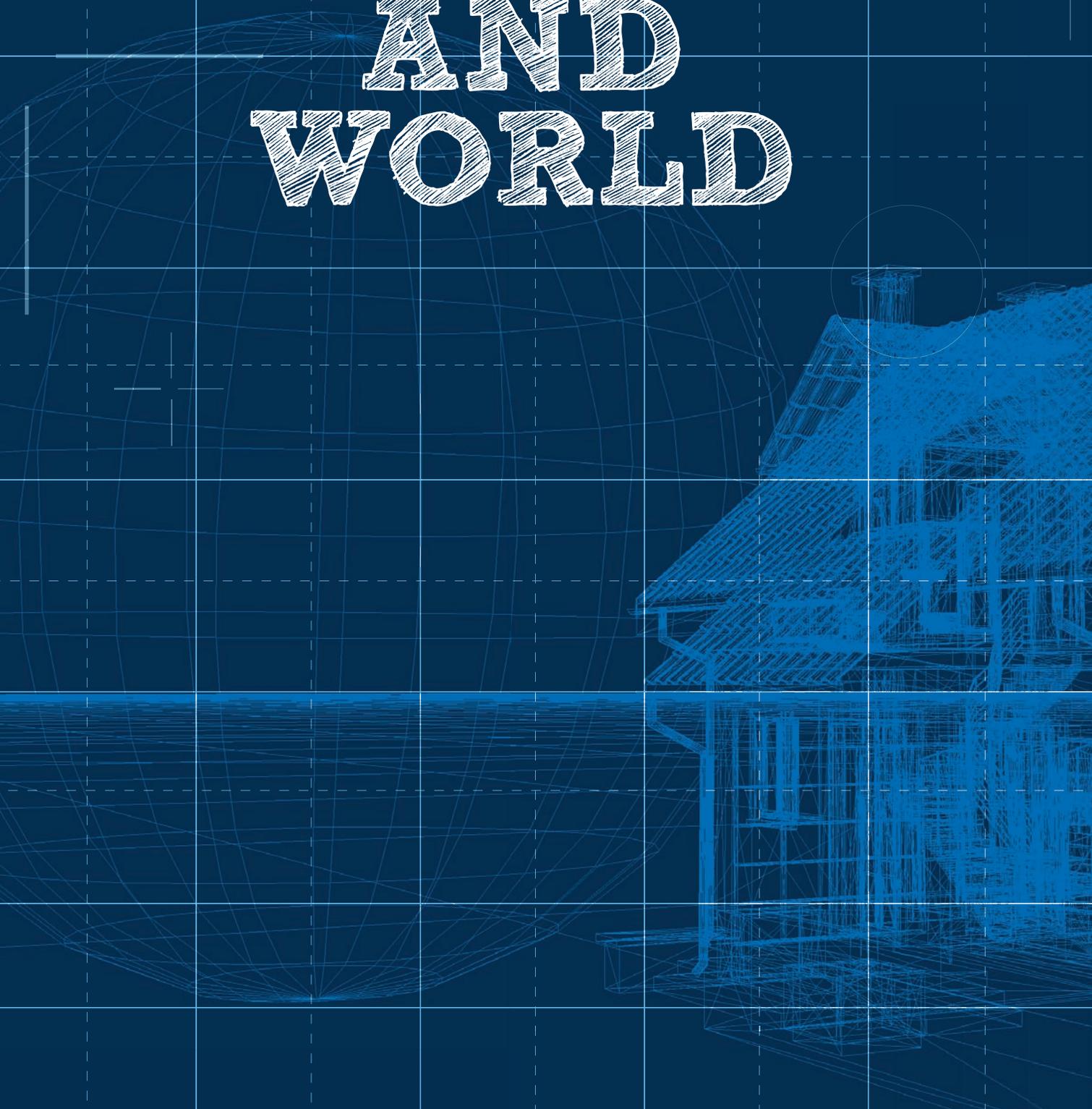


YOUR COMMUNITY AND WORLD



Doing Well by Doing Good

There are many ways to give back to the community and the world.

- You can volunteer your time after work or during the weekend to the local hospital or animal shelter, or to a political campaign or cause.
- You can join the board or a committee of an organization, adding your insights and expertise to its management.
- You can work full-time at a nonprofit or political entity, starting right out of school or mid- or late-career. For many people, financial independence does not signify retirement but the time when they can leave a higher-paying job to work for a cause, often at a much lower annual salary.
- You can give money or securities to organizations and causes. Most of them need it badly. Charitable giving has an additional benefit: It's one of the few ways that you can avoid, not just defer, income tax.

Indeed, few strategies for avoiding income tax are as widely available, highly valuable, and easy to use as charitable donations. Anyone who gives to a qualified charity or educational institution can deduct the value of the contribution from his or her taxable income, and thus reduce his or her tax bill. Charitable giving can be an important element in the tax-management part of your financial plan. There are few limits on charitable gifts to nonprofits.

Think It Through

However and whenever you choose to give back, it's important to analyze the trade-offs and the likely impact on your financial plan, using our target financial capital/potential surplus framework. Philanthropy is noble, but it can have financial consequences that you should understand and plan for.

Here we review and quantify the advantages and disadvantages of tax-efficient charitable giving strategies, from the simple to the highly complex.

Making the Most of Direct Gifts

The simplest way to give to charity is to make a direct gift of cash. Writing a check or using your credit card is easy, scalable, and flexible: You can give more or less from one year to the next, or stop giving altogether, if your situation changes financially or if a new cause or organization grabs your heart. You will receive a personal income tax deduction for however much you give.

Often, even financially sophisticated people miss a simple way to boost the tax benefit of charitable donations: giving appreciated securities, rather than cash.

For someone in the top (39.6%) federal tax bracket, deducting the value of a \$10,000 cash gift to a public charity reduces the federal income tax owed by \$3,960 and thereby cuts the effective cost of the gift (the value of the gift minus the tax benefit) to \$6,040. In states with income tax, the effective cost may be even lower.

By contrast, gifts of appreciated publicly traded stock or other assets can also reduce or eliminate tax on capital gains, as well as reduce tax on ordinary income (*Community Display 1*).

Someone in the top bracket who donates \$10,000 in publicly traded stock he bought for \$5,000 can avoid

paying the 23.8% tax on the \$5,000 gain, cutting the donation's effective cost to \$4,850.

Someone in the top bracket who donates \$10,000 in stock that he got for nothing—perhaps when he founded his firm—can avoid paying the 23.8% tax on the stock's \$10,000 gain, and cut the effective cost to \$3,660.

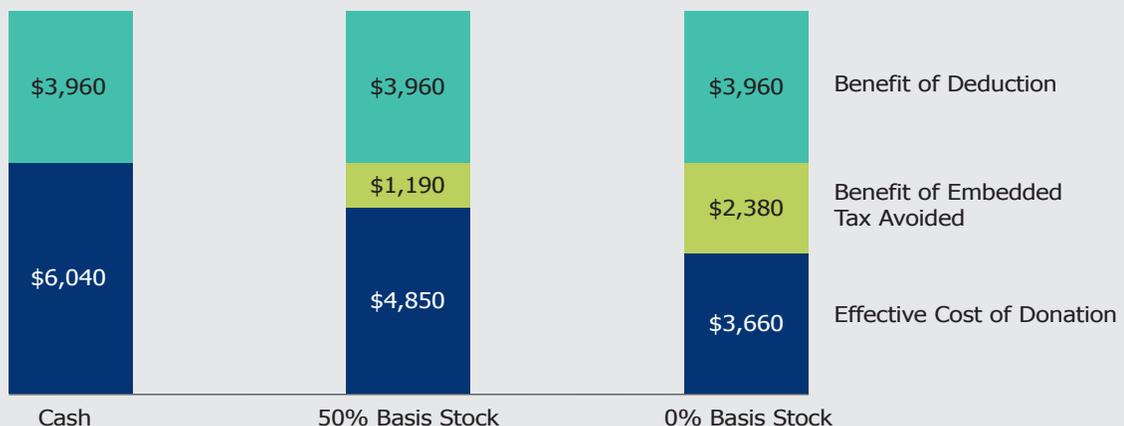
To receive a deduction for the fair market value of a capital asset, it must be held for more than one year. The tax code permits charitable deductions of up to 50% of adjusted gross income (AGI) in the year of the cash gift, and up to 30% in the year of the gift of appreciated stock. However, the deduction can be carried forward for five years. Deferring a deduction is valuable if a taxpayer wants to give more than he or she can deduct in one year—perhaps to help a charity get a matching grant.

The rules around charitable giving are complex. The limitations on the income tax deduction vary with the donor's income level, the type of property being donated, and the nature of the recipient charity (for example, a public charity versus a private foundation). Documentation requirements for charitable donations include appraisals, in some cases. Consulting your tax advisor about your specific situation is critical.

COMMUNITY DISPLAY 1

Not All Charitable Gifts Offer the Same Tax Savings

\$10,000 Gift (Donor in Top Income Tax Bracket)



Deduction limited to 50% of AGI in year of cash gift or 30% of AGI in year of gift of appreciated public stock. "Benefit of Deduction" assumes full use of deduction against income otherwise taxed at 39.6% tax rate. For simplicity, we have ignored the Pease limitation of itemized deductions for donors with high AGIs, although this limitation is very unlikely to affect the charitable deduction in states with an income tax. "Benefit of Embedded Tax Avoided" assumes that the gain would otherwise be taxed at 23.8% (20% long-term capital-gains tax and 3.8% Medicare surtax). Assumes gift is made to a public charity.

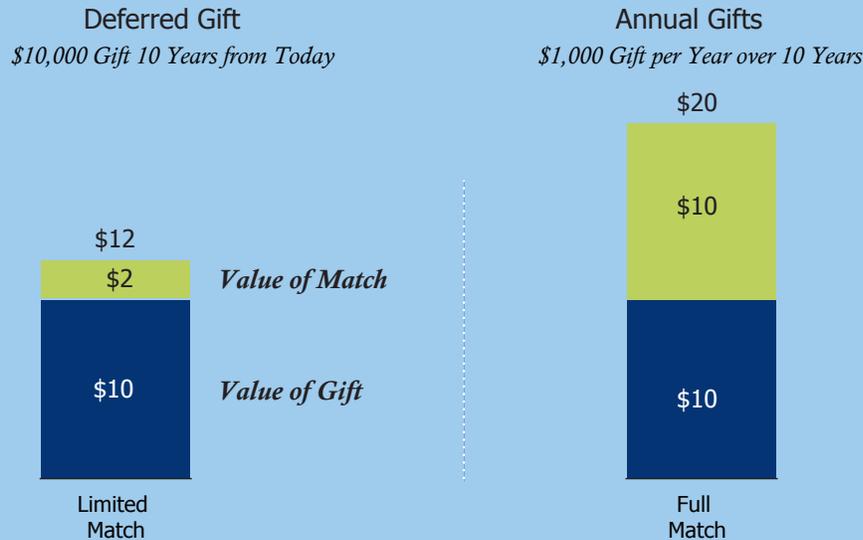
Source: IRS Publication 526 and Bernstein

When to Give

COMMUNITY DISPLAY 2

Employer Matching: Make Gifts Go Even Further

In US\$ Thousands



Assumes employer match is limited to \$2,000 per year, per employee.
Source: Bernstein

Early in their careers, many people feel that their capacity to give isn't big enough to make a difference, and that it would be better to wait a few years, until their incomes are higher or their expenses lower. Waiting to make a larger contribution down the road may seem like the wise choice for both yourself and charity.

Few charities will agree. They will welcome whatever you can give (most donations are small), and they may fear that a gift deferred may never arrive.

The financial benefit to the charity of not delaying is easily quantified. A 30-year-old accountant who thinks that he can afford to give \$1,000 per year to charity might believe that giving \$10,000 in a lump sum in 10 years

would benefit the charity more. But if his firm matches employees' charitable contributions up to \$2,000 per year per employee (some firms match significantly more or less), annual gifts of \$1,000 each year would double the charity's take to \$20,000 (*Community Display 2*).

By contrast, if the accountant waited 10 years and then gave \$10,000, the charity would get \$8,000 less from the company match—and that's before factoring in inflation and the time value of money. By making annual gifts each year, the charity can either immediately deploy those funds before inflation erodes them or reinvest them for use. If they reinvest the \$20,000 they received, they could earn an additional \$10,000 over 10 years.

Alternatives to Direct Gifts

If you have more money or time to devote to philanthropy, you may feel that direct gifts to your favorite charities are no longer enough. You may want to set longer-term priorities for giving, involve other members of the family in decisions, or establish a philanthropic program that outlives you. There are many other charitable vehicles and giving strategies that a donor can use, including private foundations, donor-advised funds, charitable remainder trusts, and charitable lead annuity trusts.

Private foundations and donor-advised funds for public charities are charitable vehicles that allow you to make a large charitable gift in one year that will be distributed gradually over time. But which of the two is the right vehicle to use? The answer depends on the individual. There are many similarities between the two but some key distinctions.

In general, donors who are focused on reducing costs and administrative tasks and retaining the right to make anonymous gifts will probably be more comfortable with a donor-advised fund. Donors most concerned

with perpetuity may well favor a private foundation. And some donors may choose to establish both and use each for specific purposes.

Charitable remainder trusts (CRTs) and charitable lead annuity trusts (CLATs) are split-interest giving structures: They benefit both a charity and a non-charitable entity or person (such as you, the donor/grantor, or your children). CRTs typically provide an income stream to the donor, and transfer any assets remaining at expiration to charity. These vehicles are often established for the life of the donor; IRS and charity rules put limits on these vehicles for younger donors, due to their long life expectancies.¹

CLATs pay an annuity stream to charity for a set term (say, 10 years), and transfer any assets remaining at the end of the term to non-charitable beneficiaries (such as your children) free of transfer tax.

Community Displays 3 and 4 show the differences and similarities between these alternatives. The best, or most appropriate, strategy for you depends on your situation and your goals.

¹With another split-interest structure, the charitable gift annuity, or CGA, the average age of CGA beneficiaries receiving an immediate payment is 79, and 81.6% of them are at least 75 years old, according to the American Council on Gift Annuities 2013 survey.

Vehicles for Irrevocable Charitable Gifts

	Private Foundations (Nonoperating)	Donor-Advised Funds (Public Charity)
Overview	Good fit for donors who desire maximum control over gifts and assets and may wish to involve family deeply; donors must deal with administrative complexity and legal/regulatory scrutiny	Many different types; very little administrative burden on donor; generally cost-effective for small gifts
When Charity Receives Gift	Beginning now, over time	Beginning now, over time
Income-Tax-Free Environment	Yes*	Yes
Income Tax Deduction Limits (Contributions)	Generally based on fair market value of gift; can be carried forward five years	Generally based on fair market value of gift; can be carried forward five years
Cash	30% of AGI	50% of AGI
Marketable Securities	20% of AGI	30% of AGI
Private Securities	Cost basis, at 20% of AGI	Fair market value, at 30% of AGI
Other Key Characteristics		
Operating Costs	High, but decline (on a percentage basis) as assets rise; include legal fees, start-up costs; ongoing costs vary but can be significant	Low, but sponsor may charge investment and administration fees ranging from 0.6% to 3% generally
Excise Tax	1% or 2% of net investment income	None
Control	Absolute	Contingent on sponsor
Annual Grants	Required 5% distribution	Generally no minimum or maximum
Anonymity	No	Achievable if desired
Perpetuity	Yes	Contingent on sponsor
Compensation of Board Members	Yes	n/a
Administrative/Compliance Burden	Can be significant; subject to strict rules	Very little

*There is an excise tax of 1%–2% on net investment income.

Source: IRS and Bernstein

Vehicles for Split-Interest Charitable Gifts

	Charitable Remainder Trust (CRT)	Charitable Lead Annuity Trust (CLAT)
Overview	Distributes income to donor; remainder transfers to designated charity; potential to diversify low-basis concentrated assets and defer taxes	Benefits charity; potential transfer to younger generation of any appreciation in trust assets over the 7520 rate,* with low/no transfer-tax cost
When Charity Receives Gift	At expiration of CRT	Beginning now, over a fixed period of years
Income-Tax-Free Environment	CRT is income-tax-exempt, but distributions may result in taxable income to recipient	Non-grantor CLAT: CLAT not exempt from income taxes, but entitled to annual charitable deduction equal to the lesser of the annuity distribution to charity or the trust's income Grantor CLAT: CLAT is a grantor trust; the grantor pays any income tax generated by the assets in the trust
Personal Income Tax Deduction	Limited to present value of remainder interest when CRT is established; can be carried forward five years Deduction limitations are dependent upon remainder beneficiary	Non-grantor CLAT: no charitable deduction for donor; CLAT itself generally receives a tax deduction Grantor CLAT: The grantor receives a deduction based on the contribution to the CLAT in the year of contribution; can be carried forward five years
Distributes Income to Donor	Yes (see below)	No
Other Key Characteristics		
Multiple Structure Types	The charitable remainder annuity trust distributes a fixed dollar amount each year. A charitable remainder unitrust may use one of these annual payout options: <ul style="list-style-type: none"> ■ Pay stated percent of trust value each year ■ Pay lesser of net income and stated percent of trust value each year ■ Pays the same as above, but if income exceeds stated percent of trust value in one year, distributes the excess to make up for years when income was less than stated percent of trust value The trust instrument may provide for a switch among payment methods in certain circumstances.	Non-grantor CLAT (see above) Grantor CLAT (see above)
Illiquid/Exotic Assets	Potentially; real estate, artwork, and alternatives may affect income tax deduction.	Potentially; real estate, artwork, and alternatives may affect income tax deduction.

*The Section 7520 rate is determined monthly based on Treasury-bond yields; the rate in effect at the creation of the trust is used to calculate the present value of the annuity (and acts as the hurdle rate for certain trusts like GRATs and CLATs).

Source: Bernstein

F A Q S

FREQUENTLY ASKED QUESTIONS

How can I give to charity, without jeopardizing my ability to meet my future spending needs?

Your first step before making any charitable gifts should be to determine your capacity to give. Check whether you are on track to achieve your target financial capital. Making smaller gifts each year can give you the flexibility to stop giving or increase your giving in the future. If you want to give more today but retain an income stream, a charitable remainder trust (CRT) could be an option; CRT income may be structured as a fixed annuity or a percentage of remaining value each year.

Which charitable strategy would best minimize the income tax bite from a large bonus?

Most charitable-giving strategies result in an immediate income tax deduction. In general, the deduction allowed depends on the size of the gift relative to your adjusted gross income (AGI) and the type of asset given (such as cash, stock, or real estate). If you give appreciated, marketable stock to a public charity, you can deduct no more than 30% of your AGI in a given year. If you are giving the same asset to a private foundation, the deduction is limited to 20% of AGI per year. As a result, if you have \$1 million of AGI and want to donate \$275,000 in appreciated stock, you could deduct the full amount in the first year if you give it to a public charity, but you could deduct only \$200,000 in the first year if you give it to a private foundation. (Charitable deductions can be carried forward for five years, so you could deduct the balance later.)

Charitable deductions may also be subject to the Pease limitation, which reduces itemized deductions by 3% of AGI above \$309,900 (in 2015, inflation-adjusted) for joint filers, or 80% of total deductions, whichever is less. However, many wealthy individuals have other itemized deductions that reduce or eliminate the impact of the Pease limitation on the value of their charitable deductions.

I may increase my charitable donations this year, but giving to my kids is important, too. What do you recommend?

Gifts to a grantor charitable lead annuity trust (CLAT) are fully deductible, which can help you reduce income taxes in a high-income year. For instance, if you fund a \$1 million grantor CLAT this year, you would receive a \$1 million charitable deduction that you could use this year and over the next five years. As the grantor, you would be responsible for the income taxes on behalf of the grantor CLAT. A CLAT established in a low-interest-rate environment is highly likely to meet its charitable annuity requirements and leave meaningful assets for children at the end. However, there's no guarantee that there will be wealth left to transfer to your children at the end of the trust term. Therefore, donors using this strategy should have strong charitable intent.

How can I keep a large charitable gift out of the public eye?

Contributions made via cash, donor-advised funds, CLATs, and CRTs can be anonymous. Donations to private foundations are a matter of public record.

Case Study

The Entrepreneurs' Charitable Gifts

Eric and Eleanor, discussed in *The Entrepreneurs*, wanted to use the \$2.7 million in potential surplus capital from the sale of their business to donate to charity and transfer wealth to their children. Here, we discuss their plans for giving \$1 million to charity.

Eric and Eleanor want a longer-term giving vehicle that would provide an up-front charitable deduction that they could use to offset the taxable gain from the sale of their business. Two potential vehicles seemed suitable: a donor-advised fund and a grantor charitable lead annuity trust (CLAT).

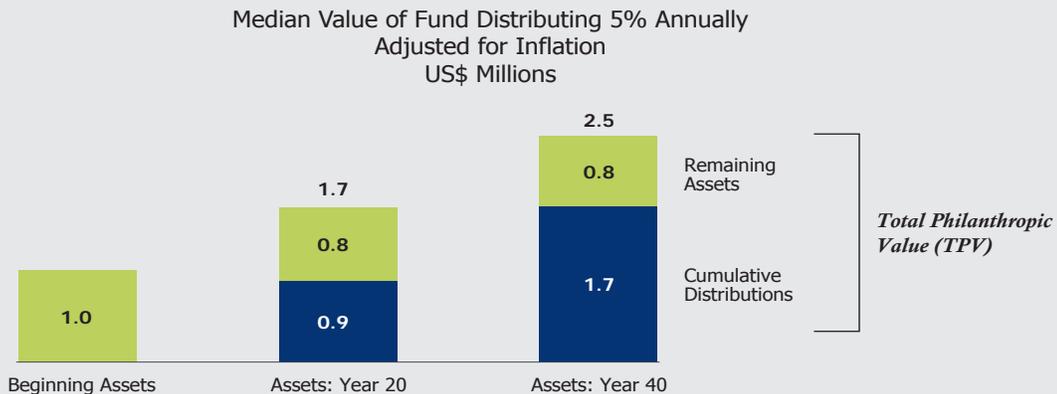
With the donor-advised fund, the couple thought that they would distribute 5% of the fund's value each year to various charities.

With a growth-oriented investment allocation, we estimated that the fund could distribute \$900,000 over 20 years and still have nearly \$800,000 left in inflation-adjusted dollars, in the median case.

We call the combined amount "total philanthropic value," or TPV. Over 20 years, we estimate, Eric and Eleanor's \$1 million gift would have a TPV of \$1.7 million. Over 40 years, it would have a TPV of \$2.5 million (*Community Display 5*).

COMMUNITY DISPLAY 5

How Much Is a \$1 Million Gift to a Donor-Advised Fund Worth?



TPV is the sum of real cumulative distributions and the real portfolio remainder value in a given year. Allocation is 80% stocks/20% bonds. Stocks are modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small- and mid-cap, 22.5% developed international, and 7.5% emerging market. Bonds are modeled as intermediate-term taxable bonds.

Based on Bernstein's estimates of the range of returns for the applicable capital markets as of December 31, 2014. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix.

Source: Bernstein

Case Study

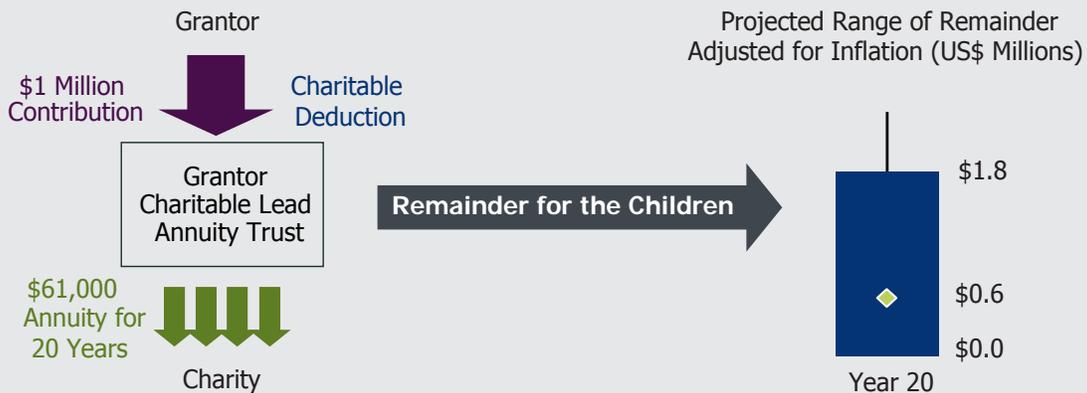
The Entrepreneurs' Charitable Gifts

The CLAT, by contrast, would give some money to charity and possibly leave some wealth for Eric and Eleanor's children. If they funded a 20-year grantor CLAT with \$1 million and invested it in the same growth-oriented allocation, it could distribute \$61,000 per year, based on a 2.0% 7520 rate. In typical markets, we estimate that after 20 years there would still be \$600,000 in inflation-adjusted assets, represented by the diamond in the box on the right, remaining that the trust could transfer to their children, or trusts

for their benefit, free of transfer tax (*Community Display 6*). If markets were very hostile, it's possible that the CLAT may not pass any wealth to the kids, as shown by the bottom of the box. Because it is an irrevocable gift of the full \$1 million, the donor-advised fund would provide far more to charity. Eric and Eleanor decided to go with the donor-advised fund. They reasoned that they were committing \$1 million to a separate trust for their children, and they might have more to give them later on.

COMMUNITY DISPLAY 6

CLAT Gives Annually to Charity, Transfers Remainder to Children



Annuity based on a 7520 rate of 2.0%. CLAT allocation is 80% stocks/20% bonds. Stocks are modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small- and mid-cap, 22.5% developed international, and 7.5% emerging market. Bonds are modeled as intermediate-term taxable bonds. Charitable lead trusts as defined under Sections 170, 170A, 2055, and 2522 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), and Treasury regulations thereunder.

Based on Bernstein's estimates of the range of returns for the applicable capital markets as of December 31, 2014. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix.

Source: IRS and Bernstein

Social Investing

For many investors, ensuring that their investments reflect their personal values and ethical principles is important. They care about returns and want to support companies whose products or business practices they approve of (such as green energy) and avoid those businesses they don't like (such as tobacco, or guns).

But discussions of such strategies can be confusing because several different terms are used, often interchangeably; in fact, they may be converging. The most common are socially responsible investing (SRI); environmental, social, and governance (ESG) principles; and impact investing.

SRI strategies usually employ screens to identify companies to include or exclude, based on the manager's or the investor's ideas about their social impacts.

ESG strategies are similar but tend to focus on certain areas of concern:

- **Environmental factors**, including climate change, hazardous-waste disposal, nuclear energy, and natural-resource depletion;
- **Social factors**, including human and labor rights, consumer protection, and diversity; and
- **Corporate-governance factors**, including management structure, executive compensation, and shareholder rights.

Some, but not all, ESG-oriented institutional investors are signatories to the United Nations–supported Principles for Responsible Investment (PRI).

Impact investing goes further: It seeks to invest (usually privately) in organizations having a positive impact in a particular area, such as reviving a blighted neighborhood.

Investors often feel empowered by impact investing, but they should recognize the risks. These investments can be as risky as venture capital and are likely to drive up your target financial capital requirements; such investments may be best made with potential surplus capital.

Impact on Portfolios

There are many ways to address SRI or ESG concerns. Some investment managers buy or create ESG screening tools to help them avoid investing in companies with undesirable practices. We think that such tools may be useful but are rarely enough. That's why Bernstein integrates research into potential ESG issues for a company into everything we do: from meetings with company managements, suppliers, and industry experts to monitoring news reports (*Community Display 7*).

But assessing ESG issues can raise as many questions as it answers. For example, if you try to avoid investing in companies with high CO₂ emissions or abusive labor practices, do you have to check all the vendors of each company you consider?

Investors should also recognize that both positive and negative screens limit portfolio managers' flexibility and may affect portfolio returns. Investors with otherwise identical portfolios are likely to have different results, if one of them imposes restrictions on companies in certain industries.



In any given period, the restrictions could help or hurt, but over time, narrowing the universe of potential investments is likely to detract from returns relative to more diversified standard benchmarks.

Some ESG advocates argue that companies with an ESG focus can outperform the broad market over time. But this is still a relatively new field; while the number of managers that invest with a social lens is growing,

few ESG managers have a statistically meaningful track record. Therefore, we think it is still too early to assess the relative performance of the ESG segment.

In sum, investors whose priority is a portfolio that reflects their personal values now have a range of choices to meet their social as well as financial goals. For such investors, the goal is to work with managers whose philosophy about social issues as well as risk and return best matches their own.

APPENDIX

Glossary of Key Terms

We recognize that the specialized language of the investment world can be daunting, if not downright off-putting; where possible, we have substituted plain-language terms. Inevitably, however, we have been forced at times to use financial jargon because certain terms are more precise. We have done our best to define industry terms as well as Bernstein terminology, at least the first time we use those terms. In addition, we have indicated which terms were created by Bernstein to describe metrics that we see as important to long-term planning.

Here are definitions of some key words and phrases that appear frequently in this book.

Active management: Making decisions about which securities to buy in order to increase return or manage risk, as opposed to passive management, which replicates an index.

Annual exclusion: An amount that you may give every calendar year to as many individuals (or certain trusts for their benefit) as you wish without incurring federal gift tax or using your lifetime inflation-adjusted exclusion. The annual exclusion, which is \$14,000 in 2015, is indexed for inflation.

Applicable exclusion amount: The cumulative amount that you may give during your lifetime in one or more taxable transfers (for which no other deduction or exclusion is available—e.g., the annual exclusion) without paying a gift tax. To the extent that it is not used during your lifetime, the applicable exclusion amount is available against the estate tax at death. It is \$5.43 million in 2015 and indexed for inflation.

Asset classes: Broad categories of investments, such as stocks, bonds, cash equivalents, real estate, commodities, and alternatives.

Core capital: Bernstein term for the amount of capital needed to support a desired level of spending in retirement, even if capital-market returns are poor, inflation is high, and you live a long time.

Correlation: A statistical measure of the degree to which the prices of two assets move together.

Diversifying assets: As used by Bernstein, investments expected to diversify both return-seeking and risk-mitigating assets. This group includes securities related to “real” or nonfinancial assets, such as real assets and commodities, as well as hedge funds.

Educational/medical (ed/med) exclusion: An unlimited exclusion from federal gift tax for educational and medical expenses that are paid directly to the provider on behalf of someone else.

Estate tax: A transfer tax that is imposed on the property owned, or deemed to be owned, by a deceased person. The federal estate tax, after various deductions, exclusions, and credits, including the applicable exclusion amount, is imposed at a top rate of 40%. Some states also impose an estate tax.

Financial capital: Money or financial investments.

Generation-skipping transfer (GST) tax: A transfer tax that is imposed, in addition to the gift or estate tax, upon certain transfers during lifetime or at death that pass to or for the benefit of grandchildren or more remote descendants (or to unrelated persons who are more than 37.5 years younger than the donor). The GST tax has several exclusions and exemptions, including the GST tax exemption, which can shelter up to \$5.43 million (in 2015) from the GST tax. Like the applicable exclusion amount, which it resembles in concept, the GST tax exemption is indexed for inflation.

Glossary of Key Terms

Gift tax: A transfer tax that is imposed on certain gifts (i.e., gratuitous transfers) that you make during your lifetime. The federal gift tax is currently imposed at a top rate of 40%.

Human capital: Ability to work to generate financial capital that you can invest.

Inheritance tax: A transfer tax imposed by some states on the recipient of a deceased person's property.

Marital deduction: An unlimited deduction from estate and gift tax for transfers to a spouse (or certain kinds of trusts for his or her benefit), provided that the recipient spouse is a US citizen.

Options: Instruments that give you the right, but not the obligation, to buy a stock, bond, or index, at a specified price at some point in the future. Options are in-the-money when exercising them would be profitable; they are out-of-the-money when it would not be profitable to exercise them.

Passive management: Replicating an investment index or a benchmark, or buying an instrument that replicates an investment index or a benchmark, as opposed to active management.

Potential surplus capital: Bernstein term for financial capital in excess of target financial capital that may be available to fund other spending, charitable gifts, or wealth transfers.

Required minimum distribution (RMD): The minimum amount that must be distributed annually from certain qualified retirement accounts. For accounts owned by the participant, RMDs typically begin at age 70.5, or at the participant's retirement for some 401(k) plans. For inherited accounts, RMDs typically commence at the time of inheritance. The amount of the RMD is often (but not always) based on actuarial and age-related factors relevant to the recipient.

Return-seeking assets: As used by Bernstein, investments that tend to generate more growth over time, usually with significant short-term volatility. The two principal types of return-seeking investments are stocks and high-yield bonds.

Risk-mitigating assets: As used by Bernstein, investments that tend to provide stability and income and that counterbalance the higher volatility of return-seeking investments. The two principal types of risk-mitigating investments are high-quality bonds and cash.

Surplus capital: Bernstein term for financial capital in excess of required core capital that may be available to fund other spending, charitable gifts, or wealth transfers.

Target financial capital: Bernstein term for the money you invest to grow over decades to cover your anticipated spending needs in retirement; essentially, an estimate of required core capital in advance of retirement, when your financial and life circumstances are still fluid.

Total philanthropic value (TPV): A Bernstein term for the total value of the distributions over time and the remaining principal of a private foundation or donor-advised fund.

Volatility: The extent to which the price of a financial asset or market fluctuates, measured by the standard deviation of its returns. Volatility is a commonly cited risk measure.

Notes on Wealth Forecasting System

1. Purpose and Description of Wealth Forecasting System

Bernstein's Wealth Forecasting SystemSM is designed to assist investors in making their long-term investment decisions as to their allocation of investments among categories of financial assets. Our 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 that 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 affect his/her long-term security; (3) The Capital Markets Engine: our proprietary model that uses our research and historical data to create a vast range of hypothetical market returns, which takes into account the linkages within and among the capital markets, as well as their unpredictability; and (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of probable returns and asset values that the client could 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 guarantee results or establish the boundaries for all outcomes. Estimated 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. Of course, no investment strategy or allocation can eliminate risk or guarantee returns.

2. Retirement Vehicles

Each retirement plan is modeled as one of the following vehicles: traditional IRA, 401(k), 403(b), Keogh, or Roth IRA/401(k). One of the significant differences among these vehicle types is the date at which mandatory distributions commence. For traditional IRA vehicles, mandatory distributions are assumed to commence during the year in which the investor reaches the age of 70.5; for 401(k), 403(b), and Keogh vehicles, mandatory distributions are assumed to commence at the later of: (1) the year in which the investor reaches the age of 70.5; or (2) the year in which the investor retires. In the case of a married couple, these dates are based on the date of birth of the older spouse. The minimum mandatory withdrawal is estimated using the Minimum Distribution Incidental Benefit tables, as published on www.irs.gov. For Roth IRA/401(k) vehicles, there are no mandatory distributions. Distributions from a Roth IRA/401(k) that exceed principal will be taxed and/or penalized if the distributed assets are less than five years old and the contributor is less than 59.5 years old. All Roth 401(k) plans will be rolled into a Roth IRA plan when the investor turns 59.5 years old, to avoid minimum distribution requirements.

3. 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 is expected to be maintained reasonably close to the target allocation. 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 diverge 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.

4. 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, which will have capital-gains tax implications.

5. 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
Cash Equivalents	3-month Treasury bills	100%
Intermediate-Term Diversified Municipals	AA-rated diversified municipal bonds of 7-year maturity	30
Intermediate-Term In-State Municipals	AA-rated in-state municipal bonds of 7-year maturity	30
Intermediate-Term Taxables	Taxable bonds of 7-year maturity	30
US Diversified Stocks	S&P 500 Index	15
US Value Stocks	S&P/Barra Value Index	15
US Growth Stocks	S&P/Barra Growth Index	15
US Small-/Mid-Cap Stocks	Russell 2500 Index	15
Developed International Stocks	MSCI EAFE Unhedged Index	15
Emerging-Market Stocks	MSCI Emerging Markets Index	20
Real Assets	1/3 FTSE NAREIT Index, 1/3 MSCI ACWI Commodity Producers Index, 1/3 DJ-UBS Commodity Index	30
Diversified Hedge-Fund Portfolio	Diversified hedge-fund asset class	33

6. 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-Market 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 28.8%. 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.

7. 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 December 31, 2014. Therefore, the first 12-month period of simulated returns represents the period from December 31, 2014, through December 31, 2015, and not necessarily the calendar year of 2015. A description of these technical assumptions is available on request.

8. 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.

9. Tax Rates

Bernstein's Wealth Forecasting System has used various assumptions for the income tax rates of investors in the case studies. See the assumptions in each case study (including footnotes) for details. The federal income tax rate is Bernstein's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. For 2014 and beyond, the maximum federal tax rate on investment income is 43.4% and the maximum federal long-term capital-gains tax rate is 23.8%. 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 represents Bernstein's estimate of the top marginal rate, if applicable.

10. Target Financial Capital Analysis

The term "target financial capital" means the money you invest to grow over decades during the accumulation phase so that in retirement you will have the amount of money necessary to cover anticipated lifetime net spending. All financial assets in excess of this target financial capital are "potential surplus capital." Bernstein estimates target financial capital by putting information supplied by the client, including current and expected future income and spending, into our Wealth Forecasting System, which simulates a vast range of potential market returns over the client's anticipated life span. From these simulations we develop an estimate of the target financial capital the client will require today to grow over time to required core capital. Variations in actual income, applicable tax rates, and market returns may substantially impact the likelihood that a target financial capital estimate will be sufficient to grow to the desired level of core capital. Accordingly, the estimate should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that the results will be realized.

11. Core Capital Analysis

The term "core capital" means the amount of money necessary to cover anticipated lifetime net spending. All non-core-capital assets are termed "surplus capital." Bernstein estimates core capital by inputting information supplied by the client, including expected future income and spending, into our Wealth Forecasting System, which simulates a vast range of potential market returns over the client's anticipated life span. From these simulations we develop an estimate of the core capital the client will require to maintain his/her spending level over time. Variations in actual income, spending, applicable tax rates, life span, and market returns may substantially impact the likelihood that a core capital estimate will be sufficient to provide for future expenses. Accordingly, the estimate should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that the results will be realized.

12. Mortality

In our mortality-adjusted analyses, the life span of an individual varies in each of our 10,000 trials in accordance with mortality tables. To reflect that high-net-worth individuals live longer than average, we subtract three years from each individual's age (e.g., a 65-year-old would be modeled as a 62-year-old). Mortality simulations are based on the Society of Actuaries Retirement Plan Experience Committee Mortality Tables RP-2000.

13. Taxable Trust

The taxable 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 beneficiary 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 part or all of realized capital gains); (2) FAI plus some amount of principal, expressed as a percentage of trust assets or as an 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 averaged over several 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.

14. Endowment

The endowment is modeled as a nontaxable permanent fund bestowed upon an institution to be used to support a specific purpose in perpetuity. The endowment may receive an initial donation and periodic funding from either the personal portfolio modeled in the system or an external source. Annual distributions from the endowment may be structured in a number of different ways, including: (1) an annuity or fixed dollar amount, which may be increased annually by inflation or by a fixed percentage; (2) a unitrust, or annual payout of a percentage of endowment assets, based on a single year or averaged over several years; (3) a linear distribution of endowment assets, determined each year by dividing the endowment assets by the remaining number of years; or (4) the greater of the previous year's distribution or any of the above methods. These distribution policies can be varied in any given year.

15. Intentionally Defective Grantor Trust

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 tax 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 averaged over several 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.

16. Grantor Retained Annuity Trust

The grantor retained annuity trust (GRAT) is a wealth transfer vehicle that receives its initial funding from the grantor and transfers annuity payments to the grantor's personal portfolio each year. The annuity amounts, which are determined in advance, may be fixed (the same amount each year) or increasing (growing each year by no more than 20% of the previous year's amount). The annuity payment is made first from available cash, and then from other portfolio assets in kind. Because the GRAT is modeled as a grantor trust, the system calculates all taxes on income and realized capital gains that occur in the GRAT portfolio each year, based on the grantor's tax rates and other income, and pays them from the grantor's personal portfolio. When the GRAT term ends, the remainder, if any, may be transferred in cash or in kind (as the user specifies) to: (1) a non-modeled recipient; (2) a continuing grantor trust; or (3) a taxable trust. If the remainder is transferred in kind, the assets will have carryover basis.

17. Rolling Grantor Retained Annuity Trust

The rolling grantor retained annuity trust (GRAT) is a wealth transfer strategy that consists of a series of GRATs. Each GRAT is a wealth transfer vehicle that receives its initial funding from the grantor and transfers annuity payments to the grantor's personal portfolio. Each year, the annuity payments from all existing GRATs are used to establish a new GRAT. The annuity amounts, which are determined in advance, may be fixed (the same amount each year) or increasing (growing each year by no more than 20% of the previous year's amount). Because the GRAT is modeled as a grantor trust, the system calculates all taxes on income and realized capital gains that occur in all GRAT portfolios each year, based on the grantor's tax rates and other income, and pays them either from the grantor's personal portfolio or, if specified, from annuity payments before funding the next GRAT. The remainders of all individual GRATs may be transferred in cash or in kind to: (1) a non-modeled recipient; (2) a continuing grantor trust; (3) a taxable trust; or (4) a taxable portfolio for someone other than the grantor. In each year in which a new GRAT is to be created (aside from year 1), we use our Capital Markets Engine to generate an IRS Section 7520 rate that is consistent with the concurrent yield-curve environment. Using this rate as a discount rate, we are able to continually construct new "zeroed-out" GRATs in an ever-changing interest-rate environment.

18. Charitable Remainder Trust

The charitable remainder trust (CRT) is modeled as a tax-planning or an estate-planning vehicle, which makes an annual payout to the recipient(s) specified by the grantor, and at the end of its term (which may be the recipient's lifetime), transfers any remaining assets, as a tax-free gift, to a charitable organization. Depending on the payout's structure, the CRT can be modeled as either a charitable remainder unitrust (CRUT) or a charitable remainder annuity trust (CRAT). The CRUT's payout is equal to a fixed percentage of the portfolio's beginning-year value, whereas the CRAT's payout consists of a fixed dollar amount. In the inception year of the CRT, its grantor receives an income tax deduction typically equal to the present value of the charitable donation, subject to the applicable adjusted gross income (AGI) limits on charitable deductions and phaseout of itemized deductions, as well as the rules regarding reduction to basis of gifts to private foundations. Unused charitable deductions are carried forward up to five years. Although the CRT does not pay taxes on its income or capital gains, its payouts are included in the recipient's AGI using the following four accounting tiers: Tier 1—Ordinary Income (Taxable Interest/Dividends); Tier 2—Realized Long-Term Capital Gains; Tier 3—Other Income (Tax-Exempt Interest); and Tier 4—Principal. CRTs are required to pay out all current and previously retained Tier 1 income first, all current and previously retained Tier 2 income second, all current and previously retained Tier 3 income third, and Tier 4 income last.

19. Charitable Lead Trust

The charitable lead trust (CLT) is modeled as a portfolio that receives its initial funding from the grantor and transfers payments to one or more charitable recipients each year for a specified number of years or for the life or lives of certain individuals. The annual payments may be a fixed dollar amount (charitable lead annuity trust or CLAT) or a percentage of the trust's assets as valued every year (charitable lead unitrust or CLUT). In the case of a CLAT, annuities may be fixed (the same amount each year), or increasing. The annual payment is generally made first from available cash and then from other trust assets in kind. In a non-grantor CLT, the trust itself is subject to income taxation, and generally pays income tax with respect to retained income and receives a charitable income tax deduction with respect to certain income paid to the charitable recipient(s). Realized capital gains may be taxable to the trust or treated as a distribution to charitable recipient(s) (and therefore eligible for a charitable income tax deduction), depending upon the provisions of the trust instrument and other factors. In a grantor CLT, the trust is a "grantor" trust for income tax purposes such that the grantor is personally taxed on all items of trust income. The grantor is entitled to a charitable income tax deduction upon funding for the portion of the CLT then calculated to be payable to the charitable recipient(s) over its term (often the entire funding amount). This charitable income tax deduction is subject to recapture rules if the grantor dies during the term of the CLT. For both the non-grantor and grantor CLT, when the CLT term ends, the remainder, if any, may be transferred as directed by the trust agreement, including to a non-modeled recipient, a taxable trust, or a beneficiary's portfolio. The assets transferred from the CLT will have carryover cost basis.

20. Capital-Market Projections

	Median 30-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	30-Year Annual Equivalent Volatility
Cash Equivalents	3.1%	3.5%	3.5%	0.3%	10.1%
Intermediate-Term Taxables	4.3	4.7	5.9	4.5	8.5
Intermediate-Term Diversified Municipals	3.3	3.5	3.4	3.6	7.7
Intermediate-Term In-State Municipals	3.2	3.5	3.4	3.6	7.7
US Diversified Stocks	7.1	8.7	2.8	14.4	19.5
US Value Stocks	7.4	8.9	3.3	14.3	19.2
US Growth Stocks	6.8	8.8	2.3	15.6	20.7
US Small-/Mid-Cap Stocks	7.2	9.3	2.4	16.1	21.6
Developed International Stocks	7.8	9.9	3.3	15.7	20.5
Emerging-Market Stocks	5.9	9.8	3.9	20.6	25.8
Real Assets	6.5	7.7	3.9	11.7	17.1
Diversified Hedge-Fund Portfolio	5.9	6.5	3.3	9.5	15.9
Inflation	2.9	3.3	N/A	1.1	11.5

Based on 10,000 simulated trials, each consisting of 30-year periods. Reflects Bernstein's estimates and the capital-market conditions as of December 31, 2014. For hedge-fund asset classes, "Mean Annual Income" represents income and short-term capital gains.

Data do not represent past performance and are not a promise of actual future results or a range of future results.

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