

July 2012

Ten Minutes to Doomsday: Wealth Planning in an Uncertain World

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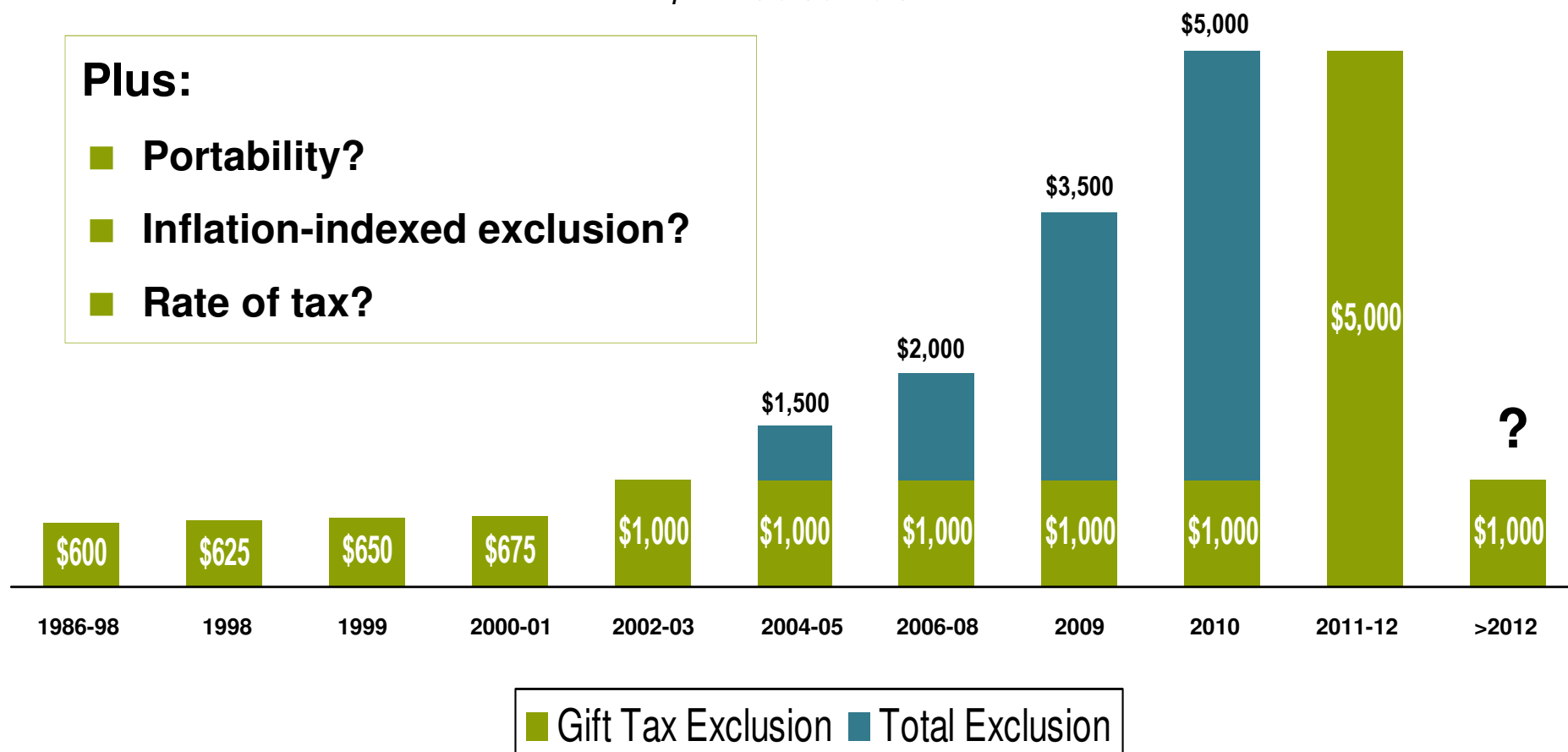
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The Ever-Changing Tax Landscape Makes Planning Difficult

History of the Applicable Exclusion Amount \$ Thousands

Plus:

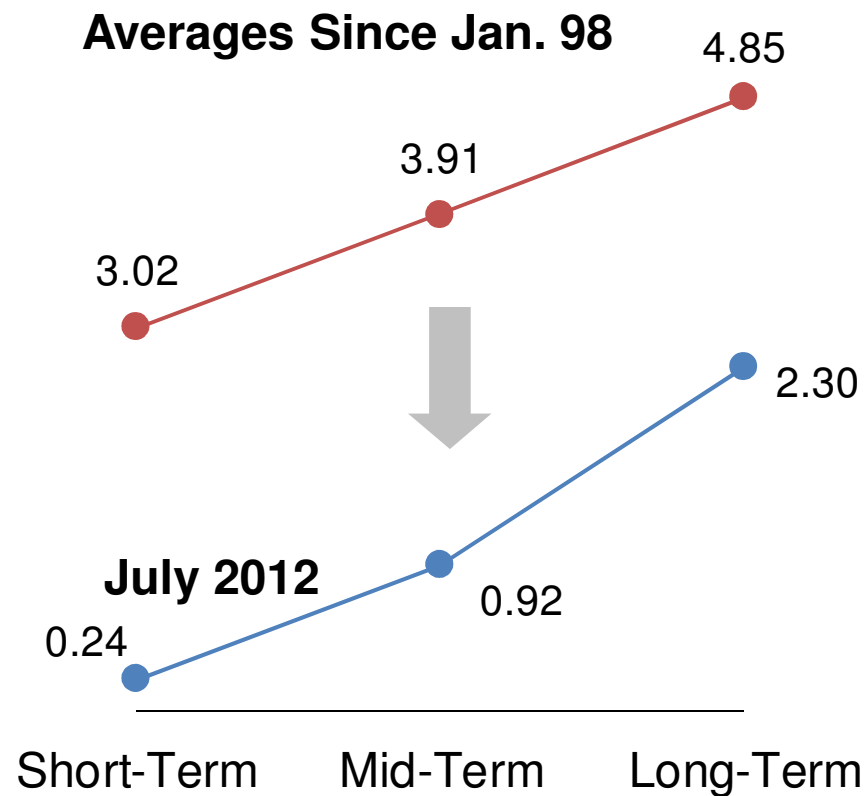
- Portability?
- Inflation-indexed exclusion?
- Rate of tax?



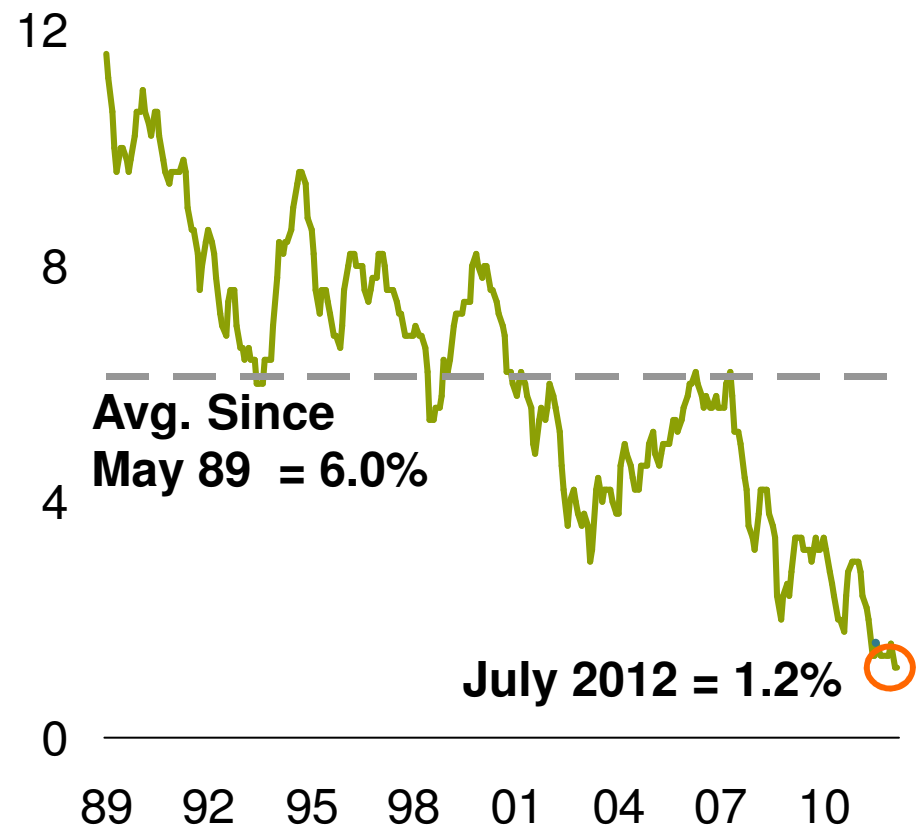
Sources: Internal Revenue Code of 1986, as amended ("Code"), Section 2010(c); Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16), Section 521(a); Taxpayer Relief Act of 1997 (P.L. 105-34), Section 501(a)(1)(B); Economic Recovery Tax Act of 1981 (P.L. 97-34), Section 401(a)(2)(A).

Today's "Hurdle" Rates Are at All-Time Lows . . .

Applicable Federal Rates* (%)



Section 7520 Rate** (%)



*Section 1274(d) of the Internal Revenue Code of 1986, as amended (Code)

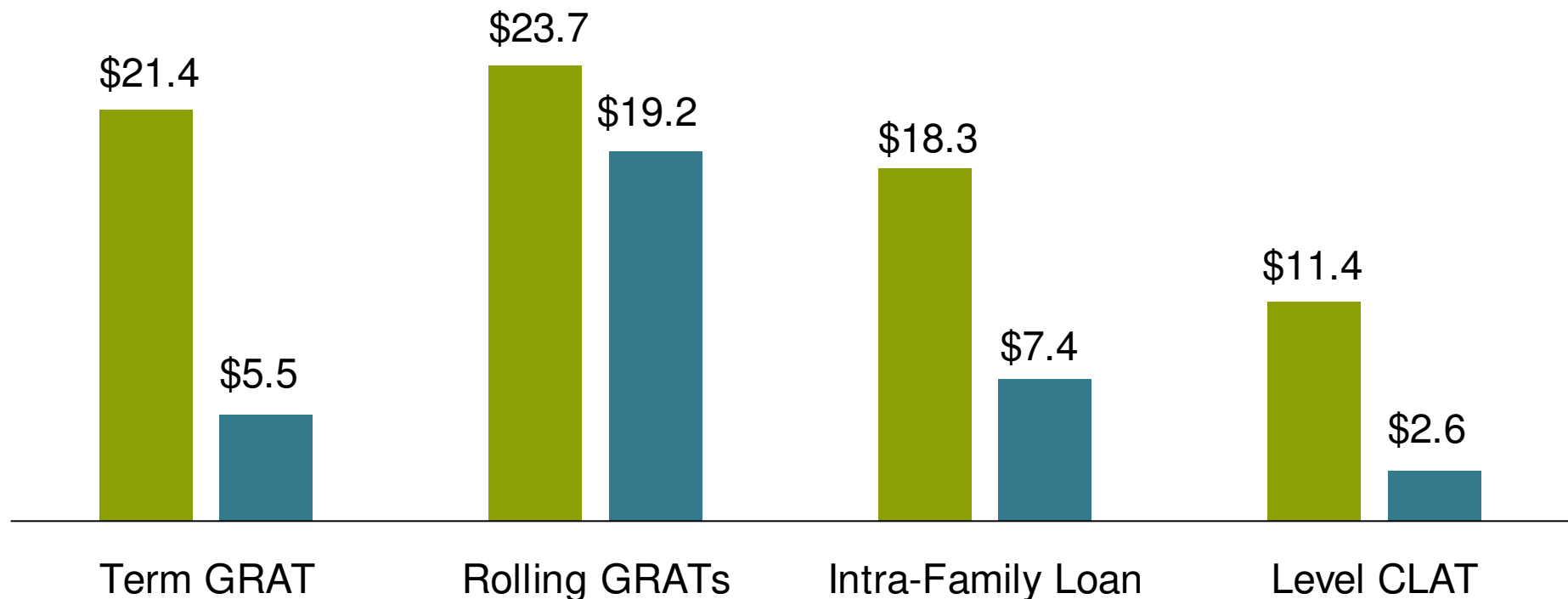
**Code Section 7520 as of February 2012

Source: IRS and AllianceBernstein

... Making the Cost of Delay Significant

Median Wealth Transfer, Year 20 \$10 Million Initial Funding \$ Millions, Real

■ Today's Conditions ■ "Normal" Conditions



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 20 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.
Source: AllianceBernstein

“Sunset” and Health Care Reform Will Increase Tax Rates Further in 2013

Top Marginal Federal Tax Rates

	2011	2012	2013*	% change (2013 / current)
Dividends	15%	15%	43.4%	189%
Long-term capital gains	15	15	23.8	59
Taxable interest	35	35	43.4	24
Earned income (including OASDI and Medicare)**	40.65	40.65	48.15	18

*Based on Health Care and Education Reconciliation Act of 2010; assumes joint filer with both earned income and adjusted gross income above \$250,000.

**Currently, OASDI rate is 4.2% and Medicare tax rate is 1.45%. In 2013, OASDI rate is scheduled to return to its pre-2011 level of 6.2%, and Medicare tax rate is scheduled to increase to 2.35% for wages in excess of \$200,000 (single filer) or \$250,000 (joint filer). “Earned income” blended rates do not account for phase-out of OASDI for wages in excess of threshold amount (\$110,100 in 2012, indexed for inflation thereafter). Tabulated figures exclude state and local income taxes.

Source: IRS and AllianceBernstein

Highlights from the 2012 Heckerling Institute

- Predictions about the future of transfer tax laws: “It’s unknown . . . it can’t be known . . . it’s unknowable”
- Keep an eye on portability
- Focus on flexibility when drafting estate planning documents
- Consider the implications of potential compression of the spread between the estate tax and capital gain tax rates
- “**Crunch the numbers!**”

Source: AllianceBernstein

Agenda

- **Planning overview and analytical methodology**
- **Case studies**
 - **More life insurance . . . or a big lifetime transfer of wealth . . . or both?**
 - **Dealing with legislative uncertainty**
 - **GRAT legislative risk and “locking in”**

Planning Overview and Analytical Methodology

Planning for Wealth Transfer: Core and Discretionary Capital



Core Capital

- Assets required to ensure lifetime spending needs are met
- Calculated at 90% or greater level of confidence

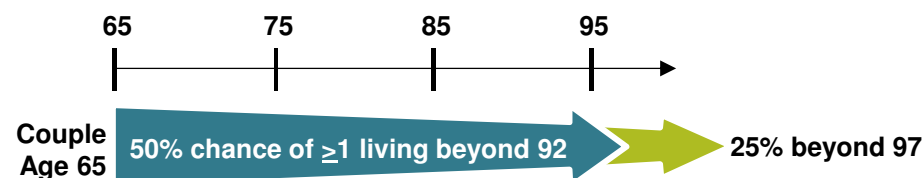
Discretionary (or Excess) Capital

- Assets that can be transferred from one's balance sheet without affecting spending

Source: AllianceBernstein

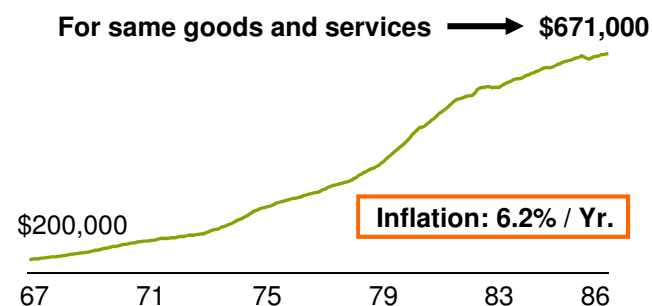
Planning for an Uncertain Future: “What If...”

- ... I live longer than expected, extending my spending into four decades?



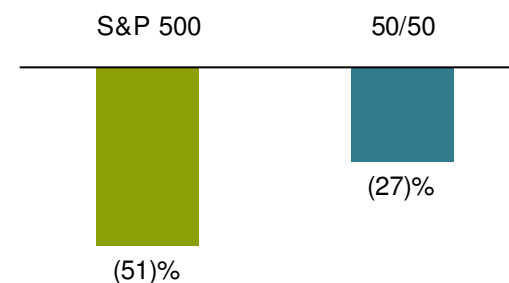
- ... I'm hit by an inflation spike, with no earned-income to offset that hit?

\$200,000 Annual Spending Grown with Inflation*



- ... I experience another bear market, immediately jeopardizing my wealth?

Market Value Declines (Nov 2007–Feb 2009)**



Longevity and mortality-adjusted investment analysis is based on mortality tables compiled in 2000.

*Inflation is represented by the Consumer Price Index.

**Bonds are represented by the Barclays Capital US Aggregate Index.

Source: Barclays Capital, Bureau of Labor Statistics, Society of Actuaries RP-2000 mortality tables and Standard & Poor's

Analytical Model*

Quantifying the Trade-Offs

Personal Profile Data

Financial Goals
Assets
Income Requirements
Risk Tolerance
Tax Rates
Time Horizon

Input

Wealth Forecasting Model

Simulated observations based on Bernstein's proprietary capital-markets research

Distribution of 10,000 Outcomes

Probability Distribution

5%
10
50
90
95

Source: AllianceBernstein

*See Appendix, Notes on Wealth Forecasting System, for details.

Case Study: Blending Life Insurance with Lifetime Wealth Transfer

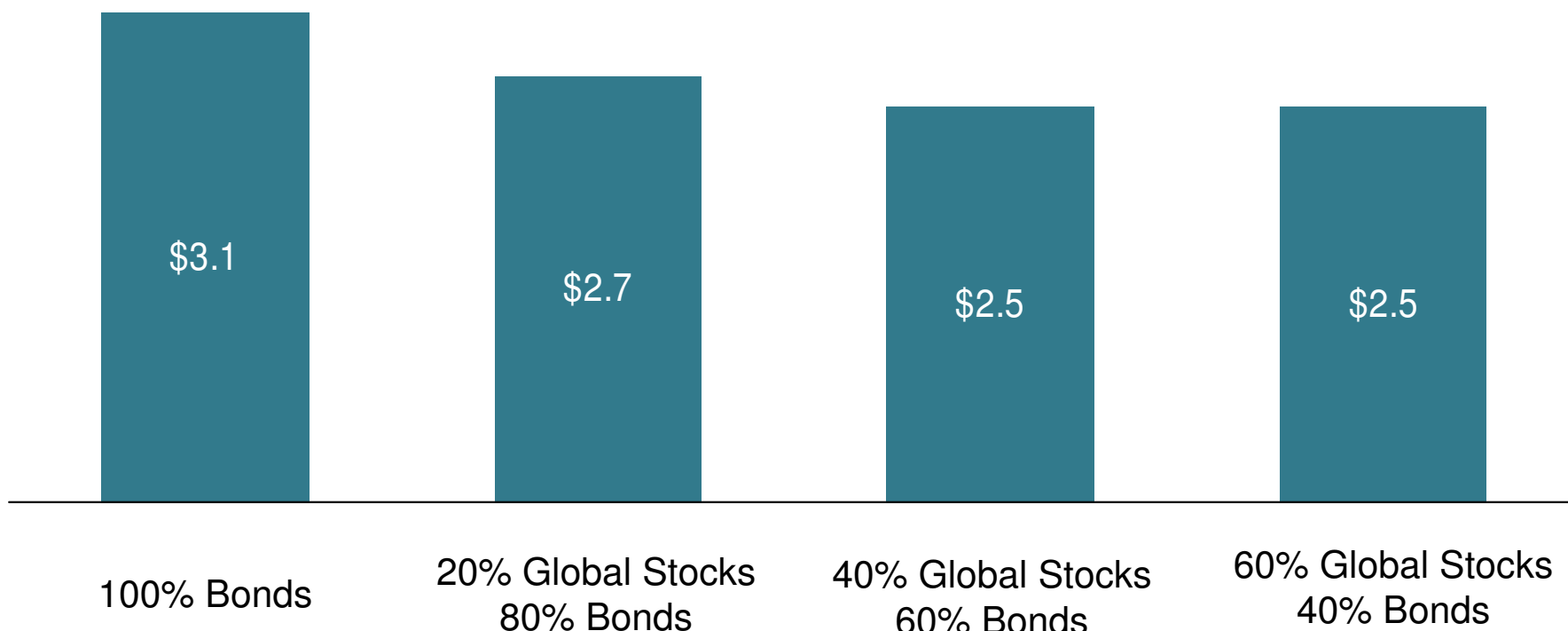
Blended Wealth Transfer Plan: Case Study Facts

- **Married couple, age 80, IN residents**
- **\$25 million combined estate, all marketable securities**
- **Spend \$100,000 (inflation-indexed), after tax, each year—does not include life insurance premiums**
- **Time horizon: 20 years**

Key Question: How much should they reserve for themselves?

Core Capital Is a Very Small Percentage of This Couple's Wealth

Amount Needed to Fund Core Spending*
Spend \$100,000 (Real) Annually, 20-Year Time Horizon, 95% Confidence
\$ Millions



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 20 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

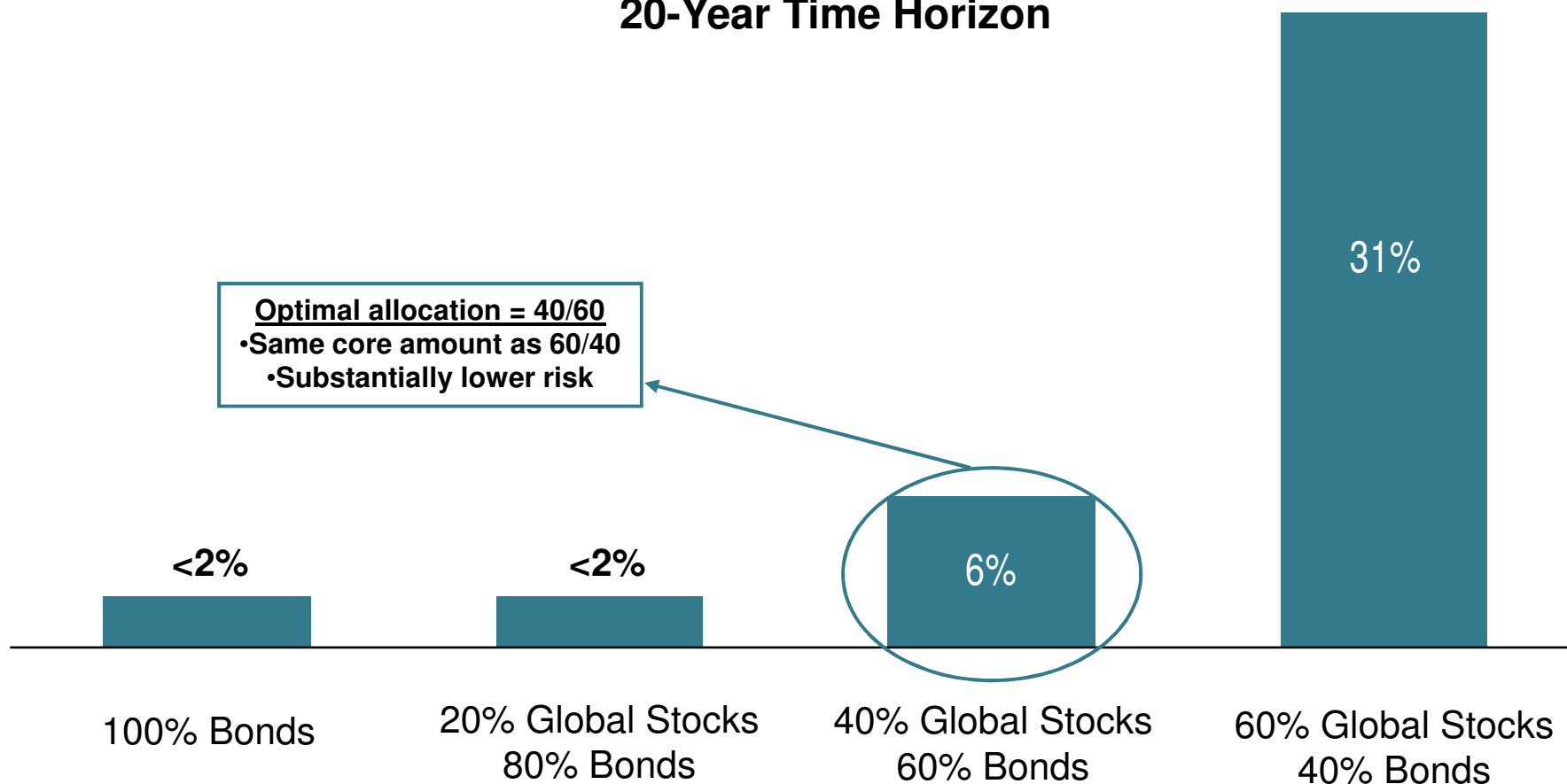
*Core capital calculated at 95% level of confidence. Variations in actual income, spending, applicable tax rates, lifespan, and market returns may substantially impact the likelihood that a core capital estimate will be sufficient to provide for future expenses. "Global stocks" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks.

"Bonds" means intermediate-term municipal bonds.

Source: AllianceBernstein

How Does Exposure to Equities Increase Portfolio Risk?

Probability of 20% Peak-to-Trough Loss* 20-Year Time Horizon



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 20 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

*Projections indicate probability of peak-to-trough decline in pre-tax, pre-cash flow cumulative returns of 20% over duration of forecast. Because Bernstein's Wealth Forecasting System uses annual capital market returns, probability of peak-to-trough losses measured on more frequent basis (such as daily or monthly) may be understated. Probabilities include upward adjustment intended to account for incidence of peak-to-trough losses that do not correspond to exact numbers of years. "Global stocks" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks. "Bonds" means intermediate-term municipal bonds.

Source: AllianceBernstein

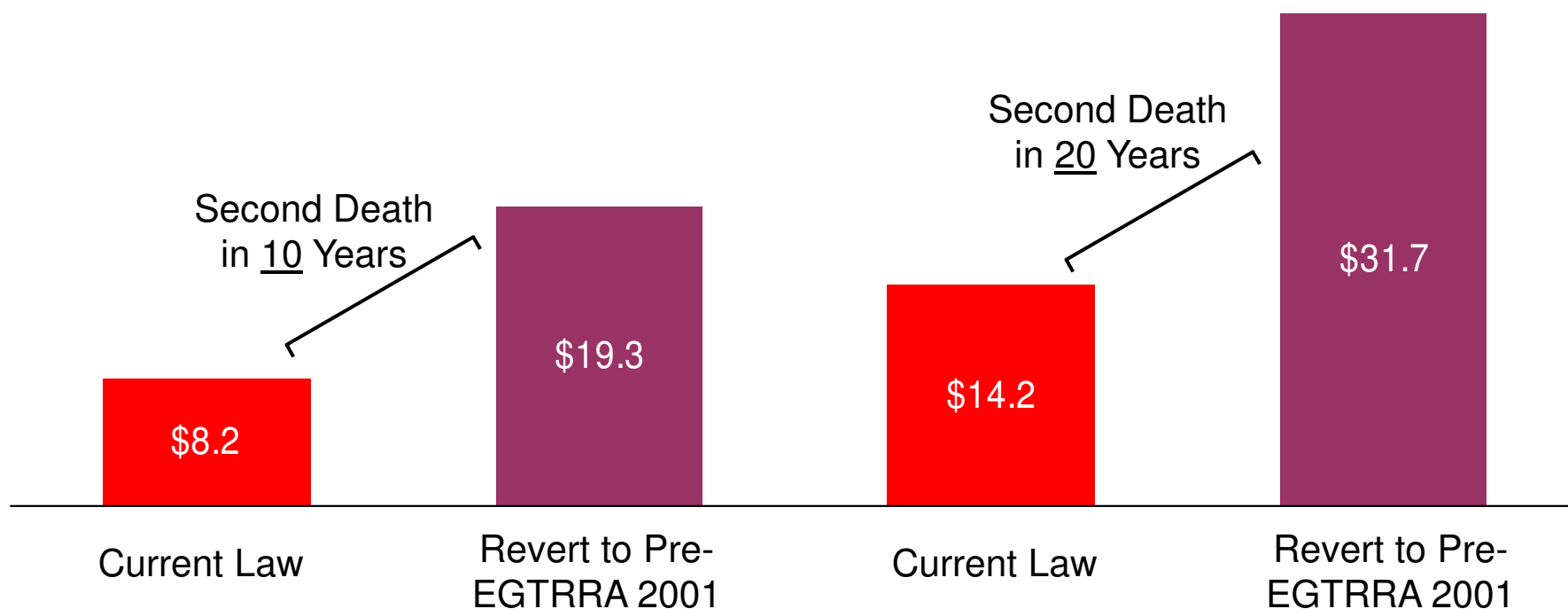
Blended Wealth Transfer Plan: Current Life Insurance Situation

- **Husband is “uninsurable”**
- **Couple’s current life insurance situation**
 - **\$5 million single-life coverage on wife currently held in irrevocable life insurance trust (ILIT); annual premium = \$100,000**
 - **According to insurance advisor, could add up to \$5 million of coverage on wife; additional annual premium = \$235,000**
- **Total of 13 descendants, so additional premiums are within annual exclusion limits—for now**

Key Question: Should they add to their current coverage?

Even Under Current Law, the Estate Tax Liability Will Be Substantial Absent Further Planning

Median Estimated Federal Estate Tax Liability*
40 / 60 Portfolio, \$25 Million Initial Value**
Spend \$100,000 (Real) Annually, No Life Insurance
\$ Millions, Nominal



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 10 and 20 years, respectively. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

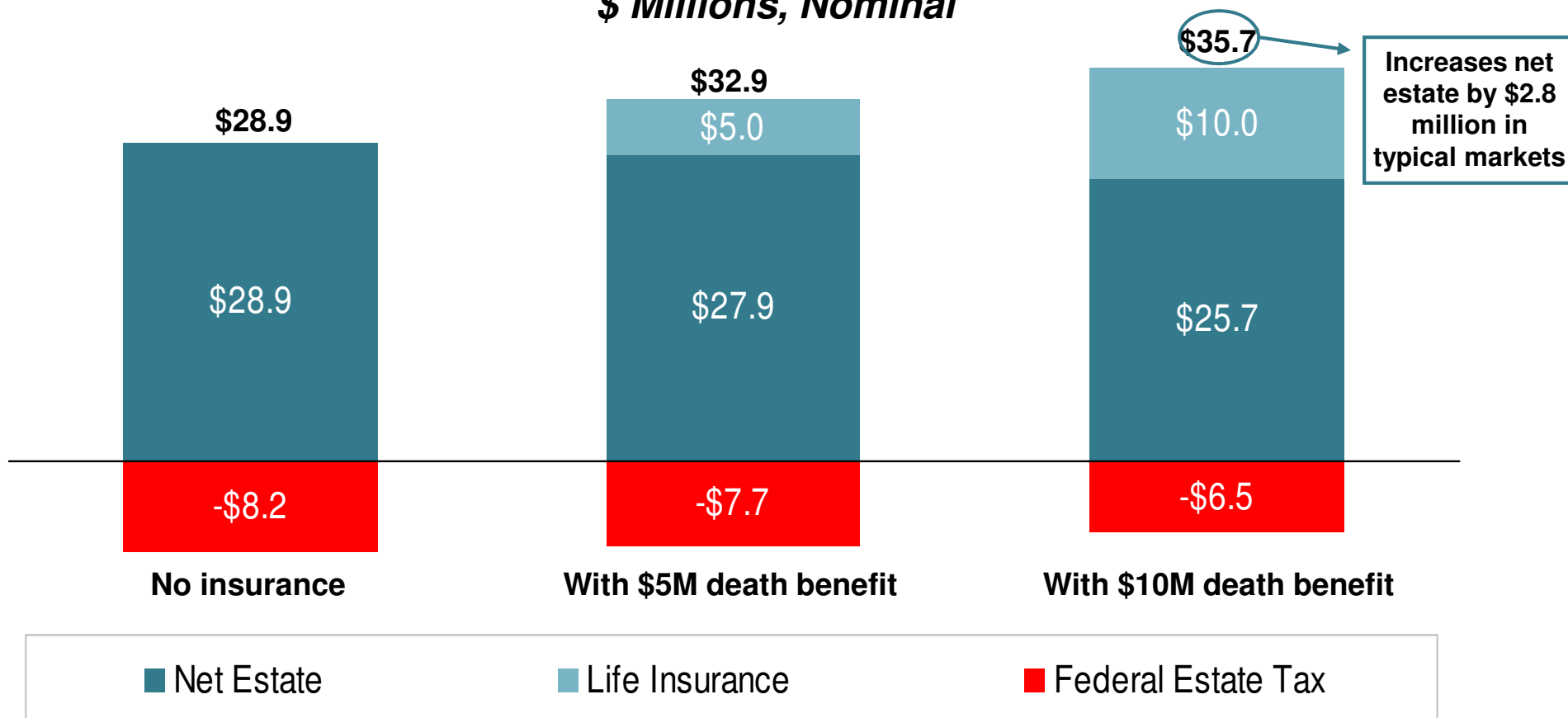
*In "Current Law" scenarios, assumes median combined applicable exclusion amount (inflation-adjusted) of \$13.7M if second death occurs in Year 10, and \$19.0M if second death occurs in Year 20, and "flat" estate tax rate of 35%. In "Revert to Pre-EGTRRA 2001" scenarios, assumes combined applicable exclusion amount (nominal) of \$2M and "flat" estate tax rate of 55%.

***40/60 Portfolio" means 40% globally diversified stocks, 60% intermediate-term municipal bonds. "Globally diversified" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks.

Source: AllianceBernstein

If the Second Death Occurs Within 10 Years, Acquiring Additional Life Insurance Should Pay Off Handsomely . . .

Median Wealth to Beneficiaries—10th Year 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



Based on Bernstein's estimate of median returns for the applicable capital markets over the next 10 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

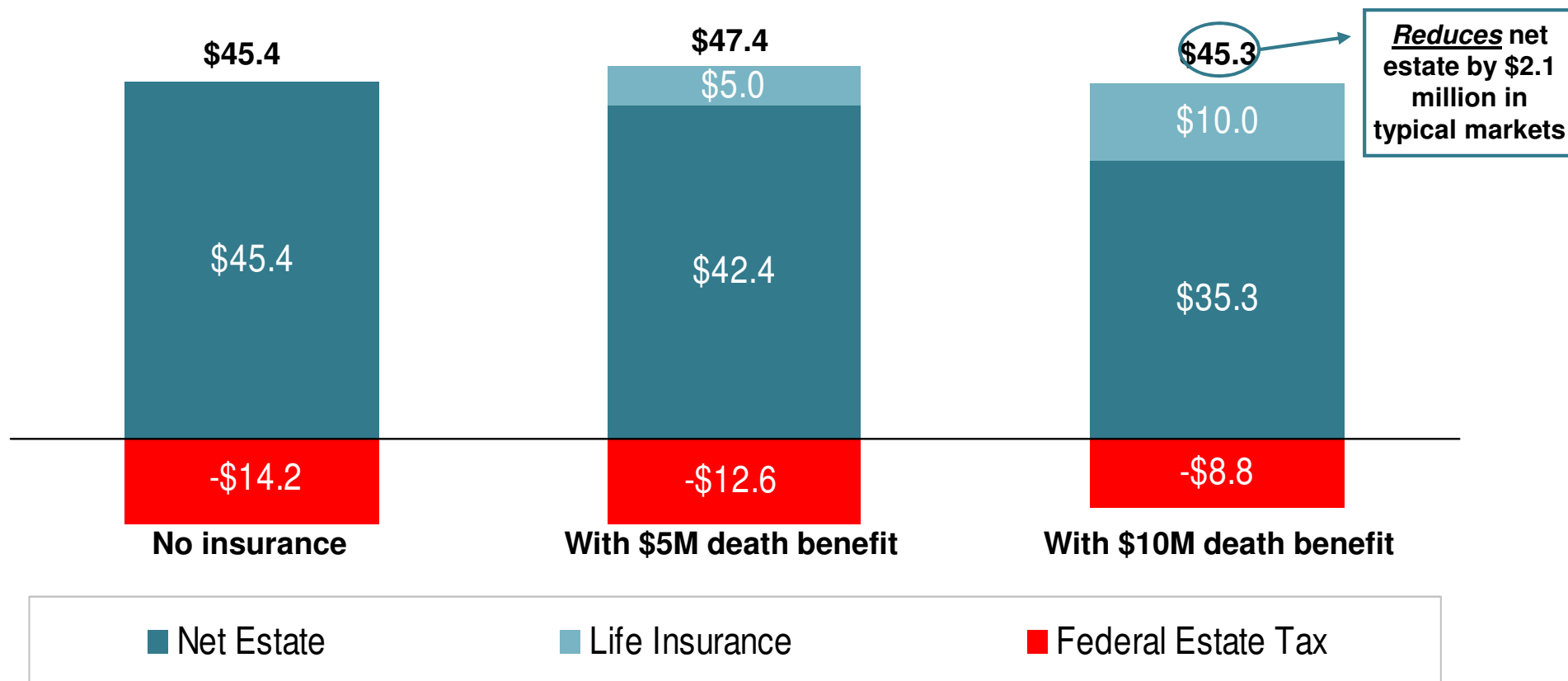
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**Assumes median combined applicable exclusion amount (inflation-adjusted) of \$13.7M and "flat" estate tax rate of 35%.

Source: AllianceBernstein

... But if the Second Death Occurs in 20 Years, Adding the Second Policy May Not Be Beneficial

Median Wealth to Beneficiaries—20th Year 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



Based on Bernstein's estimate of median returns for the applicable capital markets over the next 20 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

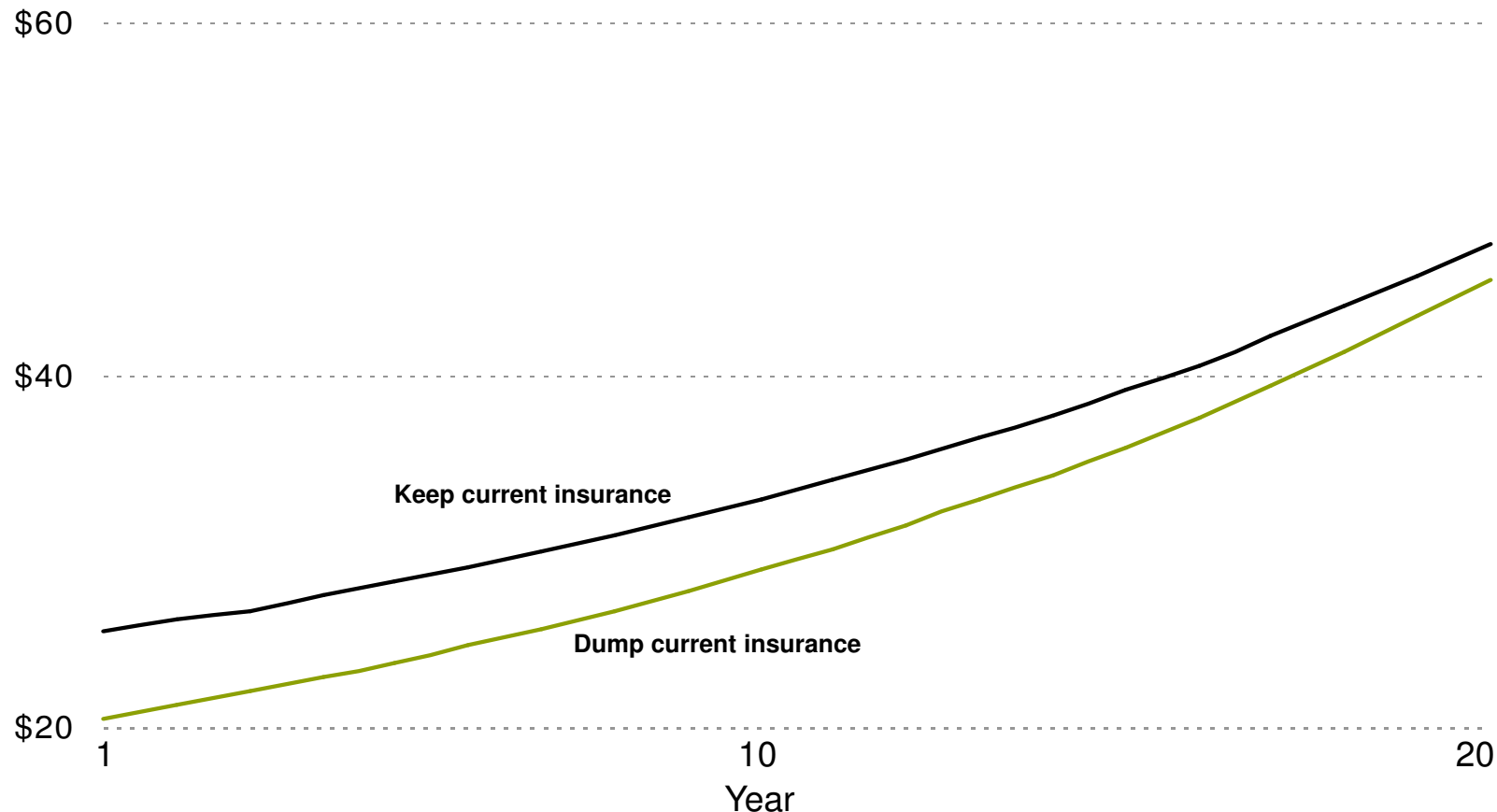
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**Assumes median combined applicable exclusion amount (inflation-adjusted) of \$19.0M and "flat" estate tax rate of 35%.

Source: AllianceBernstein

Clients Should Keep Their Current Life Insurance, Despite the Expense

Median Wealth to Beneficiaries 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



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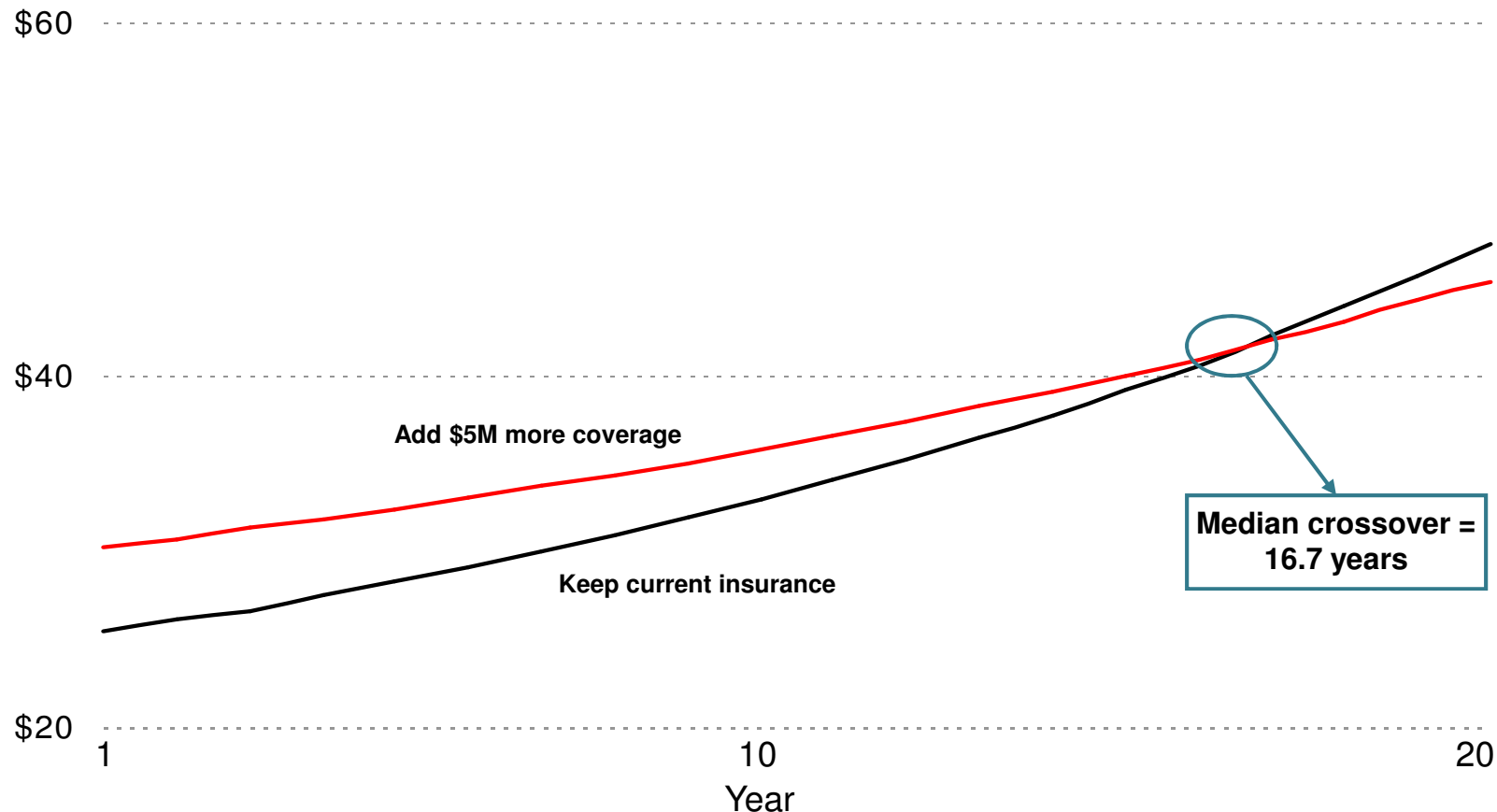
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**Assumes median combined applicable exclusion amount of \$10.24M in Year 1, adjusted annually at median inflation rate of 3.3%, and "flat" estate tax rate of 35%.

Source: AllianceBernstein

Adding More Coverage Is Beneficial . . . But Not Indefinitely

Median Wealth to Beneficiaries 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



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Source: AllianceBernstein

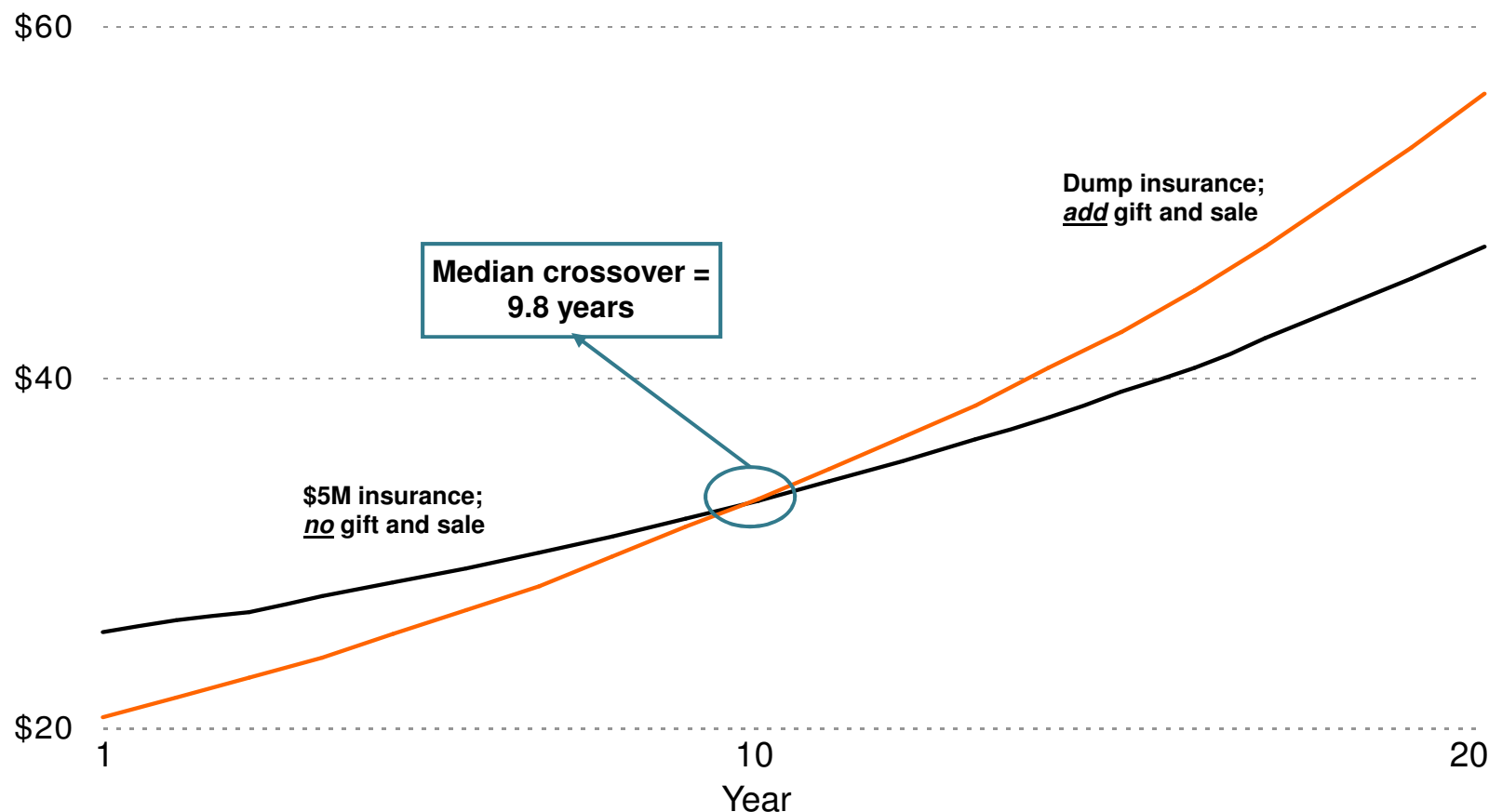
Blended Wealth Transfer Plan: Effect of Lifetime Wealth Transfer

- **What if, in addition to (or in lieu of) buying more life insurance, the couple**
 - **Keeps their core capital of \$2.5 million;**
 - **Gives \$10.24 million of their portfolio to an irrevocable (“intentionally defective”) grantor trust;**
 - **Sells an additional \$12.26 million of their portfolio to that trust, in exchange for a nine-year promissory note that bears interest at a rate of 1.12% (February 2012 mid-term applicable federal rate)?**
- **Assume no asset allocation change in the grantor trust (40 / 60)**

Source: AllianceBernstein

Life Insurance Provides an Immediate Boost, While The Benefit of a Significant Lifetime Gift Builds Gradually

Median Wealth to Beneficiaries 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



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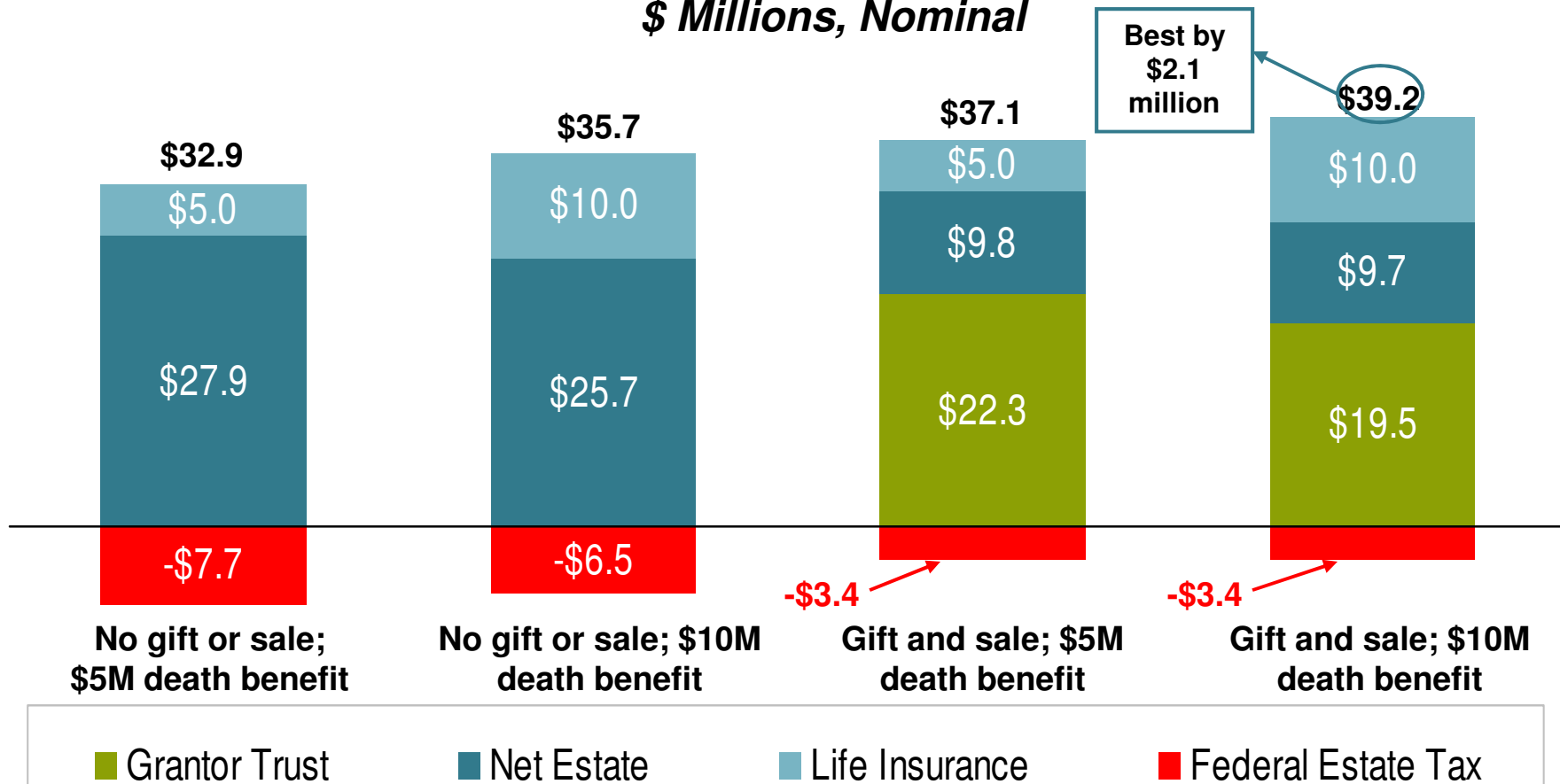
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Source: AllianceBernstein

Ten Years Out, the Second Policy Remains Beneficial . . .

Median Wealth to Beneficiaries—10th Year 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



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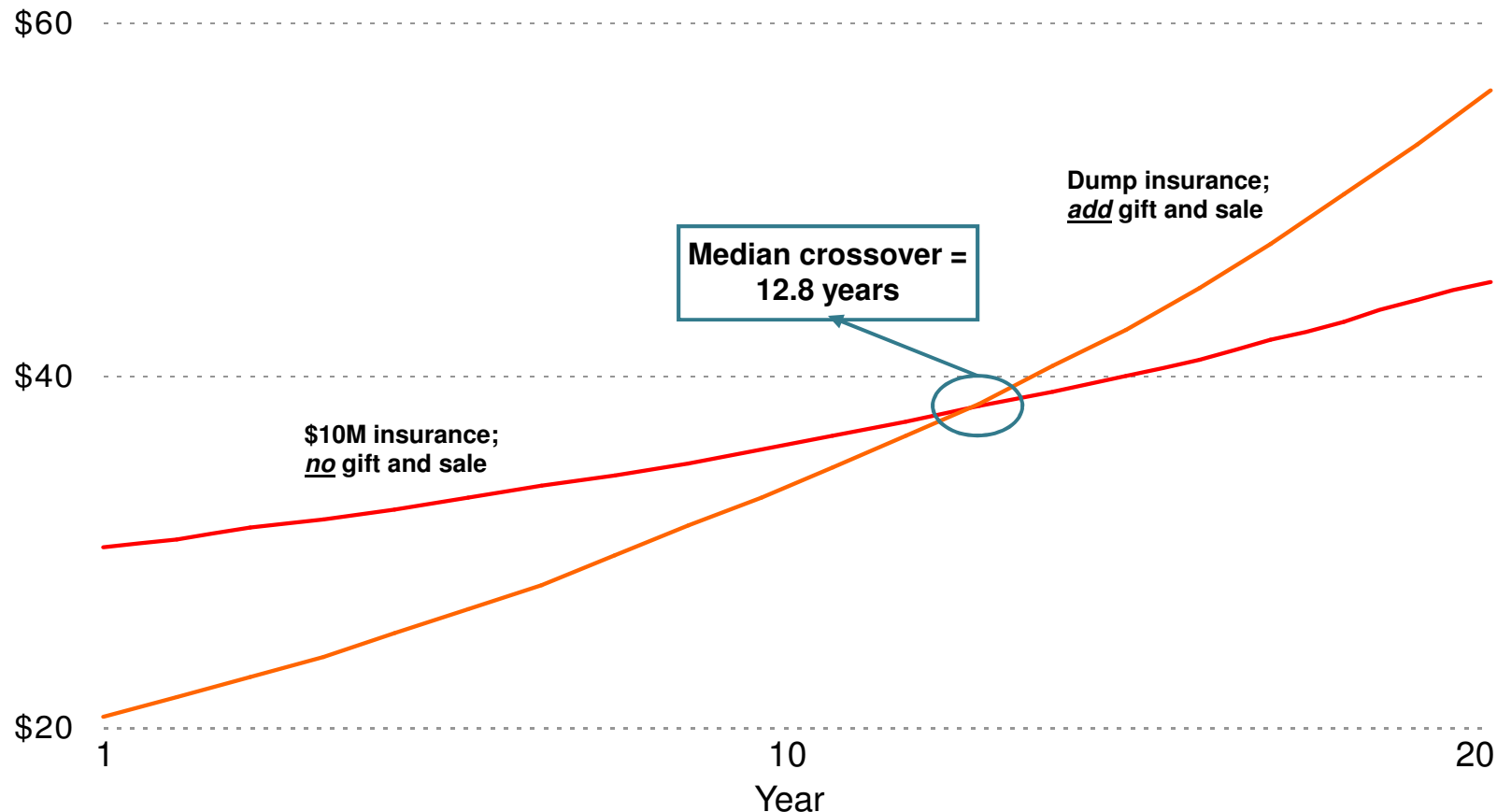
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**Assumes median combined applicable exclusion amount (inflation-adjusted) of \$13.7M in "no gift or sale scenarios" and \$3.5M in "gift and sale" scenarios; "flat" estate tax rate of 35%.

Source: AllianceBernstein

... And Continues to Provide a Benefit for About Three More Years ...

Median Wealth to Beneficiaries
40 / 60 Portfolio,* Net of Estate Tax**
\$ Millions, Nominal



Based on Bernstein's estimate of median returns for the applicable capital markets over the next 20 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

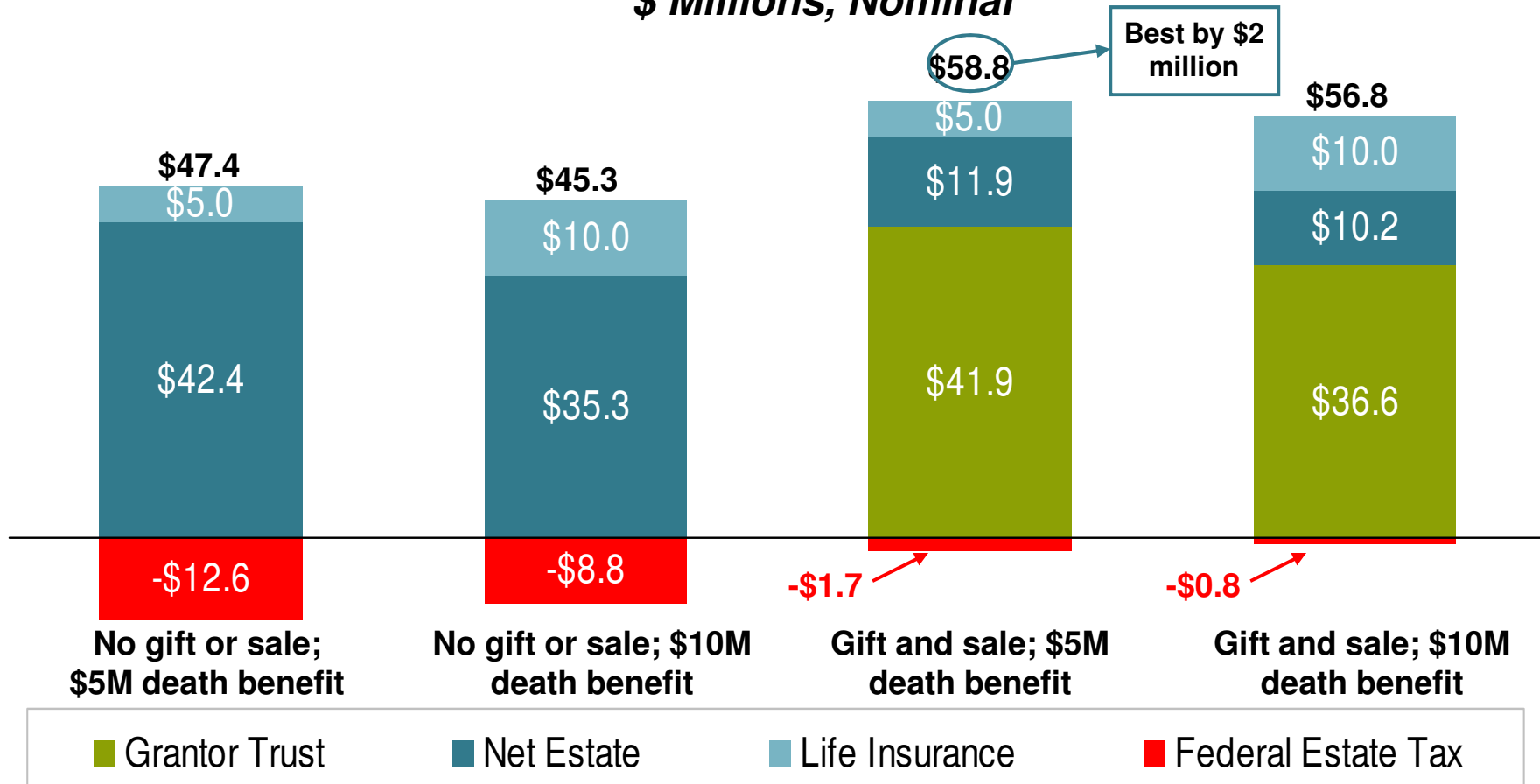
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Source: AllianceBernstein

... But Thereafter, the Second Policy Begins to Detract from the Strategy

Median Wealth to Beneficiaries—20th Year 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



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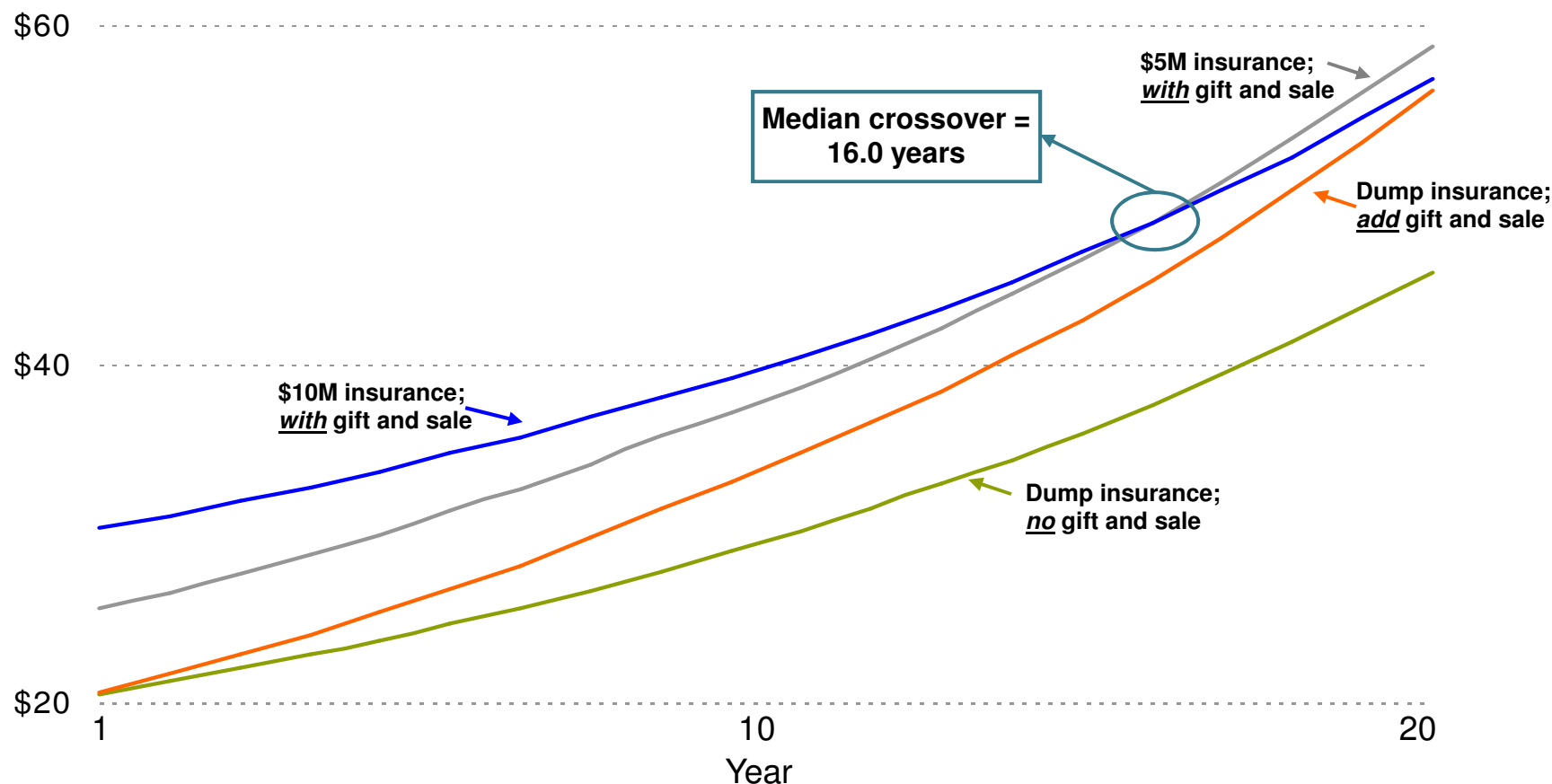
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**Assumes median combined applicable exclusion amount (inflation-adjusted) of \$19.0M in "no gift or sale scenarios" and \$8.7M in "gift and sale" scenarios; "flat" estate tax rate of 35%.

Source: AllianceBernstein

Blending Life Insurance with a Substantial Lifetime Transfer Often Produces the Best Risk-Adjusted Result

Median Wealth to Beneficiaries 40 / 60 Portfolio,* Net of Estate Tax** \$ Millions, Nominal



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**Assumes median combined applicable exclusion amount of \$10.24M in Year 1, adjusted annually at median inflation rate of 3.3%, and "flat" estate tax rate of 35%.

Source: AllianceBernstein

Blended Wealth Transfer Plan: Observations

- Life insurance is almost always a superior investment when the insured dies relatively young
 - Determine the “crossover” point: How long would the insured have to live for the policy to become a “drag” on the investment or estate plan?
- Blended strategies tend to produce the best result
 - Life insurance adds immediate value, but may mute estate-tax-adjusted growth over time
 - The benefits of a lifetime transfer take time to build
- Life insurance may provide additional protection (i.e., crossover may be extended) in poor markets

Source: AllianceBernstein

Case Study: Planning for the Narrowing Gap Between Estate and Capital Gain Tax Rates

Uncertain Future of the Tax Laws

- Currently, the spread between the estate tax rate and capital gain tax rate is 20 percent (35 vs. 15 percent)
 - Conventional wisdom: Avoid the estate tax, even if it means giving up a step-up in income tax basis at death
- In 2013, that spread is scheduled to increase to more than 30 percent (55 vs. 23.8 percent)
- But many speculate that (or at least wonder whether) a legislative compromise on estate taxes may reduce the spread to around 11 percent (35 vs. 23.8 percent)

Key Question: If the rate spread were to narrow substantially, would “conventional wisdom” still apply?

Narrowing Tax Rate Spread: Case Study Facts

- **Grandma, age 85, UT resident, some health concerns**
- **\$5 million estate, 60 / 40 portfolio***
- **Spends \$100,000 (inflation-indexed), after tax, each year**
- **Time horizon: 15 years**
- **Core capital requirement: \$2 million, if invested entirely in municipal bonds**

Key Question: What if the exclusion amount were to revert to \$1 million?

**60/40 portfolio" means 60% globally diversified stocks, 40% intermediate-term municipal bonds. "Globally diversified" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks.

Source: AllianceBernstein

Narrowing Tax Rate Spread: Planning Concept

- **Grandma gives \$3 million (all stocks) to children in 2012, while the exclusion amount is still \$5.12 million**
 - **Adjusted basis of stocks = \$300,000**
- **Grandma keeps \$2 million (all bonds) to support lifestyle spending**

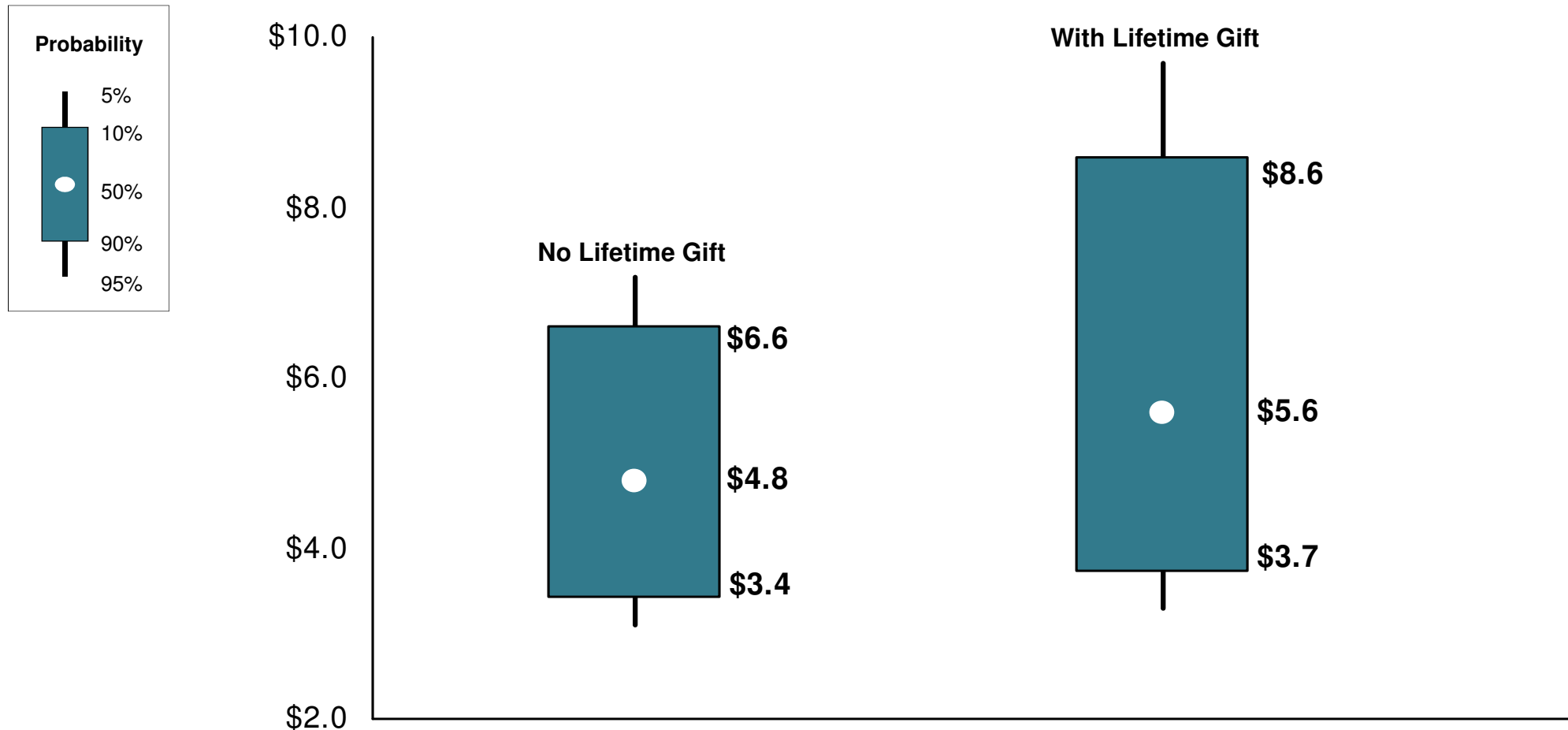
Key Question: If Grandma were to die sooner than expected—in early 2013—would this plan be effective?

If the Law Reverts to a \$1 Million Exclusion and 55% Rate, the Beneficiaries Are Likely to Be Better Off . . . Despite a Gradual Recognition of Gain

\$Millions (nominal)

10,000 Simulated Trials

Range of Wealth to Beneficiaries—10th Year 60 / 40 Portfolio,* Net of Estate and Income Taxes



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 10 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

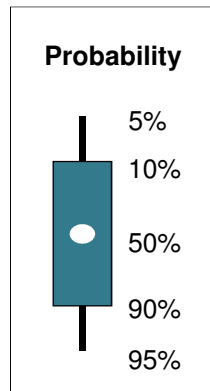
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Source: AllianceBernstein

But if the \$5.12 Million Exclusion and 35% Rate Is Extended, the Beneficiaries Are Likely to Be Worse Off Due to Loss of the Basis Step-Up

\$Millions (nominal)

10,000 Simulated Trials



Range of Wealth to Beneficiaries—10th Year 60 / 40 Portfolio,* Net of Estate and Income Taxes



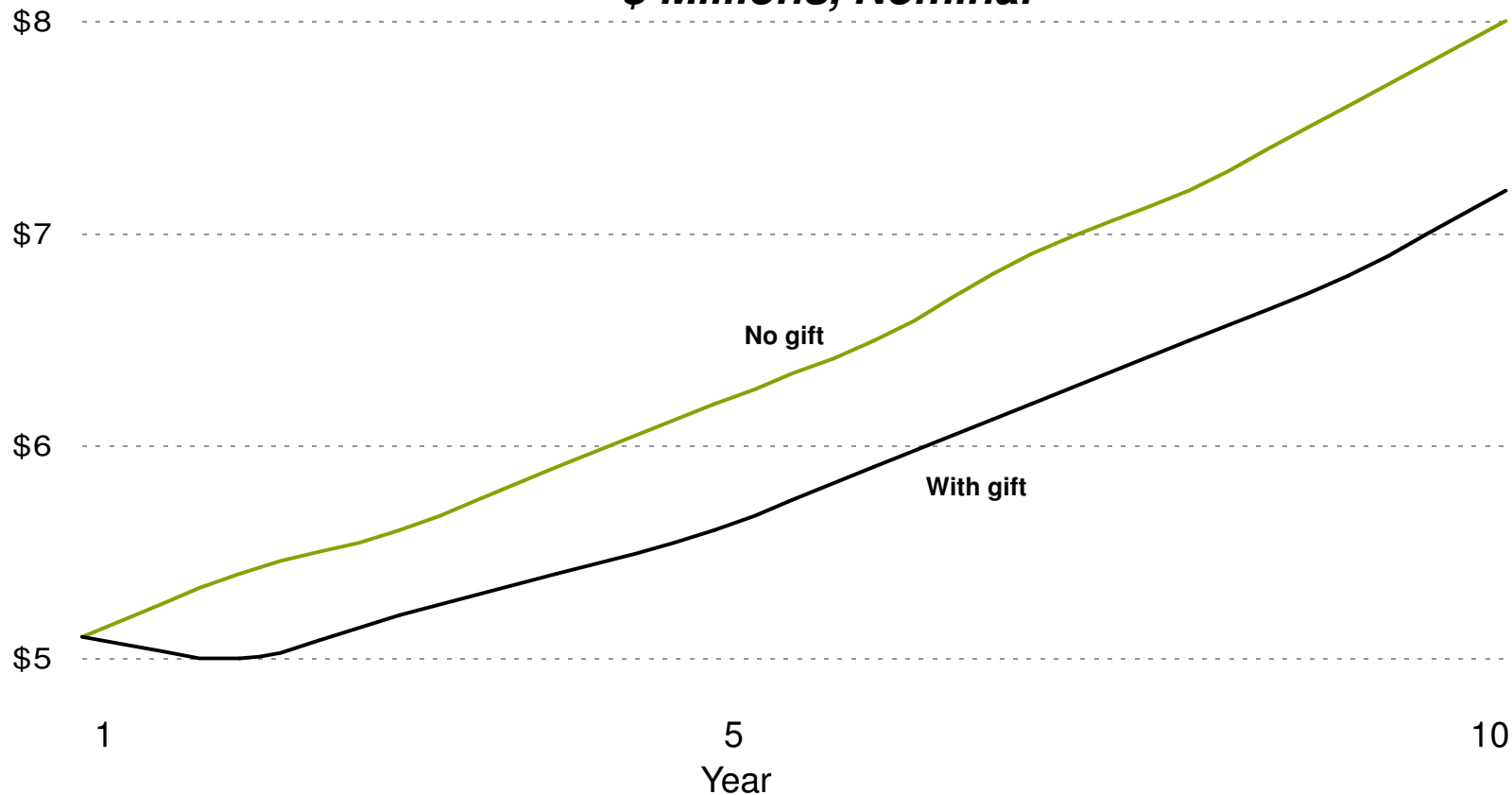
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Source: AllianceBernstein

This “Tax Drag” Is Realized as the Portfolio Turns Over

Median Wealth to Beneficiaries
\$5 Million (Real) Applicable Exclusion, 35% Estate Tax Rate
60 / 40 Portfolio*, Net of Estate and Income Taxes
\$ Millions, Nominal



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Source: AllianceBernstein

Narrowing Tax Rate Spread: Observations

- Consider making the gift to an irrevocable (“intentionally defective”) grantor trust, rather than directly to descendants
 - With advance warning, the grantor can make a “death-bed” swap of her high-basis bonds for the trust’s low-basis stocks
 - Problem: What if the grantor’s death comes without adequate warning?
- Like any mortality risk, this risk can be insured with
 - Traditional life insurance; or
 - A mortality-hedging wealth transfer strategy (e.g., private annuity or self-canceling installment note)

Source: AllianceBernstein

Case Study: Planning for Higher Income Tax Rates

Planning for Higher Income Tax Rates: Case Study Facts

- Married couple, ages 65 and 61, CA residents
- \$9.3 million estate (\$4 million in tax-deferred retirement accounts), 50 / 50 portfolio*
- Hope to spend \$535,000 (inflation-indexed), after tax, each year—does not include life insurance premiums
- Time horizon: 39 years
- Husband would like to retire from his professional practice in 2012

*“50/50 portfolio” means 50% globally diversified stocks, 50% intermediate-term municipal bonds. “Globally diversified” means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks.

Source: AllianceBernstein

Planning for Higher Income Tax Rates: Case Study Facts (continued)

- **Husband's firm has offered him the following pension benefit options (all amounts shown are pre-tax and will be adjusted for inflation biennially):**
 - **A: \$475,000 annually for his life, nothing thereafter; or**
 - **B: \$428,000 annually for his life, then \$214,000 annually to Wife for her life; or**
 - **C: \$419,000 annually until first death, \$314,000 annually thereafter; or**
 - **D: \$389,000 annually for their joint lives**

Source: AllianceBernstein

Planning for Higher Income Tax Rates: Case Study Facts (continued)

- **Husband is concerned about his firm's ability to pay the pension benefit indefinitely, so his inclination is to take out as much as possible as quickly as he can**
- **There is an existing variable universal life ("VUL") insurance policy on Husband's life**
 - **\$2 million death benefit**
 - **\$42,100 annual premium**
- **Husband had some serious health issues about 20 years ago and is concerned about his own mortality**
- **Husband is convinced that Wife will live to age 100**

Source: AllianceBernstein

Planning for Higher Income Tax Rates: Case Study Facts (continued)

- **Husband reviewed the pension options with a financial planner, and reached the following tentative conclusions:**
 - **Take Option A (\$475,000 annually for his life, nothing thereafter) as a hedge against potential future insolvency**
 - **Use a portion of the higher after-tax cash flow to pay the \$42,100 annual life insurance premium, and invest (or spend) the balance**
 - **\$2 million of life insurance coverage should provide enough additional financial security for Wife if Husband were to die in the near term**

Key Question: Is this plan prudent?

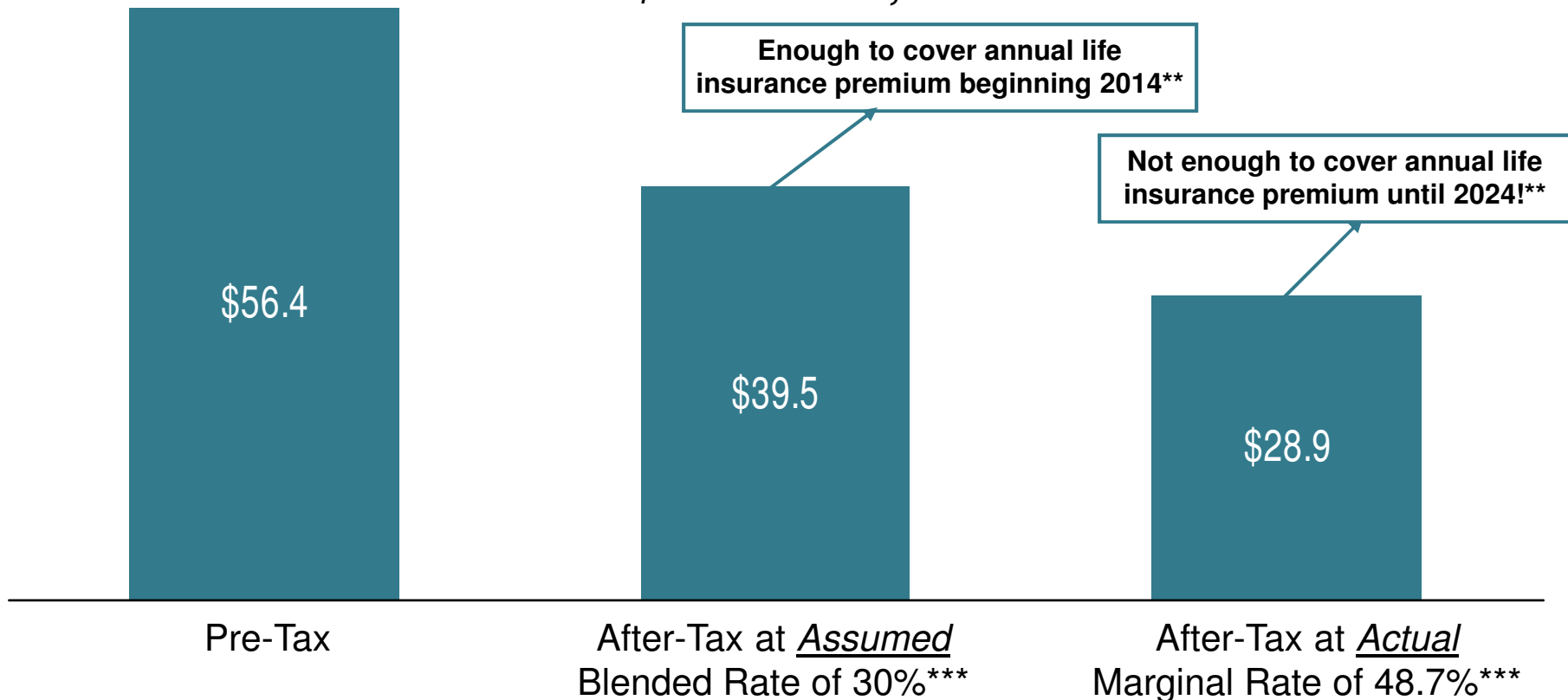
Potential Problems: Failure to Focus on Risk

- Preliminary analysis was (for the most part) a “wealth optimization” exercise
 - Median assumptions; no discernable “stress testing” (other than the year of Husband’s death)
 - Assumed income tax rate on incremental pension income = 30%
 - No accounting of the couple’s spending goals or other individual circumstances
- The primary focus seemed to be maintaining the \$2 million VUL policy at no incremental out-of-pocket cost (i.e., “free life insurance”)

Source: AllianceBernstein

Will the Incremental Additional Pension Income Be Enough to Pay the Life Insurance Premiums?

Incremental Annual Benefit of Pension Option A Over Pension Option C* During Husband's Lifetime \$ Thousands, Real



*During Husband's lifetime, pension option A will pay \$475K per year, adjusted biennially for inflation; pension option C will pay 88.13% of that amount.

**At assumed median annual inflation rate of 3.3%.

***Throughout preliminary analysis, Husband and financial planner assumed blended 30% federal and California income tax rate on annual pension income. Beginning in 2013 (second year of this analysis), highest marginal federal ordinary income tax rate is scheduled to be 43.4% and highest marginal California ordinary income tax rate is scheduled to be 9.3%; taking into account deduction for state income tax paid, highest marginal blended federal and California rate would be 48.7%, not 30%.

Source: AllianceBernstein

Pension Option A Should Work Reasonably Well . . . If Husband Lives 20 Years and Capital Market Performance Is at Least “Average” . . .

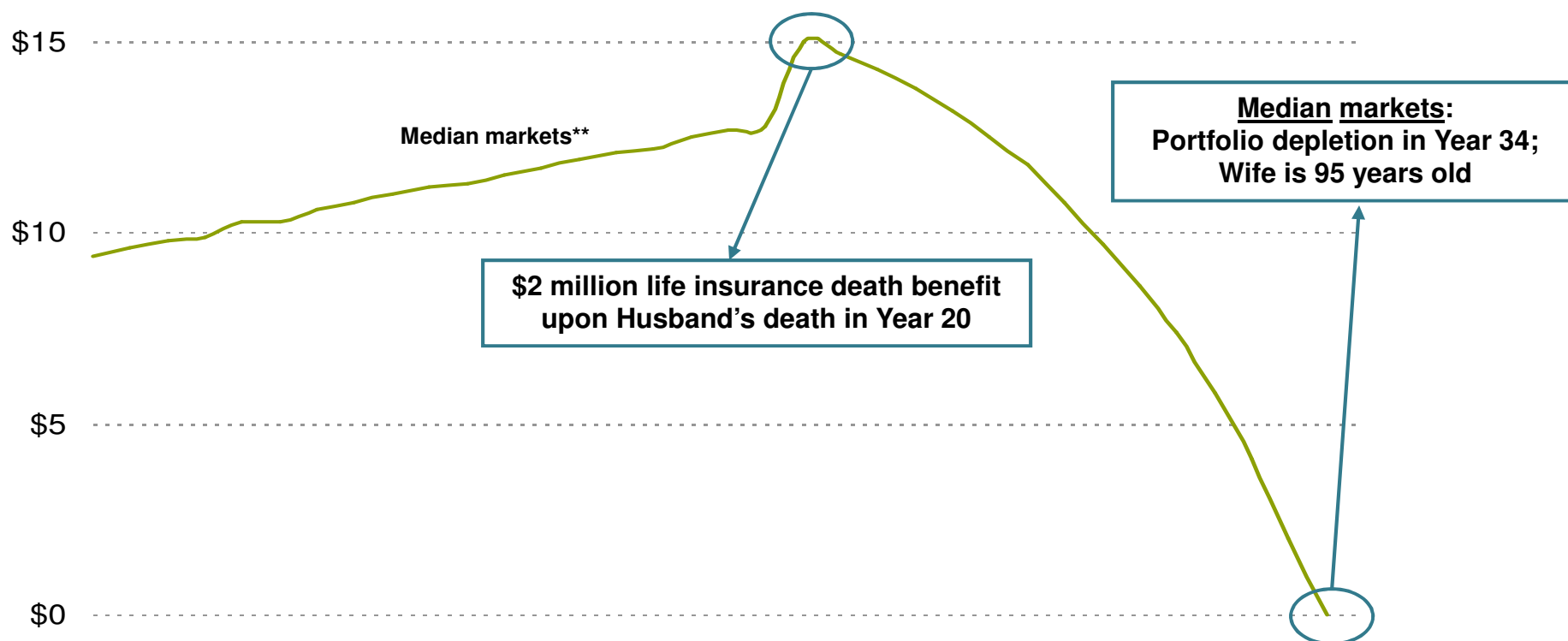
Portfolio Value

\$2 Million Life Insurance Policy, \$42,100 (Nominal) Annual Premium

Spend \$535,000 (Real) Annually, 50 / 50 Portfolio*

\$475,000 (Real) Annual Pension Income for 20 Years

\$ Millions, Nominal



Based on Bernstein's estimate of median returns for the applicable capital markets over the next 34 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

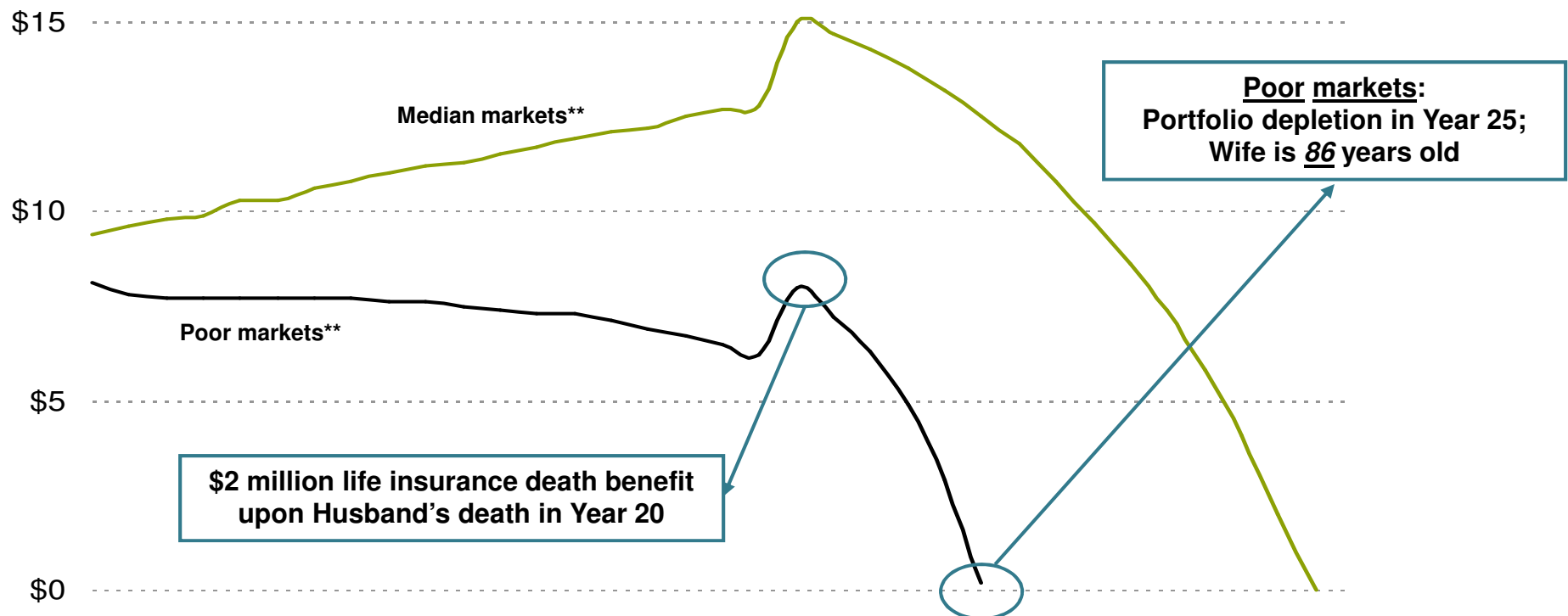
*"50/50 portfolio" means 50% globally diversified stocks, 50% intermediate-term municipal bonds. "Globally diversified" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks.

***"Median markets" means 50th percentile results of 10,000 trials for applicable capital markets in Bernstein's Wealth Forecasting System.

Source: AllianceBernstein

... But if Capital Markets Are Poor, the Plan Seems Likely to Fail ...

Portfolio Value
\$2 Million Life Insurance Policy, \$42,100 (Nominal) Annual Premium
Spend \$535,000 (Real) Annually, 50 / 50 Portfolio*
\$475,000 (Real) Annual Pension Income for 20 Years
\$ Millions, Nominal



Based on Bernstein's estimate of median returns for the applicable capital markets over the next 34 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

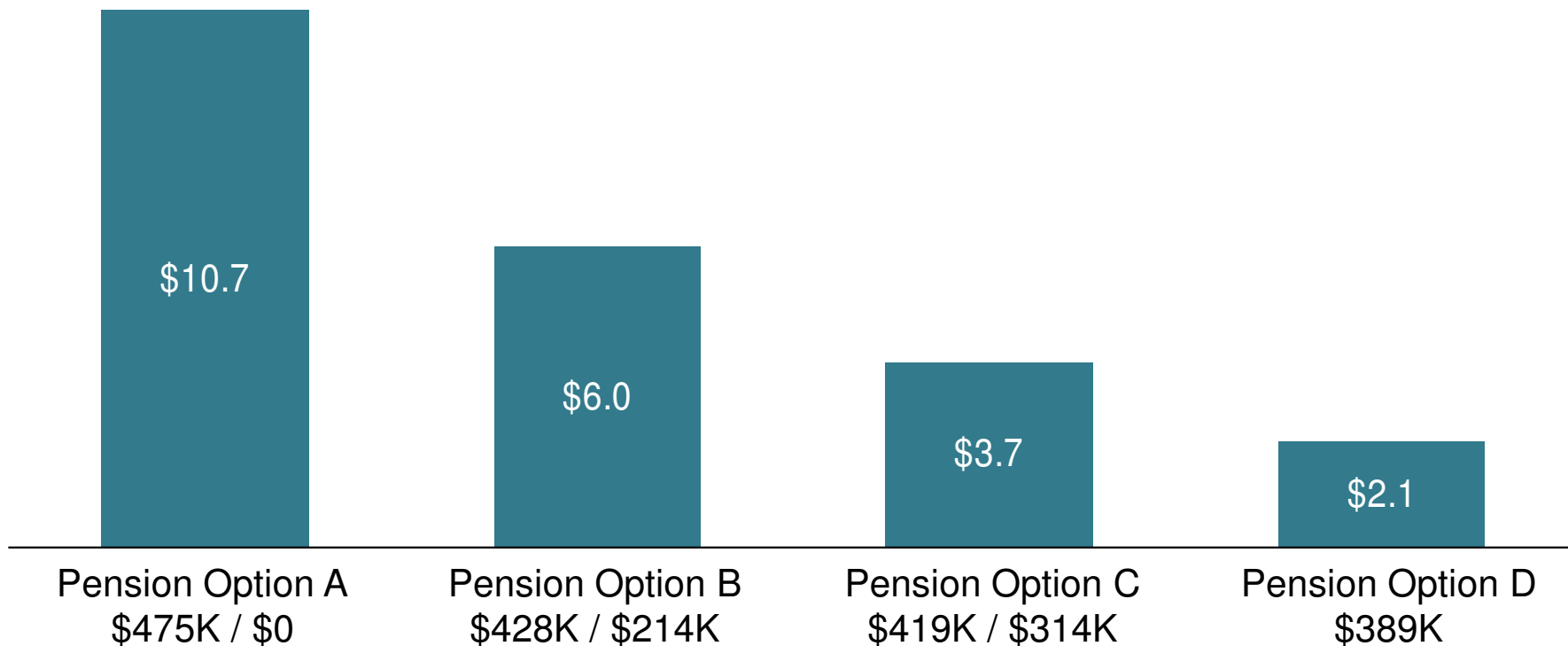
**"50/50 portfolio" means 50% globally diversified stocks, 50% intermediate-term municipal bonds. "Globally diversified" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks.

***"Median markets" means 50th percentile results, and "poor markets" means 90th percentile results, of 10,000 trials for applicable capital markets in Bernstein's Wealth Forecasting System.

Source: AllianceBernstein

... And If Husband Dies in Year 1, \$2 Million of Life Insurance Is Not Sufficient

Husband Dies Year 1
Amount of Additional Life Insurance Needed to Fund Core Spending*
Spend \$535,000 (Real) Annually, 39-Year Time Horizon, 90% Confidence
\$ Millions



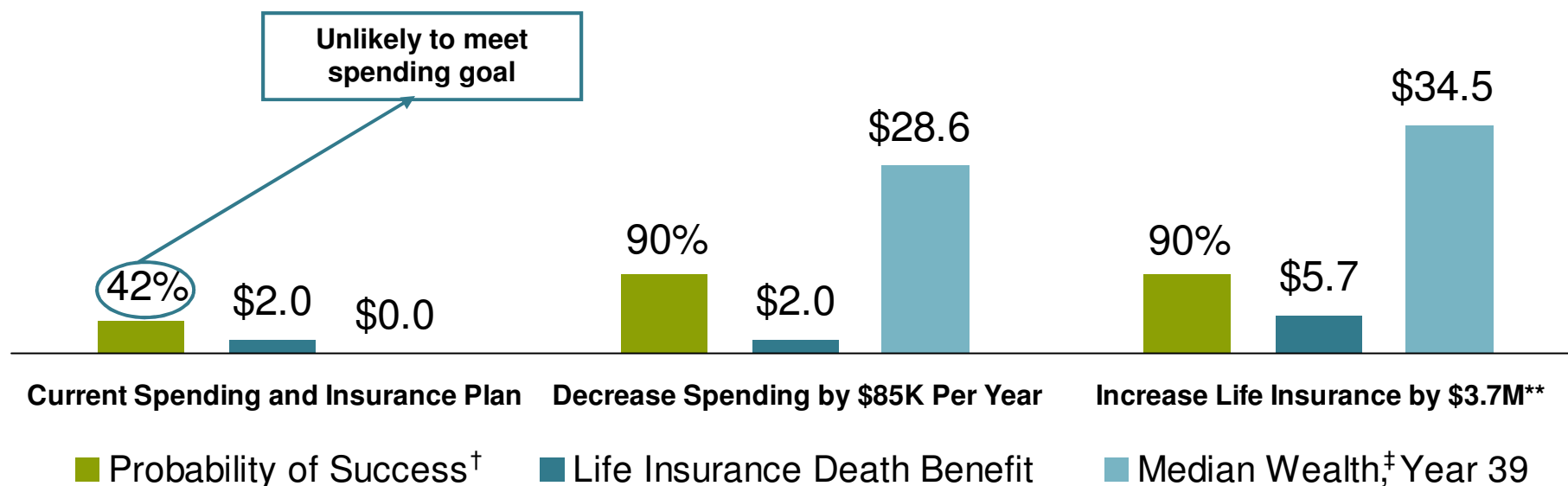
Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 39 years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

*Assumes \$9.3M initial portfolio, invested 50% in globally diversified stocks and 50% in intermediate-term municipal bonds. "Globally diversified" means 35% US value stocks, 35% US growth stocks, 25% developed international stocks, and 5% emerging market stocks. Portfolio is supplemented with \$2M of life insurance death benefit at end of first year. Core capital calculated at 90% level of confidence. Variations in actual income, spending, applicable tax rates, lifespan, and market returns may substantially impact likelihood that core capital estimate will be sufficient to provide for future expenses.

Source: AllianceBernstein

Choose the Best Risk-Adjusted Pension Option . . . and Be Prepared to Adjust Spending, if Necessary

Pension Option C (\$419K / \$314K) Husband Dies in Year 1 50 / 50 Portfolio* \$ Millions, Nominal



Based on Bernstein's estimates of the range of results for the applicable capital markets over the next 39 years. Data do not represent past performance and are not a promise of actual or future results. See Appendix, Notes on Wealth Forecasting System, for details.

**"50/50 portfolio" means 50% globally diversified stocks, 50% intermediate-term bonds. "Globally diversified" means 35% US value stocks, 35% US Growth stocks, 25% developed international stocks, and 5% emerging markets stocks. "Bonds" means municipal bonds in taxable account and taxable bonds in retirement account.

**Assumes first-year premiums of \$42,098 for \$2M VUL policy, and \$103,276 for \$3.7M blended VUL and term policy. Aggregate life insurance death benefit is added to portfolio at end of Year 1.

†"Success" means probability of meeting spending goal for 39 years.

‡"Median Wealth" means median result of 10,000 trials for applicable capital markets in Bernstein's Wealth Forecasting System

Source: AllianceBernstein

Planning for Higher Income Tax Rates: Observations

- **Stress-test all proposals you review for clients—don't settle for “rosy” assumptions**
- **Ask about (and when necessary, challenge) income tax assumptions in proposals**
- **Ensure that client proposals take into account their unique circumstances (e.g., annual spending, tax domicile, family history and health considerations)**
- **Life insurance premiums increase client spending . . . which increases required core capital . . . which may affect other decisions (e.g., asset allocation, capacity for lifetime wealth transfer)**

Source: AllianceBernstein

Wealth Planning in an Uncertain World: How We Can Help

- **We can help you assess (on a no-names basis, if desired) the financial merits and tax consequences of a wide range of proposals that your clients may ask you to prepare or review, including**
 - **Life insurance and annuity illustrations**
 - **Offers to purchase a closely held business**
 - **Pension alternatives and stock options**
 - **Lifetime wealth transfer strategies**
 - **Charitable giving strategies**

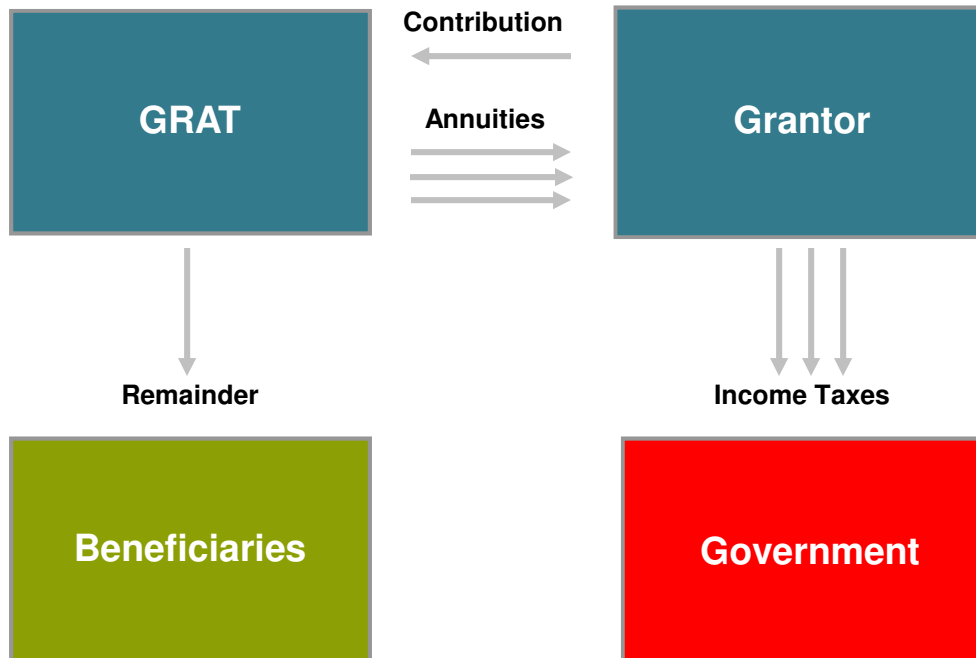
Source: AllianceBernstein.



Appendix

Case Study: Dealing with Grantor Retained Annuity Trust (GRAT) Risk

How a GRAT Works



Key Points:

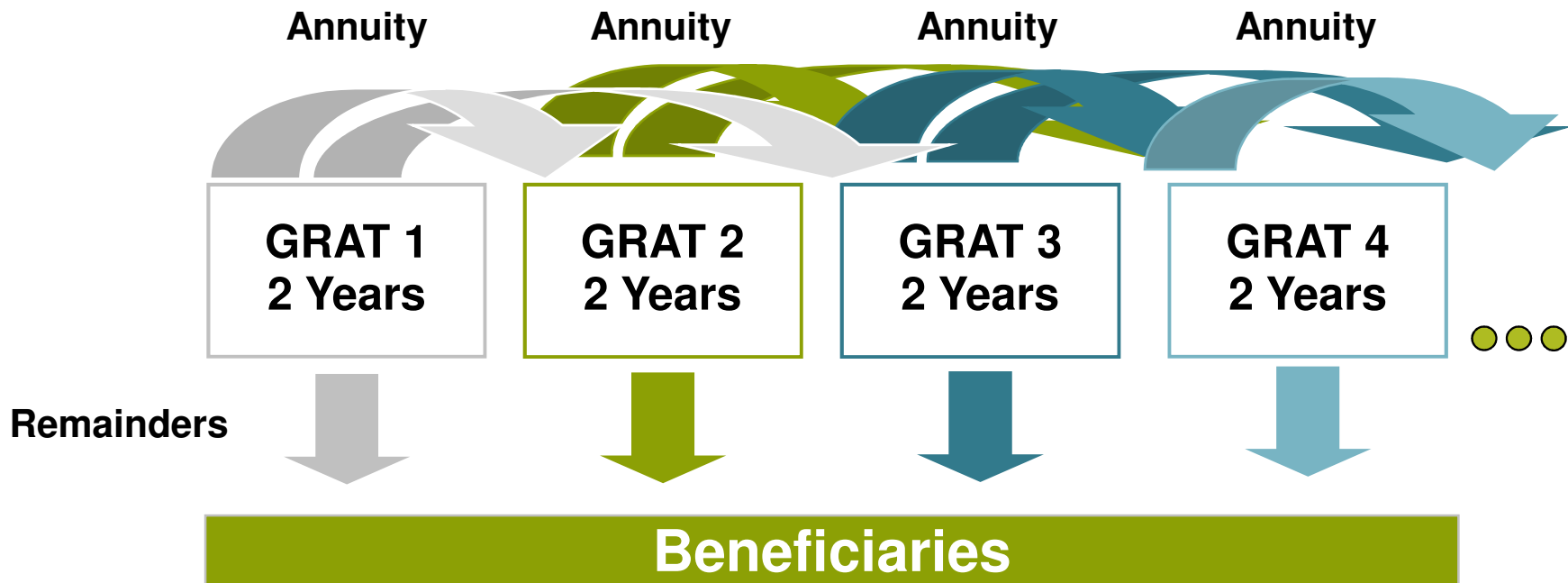
- Grantor transfers assets to GRAT
- Grantor receives annuity payments from trust
- Grantor pays taxes on trust income
- If GRAT assets grow faster than Section 7520 rate, wealth is transferred to beneficiaries free of gift tax*

If the grantor fails to survive the annuity term, the full date-of-death value of GRAT assets may be subject to estate tax

*If present value of annuity stream retained by grantor equals value of contribution to trust, grantor makes no gift for gift tax purposes; GRAT is said to be "zeroed out."
Source: AllianceBernstein

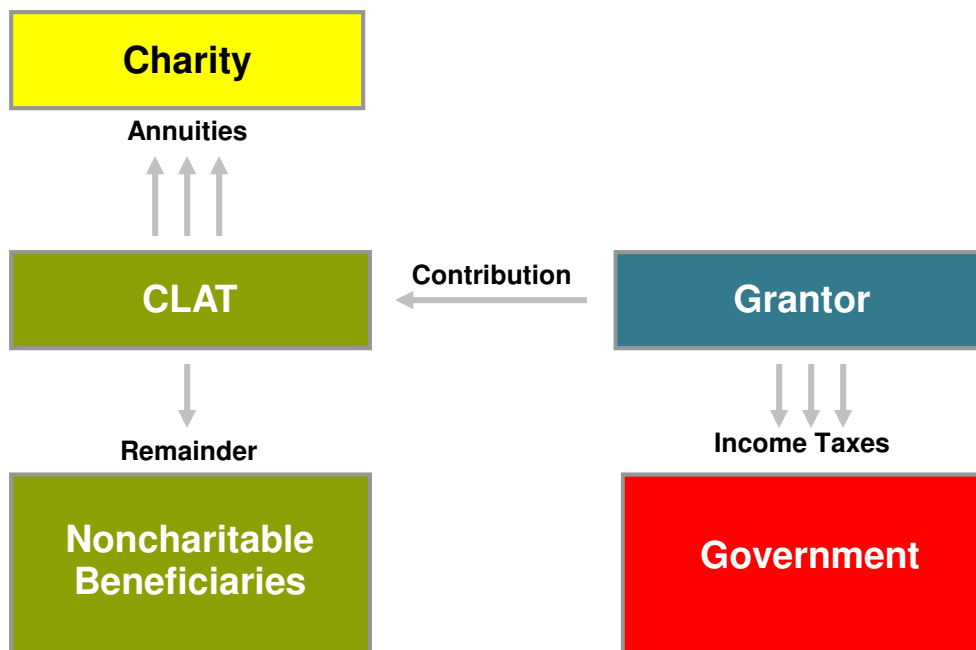
Hedging Mortality and Economic Risk: Short-Term Rolling GRATs

- Grantor contributes assets to initial two-year trust
- Each annuity is re-contributed to new two-year GRAT for duration of strategy
- Any appreciation above Section 7520 rate passes free of transfer tax to beneficiaries*



*Assumes each GRAT is zeroed-out. See footnote in immediately preceding display.
Source: AllianceBernstein

How a Grantor CLAT Works



Key Points:

- Grantor transfers assets to CLAT
- Charity receives annuity payments from trust
- Grantor pays taxes on trust income
- If CLAT assets grow faster than Section 7520 rate, wealth is transferred to noncharitable beneficiaries free of gift tax*

Grantor may receive an upfront income tax charitable deduction for the full amount contributed**

*If present value of annuities payable to charity equals value of contribution to trust, grantor's gift qualifies in full for gift tax charitable deduction; CLAT is said to be "zeroed out."

**Assuming that the CLAT is zeroed-out. See Rev. Proc. 2007-45, 2007-29 I.R.B. 1 (June 22, 2007), regarding income tax deductibility of contribution to grantor CLAT.

Source: AllianceBernstein

Details of Analysis*

We modeled the following wealth transfer scenarios:

- Scenario A (“Rolling GRAT Strategy”): Client contributes \$25 million of globally diversified stocks to the first of a series of successive, two-year grantor retained annuity trusts (GRATs). See page titled “Details of Rolling GRAT Strategies” for additional information.
- Scenario B (“Asset-Splitting Rolling GRAT Strategy”): Same as Scenario A, except each asset class or style (i.e., US value stocks, US growth stocks, developed international stocks, and emerging market stocks) is held in a separate series of successive, two-year GRATs. See page titled “Details of Rolling GRAT Strategies” for additional information.
- Scenario C (“Combination of Asset-Splitting Rolling GRATs and Term GRAT”): Same as Scenario B, except Client allocates one-half of the \$25 million to a 10-year term GRAT. See pages titled “Details of Rolling GRAT Strategies” and “Details of Term GRAT Strategy” for additional information.
- Scenario D (“Combination of Asset-Splitting Rolling GRATs and Term CLAT”): Same as Scenario C, except one-half of the \$25 million is allocated to a 10-year term charitable lead annuity trust (CLAT), rather than to a 10-year GRAT. See page titled “Details of Rolling GRAT Strategies” and “Details of Term CLAT Strategy” for additional information.

“Globally diversified” means 35% U.S. growth stocks, 35% U.S. value stocks, 25% developed international stocks, and 5% emerging market stocks.

The purpose of this analysis is to quantify the additional, incremental wealth to the beneficiaries in median markets after 10 years, assuming that Client dies after three, five, seven, and 10 years, respectively.

*Based on information supplied by the client. Bernstein is not a legal, tax, or estate advisor. Investors should consult these professionals as appropriate before making any decisions.

Source: AllianceBernstein

Details of Rolling GRAT Strategy*

In each “Rolling GRAT Strategy” and “Asset-Splitting Rolling GRAT Strategy,” we assume that

- The strategy is initiated in February 2012 when the Section 7520 rate is 1.4%.
- The annuity term of each GRAT is two years.
- Client (or if he has died, his estate) receives annuity payments annually from each GRAT.
- Annuity payments are increased by 20% each year, as permitted by applicable Treasury regulations.
- Each GRAT is “zeroed-out,” so the present value of the beneficiaries’ remainder interest at inception is zero for transfer tax purposes.
- During Client’s lifetime, each annual annuity payment that Client receives is immediately contributed to a new, two-year GRAT.
- Annuity payments for each new GRAT are computed based upon the Section 7520 rate projected by our Wealth Forecasting system for the month in which that GRAT is to be established.
- Upon termination of each GRAT, if Client is then living, any assets remaining after the final annuity payment are transferred to an irrevocable grantor trust established for the benefit of Client’s children and Spouse’s children free of transfer tax.
- Legislative risk: Congress may require that all future GRATs have a minimum annuity term of, say, 10 years, which would subject any continuing Rolling GRAT Strategy to significant interest rate risk. Diverting some of the funds at the outset to a term GRAT or term CLAT would mitigate that risk with respect to any funds so diverted.

*Bernstein is not a legal, tax, or estate advisor. Investors should consult these professionals as appropriate **before making any decisions**.
Source: AllianceBernstein

Details of Term GRAT*

For the “Term GRAT” portion of Scenario C, we assume that

- The GRAT is established in February 2012 when the Section 7520 rate is 1.4%.
- The annuity term of the GRAT is 10 years.
- Client (or if he has died, his estate) receives annuity payments annually from the GRAT.
- Annuity payments are increased by 20% each year, as permitted by applicable Treasury regulations.
- The GRAT is “zeroed-out,” so the present value of the beneficiaries’ remainder interest at inception is zero for transfer tax purposes.
- Each annual annuity payment that Client (or his estate) receives is immediately reinvested in his personal portfolio.
- Upon termination of the GRAT, if Client is then living, any assets remaining after the final annuity payment are transferred to an irrevocable grantor trust established for the benefit of Client’s children and Spouse’s children free of transfer tax.

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Source: AllianceBernstein

Details of Term CLAT*

For the “Term CLAT” portion of Scenario D, we assume that

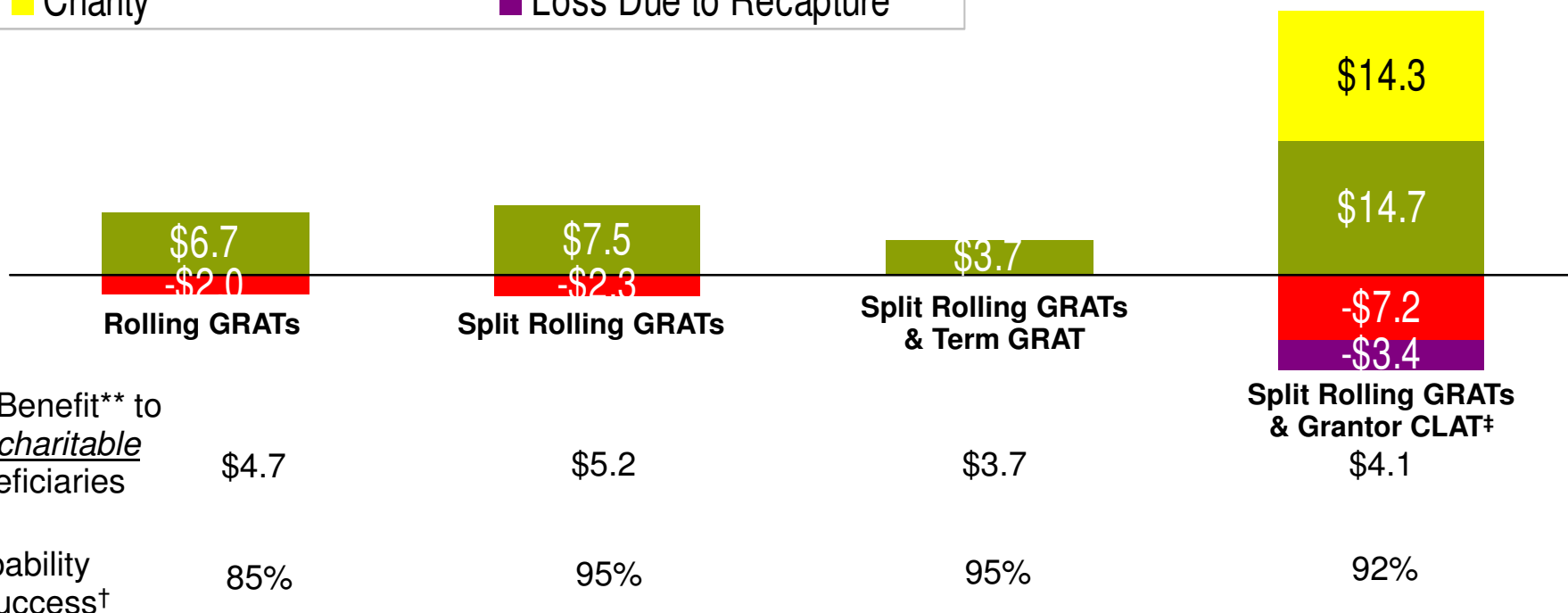
- The CLAT is established in February 2012 when the Section 7520 rate is 1.4%.
- The annuity term of the CLAT is 10 years.
- One or more charities receive annuity payments annually from the CLAT.
- Annuity payments are \$125,000 annually for each of the first nine years, and approximately \$13.2 million at the end of year 10. See Revenue Procedure 2007-45.
- The CLAT is “zeroed-out,” so the present value of the noncharitable beneficiaries’ remainder interest at inception is zero for transfer tax purposes.
- Each annual annuity payment that charity receives is immediately invested in a separate charitable portfolio.
- Upon termination of the CLAT, whether or not Client is then living, any assets remaining after the final annuity payment are transferred to an irrevocable grantor trust established for the benefit of Client’s children and Spouse’s children free of transfer tax.

*Bernstein is not a legal, tax, or estate advisor. Investors should consult these professionals as appropriate **before making any decisions**.
Source: AllianceBernstein

Median Wealth to Beneficiaries – 10th Year

Grantor Dies Year 3 - 100% Global Stocks*
\$ Millions, Nominal

■ GRAT or CLAT Remainder ■ Relative Net Estate
■ Charity ■ Loss Due to Recapture



Based on Bernstein's estimates of range of returns for applicable capital markets over 10 years. Data does not represent any past performance and are not promise of actual future results. Asset values represent estimated market value, not liquidation value.

**"Global Stocks" means 35% US value, 35% US growth, 25% developed international, and 5% emerging markets.

***"Net Benefit" means Bernstein's estimate of median incremental wealth to beneficiaries after 10 years, compared to wealth that beneficiaries would have received at that time had grantor not implemented strategy. Net Benefit includes GRAT and CLAT remainders, decrease in relative value of grantor's estate (net of estate taxes) due to implementation of strategy, and investment proceeds of these amounts net of applicable income taxes. Assumes "flat" 35% estate tax rate. See Appendix, Notes on Wealth Forecasting, for details.

†"Success" means probability that strategy will result in remainder value of at least \$1 to remainder beneficiaries.

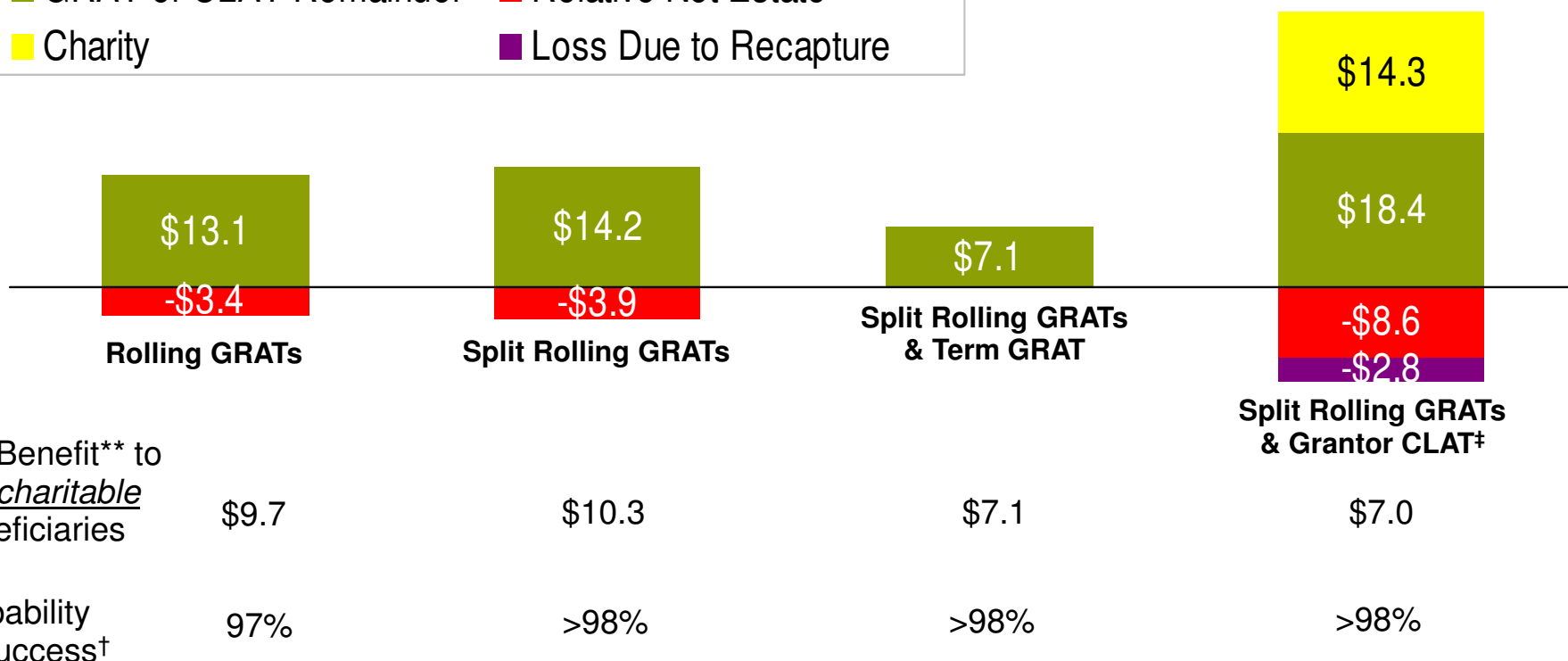
‡Includes Bernstein's estimate of median loss to beneficiaries of \$3.35M due to recaptured income attributed to grantor in year of death pursuant to Treas. Reg. § 1.170A-6(c)(4).

Source: AllianceBernstein

Median Wealth to Beneficiaries – 10th Year

Grantor Dies Year 5 - 100% Global Stocks*
\$ Millions, Nominal

■ GRAT or CLAT Remainder ■ Relative Net Estate
■ Charity ■ Loss Due to Recapture



Based on Bernstein's estimates of range of returns for applicable capital markets over 10 years. Data does not represent any past performance and are not promise of actual future results. Asset values represent estimated market value, not liquidation value.

**"Global Stocks" means 35% US value, 35% US growth, 25% developed international, and 5% emerging markets.

***"Net Benefit" means Bernstein's estimate of median incremental wealth to beneficiaries after 10 years, compared to wealth that beneficiaries would have received at that time had grantor not implemented strategy. Net Benefit includes GRAT and CLAT remainders, decrease in relative value of grantor's estate (net of estate taxes) due to implementation of strategy, and investment proceeds of these amounts net of applicable income taxes. Assumes "flat" 35% estate tax rate. See Appendix, Notes on Wealth Forecasting, for details.

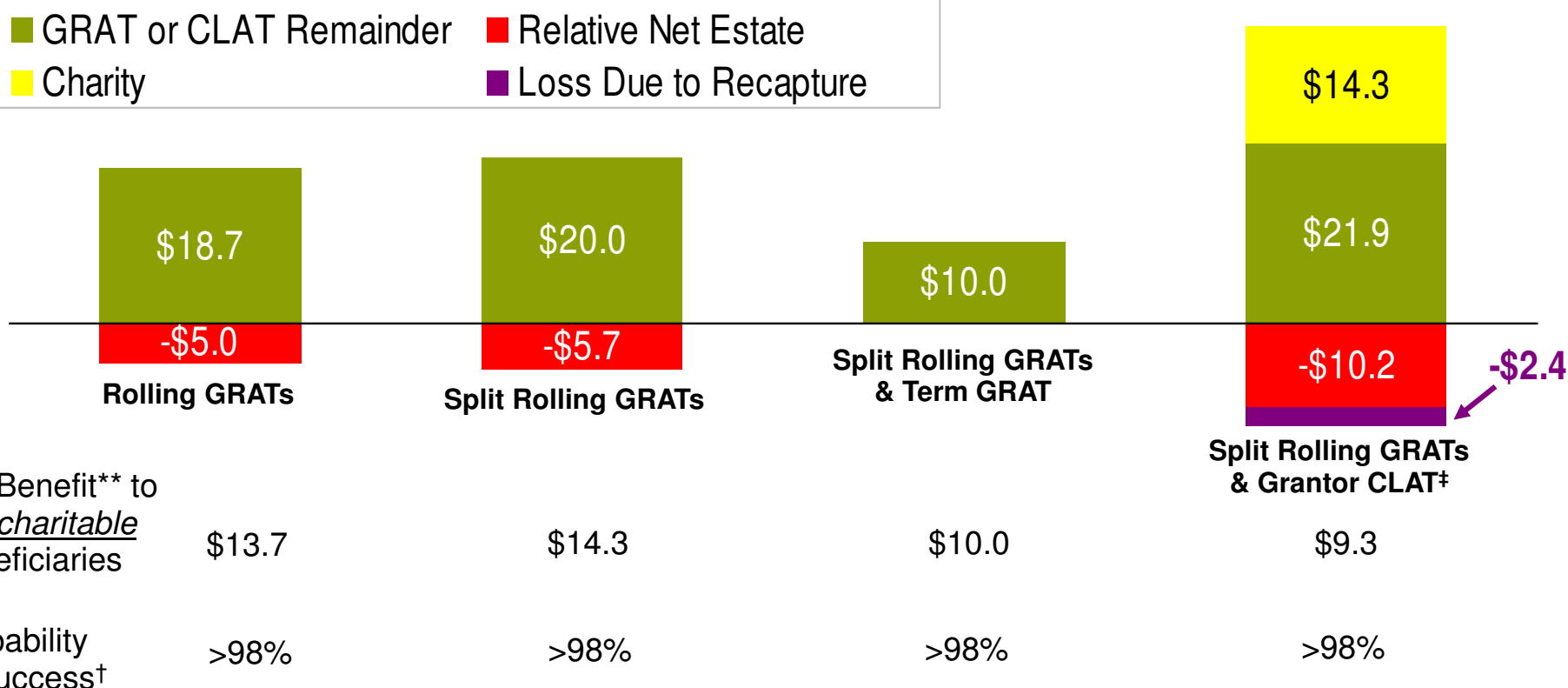
†"Success" means probability that strategy will result in remainder value of at least \$1 to remainder beneficiaries.

‡Includes Bernstein's estimate of median loss to beneficiaries (including opportunity cost) of \$2.81M due to recaptured income attributed to grantor in year of death pursuant to Treas. Reg. § 1.170A-6(c)(4).

Source: AllianceBernstein

Median Wealth to Beneficiaries – 10th Year

Grantor Dies Year 7 - 100% Global Stocks*
\$ Millions, Nominal



Based on Bernstein's estimates of range of returns for applicable capital markets over 10 years. Data does not represent any past performance and are not promise of actual future results. Asset values represent estimated market value, not liquidation value.

**"Global Stocks" means 35% US value, 35% US growth, 25% developed international, and 5% emerging markets.

***"Net Benefit" means Bernstein's estimate of median incremental wealth to beneficiaries after 10 years, compared to wealth that beneficiaries would have received at that time had grantor not implemented strategy. Net Benefit includes GRAT and CLAT remainders, decrease in relative value of grantor's estate (net of estate taxes) due to implementation of strategy, and investment proceeds of these amounts net of applicable income taxes. See Appendix, Notes on Wealth Forecasting, for details.

†"Success" means probability that strategy will result in remainder value of at least \$1 to remainder beneficiaries.

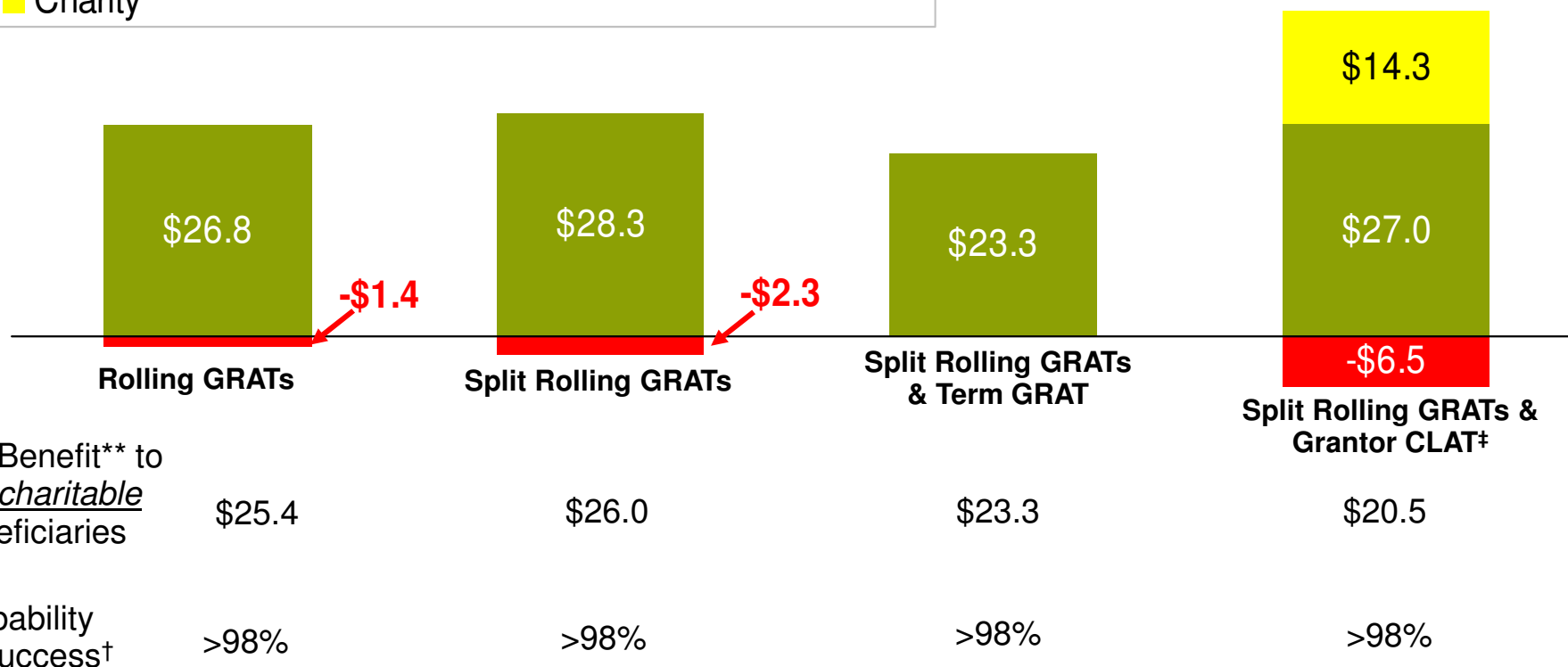
‡Includes Bernstein's estimate of median loss to beneficiaries (including opportunity cost) of \$2.36M due to recaptured income attributed to grantor in year of death pursuant to Treas. Reg. § 1.170A-6(c)(4).

Source: AllianceBernstein

Median Wealth to Beneficiaries – 10th Year

Grantor Dies Year 10 - 100% Global Stocks*
\$ Millions, Nominal

■ GRAT or CLAT Remainder ■ Relative Net Estate
■ Charity



Based on Bernstein's estimates of range of returns for applicable capital markets over 10 years. Data does not represent any past performance and are not promise of actual future results. Asset values represent estimated market value, not liquidation value.

*"Global Stocks" means 35% US value, 35% US growth, 25% developed international, and 5% emerging markets.

**"Net Benefit" means Bernstein's estimate of median incremental wealth to beneficiaries after 10 years, compared to wealth that beneficiaries would have received at that time had grantor not implemented strategy. Net Benefit includes GRAT and CLAT remainders, decrease in relative value of grantor's estate (net of estate taxes) due to implementation of strategy, and investment proceeds of these amounts net of applicable income taxes. Assumes "flat" 35% estate tax rate. See Appendix, Notes on Wealth Forecasting, for details.

†"Success" means probability that strategy will result in remainder value of at least \$1 to remainder beneficiaries.

Source: AllianceBernstein

Relative Advantages and Disadvantages*

Strategy	Advantages	Disadvantages
Term CLAT	<ul style="list-style-type: none"> ■ Less mortality risk—maybe ■ Upfront income tax deduction ■ Locks in historically low hurdle rate ■ Hurdle rate <u>may</u> be lower than for GRATs 	<ul style="list-style-type: none"> ■ Can't roll; shouldn't asset-split ■ Income tax deduction is recaptured (probably at higher effective tax rate) at Client's death ■ <u>May</u> not work in poor markets
Term GRAT	<ul style="list-style-type: none"> ■ Protects against legislative risk ■ Locks in historically low hurdle rate 	<ul style="list-style-type: none"> ■ Less efficient if rolled; shouldn't asset-split ■ <u>Highest</u> mortality risk ■ <u>May</u> not work in poor markets
Rolling GRAT Strategy	<ul style="list-style-type: none"> ■ Mortality risk is muted ■ More efficient than term strategies in delivering wealth to beneficiaries ■ More protective than term strategies in poor markets 	<ul style="list-style-type: none"> ■ Legislative risk ■ More complicated to administer
Asset-Splitting Rolling GRAT Strategy	<ul style="list-style-type: none"> ■ Mortality risk is muted ■ <u>Most</u> efficient in delivering wealth to beneficiaries ■ <u>Most</u> protective in poor markets 	<ul style="list-style-type: none"> ■ Legislative risk ■ <u>Most</u> complicated to administer

*Bernstein is not a legal, tax, or estate advisor. Investors should consult these professionals as appropriate **before making any decisions**.
Source: AllianceBernstein

Case Study: Dealing with GRAT Legislative Risk

Assumptions for Case 1: Fund Two-Year GRAT Now*

- \$10 million in global stocks contributed into two-year zeroed-out GRAT
- During first year, legislation is signed into law requiring new GRATs to have a minimum term of 10 years
- On first anniversary, roll two-year GRAT's first annuity payment into a new 10-year zeroed-out GRAT
- On second anniversary, roll two-year GRAT's second annuity payment and 10-year GRAT's first annuity into a second new 10-year zeroed-out GRAT
- At the end of Years 2, 11 and 12, GRAT remainders contributed into a grantor trust, also invested 100% in global stocks
- Analysis terminates at end of Year 12

*Initial 7520 rate is 1.4%. Each GRAT assumed to have 20% increasing term annuity distributions.
Global stocks are 35% US Value/35% US Growth/25% Developed International/5% Emerging Markets.
Source: AllianceBernstein

Assumptions for Case 2: Fund 10-Year GRAT Now*

- \$10 million in global stocks contributed into 10-year zeroed-out GRAT
- On first anniversary, roll 10-year GRAT's first annuity payment into a second new 10-year zeroed-out GRAT
- On second anniversary, roll annuity payments from each 10-year GRAT into a third new 10-year zeroed-out GRAT
- At the end of Years 10, 11 and 12, GRAT remainders contributed into a grantor trust, also invested 100% in global stocks
- Analysis terminates at the end of Year 12

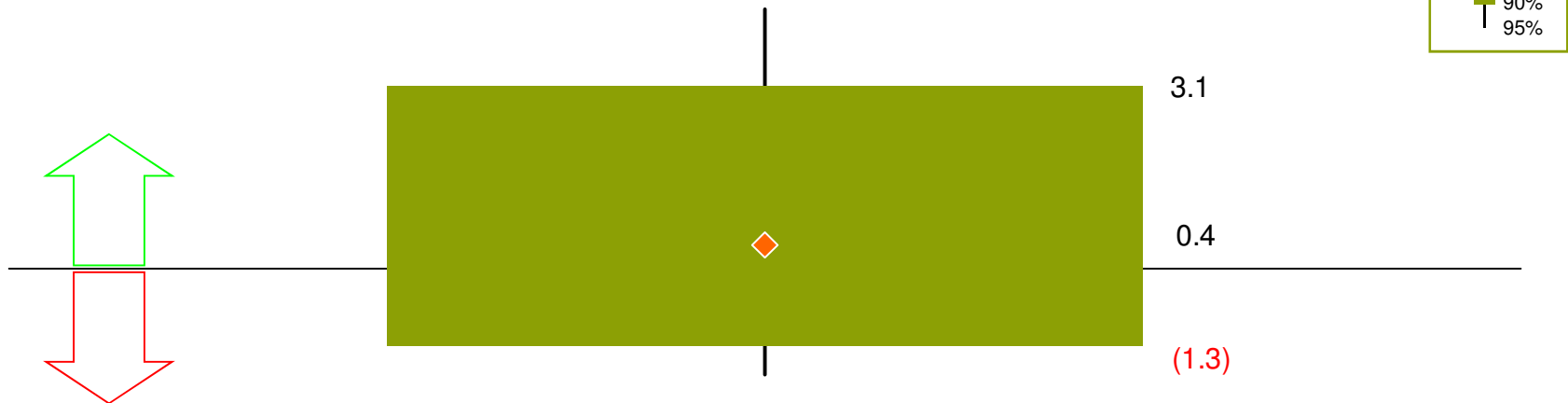
*Initial 7520 rate is 1.4%. Each GRAT assumed to have 20% increasing term annuity distributions.
Global stocks are 35% US Value/35% US Growth/25% Developed International/5% Emerging Markets.
Source: AllianceBernstein

Advantage to Short Term GRAT Strategy

\$10 Million Committed To Strategy
Additional or Less Wealth Transferred (\$ Millions) In Year 12

**Short-Term GRAT
Advantageous**

**Long-Term GRAT
Advantageous**



Benefit (Disadvantage) to Short-Term GRAT Strategy

Probability of Short-Term GRAT Being Better **60%**

Probability of Long-Term GRAT Being Better **37%**

*Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 12 years. Data does not represent past performance and is not a promise of actual or range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Assumptions and Notes on Wealth Forecasting System in Appendix for further details.

Source: AllianceBernstein

Results Are Highly Sensitive To Near-Term Section 7520 Rates

\$10 Million Committed To Strategy
Additional or Less Wealth Transferred (\$ Millions) in Year 12



*Average of Section 7520 Rate one year and two years from today

Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 12 years. Data does not represent past performance and is not a promise of actual or range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Assumptions and Notes on Wealth Forecasting System in Appendix for further details.

Source: AllianceBernstein

Notes on Wealth Forecasting

1. Purpose and Description of Wealth Forecasting Analysis

Bernstein's Wealth Forecasting AnalysisSM is designed to assist investors in making long-term investment decisions regarding their allocation of investments among categories of financial assets. Our new planning tool consists of a four-step process: (1) Client Profile Input: the client's asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as when to retire, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long term and how different asset allocations might impact his/her long-term security; (3) The Capital Markets Engine: Our proprietary model, which uses our research and historical data to create a vast range of market returns, takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: Based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of returns and asset values the client could expect to experience are represented within the range established by the 5th and 95th percentiles on "box and whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Expected market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet Bernstein's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized.

2. Rebalancing

Another important planning assumption is how the asset allocation varies over time. We attempt to model how the portfolio would actually be managed. Cash flows and cash generated from portfolio turnover are used to maintain the selected asset allocation between cash, bonds, stocks, REITs and hedge funds over the period of the analysis. Where this is not sufficient, an optimization program is run to trade off the mismatch between the actual allocation and targets against the cost of trading to rebalance. In general, the portfolio allocation will be maintained reasonably close to its target. In addition, in later years, there may be contention between the total relationship's allocation and those of the separate portfolios. For example, suppose an investor (in the top marginal federal tax bracket) begins with an asset mix consisting entirely of municipal bonds in his/her personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will be pulled away from targets. We put primary weight on maintaining the overall allocation near target, which may result in an allocation to taxable bonds in the retirement portfolio as the personal assets decrease in value relative to the retirement portfolio's value.

3. Expenses and Spending Plans (Withdrawals)

All results are generally shown after applicable taxes and after anticipated withdrawals and/or additions, unless otherwise noted. Liquidations may result in realized gains or losses that will have capital gains tax implications.

Notes on Wealth Forecasting

4. Modeled Asset Classes

The following assets or indexes were used in this analysis to represent the various model classes:

Asset Class	Modeled As...	Annual Turnover Rate
Intermediate-Term Diversified Municipal Bonds	AA-rated diversified municipal bonds with seven-year maturity	30%
Intermediate-Term Taxable Bonds	Taxable bonds with seven-year maturity	30%
US Value Stocks	S&P/Barra Value Index	15%
US Growth Stocks	S&P/Barra Growth Index	15%
Developed International Stocks	MSCI EAFE Unhedged	15%
Emerging Markets Stocks	MSCI Emerging Markets Index	20%

5. Volatility

Volatility is a measure of dispersion of expected returns around the average. The greater the volatility, the more likely it is that returns in any one period will be substantially above or below the expected result. The volatility for each asset class used in this analysis is listed on the Capital Markets Projections page at the end of these Notes. In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.0%. With intermediate government bonds, if the expected compound return is assumed to be 5.0% and the volatility is assumed to be 6.0%, two-thirds of the outcomes will typically be between (1.1)% and 11.5%. Bernstein's forecast of volatility is based on historical data and incorporates Bernstein's judgment that the volatility of fixed income assets is different for different time periods.

6. Technical Assumptions

Bernstein's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. Bernstein's Capital Markets Engine is the module responsible for creating simulations of returns in the capital markets. These simulations are based on inputs that summarize the current condition of the capital markets as of September 30, 2011. Therefore, the first 12-month period of simulated returns represents the period from October 1, 2011 through September 30, 2012, and not necessarily the calendar year of 2012. A description of these technical assumptions is available on request.

Notes on Wealth Forecasting

7. Tax Implications

Before making any asset allocation decisions, an investor should review with his/her tax advisor the tax liabilities incurred by the different investment alternatives presented herein, including any capital gains that would be incurred as a result of liquidating all or part of his/her portfolio, retirement-plan distributions, investments in municipal or taxable bonds, etc. Bernstein does not provide tax, legal or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

8. Income Tax Rates

Bernstein's Wealth Forecasting Analysis has used various assumptions for the income tax rates of investors in the case studies that constitute this analysis. See the assumptions in each case study (including footnotes) for details. Contact Bernstein for additional information.

The Federal Income Tax Rate is Bernstein's estimate of either the top marginal federal income tax rate or an "average" rate calculated based upon the marginal-rate schedule. The Federal Capital Gains Tax Rate is the lesser of the top marginal federal income tax rate or the current cap on capital gains for an individual or corporation, as applicable. Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes. The State Tax Rate generally is Bernstein's estimate of the top marginal state income tax rate, if applicable.

The Wealth Forecasting System uses the following top marginal federal tax rates unless otherwise stated. In 2012, the maximum federal ordinary income tax rate is 35% and the maximum federal capital gain tax rate is 15%. For 2013 and beyond, the maximum federal ordinary income tax rate is 43.4% and the maximum federal capital gain tax rate is 23.8%. State income taxes vary in each case study; contact Bernstein for additional information.

9. Lifetime Gifts and Generation Skipping Transfers

The Wealth Forecasting System models the transfer taxes on gifts to descendants, including generation-skipping transfers (i.e., direct skips, taxable terminations and taxable distributions). The system applies the transfer tax regime applicable in the year of the gift under the current law. The system takes into account gifts made prior to the beginning of the analysis by the transferor and the transferor's spouse (if applicable). The system reflects the use of credits, exemptions and exclusions resulting from transfers to portfolios that are not modeled in the system (e.g. a life insurance trust). When modeling gifts from a member of a married couple, it is assumed that the couple "splits" gifts throughout the duration of the analysis. For transfers to children (the second generation) or grandchildren (the third generation), the system assumes that the gifts are made in equal shares to each member of the generation to which the gift is made.

Notes on Wealth Forecasting

10. Taxable (Nongrantor) Trust

The Taxable (Nongrantor) Trust is modeled as an irrevocable tax-planning or estate-planning vehicle with one or more current beneficiaries and one or more remainder beneficiaries. Annual distributions to the current beneficiaries may be structured in a number of different ways, including 1) an amount or a percentage of fiduciary accounting income (FAI) (which may be defined to include some or all realized capital gains); 2) FAI plus some principal, expressed either as a percentage of trust assets or as a dollar amount; 3) An annuity, or fixed dollar amount, which may be increased annually by inflation, or by a fixed percentage; 4) A unitrust, or annual payment of a percentage of trust assets, based on the trust's value at the beginning of the year, or average over multiple years; or 5) any combination of the above four payout methods. The trust will pay income taxes on retained income and will receive an income distribution deduction for income paid to the current beneficiaries. Capital gains may be taxed in one of three ways, as directed: 1) taxed entirely to the trust; 2) taxed to the current beneficiaries to the extent the distributions exceed traditional income; or 3) taxed to the current beneficiaries on a pro rata basis with traditional income.

11. Intentionally Defective Grantor Trusts (IDGTs)

The Intentionally Defective Grantor Trust (IDGT) is modeled as an irrevocable trust whose assets are treated as the grantor's for income tax purposes, but not for gift or estate tax purposes. Some income- and transfer-tax consequences associated with transfers to and the operation of an IDGT remain uncertain, and the strategy may be subject to challenge by the IRS. Hence, this technique requires substantial guidance from tax and legal advisors. The grantor may give assets to the trust, which will require using gift tax exemptions or exclusions, or paying gift taxes. The IDGT is modeled with one or more current beneficiaries, and one or more remainder beneficiaries. Distributions to the current beneficiaries are not required, but the system permits the user to structure annual distributions in a number of different ways, including 1) an amount or a percentage of fiduciary accounting income (FAI) (which may be defined to include some or all realized capital gains); 2) FAI plus some principal, expressed either as a percentage of trust assets or as a dollar amount; 3) An annuity, or fixed dollar amount, which may be increased annually by inflation, or by a fixed percentage; 4) A unitrust, or annual payment of a percentage of trust assets, based on the trust's value at the beginning of the year, or average over multiple years; or 5) any combination of the above four payout methods. Because the IDGT is modeled as a grantor trust, the system calculates all taxes on income and realized capital gains that occur in the IDGT portfolio each year, based on the grantor's tax rates and other income, and pays them from the grantor's personal portfolio. The IDGT may continue for the duration of the analysis, or the trust assets may be distributed in cash or in kind at a specific point in time or periodically to (1) a non-modeled recipient, (2) a taxable trust, or (3) a taxable portfolio for someone other than the grantor. If applicable, an installment sale to an IDGT may be modeled as a user-entered initial 'seed' gift followed by a sale of additional assets to the trust. The system will use one of two methods to repay the value of the sale assets plus interest (less any user-specified discount to the grantor): 1) user-defined payback schedule, or 2) annual interest-only payments at the applicable federal rate (AFR) appropriate for the month of sale and the term of the installment note, with a balloon payment of principal plus any unpaid interest at the end of the specified term.

Notes on Wealth Forecasting

12. Estate Transfer and Taxation

The Wealth Forecasting System models the transfer of assets to children, more remote descendants, and charities, taking into account applicable wealth transfer taxes. If the analysis concerns a grantor and his or her spouse, the System assumes that only the first to die owns assets in his or her individual name and that no assets are owned jointly. It is further assumed that the couple's estate plan provides that an amount equal to the largest amount that can pass free of Federal estate tax by reason of the Federal unified credit against estate taxes (or, if desired, the largest amount that can pass without state death tax, if less) passes to a trust for the benefit of the surviving spouse and/or descendants of the first-to-die, or directly to one or more of those descendants. It is further assumed that the balance of the first-to-die's individually owned assets passes outright to the surviving spouse and that such transfer qualifies for the Federal estate tax marital deduction. Any state death taxes payable at the death of the first-to-die after 2010 are assumed to be paid from the assets otherwise passing to the surviving spouse. To the extent that this assumption results in an increase in state death taxes under any state's law, this increase is ignored. In addition, it is assumed that the surviving spouse "rolls over" into an IRA in his or her own name any assets in any retirement accounts (e.g., an IRA) owned by the first to die, and that the surviving spouse withdraws each year at least the minimum required distribution ("MRD"), if any, from that IRA. At the survivor's death, all applicable wealth transfer taxes are paid, taking into account any deductions to which the survivor's estate may be entitled for gifts to charity and/or (after 2010) the payment of state death taxes. The balance of the survivor's individually-owned assets passes to descendants and/or charities and/or trusts for their benefit. The survivor's retirement accounts (if any) pass to descendants and/or charities. To the extent that a retirement account passes to more than one individual beneficiary, it is assumed that separate accounts are established for each beneficiary and that each takes at least the MRD each year from the account. In all cases, it is assumed that all expenses are paid from an individual's taxable accounts rather than his or her retirement accounts to the maximum extent possible.

Notes on Wealth Forecasting System

13. Capital Markets Projections

	Median 10-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	10-Year Annual Equivalent Volatility
Int.-Term Diversified Municipal Bonds	2.4	2.6	2.7	4.7	2.8
US Value Stocks	8.5	10.2	3.6	23.3	16.0
US Growth Stocks	7.8	10.0	2.4	26.9	17.8
Developed International Stocks	9.1	11.3	4.3	26.4	17.4
Emerging Markets Stocks	7.1	11.6	3.8	39.4	27.9
Inflation	3.2	3.5	N/A	1.9	6.2

Based on 10,000 simulated trials each consisting of 10-year periods. Some case studies in this presentation were modeled for periods in excess of 10 years. Contact Bernstein for additional information.

Reflects Bernstein's estimates and the capital market conditions of September 30, 2011.

Does not represent any past performance and is not a guarantee of any future specific risk levels or returns or any specific range of risk levels or returns.

