Making Estate Planning Great Again

Trumping Uncertainty with Strategies that Work in Any Environment

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Pre-Election, the Focus Was on Proposed Regulations That Would Curtail Transfer Tax Valuation Discounts

- Proposed regulations under Section 2704 of the Internal Revenue Code were released by the Treasury Department on August 3, 2016
- Those regulations purport to cover intra-family transfers of interests in family-controlled entities that are subject to:
  - Lapsing voting or liquidation rights (to be valued as if nonlapsing); or
  - Restrictions on liquidation (to be disregarded when valuing)
- What the proposed regulations do not (apparently) restrict
  - Fractional interest discounts in real estate or tangible personal property
  - Entities not controlled by a single family
  - Traditional willing-buyer / willing-seller test applied at the entity level
  - Life insurance discounting techniques (e.g., *Morrissette v. Comm'r*, 146 T.C. No. 11)
  - "Garden variety" leveraged transfers (e.g., grantor retained annuity trusts)

Then came November 8th . . .

Source: AB

Post-Election, There Is Considerable Uncertainty as to What Will Happen . . . And When

- Repeal of the estate and generation-skipping transfer (GST) taxes?
- Repeal of the gift tax?
- Elimination of the basis "step-up" at death?
  - Increased importance of life insurance?
  - Increased relative importance of income in respect of a decedent (IRD)?
- Realization of gain on appreciated property owned at death?
- New exclusion amounts for continuing or new tax regimes?
- Revenue offsets to pay for changes?
  - Elimination of certain income tax deductions? Cap on itemized deductions?
  - Restrictions on accumulations in qualified retirement plans and individual retirement arrangements (IRAs)? Accelerated distributions from such plans when payable to someone other than a surviving spouse?
- Timing? Retroactivity?

Plenty of room to speculate, but little certainty

Source: AB

Congressional GOP and President Trump Seem to Differ on Key Elements of Tax Reform

	Current	Trump proposal	House GOP proposal
Top marginal corporate income tax rate	35%	15%	20%*
Top marginal individual income tax rate	39.6%	33%	33%
Surtax on net investment income	3.8%	Repeal	Repeal
Alternative minimum tax	Applies to certain corporations and individuals	Repeal	Repeal
Itemized deductions	Subject to "3% cutback"	Limit to $100K per individual, $200K per couple	Eliminate state and local tax deduction
Estate, gift, and GST tax	$5.45M inflation-indexed exclusion; 40% "flat" rate	Repeal	Repeal
Step-up in income tax basis at death	Applies to all decedent's estates	Deemed capital gain tax on estates > $10M	Continues, despite repeal of estate tax

*At least one commentator characterizes the House GOP proposal as replacing the corporate income tax with a value-added tax (VAT). See "Republican Tax-Reform Plans Face Many Hurdles, Including Donald Trump," The Economist, (Jan. 21, 2017), at http://www.economist.com/news/finance-and-economics/21715002-mr-trump-will-soon-have-confront-his-economic-policies-internal.

Sources: Deloitte Development LLC and AB

What Are the President's Highest Priorities?

- Repeal or reformation of the Affordable Care Act

- Border security and immigration

- Job creation and corporate tax reform

- Repeal of the estate tax

Sources: NBC News and AB

No One Knows for Certain . . . But There Is a Significant Chance that the Estate Tax Will <u>Not</u> Be Repealed in 2017

- Other, higher priorities
- Lack of political will in an increasingly "populist" world
- Apparent differences between the GOP and the President
- Problems getting any controversial tax bill through the Senate
  - 60 votes are required in the Senate under current rules; the GOP has only 51 or 52, depending on how you count heads
  - Under the alternative "reconciliation" process, only 51 Senate votes are required, but the legislation must either
    - Be "revenue-neutral"; or
    - "Sunset" after 10 years (i.e., be temporary)

Given this uncertainty, should clients just wait and see what happens?

Sources: Deloitte Development LLC and AB

Ten Observations About Planning in the Current Environment

1. Given procedural impediments to any new legislation, it's probably best (for now) not to assume too much about what future tax laws might look like
   a. Is anything "permanent" anymore?
   b. When in doubt, probably best to **assume the worst case**
2. Top marginal income tax rates may be reduced . . . **but** be aware of the President's proposed cap on itemized deductions and compression of the capital gain tax bracket*
3. Paying gift tax now could backfire if the donor were to die at a time when the estate tax is repealed; as an alternative for an older client, consider "paired" GRAT-private annuity strategy
4. Planning to hold assets pending a step-up in basis at death may be unwise for large estates under the President's proposal
5. Treasury's valuation discount project is charging ahead, but (i) some minority interest discounting should survive; and (ii) certain aspects of the final regulations are likely to be relaxed toward "operating businesses"**

*For example, President Trump would lower the 2017 threshold for the 20% capital gain tax bracket for joint filers from $470,700 to $225,000.

**Per Catherine Hughes, U.S. Treasury Office of Tax Policy, in her comments at the 51st Heckerling Institute on Estate Planning. Orlando, FL (Jan. 9, 2017). Ms. Hughes also mentioned that Treasury received over 10,000 written comments during the regulatory comment period, and that she "had read only 400 of them" so far. Because substantial revisions to the proposed regulations are expected, it seems unlikely that final regulations will be published any sooner than late 2017, more likely in 2018.

Sources: www.irs.gov, Deloitte Development LLC, and AB

Ten Observations About Planning in the Current Environment (continued)

6. Charitable contributions may be in jeopardy under the President's proposal
   a. Cap on itemized deductions
   b. No deduction for contribution to family-controlled charity at death
7. Don't dump life insurance
   a. The President's proposal calls for estate tax repeal, but also for deemed recognition of gain at death for large estates
   b. Life insurance is "leverageable"; it **always** gets a step-up in basis
8. With income tax rates potentially declining, a charitable remainder trust may not be as powerful a diversification strategy as in the recent past
9. If Trump's proposed cap on itemized deductions finds its way into law, grantor charitable lead annuity trusts (CLATs) may suffer, while nongrantor CLATs—which may not be subject to the cap—may be prized
10. The "Trump bump" in stock values has produced a corresponding increase in Treasury yields, which may result in substantially higher Section 7520 rate and applicable federal rates (AFRs) in 2017—**premium on planning now**

Source: AB

Recommendation for the Current Environment: Be Flexible

1. Determine how much clients need to retain to support their lifestyle with a high level of confidence . . . and transfer the balance
2. Preserve or leverage the applicable exclusion amount
   a. Zeroed-out grantor retained annuity trusts (GRATs) and CLATs
   b. Installment sales at AFR
   c. Life insurance
3. Avoid paying gift tax until the future of the estate tax is more certain
4. Facilitate future basis planning
   a. Transfers to irrevocable ("intentionally defective") grantor trusts
   b. Use entities taxed as partnerships for income tax purposes to facilitate Section 754 elections
5. Possibly accelerate charitable contributions while
   a. Income tax rates are relatively high
   b. Itemized deductions are (for the most part) unimpaired

Source: AB

Now More Than Ever . . . Know How Much Your Client Can Afford to Transfer

Lifestyle Spending	
Personal Reserve	

Core Capital

- How likely is it that core assets needed to support lifestyle will be *less than* the inflation-indexed applicable exclusion over time?
- Does the inflation-indexed exclusion provide an opportunity to reserve more for long-term care?

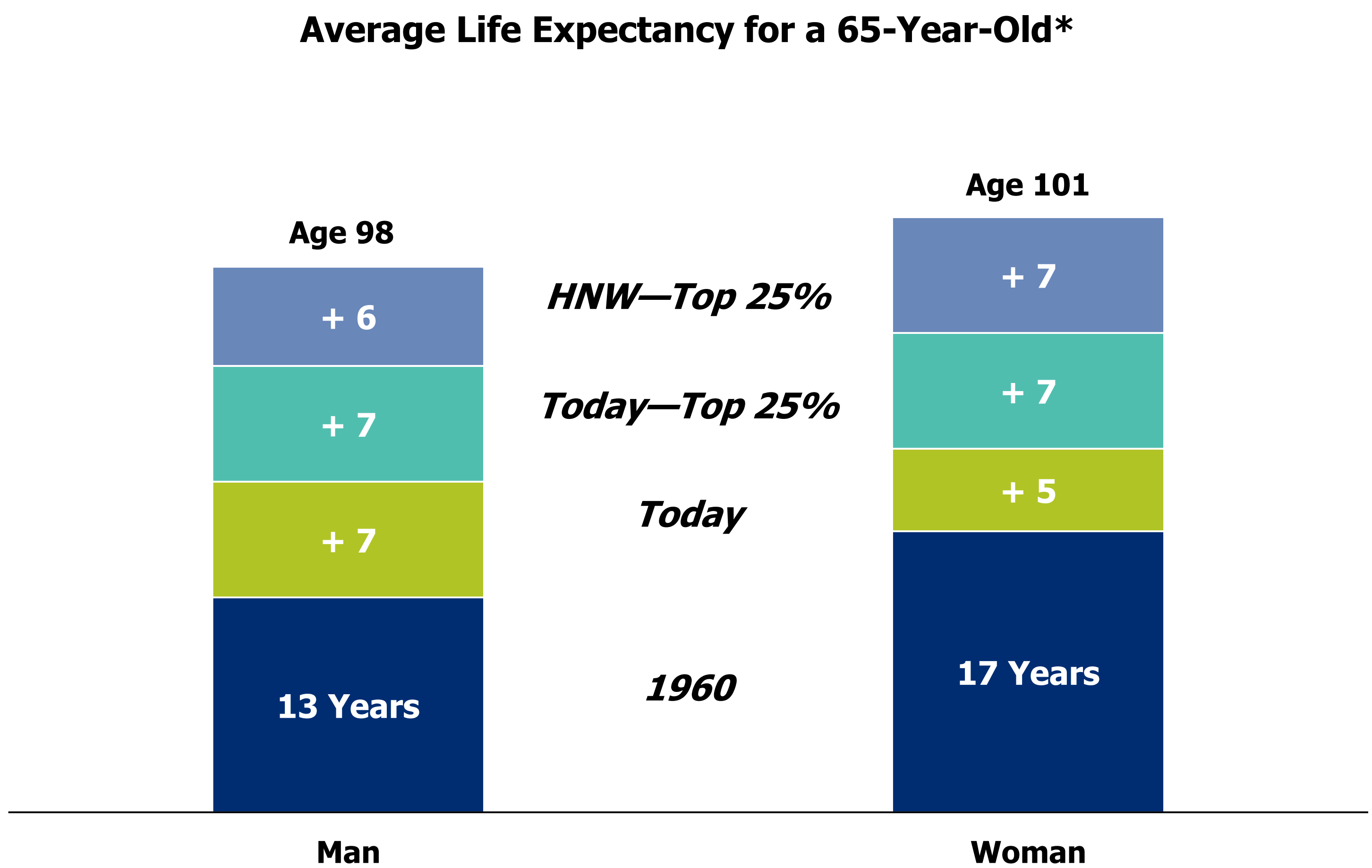
Extra Spending	
Opportunistic	
Children Grandchildren	
Charity	

Surplus Capital

- How much (if any) can stay in the estate without estate tax exposure?
- What are the *income* tax characteristics of capital earmarked for wealth transfer?
- What are the income tax consequences to the beneficiary upon liquidation?
- Can grantor trusts be used to facilitate periodic repositioning of assets, based on potential for growth *and* favorable income tax characteristics?

Source: AB

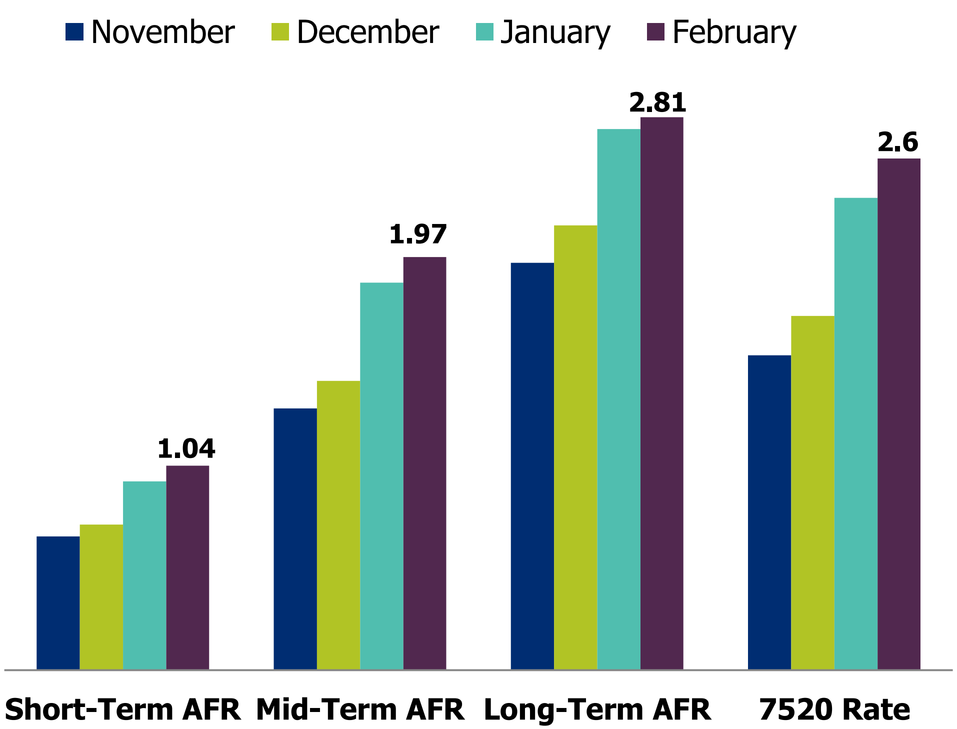
Wealthy People Have Surprisingly Long Planning Horizons



Sources: Social Security Administration, Society of Actuaries, and M Financial Group

Hedge "Bet" on Estate Tax Repeal with Freeze Strategy?

Applicable Federal Rates and Section 7520 Rate*
(Percent)



Wealth Transfer Opportunities

- Refinance existing intra-family debt
- Long-term (greater than nine years**) installment sales and loans to irrevocable grantor trusts for the benefit of family
- "Zeroed-out" GRATs
- Long-term CLATs

*See Sections 1274(d) and 7520 of the Internal Revenue Code of 1986, as amended (Code); Rev. Rul. 2017-4.
**In the case of a debt instrument with a fixed term greater than nine years, the "Long-Term AFR" applies; for a term greater than three years but not greater than nine years, the "Mid-Term AFR" applies; for a term not greater than three years, the "Short-Term AFR" applies. See Code Section 1274(d)(1)(A).
Sources: www.irs.gov and AB

Case Study: Flexible Planning

Flexible Planning Case Study Assumptions

- Entrepreneurs Adam and Eve, each age 50, with basic "A/B" testamentary estate plan
  - Couple "functions as a team"
  - Each is confident about marital longevity
- Children are still young, and parents are unwilling to "give" them lots of money
- Big estate (well above core) with the desire and likelihood that it will continue to grow
- Despite reservations about giving money to children, couple is concerned about estate tax

Key research questions:
Should this couple wait and see what happens with the tax laws? Or act now, while interest rates remain relatively low?

Source: AB

Potential Solution: Installment Sale or Loan to Spousal Lifetime Access Trust (SLAT)

- Trust will be funded largely with future growth, not current wealth
- One spouse establishes trust; other will be its primary beneficiary and trustee (or co-trustee); children can (arguably should) be permissible current beneficiaries
- Beneficiary spouse will be granted special power of appointment*
  - If and when children are ready to become primary beneficiaries, holder may exercise that power in their favor
  - Until then, trustee can distribute trust assets from time to time to beneficiary spouse—and to children, if appropriate
- Trust is irrevocable, so
  - Beneficiaries' creditors (including spouse in event of a divorce) cannot** reach trust assets
  - Grantor's future creditors cannot reach trust assets under laws of most states
  - Assets held in trust should not be subject to estate tax—if that tax exists—at either spouse's death

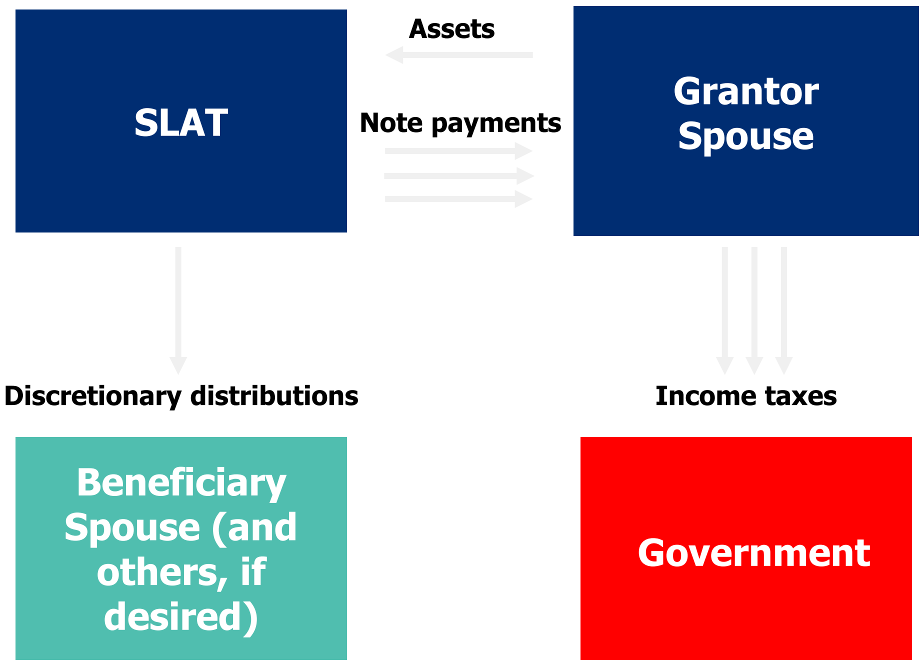
*In states that do not permit such powers, consider establishing trust in alternate jurisdiction that has favorable trust laws, such as AK, DE, NV, SD, or TN.
**But see *Sligh v. First Nat'l Bank*, 704 So. 2d 1020 (Miss. 1999) (Mississippi Supreme Court ignored 400 years of trust law and allowed a beneficiary's creditors to attach principal of Louisiana spendthrift trust in satisfaction of tort claim).
Source: AB

Additional SLAT Features

- Trust may be multi-generational (i.e., can include future grandchildren and younger descendants)
- Nothing radical about this idea—merely “accelerates” creation and funding of credit shelter trust that is to be established at death of first spouse to die
- Initially, trust will be a “grantor trust”
  - Grantor is responsible for paying income tax on income generated by trust assets
  - Government treats payment of such taxes as “gift-tax-free” gifts to trust and its beneficiaries*
  - If income tax obligation becomes burdensome, trust will include mechanism whereby that obligation may be turned off
  - In any event, obligation to pay income tax terminates upon grantor’s death
- With due care, each spouse may create SLAT for the other’s primary benefit
  - Those two trusts cannot be “reciprocal” (i.e., substantially identical)
  - Some commentators believe that up to “six degrees of separation” are required (e.g., differences in income and principal distribution standards, nature of trust investments, existence of special powers of appointment, etc.)

*See Rev. Rul. 2004-64, 2004-2 C.B. 7.
**See *United States v. Estate of Grace*, 395 U.S. 316 (1969).
Source: AB

How Installment Sale to Grantor SLAT Works



Key points:

- **Over time, Grantor transfers assets to IGT**
- **Collectively, transfers are treated as part-gift (10%), part-sale (90%)**
- **In exchange for assets sold, Grantor receives promissory note; interest payable annually for eight years, with principal and final interest installment due upon maturity in 2026**
- **Until then, Grantor pays all income taxes on behalf of IGT and its beneficiaries**
- **Annual growth in excess of mid-term AFR (currently 2.10%) may avoid gift, estate, and GST taxes***

If transaction is structured properly and Grantor fails to survive note term, value of note (*<u>not assets sold</u>*) will be subject to estate tax at Grantor's death

*Potential benefit to trust and its beneficiaries equals post-transfer growth of assets given, plus growth of assets sold in excess of interest payable.
For illustrative purposes only; not an advertisement and does not constitute an endorsement of any particular wealth transfer strategy. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.
Source: AB

"Triple Threat" Strategy: Installment Sale or Loan, Rather than Gift, to Grantor Trust

- "This was a mistake": Restore everything to its initial state by essentially "calling" the note
- "I shoulda done a gift": Forgive the note and, voila, the sale or loan instantly becomes a gift
- "This is great!": Continue to take advantage of the leverage that the note structure provides, until the note is forgiven or paid in full

Not an all-or-nothing proposition . . . Combinations are possible

Source: AB

Potential Risks and Rewards

- Primary SLAT risks include
  - Divorce
  - Death of beneficiary spouse
  - Possibility that trusts will be deemed “reciprocal”
  - Need for commutation in community property jurisdiction

- Benefits of loan or installment sale to grantor SLAT include
  - Takes advantage of current low interest rates
  - If estate tax is repealed, assets potentially may be brought back onto marital balance sheet
  - If estate tax continues or is reinstated, substantial off-balance-sheet growth can avoid that tax
  - If step-up in basis at death continues, appreciated assets can be reacquired during life free of income tax in exchange for cash or high-basis assets
  - Family-wide creditor protection is enhanced while structure remains in place

Source: AB

How to “Synthesize” a Valuation Discount

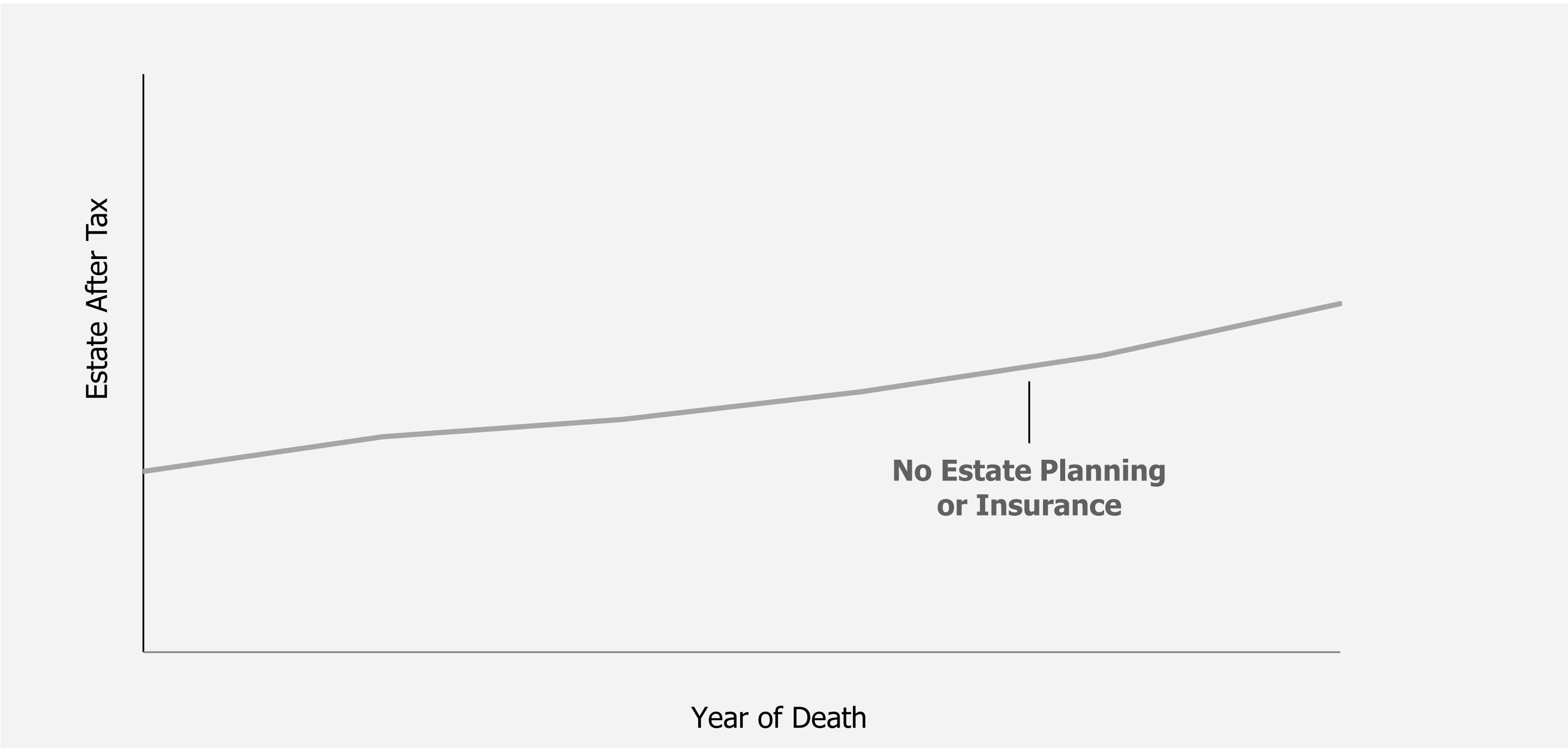
Valuation Discounts Are Convenient . . . But Are They Necessary?

- Valuation discounts for minority, nonmarketable interests in limited partnerships (LPs) and limited liability companies (LLCs) have become a staple of estate planning over the past 30 years
  - A convenient device;
  - That is relatively easy to explain to clients;
  - BUT has become increasingly difficult to defend in recent years
- Hypothesis: Although convenient, a valuation discount is *unnecessary* . . . If three key elements are present
  - Low interest rates;
  - Plenty of assets; and
  - Time . . . or the ability to use a mortality-hedging product (e.g., life insurance) or strategy (e.g., private annuity)

Source: AB

Without Lifetime Transfers or Insurance, Inherited Wealth Tends to Be Greatest When Parents Live a Long Time

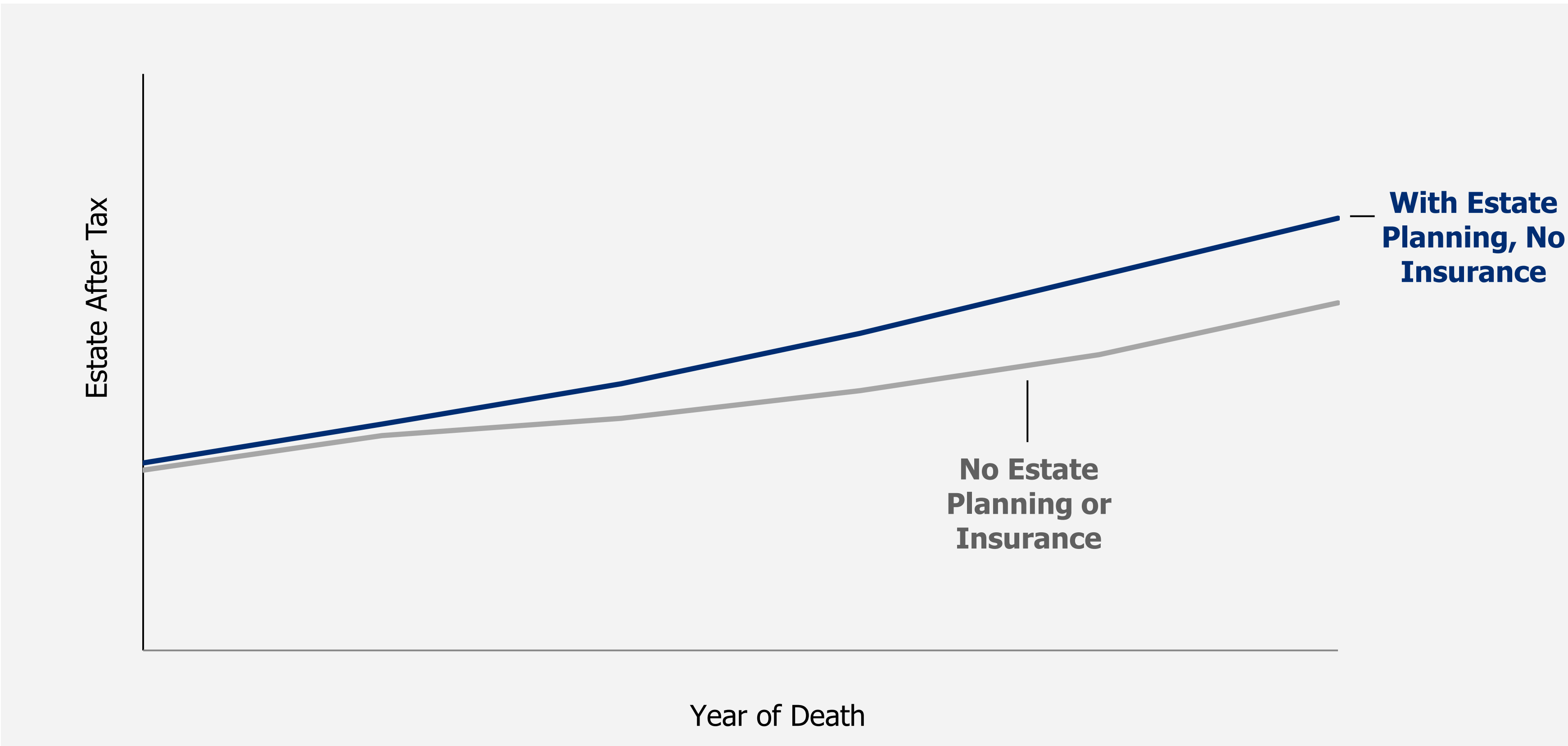
Median Wealth to Beneficiary



Source: AB

Lifetime Wealth Transfer Strategies Improve this Outcome, But Often Require Time to Produce Substantial Benefits . . .

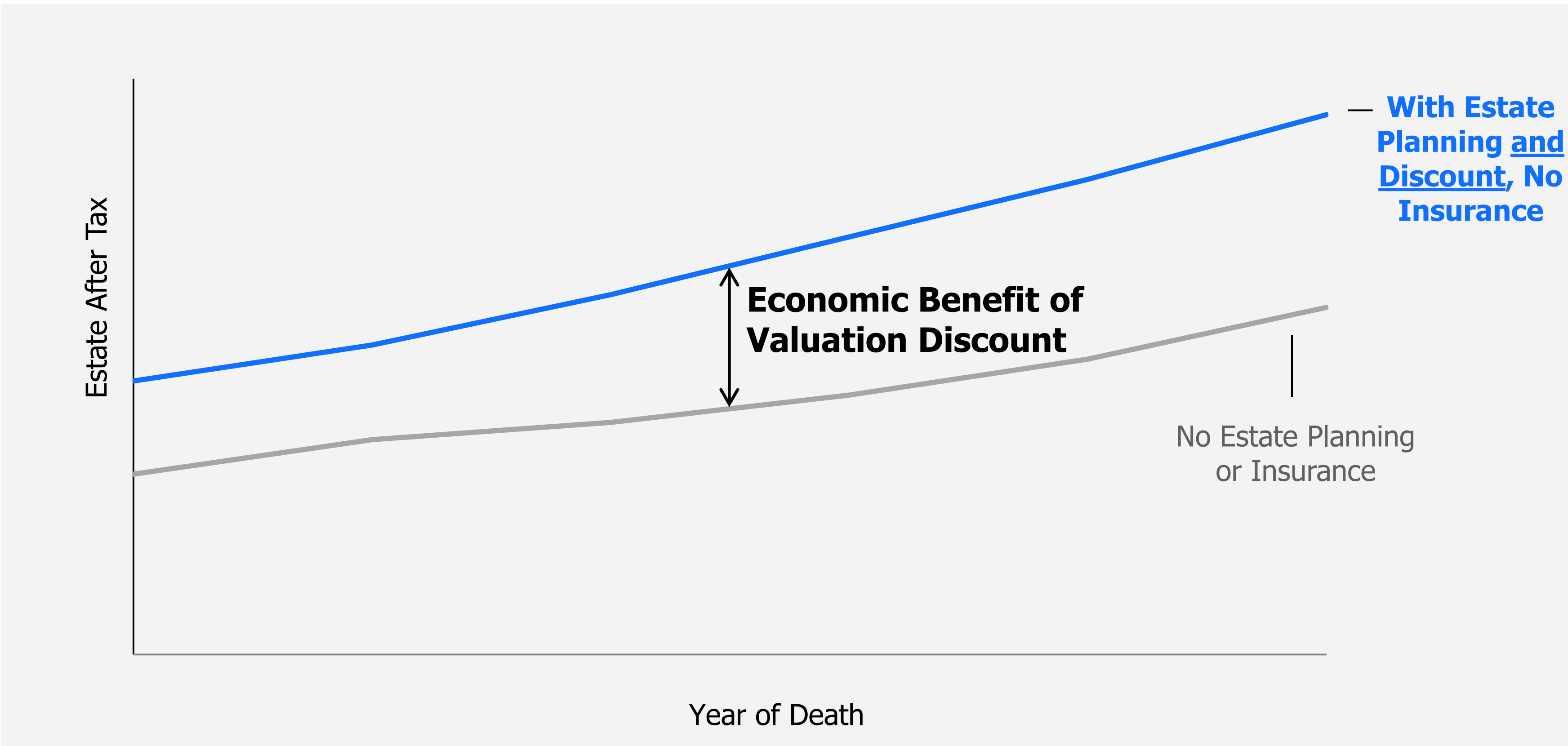
Median Wealth to Beneficiary



Source: AB

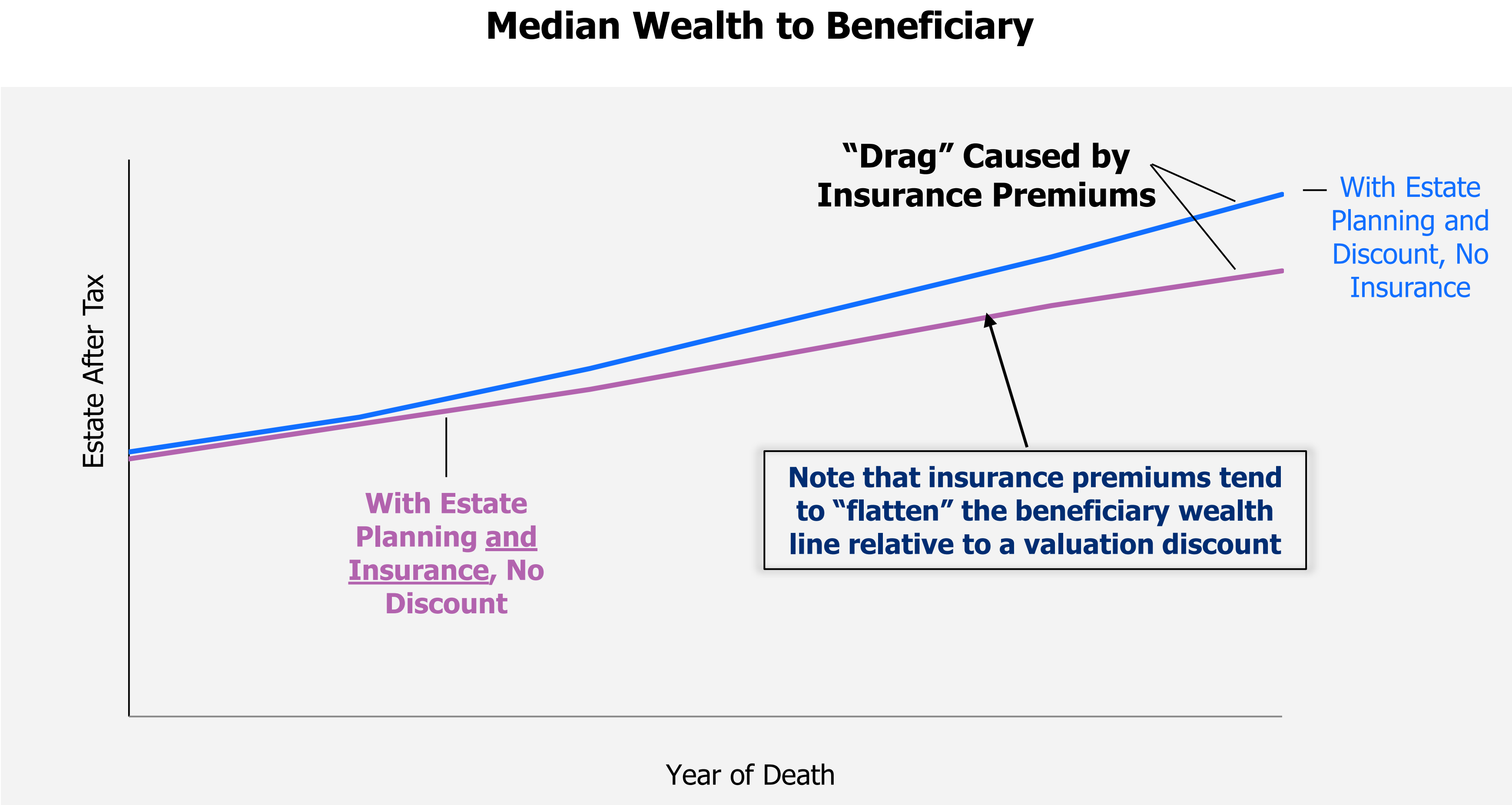
. . . Whereas a Valuation Discount (if Taken and Successfully Defended) Provides Both an Immediate and Ongoing Benefit

Median Wealth to Beneficiary



Source: AB

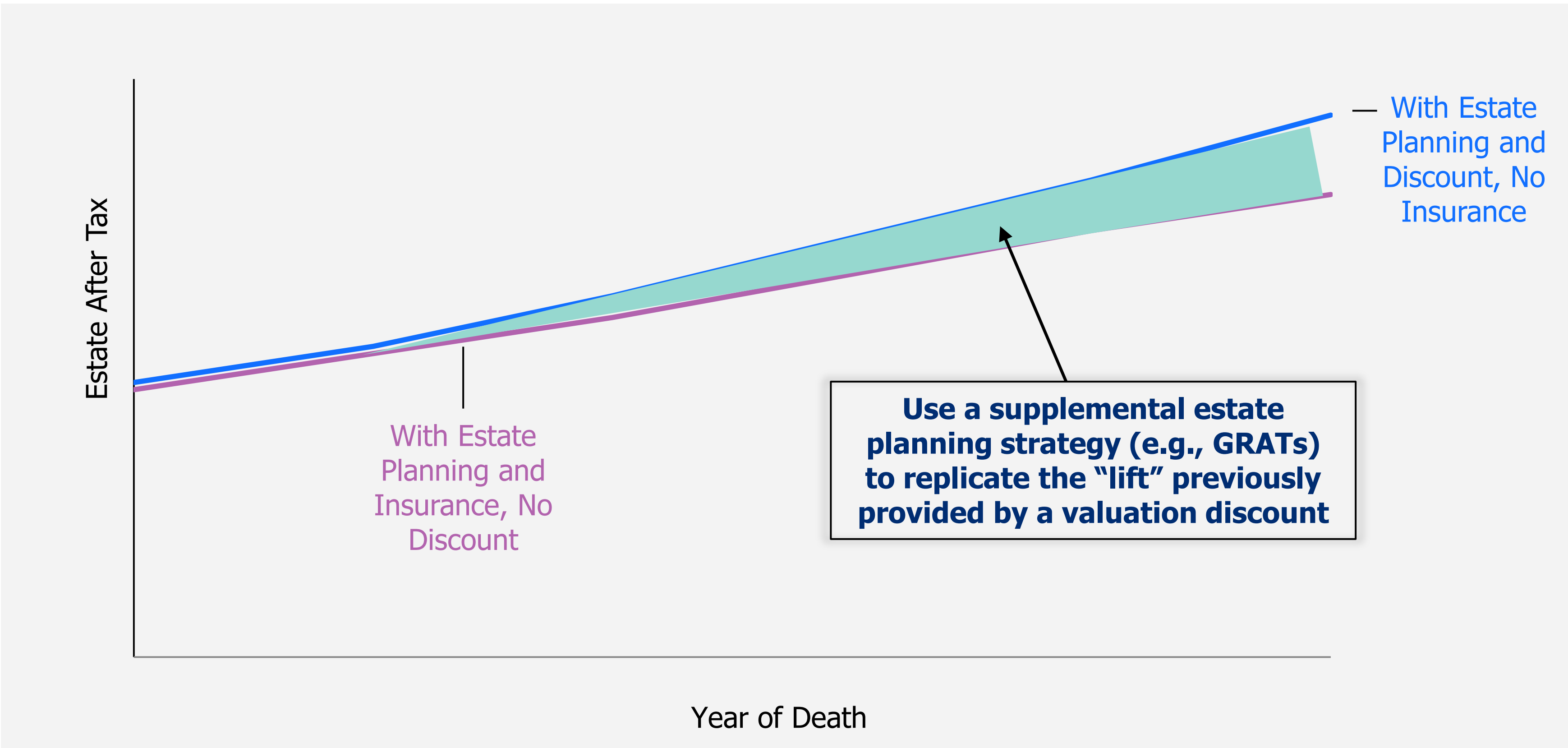
Life Insurance Can Provide the Same Immediate Benefit as a Discount, But Future Premiums Erode Beneficiary Wealth



Source: AB

A Supplemental Estate Planning Strategy, Used in Concert with Life Insurance, Can Replicate a Valuation Discount

Median Wealth to Beneficiary



Source: AB

The "X" Factor

Discount = Life Insurance + X;

where X equals a supplemental lifetime wealth transfer strategy

Source: AB

Dump or Keep Existing Life Insurance?

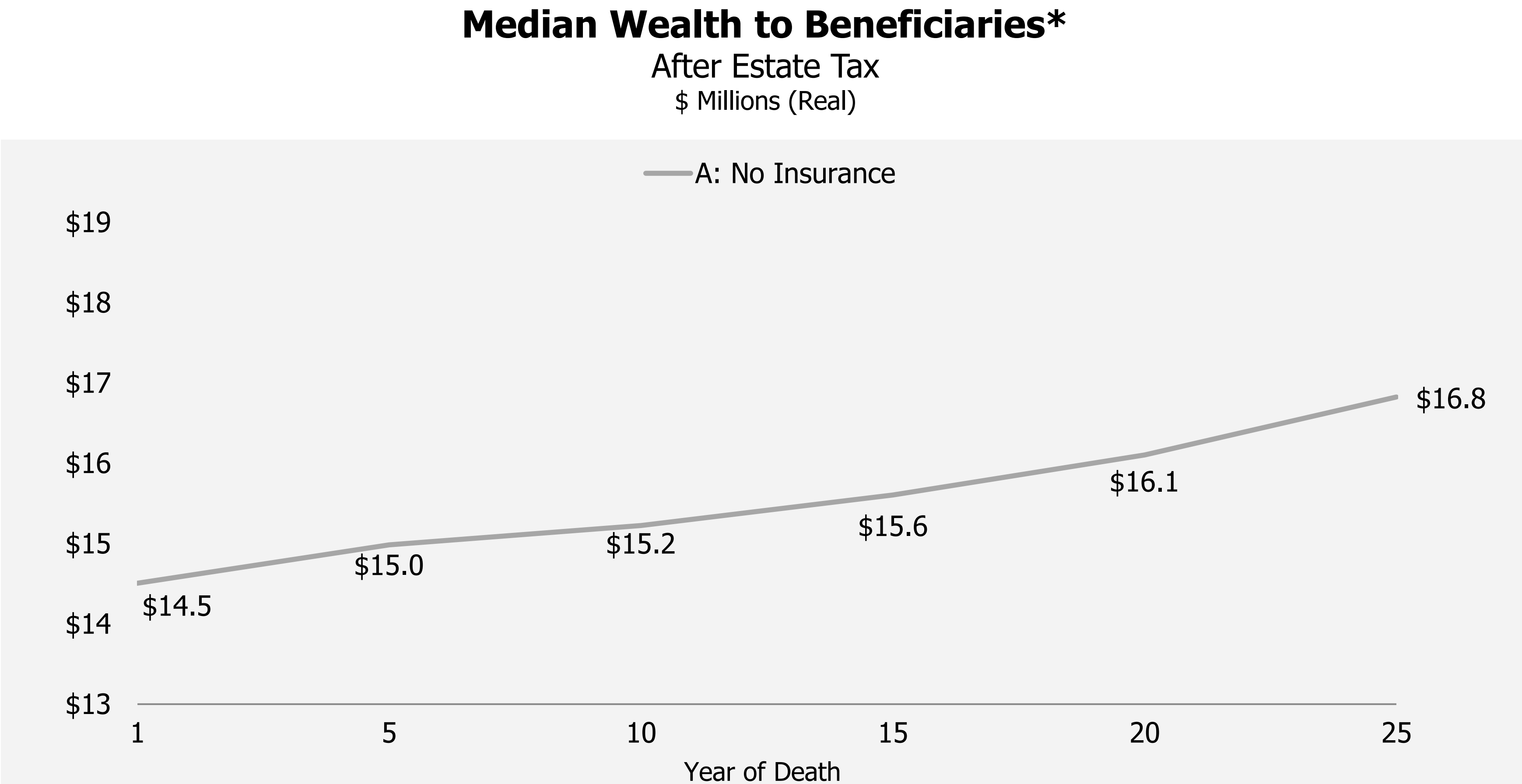
Integrated Solution Case-Study Assumptions

- Adam and Eve, each aged 71, with two adult children and two young grandchildren
  - Portfolio value = $15 million; one-half taxable, other half divided between an IRA and a Roth IRA
  - Invested 50% in stocks, 50% in bonds*
  - Annual spending = $300,000, adjusted for inflation**
- Traditional ILIT established years ago to help pay estate taxes owns two second-to-die policies
  - Total death benefit = $5 million
  - Aggregate cash value = $1 million
  - Aggregate annual premiums = $30,000

Key research questions:
Surrender both policies?
Or retain one or both?

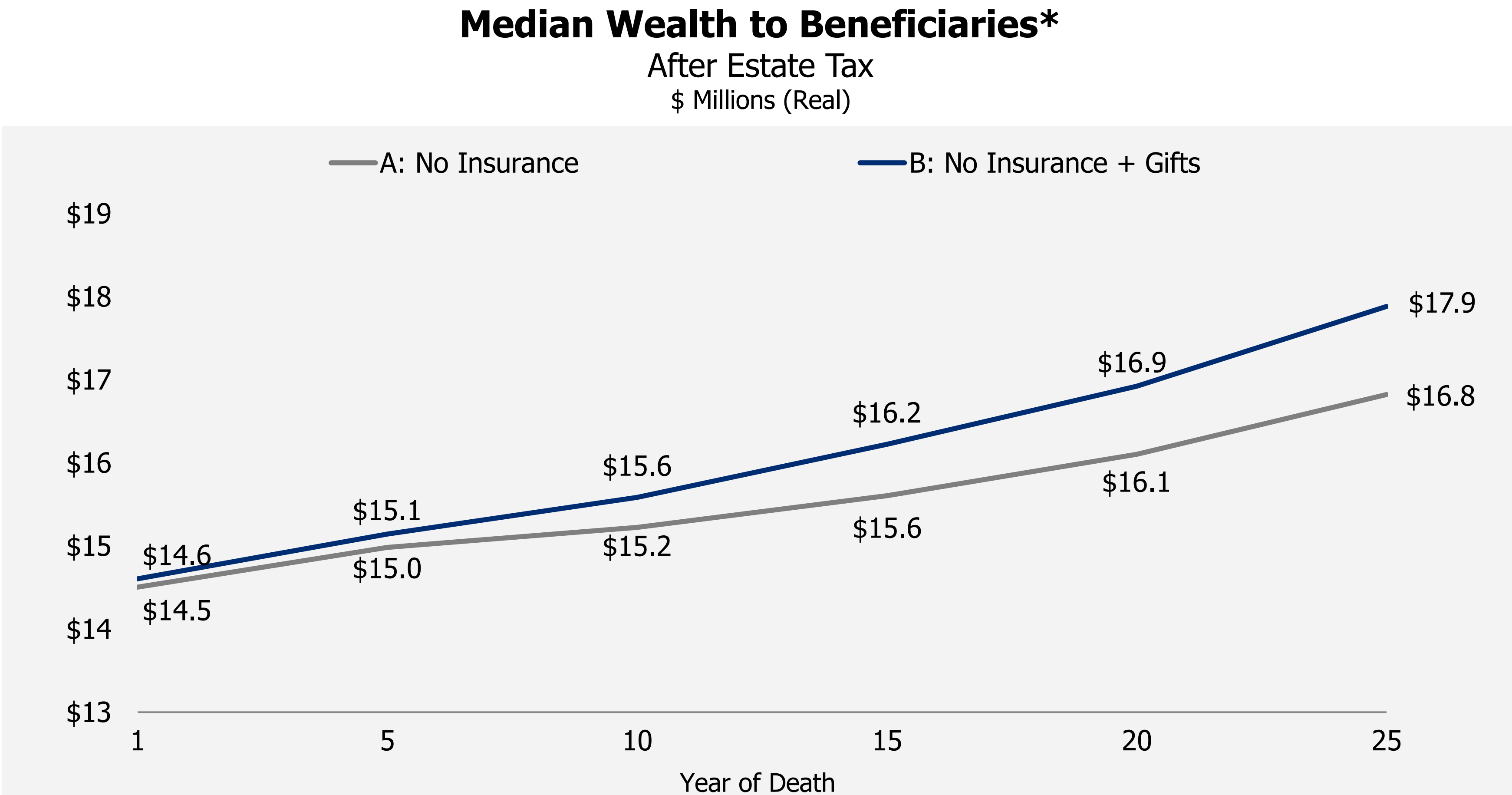
*"Stocks" are modeled as 21% US value, 21% US growth, 21% US diversified, 7% US small- and mid-cap, 22.5% developed international, and 7.5% emerging market; "bonds" are modeled as intermediate-term municipal bonds.
**Except for $300,000 of deferred compensation to be realized over three years, virtually all taxable income consists of (1) minimum required distributions from traditional IRA and (2) portfolio income. State income tax rate is 6.5%.
Source: AB

An Unhedged Plan Should Enhance Beneficiary Wealth over Time . . .



*"Median Wealth to Beneficiaries" means 50th percentile outcome of Bernstein's wealth forecasting model, plus aggregate insurance death benefit, if any, reduced by federal estate tax for any wealth held on personal balance sheet. "Year of Death" means the year of death of the last of the insureds to die. We computed estate tax assuming remaining exclusion of $10.9 million indexed for inflation in accordance with applicable law, assuming annual inflation of 2.7%. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the applicable period. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** Bernstein does not provide legal, tax, or insurance advice; investors should consult experts in those areas before implementing any insurance strategy.
Source: AB

Lifetime Wealth Transfer Strategies Help, but Generally Not in a Way That Addresses Beneficiaries' Needs



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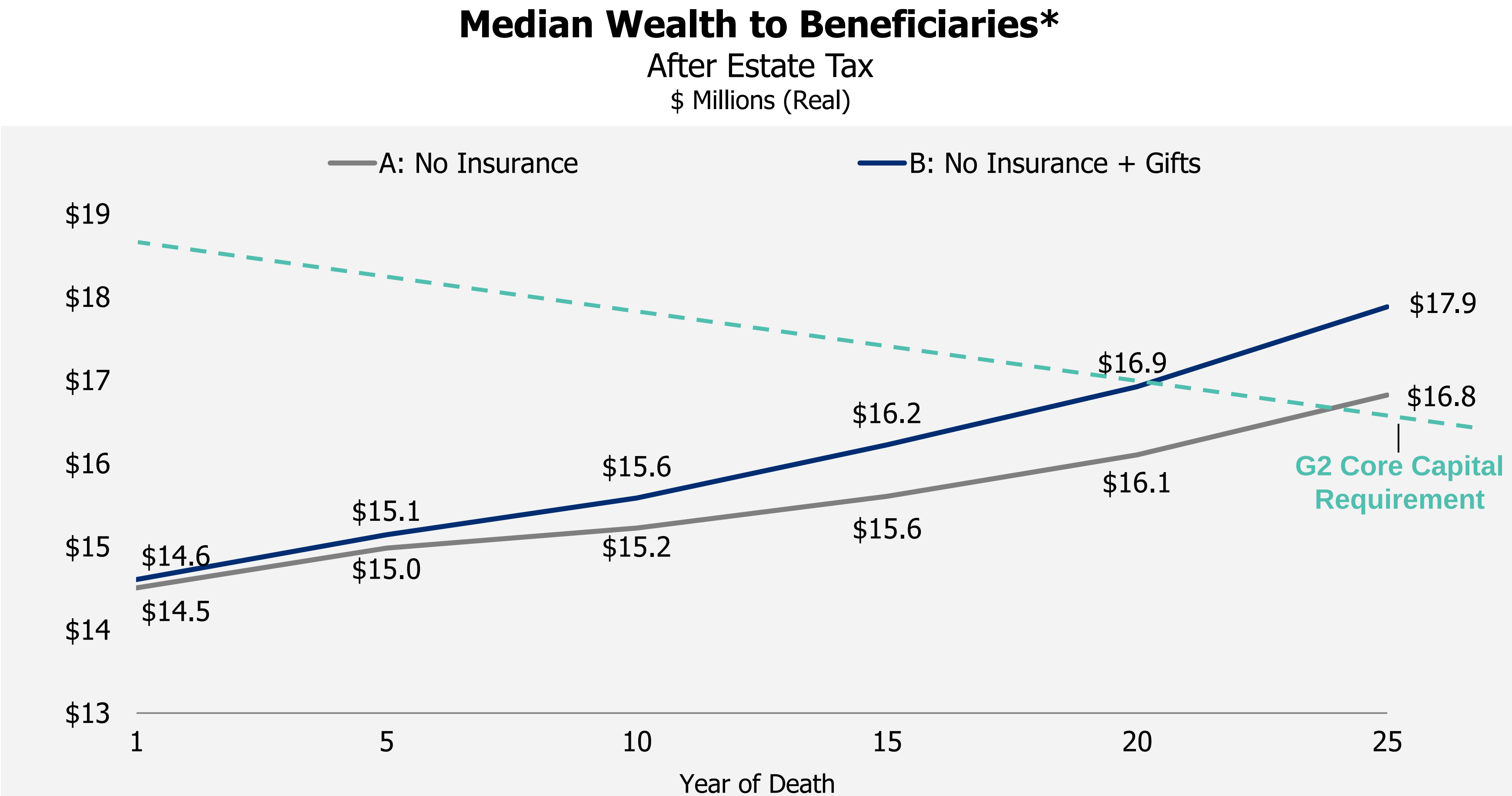

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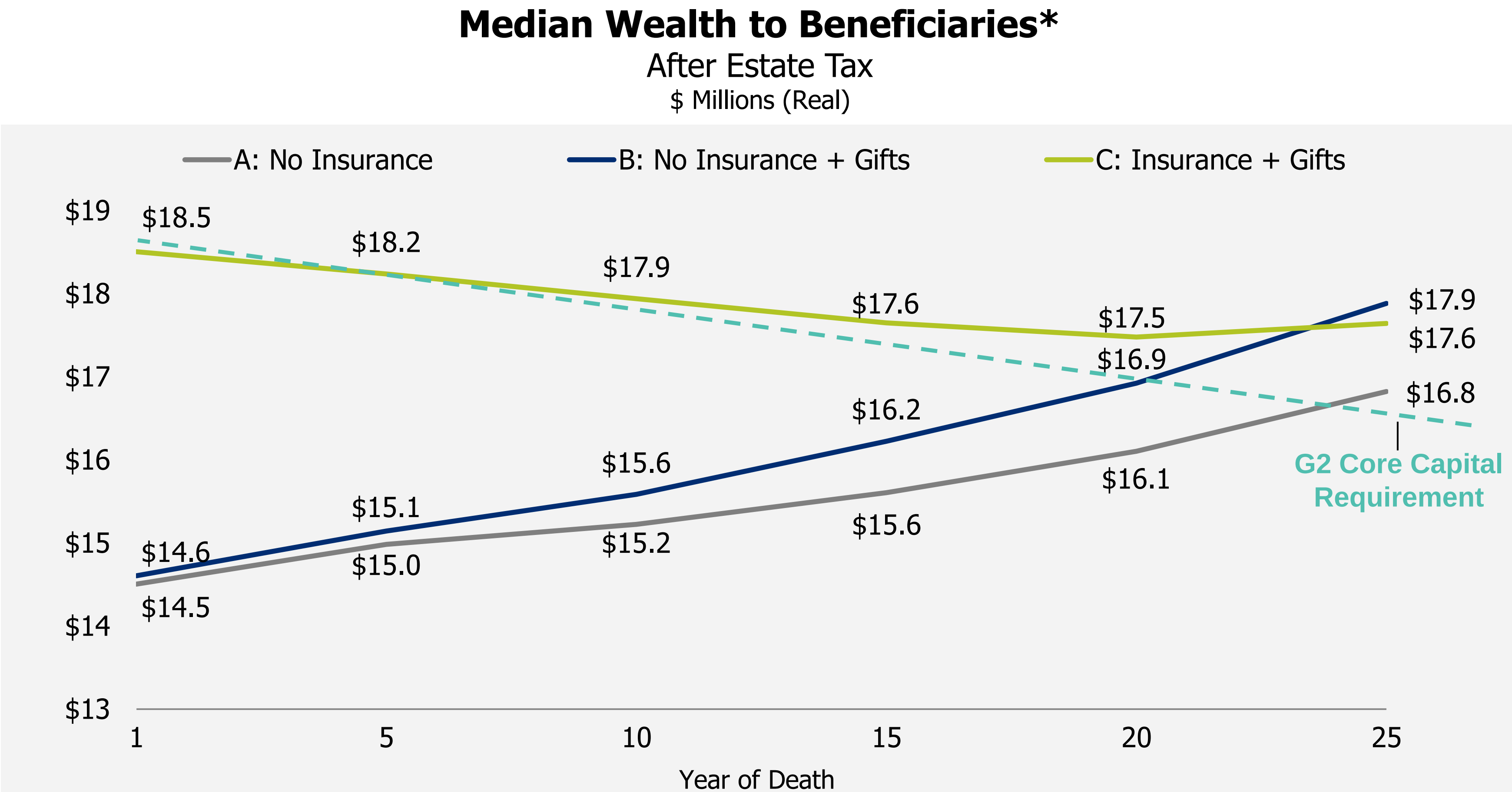
Source: AB

A Plan That Truly Integrates Life Insurance Tends to Match Beneficiaries' Needs Better than an Unhedged Plan



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Source: AB

Are Charitable Remainder Trusts Still Viable?

Analysis Assumptions

- Ricky and Lucy, both age 65, residents of Montgomery County, Maryland
  - Portfolio analyzed = $10 million of XYZ stock with cost basis of zero
  - Annual spending is covered by assets and income not modeled in this analysis
  - Top marginal income tax bracket
- Ricky and Lucy are considering contributing all of their XYZ stock to a charitable remainder unitrust (CRUT) but are concerned about proposed tax legislation

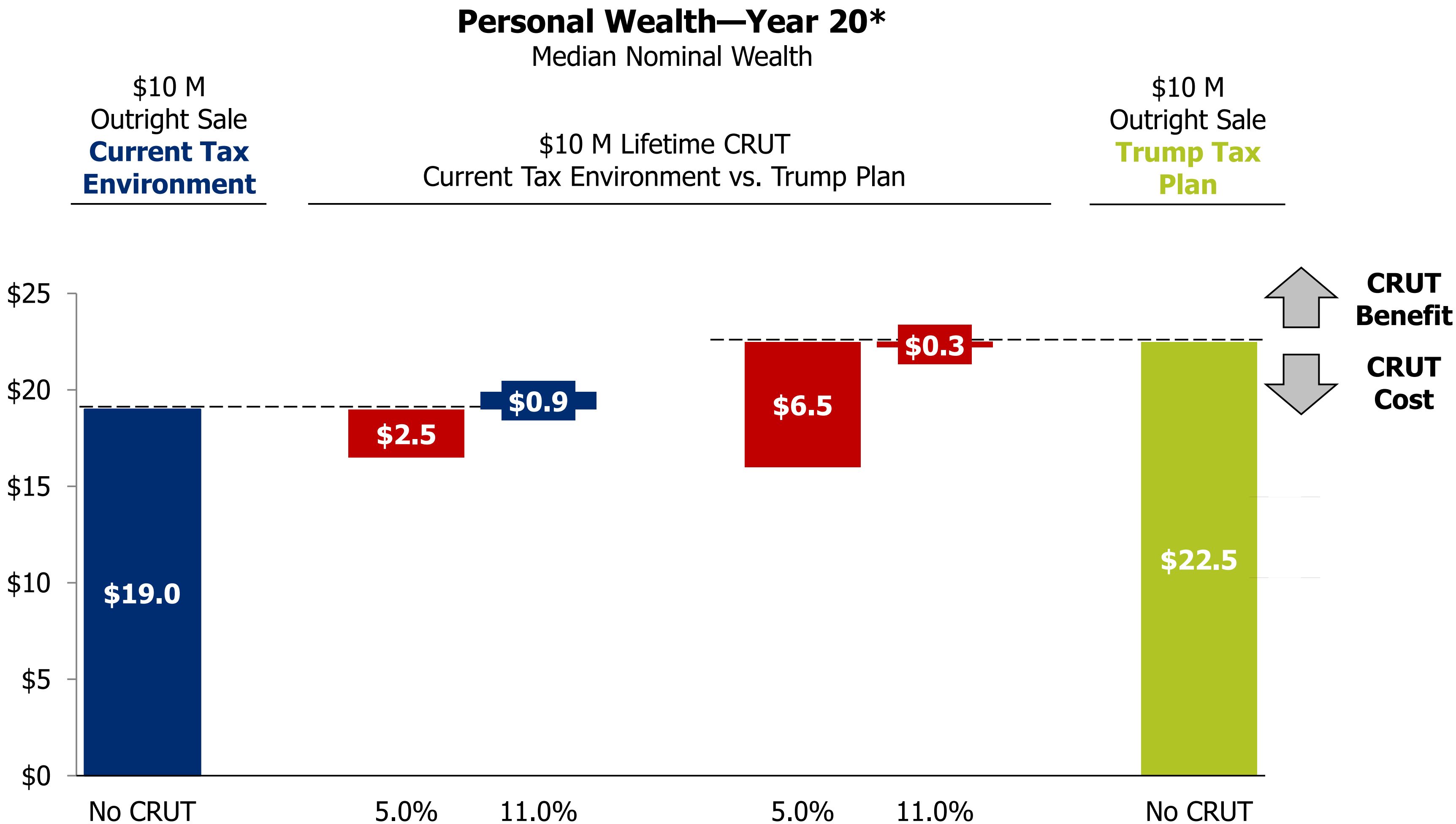
	Current Tax Environment		Trump Tax Plan	
CRUT payout (%)	5%	11%	5%	11%
Tax deduction	$3,342,900	$1,000,000	$200,000	$200,000
Ordinary income tax rate*	48.5%		39.0%	
Capital gain tax rate*	30.6%		27.2%	

How does potential legislative change impact their wealth over time?

*"Current tax environment" assumes federal ordinary income tax rate of 39.6%, federal capital gain tax rate of 20%, 3.8% federal surtax on net investment income, and state and local income tax rate of 8.95% (fully deductible for federal income tax purposes). "Trump tax plan" assumes federal ordinary income tax rate of 33%, federal capital gain tax rate of 20%, no federal surtax on net investment income, and state and local income tax rate of 8.95% (limited deductibility for federal income tax purposes). Bernstein does not render legal or tax advice; investors should consult their own advisors before making any decisions.

Source: AB

Lower Future Income Tax Rates Result in Reduced Benefit of Diversifying Using a CRT

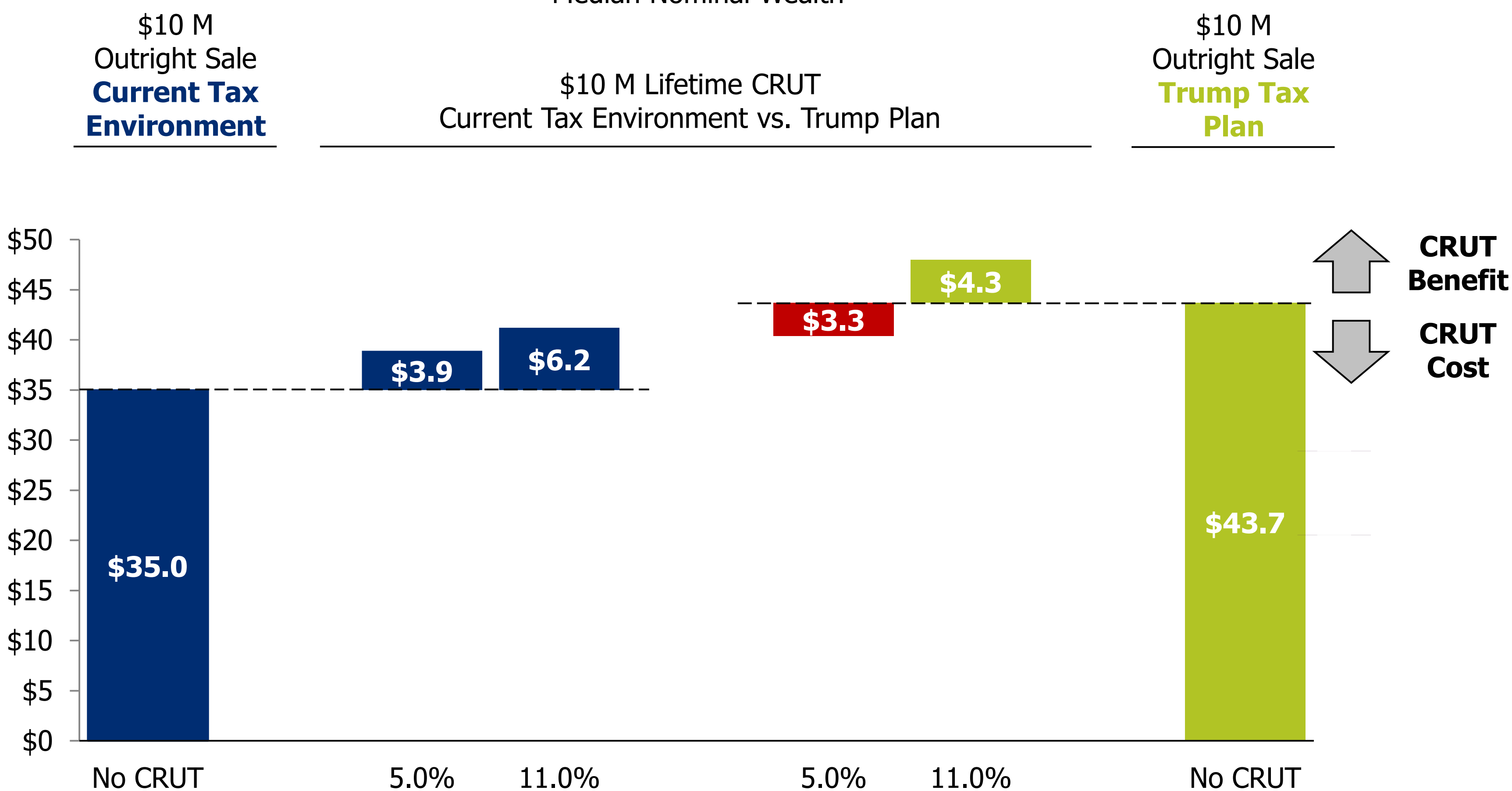


*"Outright sale" assumes client sells XYZ stock, pays capital gain tax, and invests in 100% globally diversified stock portfolio; in CRT scenarios, trustee sells XYZ stock, capital gain tax is deferred, and trustee invests in 100% globally diversified stock portfolio. Max payout CRT scenarios assume 65-year-old couple and 1.6% Section 7520 rate. In all CRT scenarios, income tax deduction was applied against ordinary income, with no carryforward; in "Trump tax plan" CRT scenarios, income tax deduction was limited to $200,000. Based on Bernstein's estimates of the range of long-term returns for the applicable capital markets. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Appendix, Notes on Wealth Forecasting System, for details.
Source: AB

Over Longer Horizons, High-Payout CRT May Be Valuable . . .

Personal Wealth—Year 30

Median Nominal Wealth



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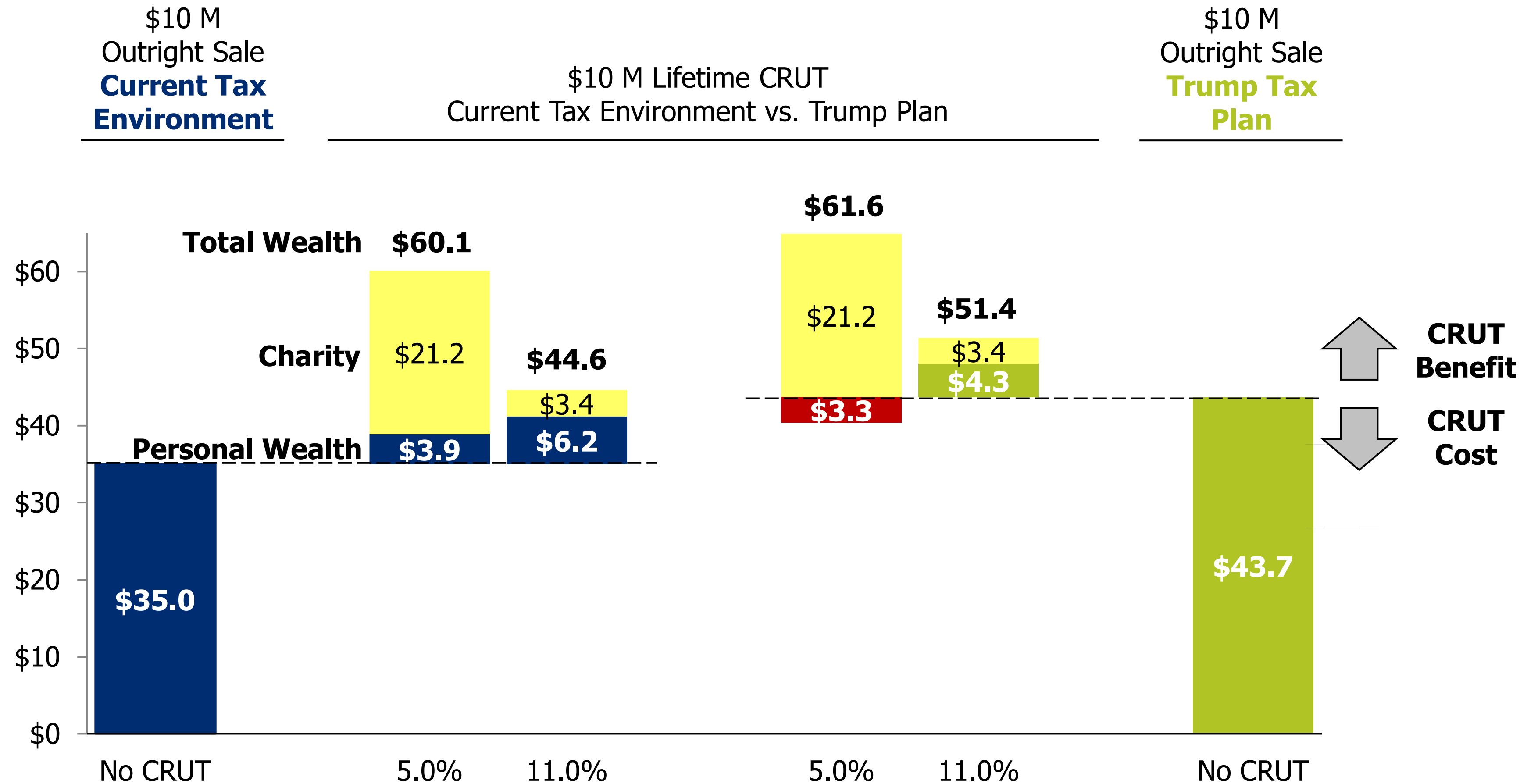
Source: AB

. . . Especially for Those with Strong Charitable Intent

Total Wealth—Year 30

Median Nominal Wealth



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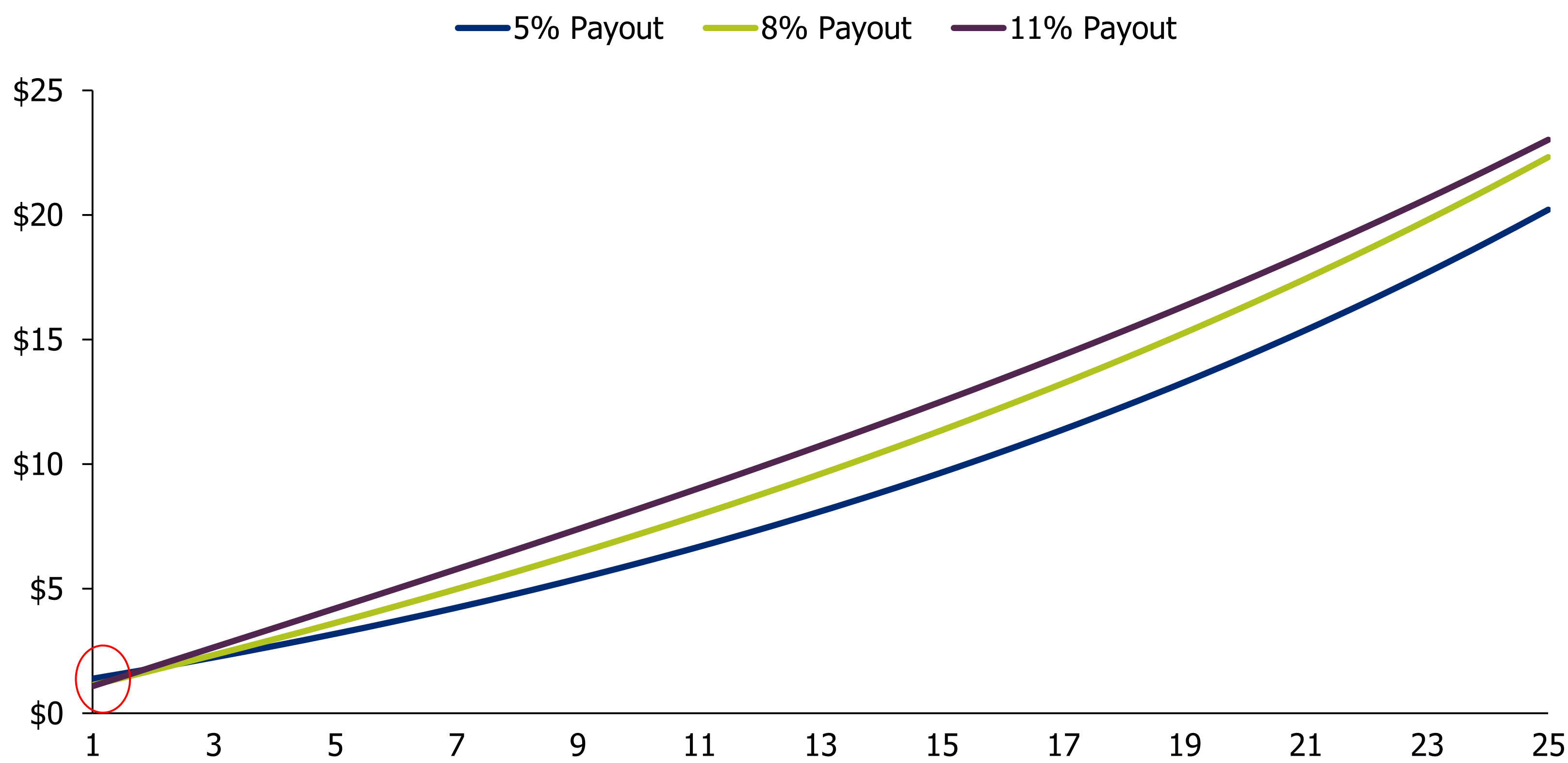
Source: AB

It's the CRT's Ability to Defer Income, Not the Upfront Income Tax Deduction, That Drives Personal Wealth

Personal Wealth

$ in Millions



Assumes 65-year-old couple, 1.6% Section 7520 rate, and full income tax deductibility in first year, as follows: $3.3 million in the case of a 5% CRT payout, $1.8 million in the case of an 8% payout, and $1 million in the case of an 11% payout. Future income taxes on CRT distributions assume a "blended" federal, state, and local rate of 30%; assumes "straight-line" pre-tax portfolio growth of 6% per year.

Data do not represent past performance and are not a promise of actual future results or a range of future results. See Appendix, Notes on Wealth Forecasting System, for details.

Source: AB

Appendix

Notes on Wealth Forecasting System

1. Purpose and Description of Wealth Forecasting System

Bernstein's Wealth Forecasting System^{SM} 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 by 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 System

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%
US Diversified	S&P 500 Index	15
US Value Stocks	S&P/Barra Value Index	15
US Growth Stocks	S&P/Barra Growth Index	15
US Low Vol Equity	MSCI US Minimum Volatility Index	15
Developed International Stocks	MSCI EAFE Unhedged	15
Emerging Markets Stocks	MSCI Emerging Markets Index	20
High-Risk International Stocks	Country Fund	15
US SMID	Russell 2000	15

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. Except as otherwise noted, these simulations are based on inputs that summarize the current condition of the capital markets as of September 30, 2016. Therefore, the first 12-month period of simulated returns represents the period from September 30, 2016, through September 30, 2017, and not necessarily the calendar year of 2016. A description of these technical assumptions is available upon request.

Notes on Wealth Forecasting System

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 System 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: For 2016 and beyond, the maximum federal ordinary income tax rate is 43.4% and the maximum federal capital gain and qualified dividend tax rate is 23.8%.

9. 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 (cont.)

10. Capital Markets Projections (Dump or Keep Existing Life Insurance? Case)

	Median 25-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	25-Year Annual Equivalent Volatility
Cash Equivalents	2.8%	3.1%	3.1%	0.3%	8.6%
Int.-Term Diversified Municipal Bonds	2.8	3.0	3.2	4.3	6.7
US Diversified	6.8	8.5	2.8	20.7	18.4
US Value	7.2	8.8	3.4	20.2	18.1
US Growth	6.5	8.6	2.3	23.0	19.8
Developed International	7.9	10.0	3.5	22.9	19.6
Emerging Markets	5.9	9.9	3.8	33.1	27.9
US SMID	7.1	9.2	2.4	23.6	21.0
US Low Vol Equity	7.0	8.1	4.1	16.8	15.9
High-Risk International	8.0	11.1	2.3	27.9	24.1

Data do not represent any past performance and are not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.
Based on 10,000 simulated trials each consisting of 25-year periods; contact Bernstein for additional information.
Reflects Bernstein's estimates and the capital market conditions as of June 30, 2016.

Notes on Wealth Forecasting System (cont.)

11. Capital Markets Projections (Are Charitable Remainder Trusts Still Viable? Case)

	Median 30-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	30-Year Annual Equivalent Volatility
Cash Equivalents	3.1%	3.4%	3.4%	0.3%	10.0%
US Diversified	7.0	8.6	2.9	16.4	19.8
US Value	7.3	8.9	3.5	16.0	19.4
US Growth	6.7	8.7	2.3	18.1	21.3
US SMID	7.2	9.3	2.5	18.7	22.2
US Low Vol Equity	7.1	8.2	4.2	14.3	16.9
Developed International	7.9	9.9	3.4	18.1	20.8
Emerging Markets	6.1	10.0	4.0	26.1	28.5
High-Risk International	7.9	11.0	2.3	22.1	25.0
Inflation	2.9	3.4	—	1.1	11.6

Data do not represent any past performance and are not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.
Based on 10,000 simulated trials each consisting of 30-year periods; contact Bernstein for additional information.
Reflects Bernstein's estimates and the capital market conditions as of September 30, 2016.

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