax-Free Distributions	Tax-Free Death Benefit	Yearly Tax Obligation	Tax Expense (Out-of-Pocket)	Investment Principal	Expense	Aggregate Interest	Excess Death Benefit	Net Gain (Loss) at Retirement
Robert Barker	\$173,200	20	65	\$3,464,000	\$672,254	\$26,800	\$0	\$0	(\$1,343,000)	\$0	N/A	(\$1,343,000)

Form 990 Reporting	Executive Supplemental Life Insurance	Investment Amount Recovery	Vesting Schedule Options
✗	✓	✗	Must be fully vested by access date/agreed upon retirement date in legal document, but other than that, unlimited vesting schedule options
✗	✗	✓	Cliff vesting --> 0% until payment date, then become 100% vested
✓	✓	✓	Must be fully vested by access date/agreed upon retirement date in legal document, but other than that, unlimited vesting schedule options

 Favorable
  Favorable (Longer Term)
  Unfavorable



Enhancing a Current NQDC Package to Ensure Longer Term Retention

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457(f) (as is)	EXECUTIVE			ORGANIZATION				
	Lump Sum Taxable Benefit at Age 67	Total After-Tax Benefit	Death Benefit in Retirement	Funding	Net Gain/Loss As Of 1/1/2021	Future Expenses Beg 1/1/2021	Excise Tax	Net Gain/Loss at Retirement
John Smith	\$3,093,192	\$1,855,915	None	N/A	(2,062,128)	(1,031,064)	(\$140,659)	(3,233,852)

Split Dollar (conversion)	EXECUTIVE			ORGANIZATION				
	Annual Tax-Free Benefits	Total Tax-Free Benefits	Tax-Free Death Benefit	Loan	Aggregate Interest	Excess Death Benefit	Excise Tax	Net Gain/Loss at Death
John Smith	\$236k tax-free annually at age 67	\$4,727,720	\$422,777	(\$5,950,000)	\$3,956,202	\$422,768	N/A	\$4,378,970

Values are based on current assumptions. Actual results may vary.

Year End	Age at Year End	Expenses	Asset Growth Summary				P&L Impact	
		(1) Fees	(2) Investment & Recovery	(3) Annual Accrued Interest	(4) Total Asset Value	(5) Death Benefit Org. Recovery	(6) Net Gain/(Loss)	(7) Cumulative Gain/(Loss)
		0	\$2,062,128	0	0	0	\$2,062,128	\$2,062,128
2022	62	(\$4,500)	\$5,950,000	\$117,810	\$6,067,810	\$9,111,442	\$113,310	\$2,175,438
2023	63	0	0	120,143	6,187,953	8,746,513	120,143	2,295,581
2024	64	0	0	122,521	6,310,474	8,382,774	122,521	2,418,102
2025	65	0	0	124,947	6,435,421	8,020,247	124,947	2,543,050
2026	66	0	0	127,421	6,562,843	7,658,958	127,421	2,670,471

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Recommended Next Steps



Recommended Next Steps and Suggested Timing

- **Three-Step Consulting Process – JANUARY through MARCH**
 - Assign sub-committee (e.g., new SERP committee or existing committee such as compensation or administrative- to work with executive(s) and consultants - JANUARY
 1. Initial meeting - JANUARY
 - Define overall retention goal for each key employee, commensurate benefit levels, and timing for benefit payments
 2. Proposals and fine-tuning - FEBRUARY
 - Meeting(s) focused on benefit plan design options and financial impact of each option to the employer
 - Can also begin looking at employee-funded options as well, if applicable
 3. Legal - MARCH
 - Meeting to discuss legal provisions including entitlements for termination prior to target benefit age, as well as vesting
- **Underwriting (as applicable) – JANUARY through MARCH (generally 6-8 weeks to completion)**
 - Executive(s) undergo complimentary underwriting to ensure that they will qualify for an insurance-based SERP (i.e., split dollar or restrictive bonus)
- **Official Board Adoption – MARCH through APRIL**
 - Final proposal presented to board for approval
- **Implementation - APRIL**
 - Legal execution (if applicable)
 - Funding of Investment Products



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