

**MEDAMERICA RETIREMENT & BENEFITS
COMMITTEE MEETING MINUTES
January 29, 2009**

Members Present: Myron Wacholder, MD, Chairman, Joel Stettner, MD, Gregg Shubert, MD, Bob Buscho, MD, Sol Nevins, MD, Ivan Miller, MD, Jim Antinori, MD, Rodney Smith, M.D. & Chris Renner

Others: Jeff Skubic (Charles Schwab), Joe Demangeont (Charles Schwab), Lori McKenzie (Charles Schwab), Bill Dallas (Charles Schwab), Bob Parker (EPIC), Mark Landay (Vanguard), Mark Gohlke (Vanguard), Martha Chase (Vanguard), Michelle Buonanno (Vanguard)

TOPIC	DISCUSSIONS / DECISIONS
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REVIEW OF MINUTES	Minutes were reviewed from the meeting held on October 30, 2008. There were no changes.
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M/S/P	Motion to approve minutes of October 30, 2008 with no changes. (U)
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RETIREMENT PLAN UPDATE	<p>C. Renner briefly reported on the Retirement Plans. During the year 2008, total assets from all plans dropped 26% to \$393 million since 12/31/2007. The major drop was due to economic woes and market conditions. Unemployment has risen to 7.2% nationwide, housing starts have decreased to below 650,000 units per year, and the foreclosure rates have increased from 0.6% in July of 2008 to 1.7% in December 2008. Banks have folded and retailers are going out of business. Many analysts feel that 2009 will not bring a substantial recovery to the U.S. or the world. Safety is being stressed and fear seems to be ruling the investment markets. The most optimistic economists predict a recovery in the 4th quarter of 2009, while others are predicting a continued drop on the Dow Jones Industrial Average to 6,000. In response to the dismal market performance and its projected direction, the new Obama administration has proposed another stimulus package of nearly \$1 trillion in an effort to increase economic activity. Some people are skeptical about the effectiveness of government stimulus packages; in fact, historians cited that increased spending was ineffective in pulling the U.S. out of the Depression and Japan out of its 1990's Recession. WW II was the only time such an increase in domestic spending proved productive.</p>
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With respect to the MedAmerica retirement plans, it is apparent that the larger capitalized funds have fared better than those whose asset size is

smaller (Dodge & Cox being the exception). Because redemptions overwhelmed the smaller funds, they were forced to liquidate holdings sooner than desired and corresponding returns reflected this. Larger funds, whose economies of scale were higher, did not suffer as much (though no one was spared the wrath of the market). There were four funds on the FundWatch list: the Dodge & Cox Balanced Fund, the Schwab Large Cap Value Fund, the Vanguard Explorer Fund and the Calamos Aggressive Growth Fund. These funds have appeared on the FundWatch list for at least the third consecutive quarter in a row. While it is safe to say that because our funds generally outperform their peers in rising markets, the same funds may fall below their peers in down markets.

The Dodge & Cox Funds were at the forefront of the Committee's discussion last quarter. M. Wacholder pointed out that Dodge & Cox manages both the Balanced Fund and the Large Cap Value Fund- a fact that most of our participants may be unaware of. Perhaps, by utilizing both funds within our lineup, we are not diversified enough. As an example, Dodge & Cox's style reverberates through both funds and disproportionately affects participants. Dodge & Cox was overweighted in financial stocks- including FNMA, Citigroup, and Wachovia- during a treacherous market. Dodge & Cox "analysts and managers failed to grasp the possibility of systemic collapse and were therefore unable to identify worst-case scenarios for financial stocks... another way to explain Dodge & Cox's blind spot is to go back to probability theory and statistics. On a bell curve of potential outcomes, the firm failed to recognize the statistical outliers—possible but improbable events that can be hugely disruptive and destructive if they occur."¹

Analysts believe that Dodge & Cox funds are still excellent choices for long-term investors who seek to beat the indexes. "This is a fine, proud, high quality company populated with competitive and serious high achievers who have heavily invested in their own funds. They will learn from their investing mistakes. The firm's long-term record is outstanding, the investment process has worked, and the institutional memory is strong. Plus, annual fees are low as they come for actively managed funds."²

C. Renner offered that continued placement on the FundWatch list could be grounds for termination of the funds at the discretion of the Committee and in compliance with the terms of the Investment Policy in place. The Investment Policy states that in the event that a fund's performance does not meet both the 3 and 5-year performance standards, the Committee has the discretion to terminate a fund. Because of Dodge & Cox's 20 year relationship with MedAmerica and their stellar returns

¹ Andrew Tanzer, "What Went Wrong at Dodge & Cox," Kiplinger's Personal Finance (www.kiplinger.com), February 2009, p. 3.

² Andrew Tanzer, "What Went Wrong at Dodge & Cox," Kiplinger's Personal Finance (www.kiplinger.com), February 2009, p. 4.

over that period, the Committee decided that no change is necessary; however, they will continue to monitor the funds closely.

The Calamos Aggressive Growth Fund also continues to be of great concern, more so because Calamos has sporadically spent much of the past three years on FundWatch (on three quarters, off for two quarters, back on for two quarters). Its continued poor performance is increasingly alarming; it is seemingly unable to bounce back as it had in the past. Mr. Renner thinks that the Committee should entertain alternatives to Calamos at the next Committee meeting.

The last fund on FundWatch is the Vanguard Explorer Fund, a fund that when originally selected, was known to probably appear sporadically on FundWatch off and on throughout its existence. Since it has not reached the Investment Policy's level of consideration, the Committee chose not to replace the fund and will continue to monitor the fund diligently.

The discussion on FundWatch spurred further thoughts on MedAmerica's blend of funds. Members felt that the Committee should have J. Skubic and D. Alpers examine other balanced, large cap, and aggressive growth funds for the next meeting. The team also wants to delve into the possibility of re-labeling the funds to tackle the issue of transparency. The idea is to help educate participants in their fund selections.

**INFLATION
PROTECTION UPDATE**

In the past several months, since the federal government issued the first of the two bailout bills, C. Renner has received a large number of requests for the addition of another inflation protection fund (other than the Stable Value Fund). Because of TARP and the upcoming Stimulus package, a number of participants feel that the risk of inflation has increased and they wish that the plan offered other inflation protection opportunities. In the past, Gold or Precious Metals funds were not widely received by the plan participants. Historically, during high inflationary times, gold / precious metals have outperformed inflation tremendously. While fixed income strategies or real estate can help one maintain a rate of return commensurate with the rate of inflation, there is no other sector that fairs as well against monetary inflation. While the Committee once considered TIPS funds to counter inflation, the group was more interested in exploring the idea of adding a gold, precious metal and /or natural resources fund. Although precious metals are available through the PCRA, the Committee recognized that self-directed accounts intimidate some participants. As a result, the group will have J. Skubic and D. Alpers look at potential fund candidates and educate them at the next meeting.

SCHWAB RPS

EMA recently initiated a due diligence study of their retirement plan services, reviewing the services of MedAmerica Financial Services, as well as Schwab Retirement Plan Services. At the last meeting, while Mass Mutual and Vanguard were also considered, the Committee agreed to interview both Schwab and Vanguard to assess their overall services and fees.

Schwab's presentation was spearheaded by four representatives: Lori McKenzie (Vice President, Sales Retirement Plan Services), Bill Dallas (Vice President, Relationship Management), Joseph Demangeont (Client Service Manager), and Jeff Skubic (Senior Manager, Retirement Investment Services). Before the group began, they asked Committee members to introduce themselves and identify areas in which they wanted more information from them. Collectively, members were interested in the fee structure, how Schwab differentiates itself from its competitors, education tools, and advisor and back office services.

Lori McKenzie began the presentation by explaining who Schwab is and what they offer. Charles Schwab is a trusted name in financial services with a strong brand name. It is well known on both the retail and institutional sides. Schwab is growing in spite of the market conditions; in fact, it has opened up new service centers in Ohio, Austin, TX (for plans with assets over \$500 million), and Phoenix, AZ. M. Wacholder mentioned that he recently called in to the Phoenix service center and said that the customer service made it a great experience. Schwab's overall goal is to "help everyone be financially fit." Schwab is an advocate for the individual investor and offers advice at no additional cost. The personalized advice is available through Schwab's Guided Choice program which can be done online, by phone, or in person. Schwab is a leader in the push for "transparent pricing"; including the disclosure of mutual fund remuneration (including Schwab Funds) and disclosure of how much is really being paid for recordkeeping. Schwab believes that a strong investment education program is essential to helping participants get to and through a comfortable retirement. Schwab works with groups to tailor education materials to their needs. Ms. McKenzie also pointed out that MedAmerica's asset size is in the top third of its clients and reiterated the importance of our business to them.

Since fees were important to all of the Committee members, Schwab representatives communicated the breakdown in an effort to clear up any misunderstandings. Currently, MedAmerica pays Schwab 0.28% of the asset value each year. Much of these funds are taken from the underlying mutual funds through contractual arrangements between the fund and Schwab. 0.04% is received directly from MedAmerica as a hard dollar cost.

Schwab describes itself as a "pioneer of open architecture." It is a distributor of funds rather than an executor. MedAmerica is not limited to one fund company's investment vehicles. Schwab has a choice of over 7,000 mutual funds available from over 400 different fund families. It has great relationships with top managers so they receive the best in class prices. This in turn, lowers the cost for plans and participants.

In addition to the accessibility of a number of funds at the best price, J. Demangeont highlighted their service as a primary differentiation among their competitors. They pride themselves on going above and beyond to

service clients. Mr. Demangeont also enlightened the Committee on some of the back office services they provide for MedAmerica's clients. Some of these services include trust deed loans, limited partnerships, resolving daily administrative and recordkeeping issues, addressing website concerns, and communicating new products and services to C. Renner. While Schwab provides a great deal of services, they understand their limitations. Many services that C. Renner and his team provide are not within Schwab's realm of business- in fact, if they took on the additional services such as tax filings, they would have to outsource them to other companies.

Currently all participants in the MedAmerica's 401(k) plans have access to the Guided Choice program; however, Schwab has recently rolled out another tool for physicians. The Schwab Executive Services program is for high level professionals; a Schwab Financial Consultant will help physicians on decisions regarding equity investment and retirement planning as well as support beyond the company's benefits. Services can include financial planning, nearing-retirement planning, trust and estate services, tax efficient investing strategies, insurance and annuities, charitable giving strategies, advanced portfolio- diversification strategies, and everyday cash and debt management solution from Schwab Bank. Other services include financial strategies for life events such as marriage or divorce, career change, compensation change, and wealth transfer. Those who take advantage of the program will have a 1:1 relationship with the Schwab consultant. If physicians currently have a financial advisor or planner of their own, the Schwab consultant is able to work with them to help achieve the best case scenarios for their retirement needs. The consultant assigned to MedAmerica's affiliated plans is Brian Steineman. The Executive Services program is provided at no additional cost.

Schwab has also created a tool for all participants with more than one Schwab account. For those individuals, they can view all of their accounts and information in one place at www.schwab.com. If a person has a 401(k) account and a regular checking account with Schwab, they will be able to access information on both of these accounts by signing up. The www.schwabplan.com website provides information on a person's 401(k) account only.

For their full services, Schwab agreed to lower the fees associated with the MedAmerica plans to 0.20%. For the defined benefit plans, Schwab fees will remain at 0.03%.

**VANGUARD TRUST
AND RECORDKEEPING**

Vanguard began their presentation by introducing themselves. The team of four included Mark Landay (Principal- Institutional Investor Group), Martha Chase (Reisinger, Education Specialist), Mark Gohlke (Relationship Manager), and Michelle Buonanno (Retirement Plans Consultant). Vanguard describes itself as an institutional market leader because of its investment experience, breadth, performance and low costs. It has more than 30 years of investment experience with \$1.2 trillion in total assets- \$601.3 billion are institutional assets. Vanguard

has 141 investment portfolios covering all asset classes and manages active equity, index equity, and fixed income investments. It is unique in that it has no outside owners and does not need to appeal to shareholders; only to its owners, who are its mutual fund investors. None of the presenters earn a commission.

While Vanguard tried to emphasize its excellent administrative services, they did impress upon the Committee that their funds are less expensive and better than other provider's funds. Vanguard believes that what differentiates them from competitors is that they are a trusted partner that focuses on participants, and clients get exceptional value at a low cost.

M. Landay reviewed fees with the Committee. In their proposal, Vanguard proposed fees that would equate to about 0.12% annually. The low fees garnered interest from the Committee- as fiduciaries, they wanted to be sure that the plans were getting the most value at the best available price. However, Vanguard's price was based on at least 50% of the funds being placed with Vanguard. The fee included website access, but did not include Executive Services. It included some marketing resources to help with employee communications and access to its advice product. Defined Benefit Plan fees were offered at 0.06%.

DUE DILIGENCE

After both Schwab's and Vanguard's presentations, the Committee evaluated the pros and cons of the products and services each has to offer. The group came up with the following list:

- Vanguard's administrative plan fees are lower than Schwab. Although the Defined Benefit Plan fees were higher, the much larger defined contribution fees reflected an 0.08% difference.
- The Committee felt that Schwab's customer and client service would be better than Vanguard's customer service. The Committee felt that the comfort built up with Schwab is very high and tough for Vanguard to match.
- Vanguard's funds are less expensive but Schwab's proposal included access to Vanguard's funds if we wanted. Vanguard would require that at least 50% of the funds be placed with Vanguard. Schwab had no such restriction.
- The rollout of Schwab's Executive Services program was favorable. Schwab seemed more willing to work with individual physicians while Vanguard was not. Schwab did not charge for this service. Vanguard has financial planning services, but the fees are based on the value of a participant's assets at Vanguard. With balances less than \$100,000, the fee for advice from professional financial planners is \$1,000. If the account value is between \$100,000 to \$500,000, the fee is \$250. If the assets are more than \$500,000, then the fee is waived. Some of the members felt that this set-up excludes younger physicians since they are just starting out and have not had the opportunity to build up enough assets to take advantage of these services.

Vanguard representatives maintained that financial planning services were not as critical with a lower amount of assets.

- Vanguard is owned by its clients- this means that their culture, philosophy, and business strategies are developed with its clients in the forefront.
- Both Schwab and Vanguard have similar investment options including target date funds and precious metals. Vanguard offers index funds at a low cost. Schwab has developed a target date program that can utilize MedAmerica's own selected funds.

Schwab and Vanguard each possess advantages and disadvantages. The Committee felt that while Vanguard's fees were favorable, Schwab's services were more appealing. However, in many respects, Vanguard and Schwab were very similar in many attributes. The Committee ultimately felt that there was no compelling reason to switch providers and that we would retain Schwab as our trustee and recordkeeper.

Overall, the group thought that the due diligence exercise was beneficial because they were able to look at available services and ultimately reduce our fees. The Committee commended Dr. S. Nevins for initializing the process.

M/S/P

Motion to keep Charles Schwab as the trustee / recordkeeper for MedAmerica's retirement plans. (U)

NEWS

MedAmerica Financial Services had been negotiating with HMG Hospitalist Group of Canton, OH to provide retirement plan services. The discussion has been put off temporarily, if not permanently. HMG and its attorneys are apprehensive about their structure and its interaction with our plan definition of "self determined employees". HMG has a few P.C.'s that may be problematic. The group did not want to set up the plans if there was a possibility that the contributions could potentially be disallowed. Additional analysis is required but HMG is still apprehensive. C. Renner will revisit this issue and their concerns within the next quarter.

FUTURE MEETINGS

May 21, 2009 is scheduled for Emeryville, CA
October 30, 2009 is scheduled for Salt Lake City, UT
February 2010 is scheduled for Emeryville, CA

ADJOURNMENT

The meeting was adjourned at 2:50 p.m. PST.