

# Compensation Committee Charter

The purpose of this Charter is to delegate authority to and specify the composition, duties, and responsibilities of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Sierra Health Services, Inc. (the "Company").

## I. Committee Purpose and Authorization

The Committee is appointed by the Board to assist the Board in compensation matters. The Committee's primary duties and responsibilities are to:

- Develop and make recommendations to the Board with respect to the Company's compensation policies.
- Determine the compensation to be paid to the Chief Executive Officer (the "CEO") and the Company's other executive officers.
- Administer the Company's compensation and benefits programs for employees, non-employee directors and other service providers.
- Produce an annual report on executive compensation to be published in the Company's proxy statement for the Annual Meeting of Stockholders.

By this Charter, the Board of Directors authorizes the Committee, to the fullest extent permitted under the corporation law of the State of Nevada and the Company's Articles of Incorporation and Bylaws, to exercise the powers of the Board in matters relating to compensation or otherwise within the scope of this Charter. The Committee shall have such extended authority with respect to the business and affairs of the Company as may be conferred by any other resolution, plan or other arrangement adopted or approved by the Board.

The Committee is authorized to retain, at the Company's expense, compensation consultants, special legal counsel, accounting professionals, or other consultants or experts it deems necessary in the performance of its duties. If the Committee uses a compensation consultant to assist in the evaluation of compensation for the CEO, other executive officers, or non-employee directors, the Committee shall have sole authority to retain and terminate the consulting firm and to approve the firm's retention terms and fees. The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to anyone in the organization.

## II. Committee Composition

The Committee shall be comprised solely of two or more of the non-employee directors of the Company, as determined by the Board from time to time. Each member of the Committee shall be an "independent" director, as defined under Section 303A(2) of the Listed Company Manual of the New York Stock Exchange and in the Company's Corporate Governance Guidelines. In addition, the Board intends that each member of the Committee qualify as a "Non-Employee Director" under Rule 16b-3 of the Securities Exchange Act of 1934 and as an "outside director" under Section 162(m) of the Internal Revenue Code. Each member of the Committee shall have sufficient knowledge and familiarity in the area of compensation practices and policies to discharge the duties and responsibilities as a member of the Committee. The foregoing notwithstanding, no action of the Committee shall be void or deemed to be without authority solely because of a failure of any member to meet the requirements of this Part II.

Members of the Committee shall be appointed by the Board and may be removed by the Board. Members shall serve until their successors are duly appointed (except in the case of removal), which appointments shall be made each year following the Annual Meeting of Stockholders. If the Board does not designate a Chairperson of the Committee, the Chairperson shall be selected by the members of the Committee.

### **III. Meetings and Organization**

The Committee shall meet as often as it may deem necessary and appropriate in its judgment, but in no event less than once per year. A majority of the members shall constitute a quorum, and decisions shall be made by act of a majority of the members present at a meeting. Meetings should be scheduled to be held on the same day as Board meetings, when possible. The Chairperson may call special meetings as circumstances require. Participation in meetings by telephone or other interactive means is permitted. The CEO and other executive officers, employees, and professional persons may attend meetings, but all or part of at least one meeting per year will be conducted with no officers or employees present (this may be a joint meeting with the independent members of the Board of Directors). The Committee shall keep regular minutes of its proceedings, which shall be available to the Board, and shall make reports to the Board as requested by the Board.

The Committee may delegate its authority to one or more subcommittees, which shall be comprised of at least two members of the Committee. In addition, a member of the Committee may recuse himself or herself with respect to any matter before the Committee. Such delegation or recusal may take place in order to ensure compliance with legal and regulatory obligations, to ensure timely decision making or for other purposes. Any such delegation or recusals shall meet applicable requirements of Section 303A.05 of the New York Stock Exchange Listed Company Manual, and any subcommittee shall remain subject to the terms of this Charter. Authority with respect to ministerial duties of the Committee, including day-to-day administration of compensation and benefit plans and payment of fees for professional services provided to the Committee, may be performed by officers and employees of the Company in accordance with the terms of plans, Committee resolutions, retention and fee terms approved in advance by the Committee, and other directions given by the Committee.

### **IV. Committee Responsibilities and Duties**

#### **A. *Duties and Responsibilities In Setting Compensation***

The Committee shall perform the duties and responsibilities identified below, without limiting the scope of authority granted under this Charter but subject to the provisions under Section IV.B below.

- Determine the compensation of the CEO, including salary, annual incentives, equity-based compensation and other long-term incentive awards, and other compensation and benefits. In determining the appropriate compensation to award to the CEO, the Committee should:
  - review and approve Company goals and objectives relevant to compensation of the CEO,
  - evaluate the CEO's performance, including in relation to the level of achievement of the pre-set Company goals and objectives;
  - in the case of long-term compensation, consider the Company's performance and shareholder return compared to the broader market and competitive or otherwise comparable companies, past levels of long-term compensation awarded to the CEO, and the levels of similar long-term compensation awarded to chief executive officers of comparable companies; and
  - consider such other factors and circumstances as the Committee may deem relevant.
- Determine the compensation of the Company's executive officers other than the CEO, based on the Committee's evaluation of the performance of the Company and individual business units and departments, and the performance of the executive officer in light of pre-set Company, business unit, departmental or individual goals and objectives, information regarding competitive compensation, and such other factors and circumstances as the Committee may deem relevant.
- Recommend to the Board the compensation of Board members, including Board and committee retainer fees, equity-based compensation, and other similar items as appropriate.
- Establish, revise and administer equity-based compensation plans.
- Establish, revise and administer all other compensation and benefit plans, policies, programs, contracts and arrangements for employees, other service providers, and non-employee directors. This includes authority to negotiate or implement employment agreements and consulting contracts, severance and termination agreements, change-in-control agreements, health and welfare benefits, insurance protections, and other benefits of any type, including perquisites and expense account policies.

- Establish, revise and administer all other policies reasonably related to compensation and employment, including guidelines mandating ownership of Company stock by executive officers and directors and restrictions on competition by former employees.

**B. *Approval Requirements***

The Board intends that the Committee coordinate closely with the Board in implementing compensation decisions, while retaining authority to act independently in appropriate cases. The Committee, in carrying out its duties and responsibilities, shall be subject to the following:

- Significant decisions of the Committee relating to CEO compensation should be presented as recommendations to the Board of Directors, with the independent members of the Board to act on such recommendations.
- Significant decisions of the Committee relating to compensation of executive officers other than the CEO should be presented as recommendations to the Board of Directors, with the Board to act on such recommendations.
- However, the Committee retains authority to act directly on any matter relating to the CEO or other executive officers, in the interest of timely decision-making, in order to comply with conditions under Section 162(m) of the Internal Revenue Code or Rule 16b-3 under the Exchange Act or any other regulatory scheme, in furtherance of prior directions of the Board, due to the relative insignificance of the matter, or if the Committee otherwise determines it is in the best interests of the Company to act independently.
- Committee actions that have a material effect on the amount or timing of compensation or benefits to non-employee directors shall in all cases be subject to the approval or ratification of the Board, unless specific authority for the Committee to take such action has been delegated by the Board.
- Compensatory plans or arrangements shall also be subject to approval of the Company's stockholders, to the extent required by law or the rules of the New York Stock Exchange.

**C. *Other Committee Responsibilities***

The Committee shall perform the following additional functions.

- Annually prepare a report on executive compensation as required by the Securities and Exchange Commission, for publication in the Company's proxy statement for the Annual Meeting of Stockholders.
- Review succession planning and management development for senior management, including the CEO, on at least an annual basis. This succession planning should include developing policies and principles for the succession of the CEO on both a planned basis (*e.g.*, upon retirement) and in the event of an emergency.
- Review and reassess the adequacy of this Charter at least annually. Submit proposed revisions to the Charter to the Board for approval and have the document published by the Company in accordance with SEC regulations.

**V. *Annual Performance Review***

Annually, the performance of the Committee shall be subject to review and evaluation by the Nominating and Governance Committee (this may be in conjunction with the evaluation of the Board). This will include a review of the compliance by the Committee with this Charter. The results of the evaluation shall be reported to the Board.

This Compensation Committee Charter is hereby ratified and adopted on the 7th day of December 2004.