

Managing Your Health Care: What You Need To Know

by Leslie Michelson

Leslie Michelson is chairman and chief executive officer of Private Health, a company he founded to help patients obtain the best health care in today's overwhelming and often confusing health care system. After spending more than 20 years as CEO, investor, advisor and director for entrepreneurial health care, technology and real estate companies, Michelson formed Private Health to provide patients with immediate, uncompromised medical attention anywhere, anytime from the very best experts in the field. He shares his insights as to what's wrong with the health care system, why the industry is failing to deliver consistent care, and what you must do to ensure that you and your family receive superlative care no matter how simple or complex your medical needs.

Our Health Care System Is Not Giving You What You Need

In order to get optimal health care, we must first understand the overall picture of today's health care landscape. It's far more complicated than it used to be and, unfortunately, far more chaotic than most people can appreciate. Despite increasing advances, our health care system typically delivers high quality medicine only 50% to 60% of the time. As bad as that is for society, it is entirely unacceptable when it comes to your health.

Research literature further reveals a chasm between "optimal care" and "typical care." There are specific reasons for this. Gaps in communication between specialists, mistakes in diagnoses, inconsistent treatment both in quality and delivery, and poor coordination of services and

follow-up care all lead to errors that often can't be reversed. So while biomedical research is creating medical advances at an accelerating rate, a typical lay person's ability to access these advances is diminishing. Add the enormous array of treatment options, and these factors compound a patient's burden to filter through a forest of information to determine what course of action is best.



Unfortunately, Today's Physicians Don't Have the Time You Need

Typically, patients rely on their primary physician to make proper referrals and recommendations for best treatment. You may trust your local physician, but that doesn't mean your doctor has the time to research the medical literature and identify the very best specialist for your exact condition. Nor does your doctor have time to talk to each specialist and ensure that they are all working together.

As a patient, you come first. You should expect priority access to the finest physicians and specialists in the world,

with all caretakers communicating and sharing a common goal of uncompromised care.

There Is No Reason to Settle for Ordinary Care

Medicine is constantly changing, developing better treatments and safer drugs, making discoveries that lead to new breakthroughs. Only the top experts and best surgeons in their field know which treatments are yielding the very best proven results for a particular disease or illness.

For run of the mill medical needs, a sprained ankle for instance, results may not differ greatly from physician to physician. But when you move into more complex procedures—cancers, hip and knee replacement, or back pain—this variation becomes enormous and can be the difference between life and death or a full recovery and a lifetime of disability and pain.

A patient's interest should be advanced objectively, free from institutional constraints or financial limitations. This is not to imply that your favorite hospital or clinic isn't good, but it may not be the *best* choice for your particular medical issue. You simply cannot and should not assume that a hospital that excels in one area will excel in all areas.

Other subtle factors weigh in. For instance, it can be hard to make the best decision for treatment and follow-up care when you

(continued on page 3)

"In this world, nothing can be said to be certain, except death and taxes."

—Benjamin Franklin



From the Chairman

With the first day of spring behind us and tax day around the corner, it seemed fitting to focus this issue of the *Pitcairn Update* on health care and taxes. True to the words of Benjamin Franklin, death and taxes continue to be an universal concern.

Leslie Michelson, friend of Pitcairn and Private Health CEO, authored the feature article. I was first attracted to Private Health because Leslie's philosophy of managing health care is built on the same core beliefs of collaboration, communication, and "big picture" thinking as Pitcairn's family office approach. Leslie believes best-in-class medical care is only achieved if *all* your caretakers across *all* your medical needs work together. Sound familiar?

The second article provides an important explanation of the Tax Relief Act. Pitcairn Tax Director David Nave and the Planning Team collaborated on ways to take advantage of the opportunities in the current tax law.

Preparing your family through prudent planning, sound investing, governance, and education is the best protection against life's uncertainties and challenges. When I think of the best advice I can offer families, I again return to a quote by Benjamin Franklin—"By failing to prepare, you are preparing to fail." We value the trust you place in Pitcairn and our mission remains to engage you and your family in preparing for a successful future.

Warm Regards,

A handwritten signature in black ink, appearing to read "David Nave".

Tax Opportunities for 2011 & 2012

The Tax Relief Act of 2010 created significant, but temporary, changes to our federal tax laws. Most of the provisions are set to expire by the end of 2012, creating a two-year window of opportunity for taxpayers. Looking past 2012, the tax landscape remains uncertain. There will, of course, always be taxes and the best way to prepare is to understand your personal tax situation. The following discussion prepared by Pitcairn Tax Director David Nave and the Planning Team highlights a few key opportunities for families and individuals.

Consider Realizing More Income in 2011 and 2012

For individuals, the Tax Relief Act extended existing rates, with a top rate of 35% through December 31, 2012 instead of the scheduled jump to 39.6%. For high-income individuals, the overall savings from this extension are significant.

Generally when it comes to taxes, the rule is to defer income and accelerate deductions whenever possible. However under the current circumstances, it may make sense to realize more income in 2011 and 2012 to avoid paying taxes in later years when there is a chance that income will be taxed at a higher rate.

For Children with Appreciated Securities, Consider Realizing Capital Gains Now

Another significant benefit for investors is the two-year extension of the capital gains and dividends rate through December 31, 2012. Qualified capital gains and dividends will continue to be taxed at a maximum rate of 15%, and a rate of 0% for taxpayers in the 10% and 15% income tax brackets.

Through the extension of the zero percent rate, clients with children in low tax brackets can realize gains in 2011 and 2012 without paying a penny of tax to the IRS. For example, if a recent college graduate in the 10% or 15% bracket is holding appreciated securities, he or she can sell the shares without paying taxes (assuming he or she is not affected by the kiddie-tax rules). If one wishes to maintain the investment, the child can buy back shares at the current price, eliminating a large capital gain on that investment for the future.

Impact of Reduced Rate on Dividends

In 2003, companies increased dividend payments when the tax on dividends declined. Dividend payouts increased by 30% in years 2004 and 2005.¹ For example, Microsoft alone paid a \$32 billion dividend in 2004. With the extension of the 15% rate on qualified dividends and with the large cash positions of many corporations, we expect to see dividend payments increase over the next two years.

A Double Whammy in 2013?

In 2013, we expect the capital gains and dividend rate will increase from 15% to 20%. This rate hike is only half the story. The new health care law will add an additional 3.8% investment income surtax on upper income individuals. Furthermore, if a trust has undistributed income in excess of \$12,000, the trust will also be hit with the 3.8% surtax. Without considering potential state income taxes, this double tax is an approximate 59% increase!

Income from municipal bonds, tax deferred non-qualified annuities, life insurance, and non-qualified deferred compensation are not included in investment income and are not subject to the surtax. If a trust is discretionary and has more than \$12,000 of accumulated income, the new surtax will add additional considerations to the trustee in deciding whether, when, and to whom to distribute income.

A Favorable Time to Make Conservation Gifts

Gifts of property for conservation purposes benefit from increased deduction limits provided in the Tax Relief Act. The legislation increases the normal 30% of adjusted gross income limit for appreciated property gifts to 50% and extends the carry-forward limit from five to fifteen years. The beauty of conservation gifts is that you receive a deduction without giving up one square foot of property. You still own the land in its entirety, subject to the easement terms.

(continued on page 4)

¹ The Heritage Foundation, "Obama Tax Hikes, Dividend Tax Hikes Hurt Seniors and the Economy."

Managing Your Health Care: What You Need To Know

(continued from page 1)

are emotionally involved. Perhaps you are a major donor for an institution. Whether that institution is, in fact, the best place for you to receive care for your specific medical problem isn't and shouldn't be assumed just because you provide them financial support. Under that circumstance, it is hard to be a skeptic, to question whether your favorite hospital truly is the place you need to go.

Families who supported their local hospital in hopes of gaining access to expert advice and care when they need it are learning that the hospital may not have the experts they need when they have a personal health crisis. Those who are philanthropic and support their hospital by naming a building or a wing expect the best in return. Yet, the surgeon or specialist with the most expertise on their personal health issue could be based in a hospital that is two or three time zones away. In one case, a woman who was losing her eye sight was told by the hospital she supported that there was nothing she could do. Thankfully, she sought a second opinion from a specialist in another part of the country who was able to save her sight.

Know These Four Key Areas of Best Practices

Think of the continuum of care as a series of roadways, transition points and intersections. From diagnosis to treatment to follow-up, research shows mistakes frequently occur when patients are exiting and entering these key areas of care.

Miscommunications, faulty timing, and gaps in scheduling lead to errors that will impact the quality of your life.

Step 1: Case Immersion—At the start of your care, all treating physicians must gain a full understanding of your medical picture. Ideally, this involves collecting all of your information into a single, secure electronic medical record.

Step 2: Diagnosis—Is your diagnosis correct? Do you need an unbiased second opinion by selected specialists? If your diagnosis is uncertain, consults with top specialists in all relevant clinical fields are necessary to correctly identify your issues.

Step 3: Treatment—Who is in charge of your treatment? Who is coordinating your care? Who is keeping all your caretakers—physicians, nurses, therapists, and ancillary—services up-to-date on your progress?

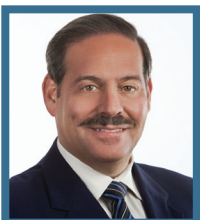
Step 4: Follow-through—Who is monitoring and overseeing your care at every transition point? Whether you are entering the hospital, leaving to return home, or moving to a rehabilitation center, who is coordinating these changes and assembling all the pieces into a unified effort? Who is making sure that you or your ailing parent, spouse or child understands the process and is complying with medications, therapy, and physician visits?

In medicine, we can't afford accidents, yet our health care system is riddled with preventable fatalities. The way the health care system is set up, patients are compelled to sort through complex clinical and statistical information in order to be confident they are getting the right care. Yet, most patients don't have the clinical experience or medical training to do so. Most importantly, all patients need to concentrate their energy on taking care of their health, rather than managing a disorganized health care system.

Patients should not be casualties of a poorly designed system, but the recipients of the best level of excellence, benefitting from best-in-class medical expertise, the most advanced and cost effective medical technology, and seamless coordination across all medical needs. Every patient deserves to enjoy the peace of mind that comes with uncompromised care.

Errors in Health Care Are Far Greater Than in Any Other Industry

- 20% of major surgeries are unnecessary
- Surgery mortality (death rate) is 250% worse in hospitals that perform procedures infrequently than in hospitals that perform these procedures often. Additionally, a hospital's performance varies by procedure within a hospital
- The best mammography radiologists (for breast exams) have a 0% error rate while the worst have a 73% error rate
- Obstetricians trained at the best residency programs deliver babies with 30% fewer complications than those trained at the worst programs
- Prostate cancer patients treated by top surgeons suffer a 67% lower recurrence rate than those treated by less skilled surgeons
- More than 225,000 people die annually in the US due to medical errors and complications making this the third leading cause of death



Leslie Michelson is founder and CEO of Private Health. At the end of 2006, he completed a five-year tenure as the chief executive officer of the Prostate Cancer Foundation, the world's largest source of philanthropic support for prostate cancer research. He founded and served as CEO of Value Health Sciences, one of the first disease management companies; Protocare, a provider of clinical trials site and disease management services to the biotechnology and pharmaceutical industries; and Acurian, which recruits patients and physicians for clinical trials. Mr. Michelson received his BA from The Johns Hopkins University and a JD from Yale Law School.

News & Events

Pitcairn Sponsors...

The Family Office Exchange (FOX) recently released a study entitled *The Cost of Complexity: Understanding Family Office Costs*. The study, sponsored in partnership with **Pitcairn**, evaluates why and how complexity affects family offices, with the hope that such knowledge will enable them to cultivate strategies to increase efficiency and effectiveness. Managing Director **Rebecca Meyer** and Chief Information Officer **Dain Kistner** participated in a webinar hosted by FOX on March 9, 2011. Rebecca and Dain shared examples of how Pitcairn has helped families and their single family offices evolve their family wealth structure to better meet their needs as they manage through transitions. If you are interested in the results of the study, please contact your Personal Financial Manager.

Pitcairn in the News...

The March 7 issue of *Investment Dealers' Digest (IDD)* features an editorial by Chief Investment Officer **Rick Pitcairn**, entitled "A Specialist's Playbook for Investors." The editorial captures Rick's thoughts on the essential principles for investing as the

economy continues to recover. The article is available on MyPitcairn. *IDD* is an industry magazine aimed at providing a comprehensive resource for investment professionals, covering developments, data and statistics on all aspects of the market, from investment banking to restructuring.

A Fond Farewell...



Chairman & CEO Dirk Jungé and Family Wealth Manager Gail Feustel celebrate.

On March 18, 2011, Pitcairn celebrated the retirement of Family Wealth Manager **Gail Feustel**. Throughout her thirteen years with Pitcairn, Gail has provided incomparable service to our families and has been an example of excellence to her colleagues. Her professional expertise and her warm spirit will be missed, but we wish her well on her future adventures!

Tax Opportunities for 2011 & 2012

(continued from page 2)

The increased limits and carry-forward were extended through 2011 only. However, the recently introduced Rural Heritage Conservation Extension Act of 2011 would permanently extend an increase in the maximum tax deduction for charitable contributions of conservation easements from 30% to 50% of adjusted gross income.

Consider Increasing Your Gifting in 2011 and 2012

The Tax Relief Act raises the estate tax exemption to \$5 million and lowers the tax rate to 35%, which means \$5 million in assets are shielded from the federal estate tax and any excess assets in the taxable estate are then taxed at 35% by the federal government. Matching the estate tax exemption, the lifetime gift exclusion has also been raised to \$5 million. While some fear a retroactive application of the estate tax if the extension is not continued after

2012, we believe such a retroactive effect is unlikely. If it does happen, the donor making the gift still benefits because the retroactive application should only tax the value of the property at the time it was given away; any post-gift appreciation should avoid taxation.

2013 Tax Outlook

The majority of the provisions in the Tax Relief Act of 2010 are set to expire by 2013. Although 2013 is still a distance away, clients should keep the date in mind. Some potential planning opportunities to consider as 2013 approaches:

1. Under the right circumstances, consider selling a security at the end of 2012 to avoid the negative impact of higher capital gains tax in 2013 and beyond. You can immediately buy back a security sold at a gain (as opposed to having to wait 30 days if it is sold at a loss).

2. Consider setting up a charitable remainder trust (CRT) to mitigate the effect of rising income tax rates in 2013. A CRT permits taxpayers to defer income realization and taxes. Non-grantor charitable lead trusts (CLT) might also be useful because shifting investment income to a CLT may be offset with a charitable deduction.
3. The 3.8% investment income surtax does not apply to distributions from IRAs and other qualified plans. Increasing contributions to these plans can be used as a strategy to avoid this tax. However, be mindful that future (taxable) distributions from traditional IRAs can impact some individual's tax bracket and consequently cause the surtax to be applied. This ramification may be another motivator to convert your traditional IRA to a Roth IRA before 2013.

Stay tuned: 2013 will be here before you know it. Please contact your Personal Financial Manager if you wish to discuss your tax situation and planning opportunities.

Pitcairn Update is a publication prepared by Pitcairn for the exclusive use of its clients. The information provided should not be construed as imparting legal, tax, or financial advice on any specific matter. For more information, please call us at 1-800-211-1745 or visit us on the web at www.pitcairn.com.

PITCAIRN

One Pitcairn Place
Suite 3000
165 Township Line Road
Jenkintown, PA
19046-3593

Representative Office
99 Park Avenue
Suite 320
New York, NY
10016-1501

Fairfax Square III
Suite 250
8045 Leesburg Pike
Vienna, VA
22182-2737