



INTEGRATED HEALTHCARE
STRATEGIES™

The After-Tax Protocol

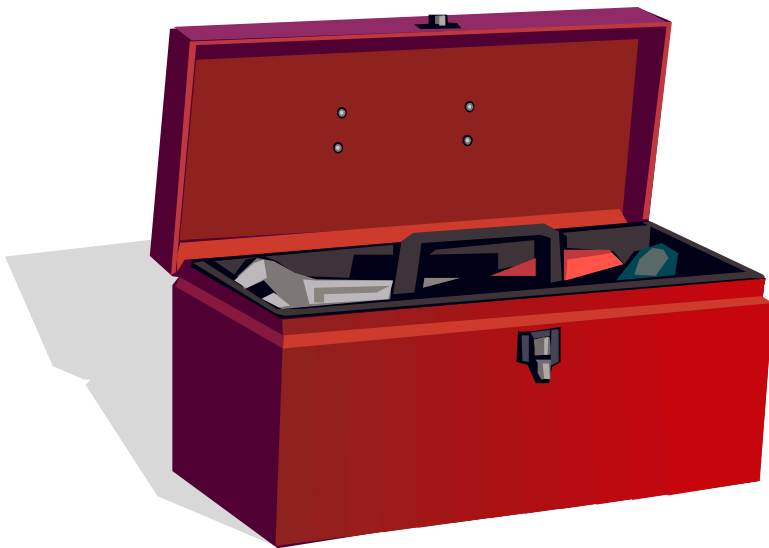
The After-Tax Solution to Pre-Tax Challenges

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Exclusive to Healthcare. Dedicated to People. SM

Deferred Compensation Has Been The Tool Of Choice in Addressing Numerous Business Challenges

Please dial: (616) 883-8055
access code 212-599-566
to join the conference call if you haven't done so already.

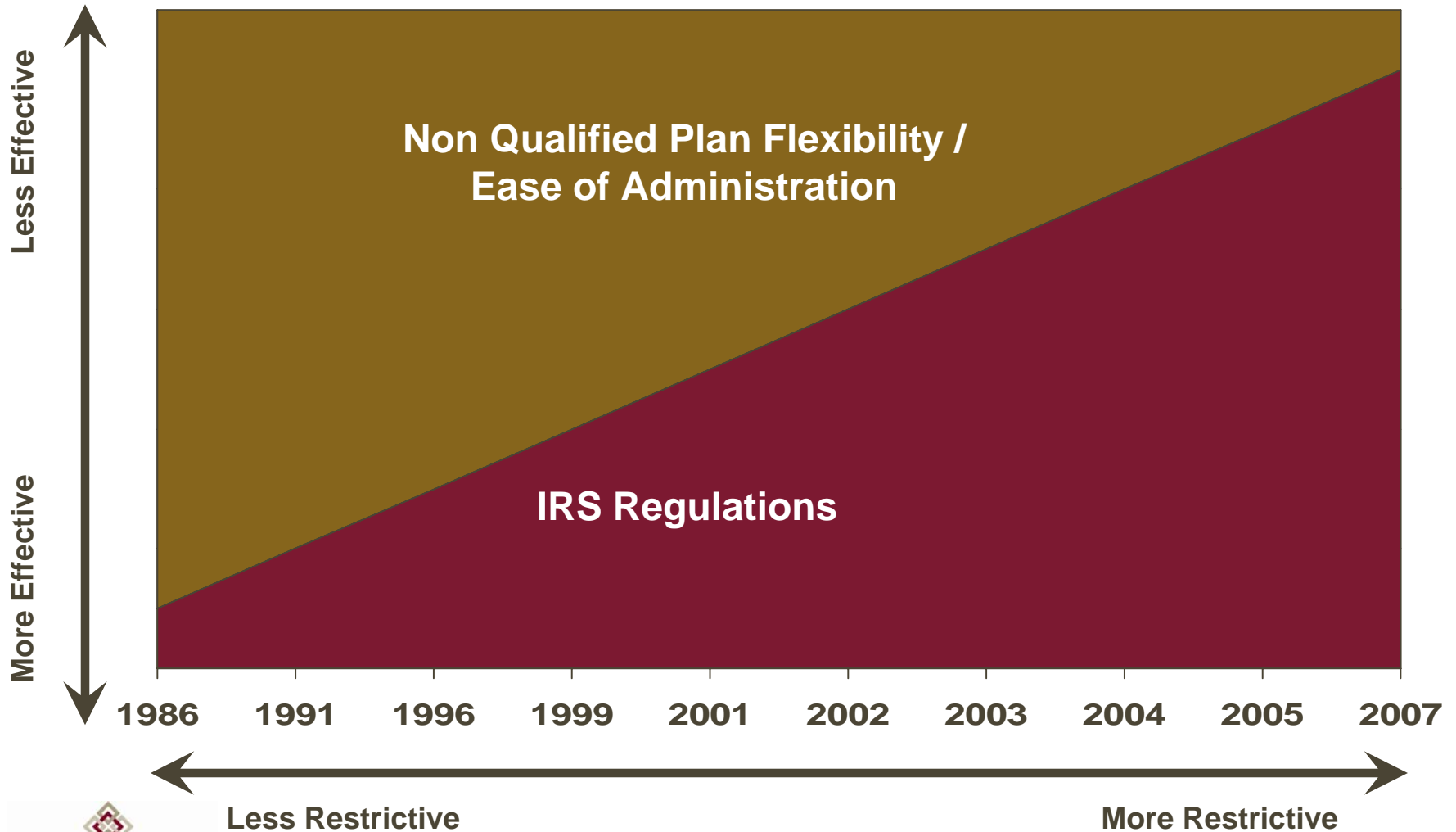


- ❑ Executive and Physician benefit planning (Sections 457(b), 457(f), 83)
- ❑ Retirement accumulation plans
- ❑ SERP funding
- ❑ Retention plans
- ❑ Physician and Executive recruitment incentives



IRS Intent on Dismantling Traditional Deferred Compensation in Tax-Exempt Organizations

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IRS Effort Has Intensified

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1986 – Tax Reform Act of 1986 extending 457(f) to tax-exempt employers, requiring substantial risks of forfeiture for tax deferral.

1991 – Form 990 first requires double reporting of deferred compensation

1996 – Intermediate Sanctions added to tax code

1999 – IRS and DOL rule against severance accrual plans

2002 – Intermediate Sanctions regulations published

2002 – Sarbanes-Oxley – Requires Board oversight of compensation in public companies

2003 – New 457(f) regulations disallow stock option plans

2003 – Split Dollar Final Regulations imposing substantial risk of forfeiture requirements on some split dollar arrangements

2004 – IRS initiates “soft audit” program focusing on deferred compensation

2004 – American Jobs Creation Act – Enacting 409A

2007 – Final Regulations under 409A with 400 pages of rules and procedures ties

2007 – Notice 2007-62 – IRS announcement of intention to disallow non-compete restrictions, rolling risks of forfeiture and voluntary deferrals as substantial risks of forfeiture

2009 (?) – Section 125 Plan Regulations – Limits on flexible benefit plans



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2008 – ????????



What Are The Options?

- 1. Do nothing - Wait for final IRS guidance and respond within allowable time frame**
- 2. Change plan to comply with 409A and 457(f) Transition Rules**
 - Use cliff vesting
 - Little long-term value / utilization
 - Continued administrative burden and costs
- 3. Terminate plan and accelerate vesting**
 - Election must be made prior to 12/31/08 to avoid penalties
 - Money paid out as taxable income beginning in January of 2009
 - Elect new vesting dates or pay out cash on a going forward basis
- 4. Find an alternative**



**Mission: Develop An Entirely New Approach for
Delivering Deferred Compensation**

Here is the Alternative!

**Obsolete 35 years of government regulation
with the stroke of a pen!**



**Mission: Develop An Entirely New Approach for
Delivering Deferred Compensation**

**Replace pre-tax plans with the
Retirement Security Solution**

**Benefit equivalency without the hassles
and expense of maintaining
pre-tax employer-sponsored supplemental
retirement plans.**



Mission: Develop An Entirely New Approach for Delivering Deferred Compensation

For the Employer:

- Eliminate compliance requirements under ERISA, Section 409A and Section 457(f)
- Eliminate administration expense
- No more legal or actuarial expense
- Zero balance sheet liability



Mission: Develop An Entirely New Approach for Delivering Deferred Compensation

For the Participant:

- Unlimited contributions
- Does not require active management
- No risk of forfeiture
- Protected from creditors including malpractice judgments
- Tax-deferred accumulation and tax-free income distribution
- Tax replenishment advance reforests personal tax cost with each contribution
- Family and estate protection via life insurance



Retirement Security Solution

How Does it Work? Simple

This is an after-tax savings plan

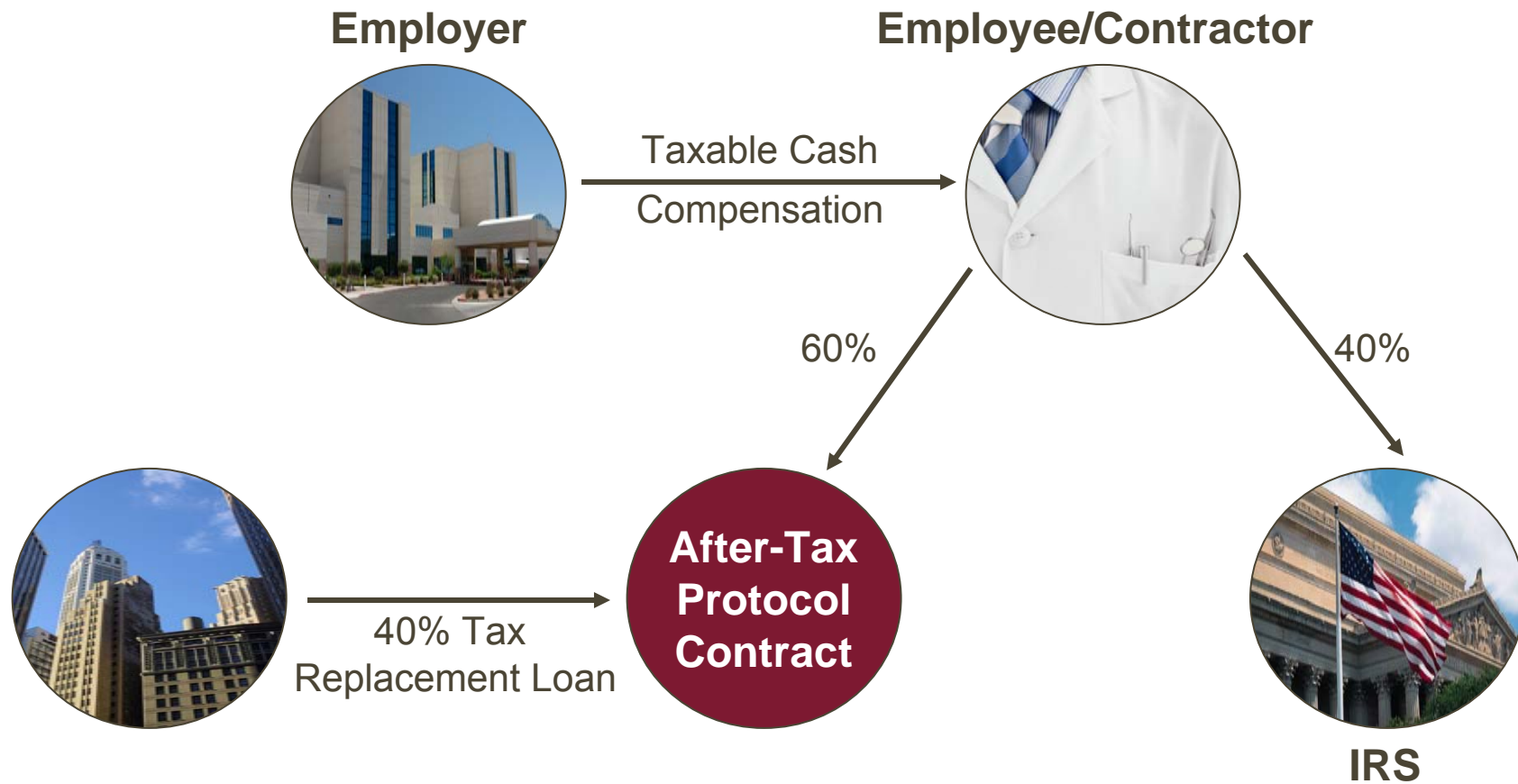
- ❑ Company bonus money and/or individuals' personal contributions are used to acquire a unique, purpose built life insurance policy.
- ❑ When funds are deposited they trigger an optional tax cost replenishment loan. This brings the value of the deposit back to a pre-tax level.
- ❑ Funds are permitted to accumulate tax deferred.
- ❑ Long-term tax-free income is achieved via annual distribution from policy cash value.

Initial contribution immediately establishes life insurance coverage. The amount of asset and family protection is determined by the age of the purchaser and the amount of planned annual premiums.

- ❑ Tax replenishment loan and interest (if applicable) must be paid back to lender prior to distribution.



Retirement Security Solution Design



Your plan is funded by Employee after-tax dollars (60%) and loan dollars (40%) to replenish tax costs to equal 100% investment



Retirement Security Solution

Family long-term savings and protection utilizing the unique AIG Elite Global Indexed Universal Life Policy

THINK Global, INVEST Globally

- ❑ S&P 500 has only been dominant in the global markets 40% of the time during the past 30 years
- ❑ The Standard & Poor's 500 Index of U.S. stocks has risen 32.5% since 2001 while the Morgan Stanley Capital International Stock Index grew almost twice as much at 60%

“We think U.S. investors are still very much under-diversified in their foreign exposure,” said Brian Garvey, Senior Strategist with State Street Global Markets



AIG Elite Global Index Interest Crediting Strategy

The policy participates in the global economy with three indices:
S&P 500® **Dow Jones EURO STOXX 50®** **Hang Seng Index**
 Index interest is calculated at the end of each five-year period



Participation Rate - in equity-indexed life insurance, a participation rate determines how much of the gain in the index will be credited to the life insurance policy. For example, the After-Tax Protocol's participation rate is currently set at 55%, which means the policy is credited with 55% of the gain experienced by the index.



Retirement Security Solution

Historical Values 1992 - 2007

	S&P 500® Five-Year Change in Index	Dow Jones EURO STOXX 50® Five-Year Change in Index	Hang Seng Five-Year Change in Index	Hypothetical 5-Year Return Applying 55% Participation Rate*	Hypothetical Annual Interest Crediting Rate*
1992	47.71	24.57	98.97	47.39	8.07%
1993	69.23	60.94	200.07	92.05	13.94%
1994	41.89	42.37	242.37	105.80	15.53%
1995	65.10	39.78	201.06	91.89	13.92%
1996	77.02	69.33	204.74	95.05	14.30%
1997	109.77	127.06	141.43	75.81	11.95%
1998	139.92	155.30	27.95	83.30	12.88%
1999	189.09	182.36	38.64	103.08	15.22%
2000	161.62	264.87	75.76	131.48	18.28%
2001	76.65	142.83	8.04	69.46	11.12%
2002	14.69	32.90	-21.02	15.59	2.94%
2003	-10.85	-21.64	11.70	13.14	2.50%
2004	-14.68	-26.37	3.54	13.14	2.50%
2005	-14.73	-36.04	-8.63	13.14	2.50%
2006	11.97	-3.97	41.25	18.66	3.48%
2007	51.58	48.42	133.15	62.02	10.13%

Cumulative average for the 16 years shown

9.95%

Best Performing
 Second Best Performing

* These hypothetical numbers are intended to demonstrate how interest rates would have been calculated based upon certain assumptions and historical indexed returns. They demonstrate how rates could vary from year to year. These figures do not represent actual interest that would have been credited because the participation rate would have changed and actual results would have been different. The level annualized interest rate in column 6 compounded over 5 years equals the amount in column 5.



Retirement Security Solution Crediting Advantages

Using a five-year look-back period and a calculation that utilizes the two best-performing of three indices measured, has the potential to:

- ❑ Produce higher interest crediting rates than single indexed crediting methodologies
- ❑ Provide diversification to enhance the likelihood of positive indexed returns
- ❑ Reduce the volatility associated with year-to-year performance
- ❑ Does not require active management



Retirement Security Solution

Insuring Future Family Income

Example: 45 year old male – gross income contribution before personal taxes.
Contribution period: 10 years. 15-year income distribution beginning age 65.

	<u>Personal</u>	<u>After-Tax Protocol</u>
Gross income deferred	\$50,000	\$50,000
Taxes at 40% bracket	\$20,000	\$20,000
Net annual contribution	\$30,000	\$30,000
Taxes restored	\$ 0	\$20,000
Annual net income beginning age 65:	\$79,015 (a)	\$105,000 (b)
Total income received over 15 years:	\$1,185,225	\$1,575,500*

•Pre-tax equivalent of \$2,627,500

- a) Returns based upon 9% annual return and assuming continuation of 29% blended tax rate (capital and ordinary gains) until funds are depleted
- b) Non-taxable net income assuming similar 9% annual return during contract period (AIG Elite Global IUL – compliance illustrations provided)



Retirement Security Solution Program Advantages

(based on current federal income tax laws)

Organization	Participant
<ul style="list-style-type: none"> ■ Exempt from government regulations currently applied to employer-sponsored plans including ERISA, IRC Sections 457(f) and 409A, and split dollar rules ■ Tool for improving relations with private medical staff (works for both W-2 and 1099 contractors) ■ Simplified accounting and recordkeeping ■ Predictable control of balance sheet liability ■ No benefit performance liability ■ No actuarial fees ■ Optional employer contributions (no limitations or caps) ■ The benefit can be designed with features to enhance retention 	<ul style="list-style-type: none"> ■ No substantial risk of forfeiture ■ Earnings accumulate tax deferred ■ No contribution limitations associated with traditional qualified retirement plans ■ In most states, investment funds are protected from malpractice judgments ■ Way of diversifying planning and funding for retirement ■ Portable ■ Complete flexibility in distribution timing ■ Tax-free distributions protect against changing tax rates ■ Life insurance death benefit protection ■ \$1Million GI / \$2 Million SI ■ Zero insolvency risk



How will we attract and retain the best available talent?



After-Tax Protocol – Retention Strategies

There are several designs that a sponsoring organization might use as a retention device:

NO RETENTION FEATURE – Zero Cost to Organization

The annual interest is added to the outstanding balance of the loan each year. Under this design, the participant bears the cost of the loan interest and principal.

BASIC RETENTION FEATURE – Moderate Cost to Organization

The organization agrees to participate in the financing cost by paying some or all of the interest if the participant satisfies certain retention requirements (perhaps 5 years of service or production targets).

MAXIMUM RETENTION FEATURE – Higher Cost to Organization

The organization participates in the interest on the loan as outlined above. In addition, the organization can define “Career Service” and reward any individuals meeting this definition by paying some or all of the principal due to the lender.



After-Tax Protocol – No Retention Feature

Pre-Retirement Funding				Post-Retirement Income		
Age	Personal Deferral	Tax Replacement Loan	Total Premium	Age	Annual Tax-Free Loan	Pre-Tax Equivalent Loan
50	30,000	20,000	50,000	65	45,244	75,407
51	30,000	20,000	50,000	66	45,244	75,407
52	30,000	20,000	50,000	67	45,244	75,407
53	30,000	20,000	50,000	68	45,244	75,407
54	30,000	20,000	50,000	69	45,244	75,407
55	30,000	20,000	50,000	70	45,244	75,407
56	30,000	20,000	50,000	71	45,244	75,407
				72	45,244	75,407
				73	45,244	75,407
				74	45,244	75,407
				75	45,244	75,407
				76	45,244	75,407
				77	45,244	75,407
				78	45,244	75,407
				79	45,244	75,407
Total	210,000	140,000	350,000	Total	678,660	1,131,100
Cash Value Net of Loan			Death Benefit Net of Loan			
Cash Value at Age 65			\$659,257	Death Benefit at Age 50		\$795,179
Tax Replacement Loan + Interest			-\$304,106	Death Benefit at Age 65		\$705,613
Net Cash Value			\$355,151	Death Benefit at Age 80		\$70,381

Assumptions:

- Tax rate assumed to be 40%
- Income and cash value based on assumed annual crediting rate of 9.03%
- Tax replacement loan rate = LIBOR +90 bps (6.40%)
- Tax replacement loan and interest must be repaid prior to taking income loans

Please note: All values are estimates based time, rates of interest, and return. Refer to the complete insurance illustration, companion loan, and distribution illustration for additional information.



After-Tax Protocol – Maximum Retention Feature

Funding Period Age 50 to Age 56						
Pre-Retirement Funding				Post-Retirement Income		
Age	Personal Deferral	Tax Replacement Loan	Total Premium	Age	Annual Tax-Free Loan	Pre-Tax Equivalent Loan
50	30,000	20,000	50,000	65	79,425	132,375
51	30,000	20,000	50,000	66	79,425	132,375
52	30,000	20,000	50,000	67	79,425	132,375
53	30,000	20,000	50,000	68	79,425	132,375
54	30,000	20,000	50,000	69	79,425	132,375
55	30,000	20,000	50,000	70	79,425	132,375
56	30,000	20,000	50,000	71	79,425	132,375
				72	79,425	132,375
				73	79,425	132,375
				74	79,425	132,375
				75	79,425	132,375
				76	79,425	132,375
				77	79,425	132,375
				78	79,425	132,375
				79	79,425	132,375
Total	210,000	140,000	350,000	Total	1,191,375	1,985,625
Cash Value Net of Loan			Death Benefit net of Loan			
Cash Value at Age 65			\$659,257	Death Benefit at age 50		\$795,179
Tax replacement loan + Interest			(Paid by ER)	Death Benefit at age 65		\$705,613
Net Cash Value			\$659,257	Death Benefit at age 80		\$713,411

Assumptions:

- Tax rate assumed to be 40%
- Income and cash value based on assumed annual crediting rate of 9.03%
- Tax replacement loan rate = LIBOR +90 bps (6.40%)
- Tax replacement loan and interest paid by sponsoring organization

Please note: All values are estimates based time, rates of interest, and return. Refer to the complete insurance illustration, companion loan, and distribution illustration for additional information.



After-Tax Protocol Applications

Supplemental Executive Retirement Plans (SERP)

- ❑ Organizations could fund SERP benefits in the After-Tax Protocol instead of using a traditional non-qualified plan structure (e.g., mutual funds and split dollar)

Retention Plans

- ❑ Organizations could utilize the After-Tax Protocol as a retention device by paying the accumulated loan interest and/or principal if the participant meets established criteria

Acquisition Deferrals

- ❑ Organizations acquiring practice assets can utilize the plan to defer acquisition proceeds. This use can be structured to provide the organization with immediate retention and security while providing the physician owners with significant tax advantages.



After Tax Protocol Applications (Cont'd)

Call Pay Solution

- ❑ The After-Tax Protocol provides a programmatic approach to paying for call that helps organizations control the escalation of costs while providing highly compensated physicians significantly more value than a simple cash payment

Recruitment Incentives

- ❑ Program can be used to fund multi-year retention bonus plans in lieu of an up-front signing bonus



QUESTIONS



More Information & Questions

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