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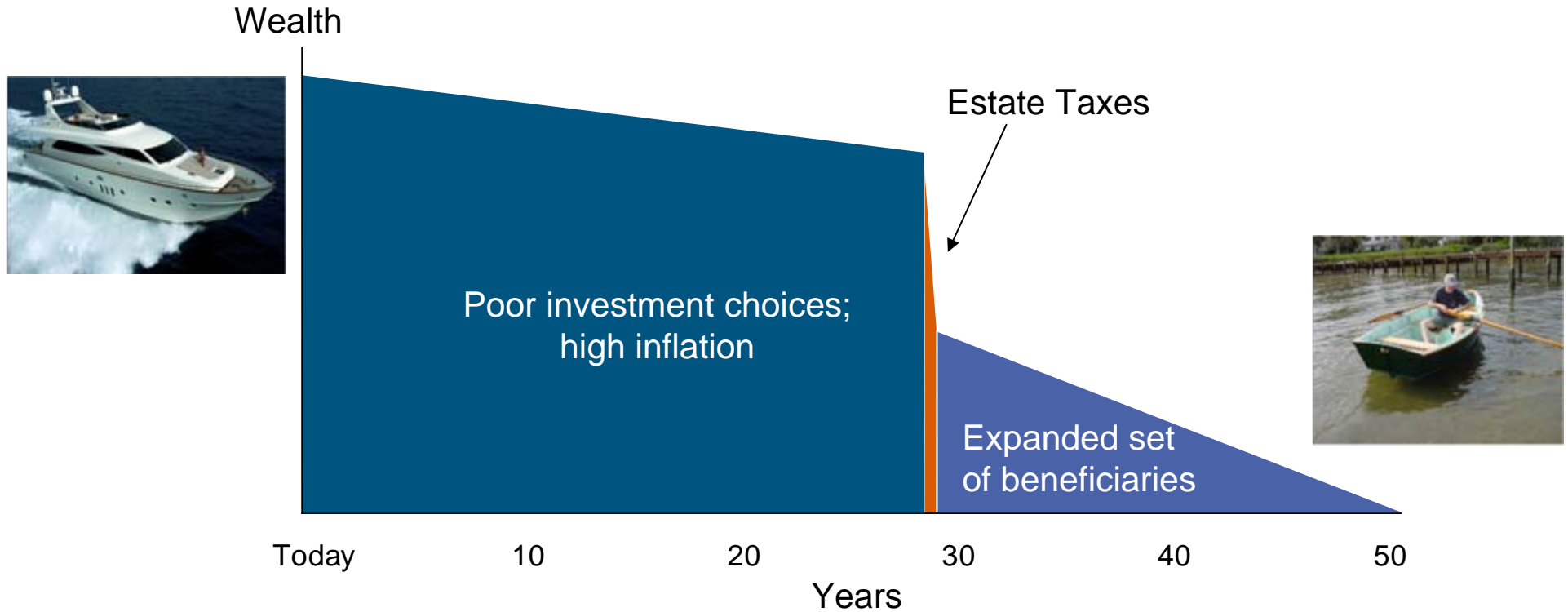
# Multigenerational Wealth Transfer: Getting a Legacy Up

San Antonio Estate Planning Council  
San Antonio, Texas  
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# Multigenerational Wealth Faces Stiff Headwinds

## Family Wealth (After Spending, Inflation, and Taxes)

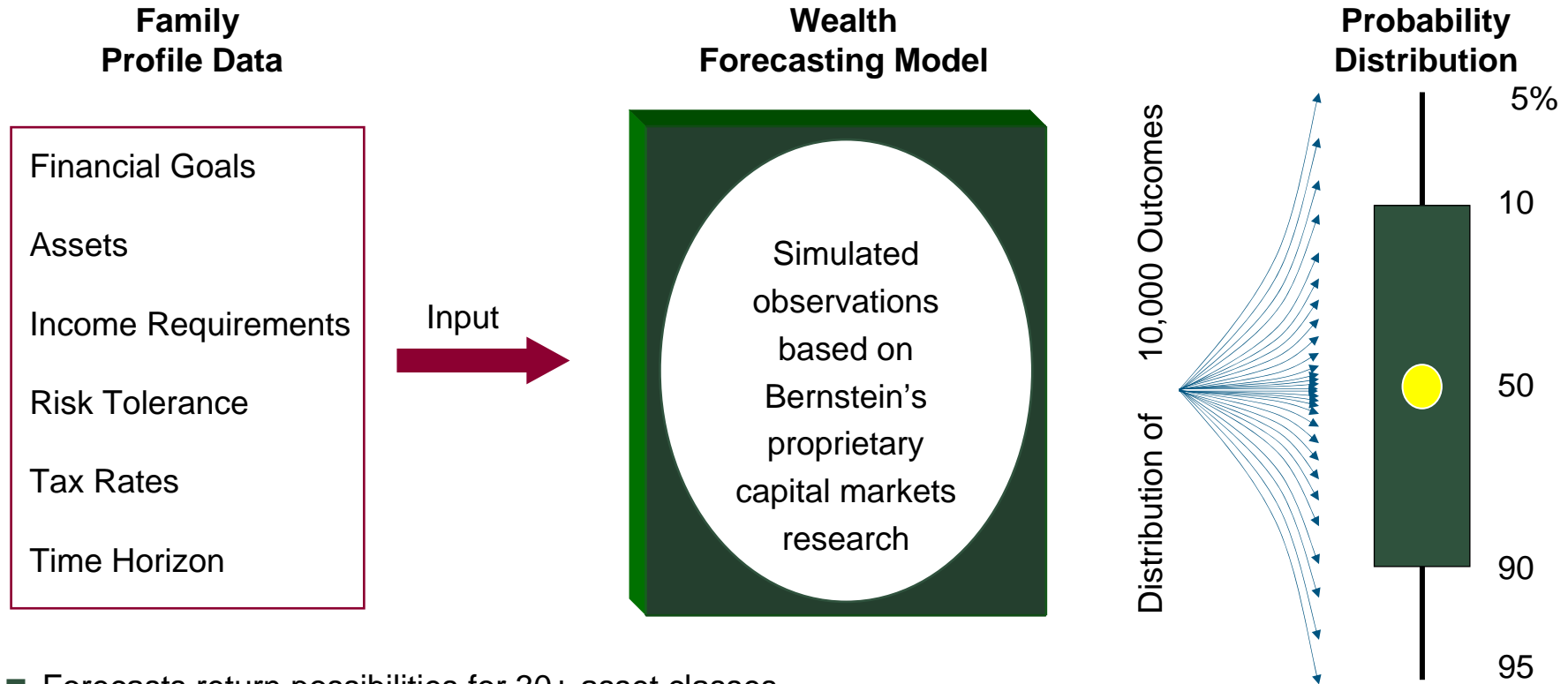


|                         |    |    |    |
|-------------------------|----|----|----|
| Number of Beneficiaries | 10 | 20 | 40 |
|-------------------------|----|----|----|

Source: AllianceBernstein

# Combining Quantitative Modeling with Estate Planning

## Quantifying the Trade-Offs



- Forecasts return possibilities for 30+ asset classes
- Integrates 16 different planning options
- Tracks wealth of all generations and charity, after income and transfer taxes
- Varies allocation as needed for each generation and wealth transfer technique

# Core and Discretionary Capital: A Framework for Analysis

Lifestyle Spending

Personal Reserve

## Core Capital

- Amount that must remain in estate to ensure spending needs are met
- Calculated at 95% level of confidence

## Questions

- How much do you spend?
- What is your age?
- What is your risk tolerance?

Children

Grandchildren

Great Grandchildren

Charity

## Discretionary Capital

- Amount that can safely be transferred out of the estate

## Questions

- Wealth transfer—how much, how quickly, and to whom?

# Age and Spending Determine Core Capital

## Sustainable After-Tax Spending Rate in Hostile Markets\*

| Age           | 50   | 55   | 60   | 65   | 70   | 75   | 80   | 85   |
|---------------|------|------|------|------|------|------|------|------|
| Spending Rate | 2.8% | 3.0% | 3.2% | 3.5% | 3.9% | 4.4% | 5.1% | 6.0% |

| Annual Spending | Core Capital Amounts (\$ Millions) |       |       |       |       |       |       |       |
|-----------------|------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| \$200,000       | \$7.1                              | \$6.7 | \$6.3 | \$5.7 | \$5.1 | \$4.5 | \$3.9 | \$3.3 |
| \$300,000       | 10.7                               | 10.0  | 9.4   | 8.6   | 7.7   | 6.8   | 5.9   | 5.0   |
| \$400,000       | 14.3                               | 13.3  | 12.5  | 11.4  | 10.3  | 9.1   | 7.8   | 6.7   |
| \$500,000       | 17.9                               | 16.7  | 15.6  | 14.3  | 12.8  | 11.4  | 9.8   | 8.3   |
| \$750,000       | 26.8                               | 25.0  | 23.5  | 21.4  | 19.2  | 17.0  | 14.7  | 12.5  |
| \$1.0 Million   | 35.7                               | 33.3  | 31.3  | 28.6  | 25.6  | 22.7  | 19.6  | 16.7  |
| \$1.5 Million   | 53.6                               | 50.0  | 46.9  | 42.9  | 38.5  | 34.1  | 29.4  | 25.0  |

**Example**  
**60-Year-Old Couple**  
**Spending Needs: \$500K**  
 $\div$  **Spending Rate: 3.2%**  
**= Core Capital: \$15.6 Mil.**

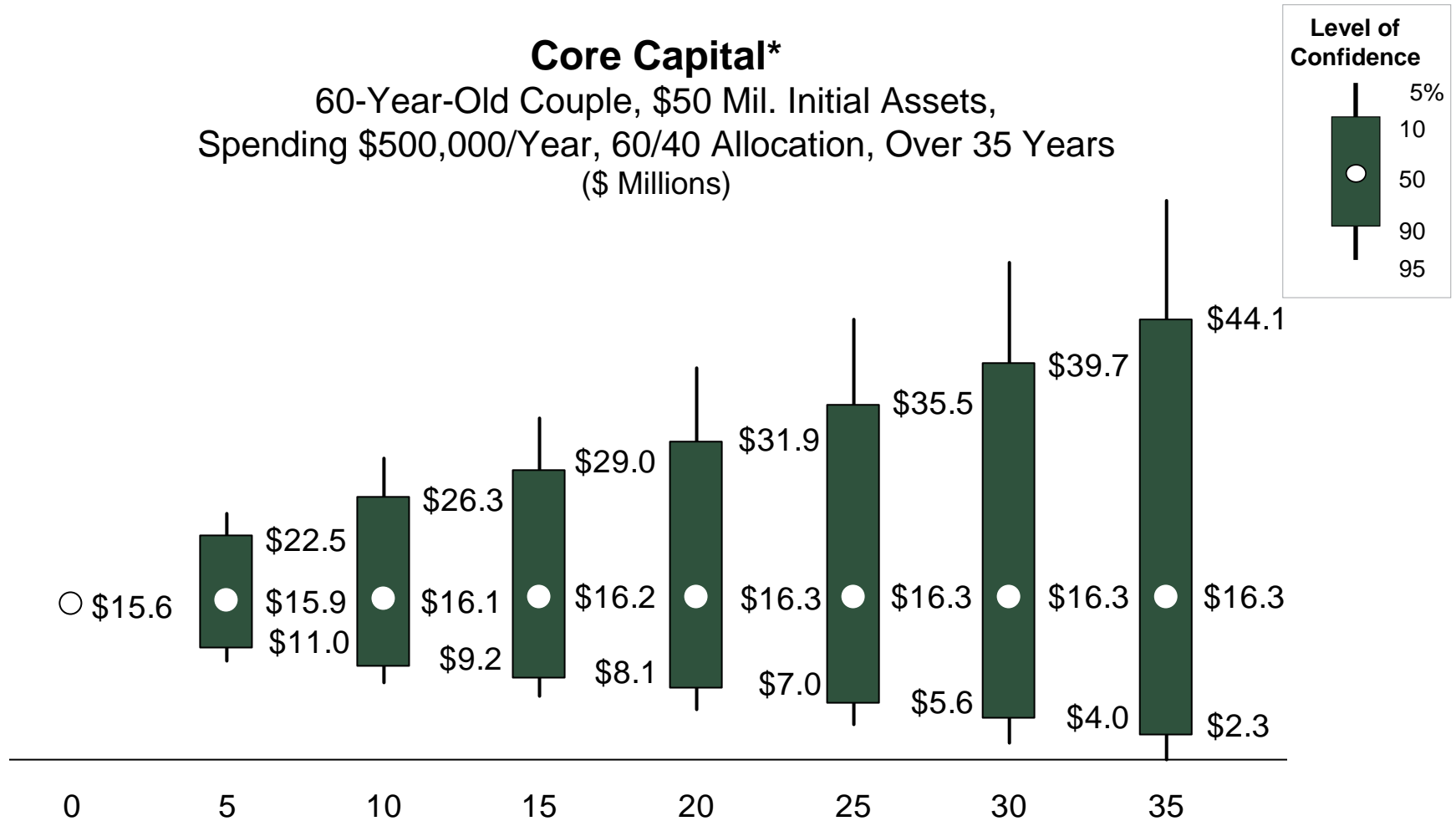
\*These spending rates are for couples and assume an allocation of 60% globally diversified stocks (35% US Value and 35% US Growth, 25% developed foreign markets, 5% emerging markets) and 40% diversified intermediate term municipal bonds. Spending is percentage of initial value of portfolio grown with inflation; sustainable spending rates assume maintaining spending with a 95% level of confidence.

Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results. See Notes on Wealth Forecasting at the end of this presentation for further details. All information on longevity and mortality-adjusted investment analyses in this study are based on mortality tables compiled in 2000. In our mortality-adjusted analyses, the lifespan of an individual varies in each of our 10,000 trials in accordance with mortality tables.

Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein

# Core Capital Should Last Until the Last Day

**Core Capital\***  
 60-Year-Old Couple, \$50 Mil. Initial Assets,  
 Spending \$500,000/Year, 60/40 Allocation, Over 35 Years  
 (\$ Millions)

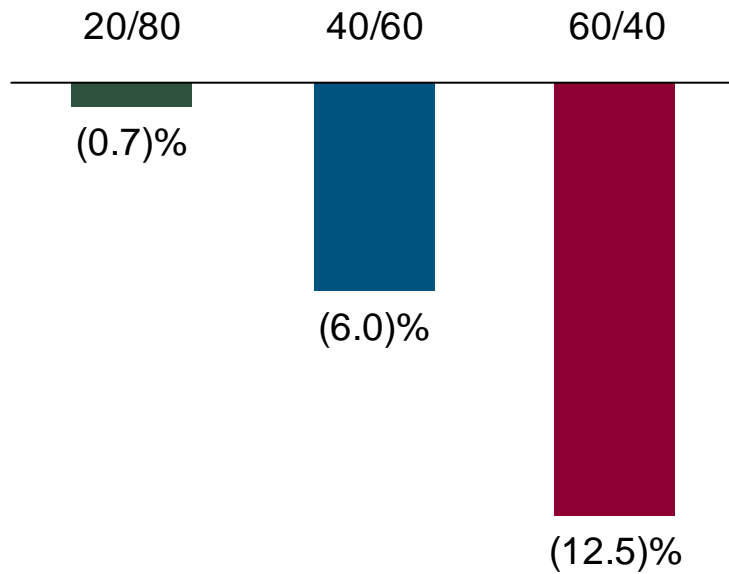


\*Grown with inflation; amount needed to meet core needs at 95% level of confidence; assumes no further gifts. Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

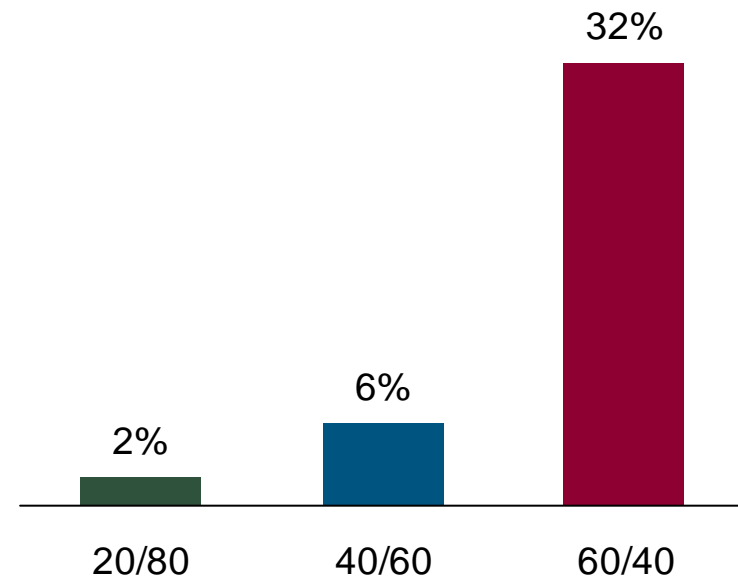
Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein

# Risk Tolerance Also Plays a Role

**Worst Year  
(1973–2006)\***



**Odds of a 20% Peak-to-Trough  
Decline over 20 Years\*\***



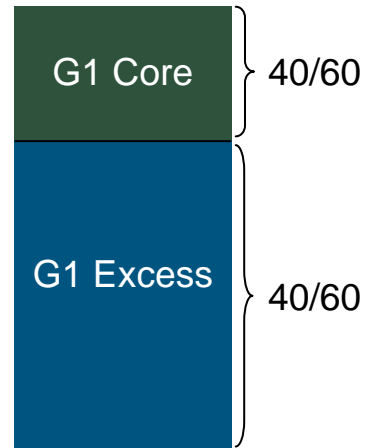
\*Bonds are represented by Lehman Intermediate Governments; stocks are 70% S&P 500 and 30% MSCI EAFE Index, with countries weighted according to market capitalization and currencies unhedged.

\*\*Data indicate the probability of a peak-to-trough decline in pretax, pre-cash-flow cumulative returns of 20% over the life of the forecast based on annual observations. Because the Wealth Forecasting System uses annual capital markets returns to calculate the probability of such a loss, the above chart does not reflect the probability of peak-to-trough losses measured on a more frequent basis (such as daily or monthly), which would be larger.

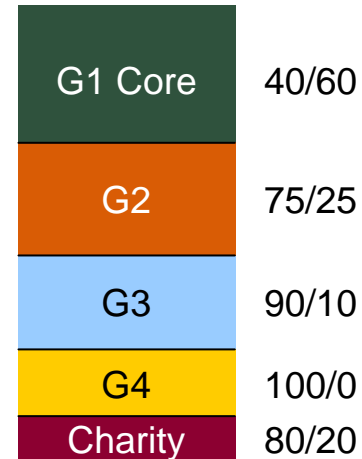
Based on Bernstein estimates of the range of returns for the applicable capital markets over the next 20 years. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting in Appendix for further details.

# Disaggregating Wealth Can Promote Overall Growth

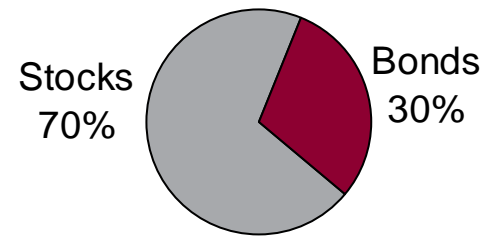
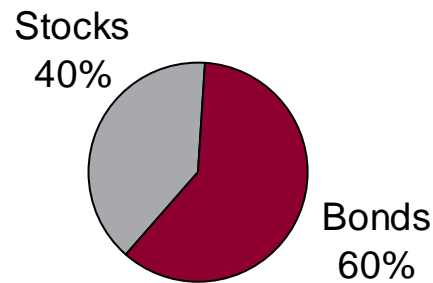
## Single Generation Allocation



## Multigenerational Allocation



### Overall Asset Allocation:



Total Family Wealth  
(typical markets\*):

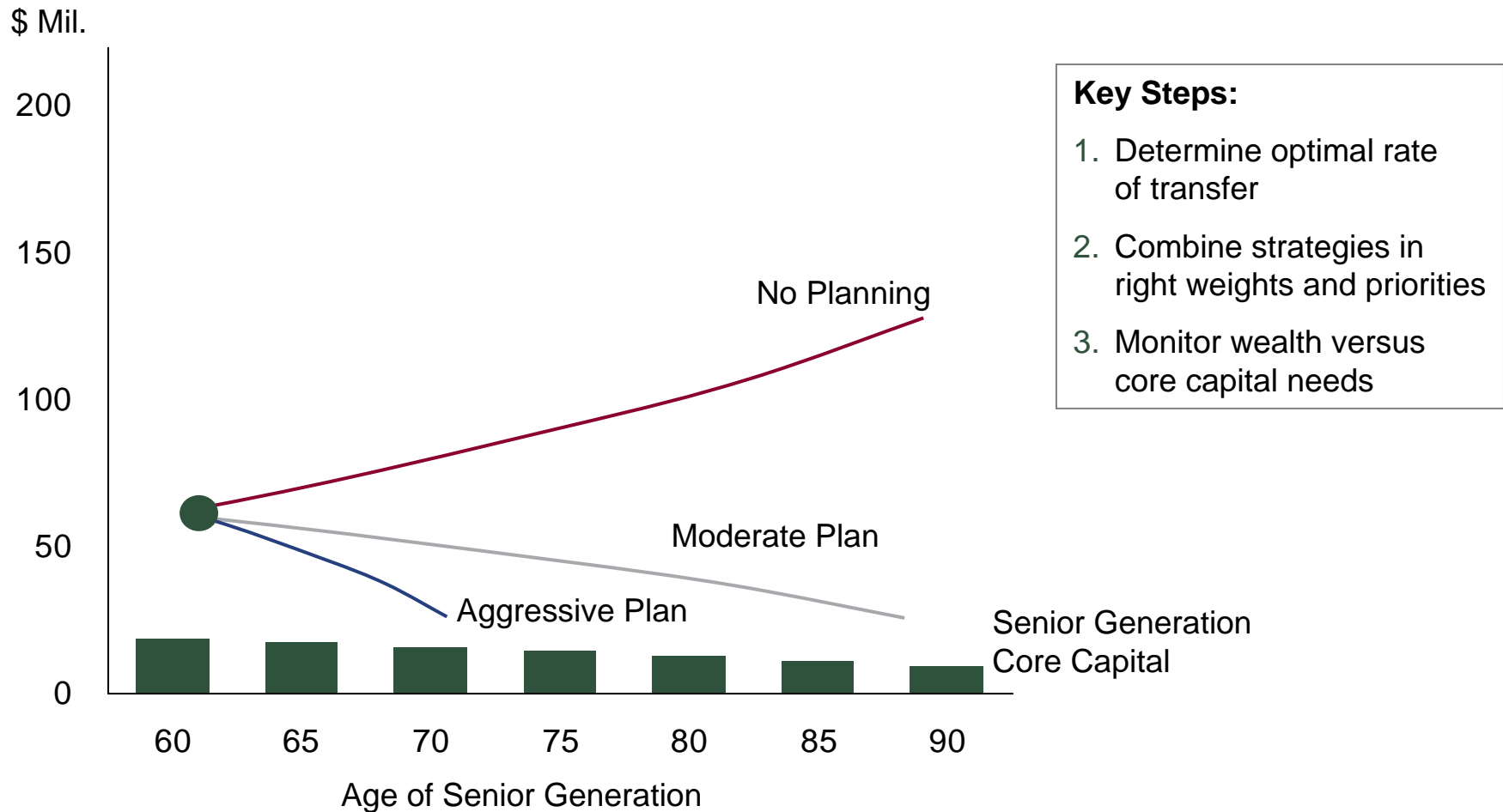
Year 30: \$95 Mil.

Year 30: \$115 Mil.

\*\*Typical markets" represent results at the 50% level of confidence in our Wealth Forecasting model.

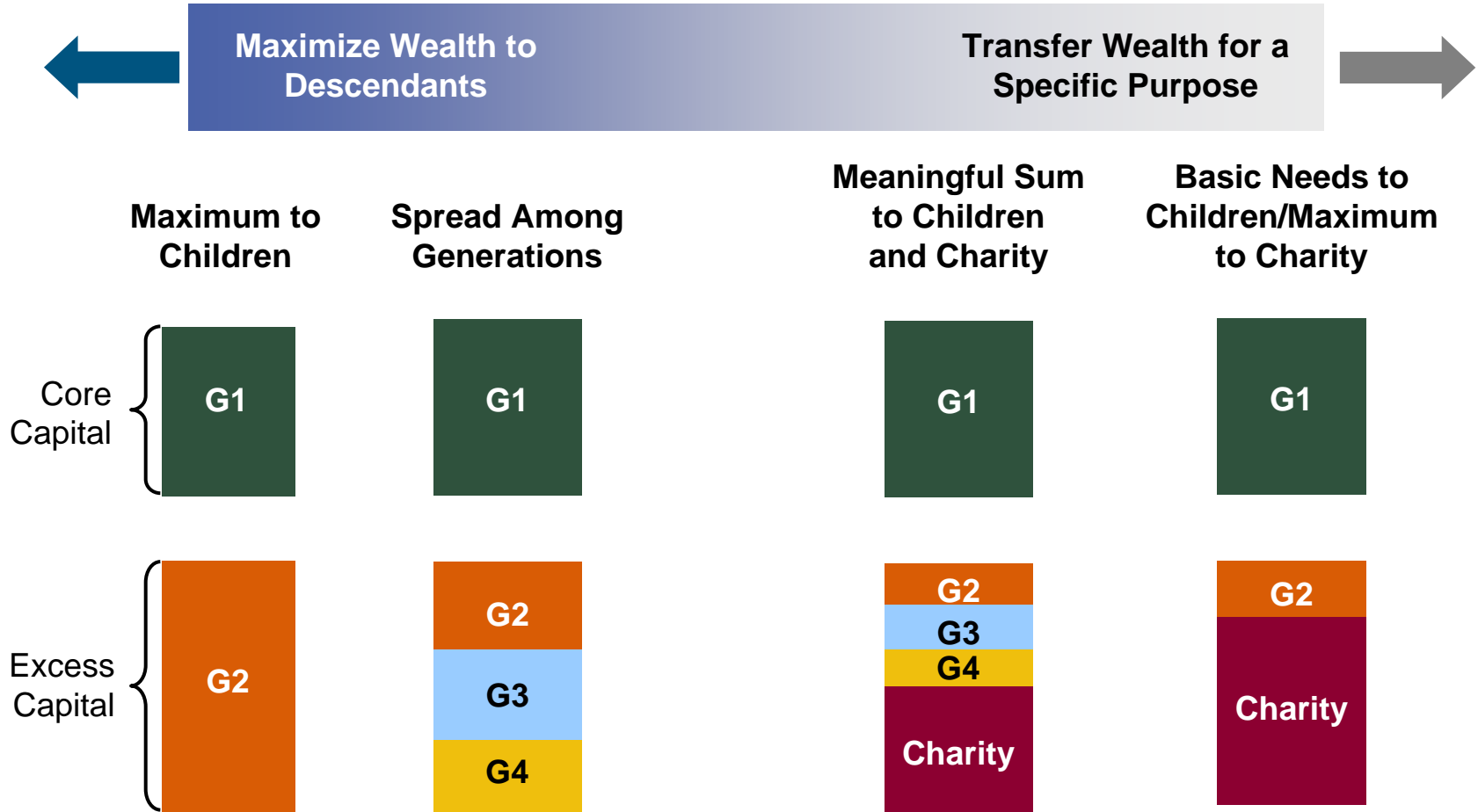
Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

# Rate and Trajectory of Wealth Transfer



Source: AllianceBernstein

# Splitting Heirs: A Continuum of Transfer Philosophies



Source: AllianceBernstein

# A Powerful Combination: Gifts, GRATs, and Grantor Trusts

The Three Gs:

## ■ Gifts

- Annual Exclusion (\$12K/Year per Donee)
- Lifetime Exclusion (\$1 Mil. per Donor)



## Grantor Trusts

IGT

IGT  
(GST-Exempt)\*

## ■ GRATs



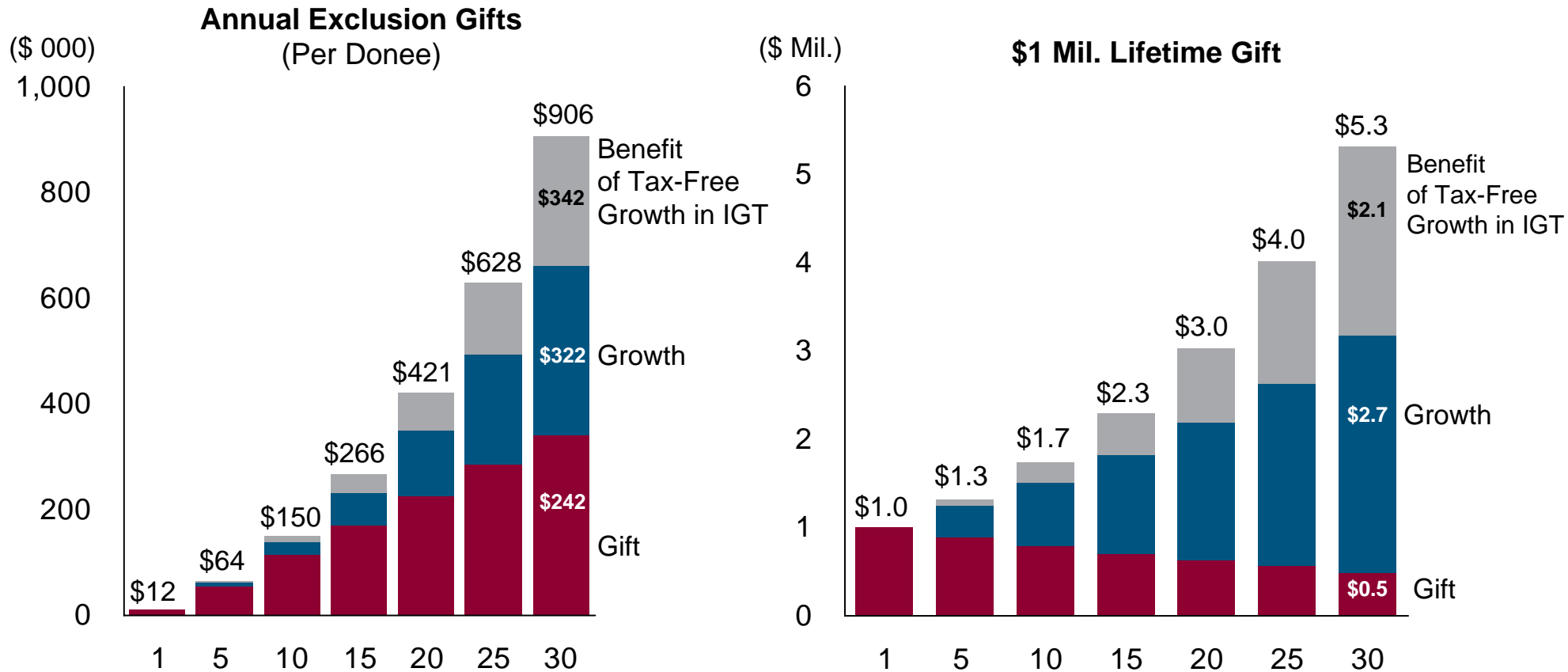
IGT

*Let's do the math...*

\*If the donor allocates \$1 million of his GST exemption to this irrevocable grantor trust (IGT), the funds could also benefit his grandchildren and younger descendants without ever being subject to transfer tax

# The Benefits of Basic Lifetime Giving Strategies

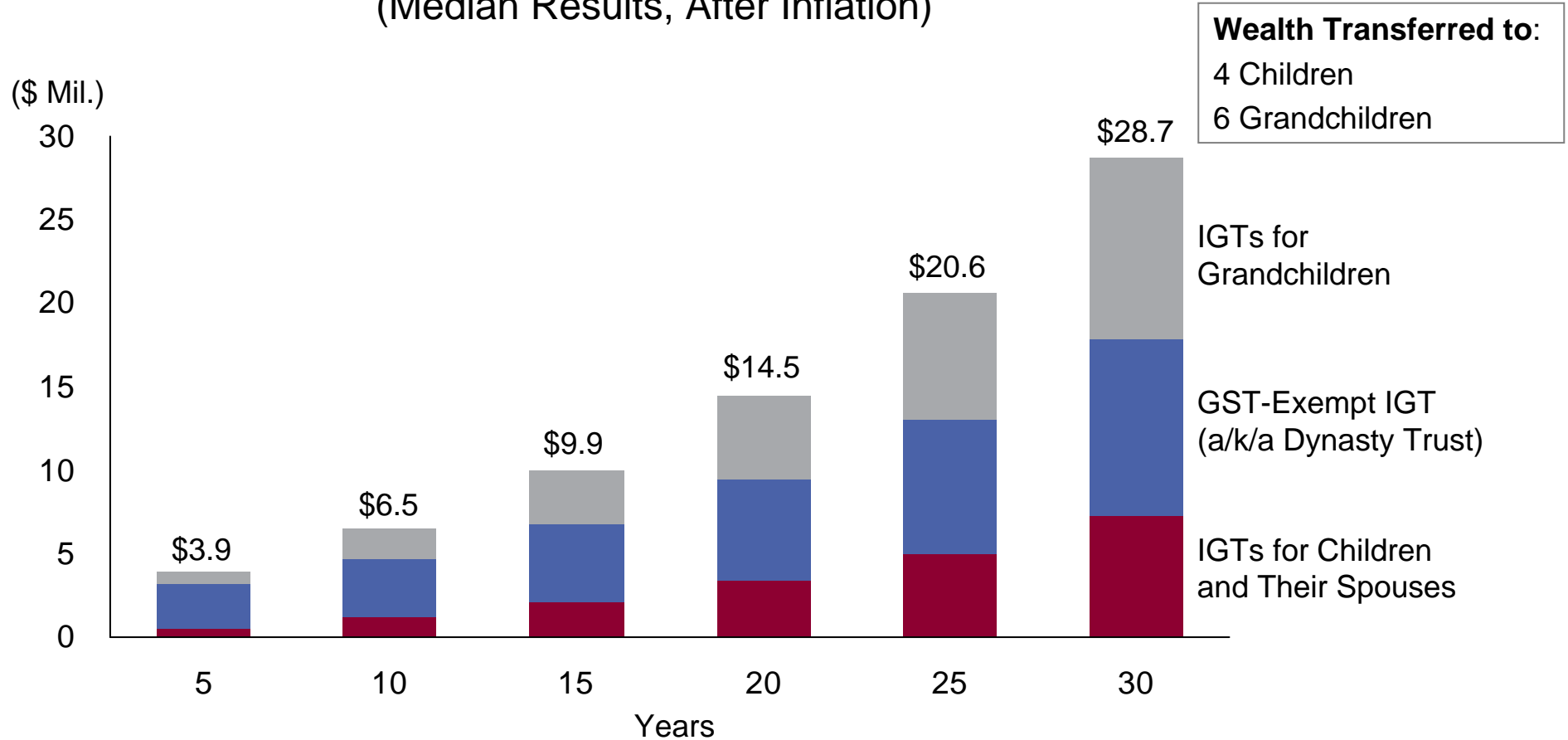
## Amount Transferred (Median Results, After Inflation)



All accounts are invested in 100% globally diversified equities. Based on Bernstein estimates of the range of returns for the applicable capital markets over the duration of the analysis. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

# Aggregating the Benefits of Basic Giving

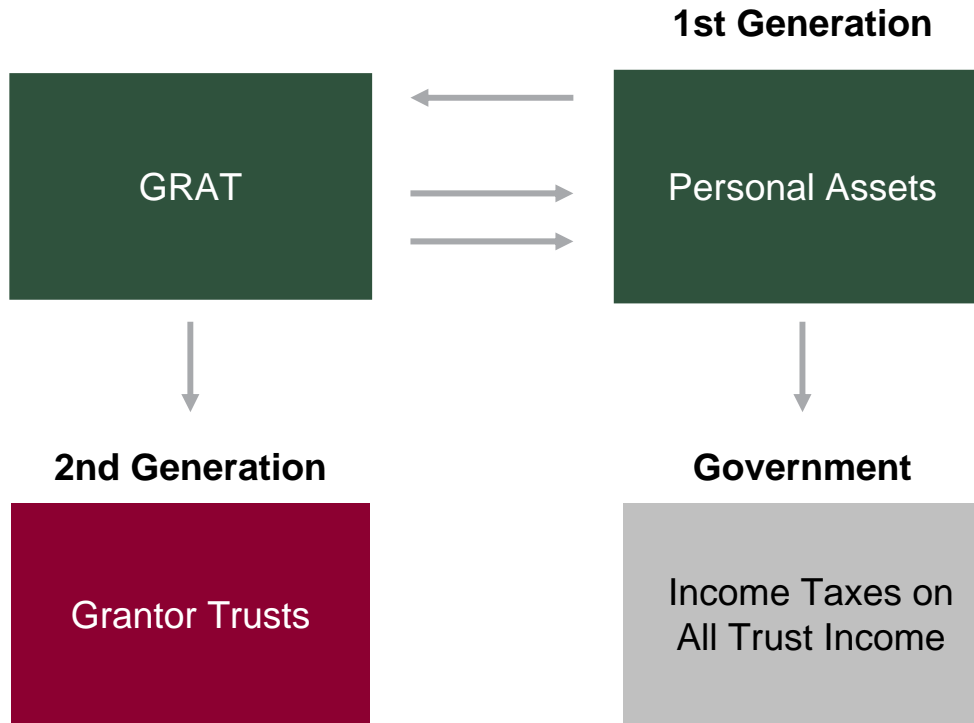
## Total Wealth Transferred\* (Median Results, After Inflation)



\*Annual exclusion gifts to 10 donees (two children, two spouses of children, and six grandchildren, from two grantors) and \$2 million gift to GST-exempt "dynasty trust." All accounts are invested in 100% globally diversified equities.

Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

# Exploring the GRAT Option



## Key Points:

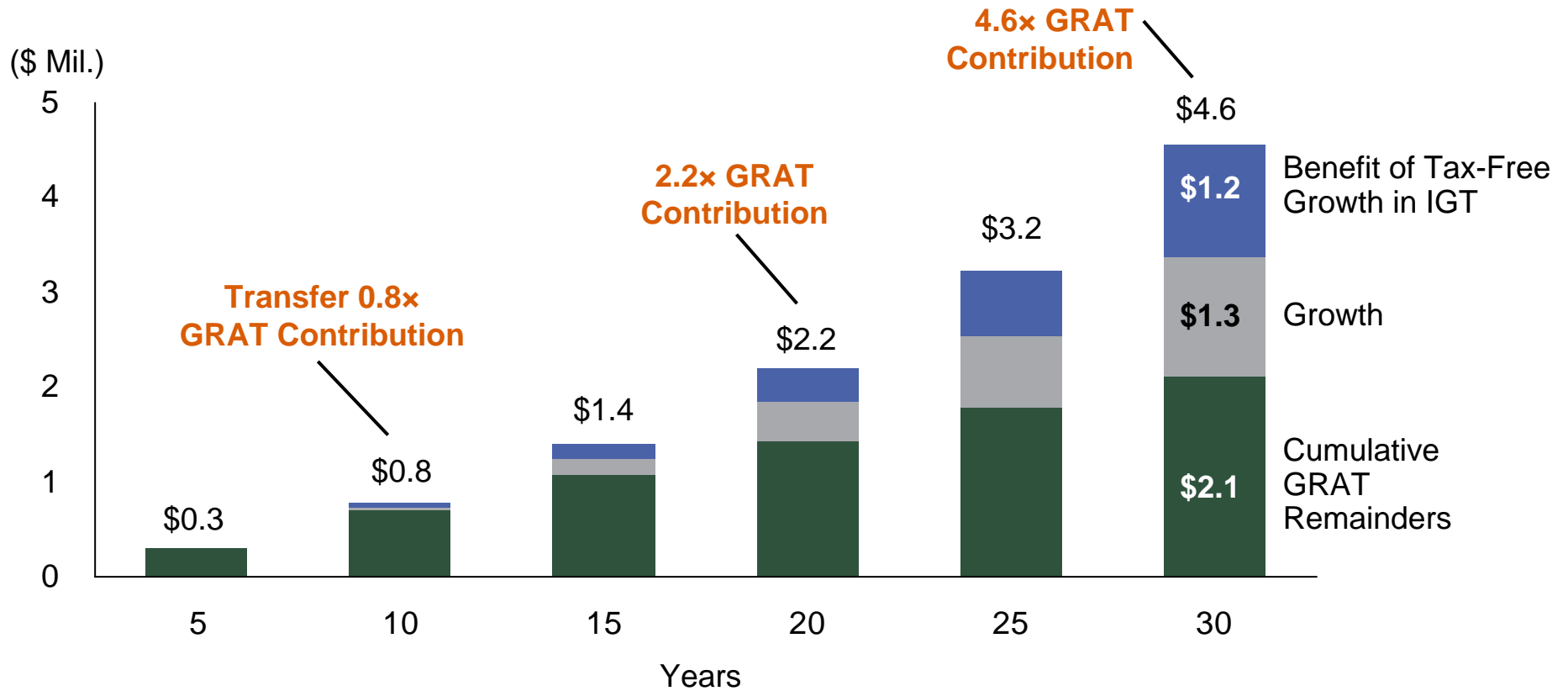
- Grantor transfers assets to GRAT
- Grantor receives annuity payments from trust
- Grantor pays taxes on trust income
- If GRAT assets grow faster than IRS Section 7520 rate, wealth is transferred free of gift tax\*
- “Wins” go to irrevocable grantor trusts for children

Short-term “rolling” GRATs most advantageous

\*Because the value of what the grantor retains equals the value of what he transfers, he makes no gift for gift tax purposes when he funds the GRAT (such a GRAT is said to be “zeroed out”). We assume all GRATs in this presentation have been zeroed out.

# The Cumulative Benefit of Rolling GRATs

## Wealth Transfer to Grantor Trust (\$1 Mil. Rolling GRATs with Two-Year Term\*)

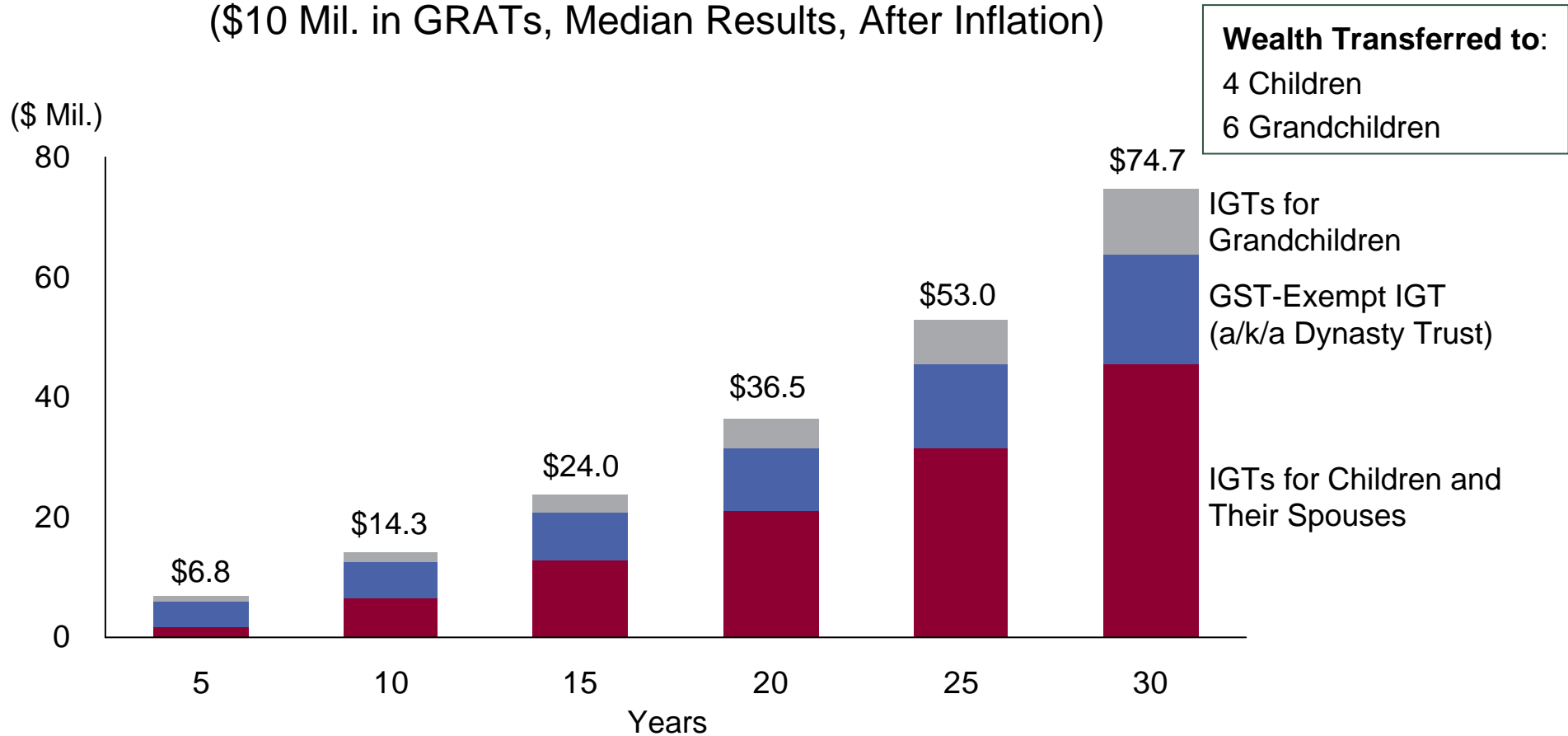


\*Median results; after inflation. All accounts are invested in 100% globally diversified equities.

Based on Bernstein estimates of the range of returns for the applicable capital markets over the next 35 years. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

# Combining Gifts and GRATs to Meet Wealth Transfer Goals

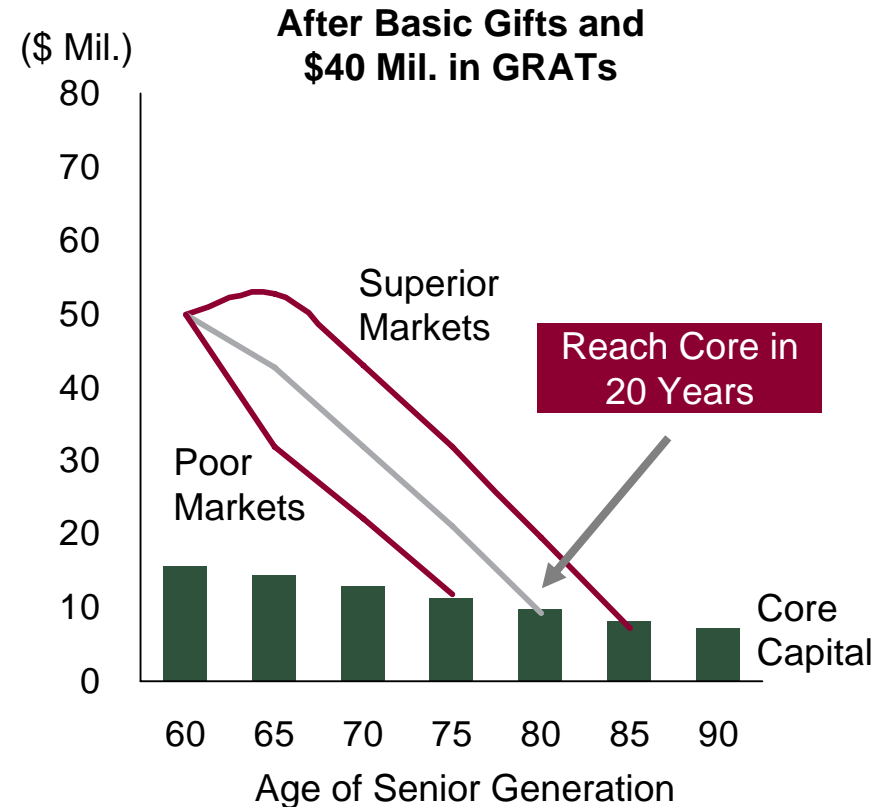
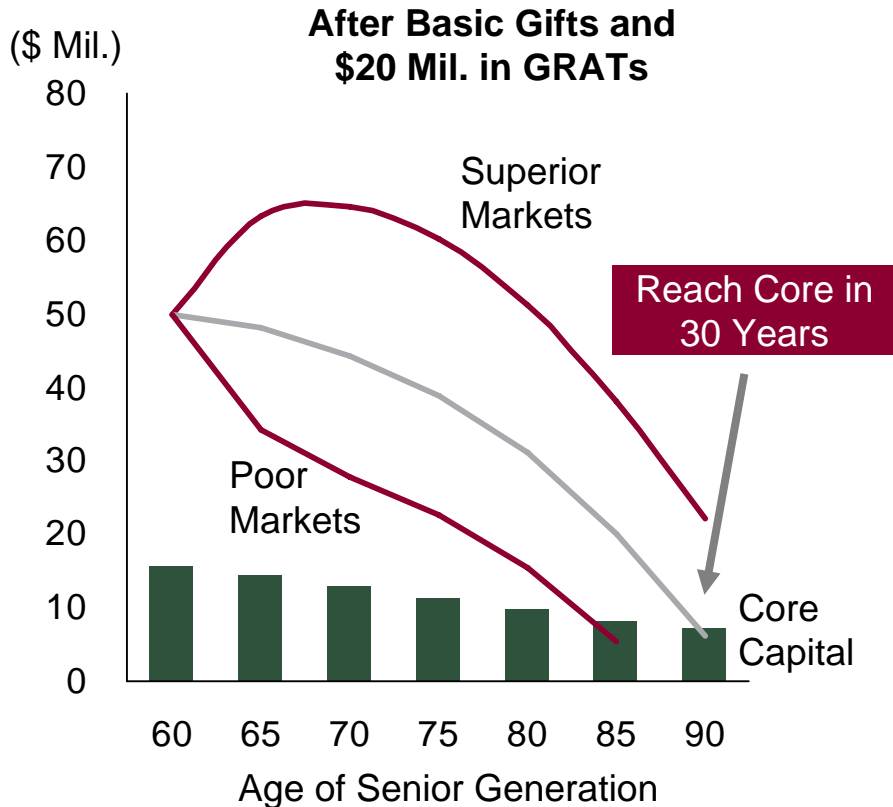
## Total Wealth Transferred\* (\$10 Mil. in GRATs, Median Results, After Inflation)



\*Annual exclusion gifts to 10 donees (two children, two children-in-law, and six grandchildren, from two grantors) and \$2 million gift to GST exempt "dynasty trust," plus \$10 million in GRATs where the first \$2 million moved out of the senior generation's estates through the rolling GRAT strategy is added to the dynasty trust. Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. "Superior markets" represent results at the 10% level of confidence in our Wealth Forecasting model; "poor markets," the 90% level of confidence. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

# The Other Side of the Coin: “Modern Portfolio Depletion Theory”

## Range of Senior Generation Wealth\* (\$50 Mil. Initial Assets)



\*After spending (at 2% of initial assets, increased with inflation), taxes, and inflation.

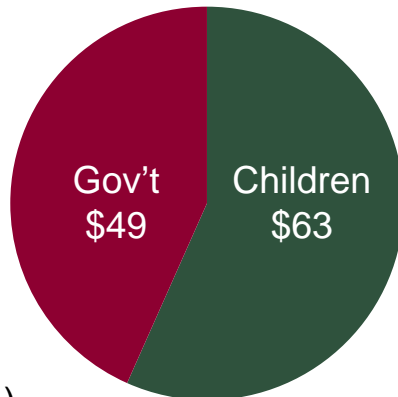
Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. “Superior markets” represent results at the 10% level of confidence in our Wealth Forecasting model; “typical markets,” the 50% level of confidence; “poor markets,” the 90% level of confidence. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein

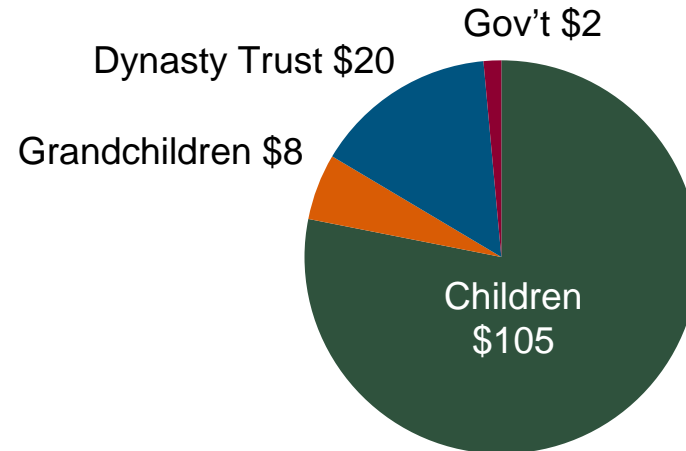
# Effective Planning Can Create Outsize Value

## \$50 Million in Initial Assets

**No Planning**  
(\$ Mil.)



**Basic Gifts and  
\$40 Million in GRATs**  
(\$ Mil.)



Total Wealth (\$ Mil.)  
(Before Estate Tax)

\$112

Estate Tax

<\$49>

Wealth Transferred

\$63

Total Advantage  
of Planning  
\$70 Million\*

\$135

<\$2>

\$133

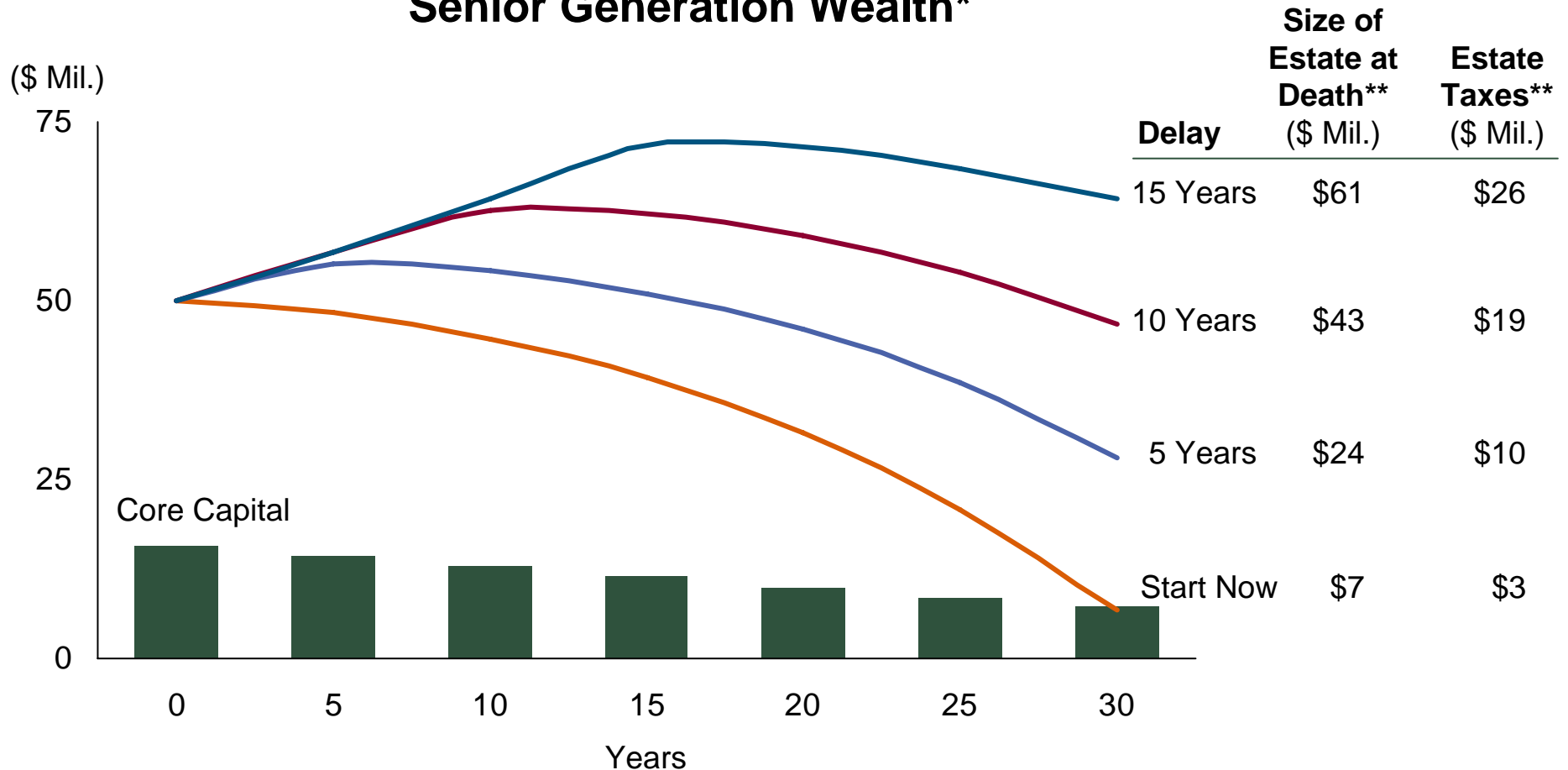
\*Median results; mortality-adjusted. Assumes that the spouses die in same year, and that an inflation-adjusted \$2 million per person is exempt from estate taxes. In the case where there is estate planning, we further assume a \$2 million initial gift to the GST-exempt trust and that the first \$2 million in remainders from GRATs go to the GST-exempt trust. This reduces the remaining estate tax exclusion in this case to \$2 million for the couple.

Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details. This analysis assumes that, in the scenario in which the senior generation engage in no lifetime wealth transfer, their remaining assets after estate taxes pass to their children.

Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein

# The Cost of Procrastination

## Senior Generation Wealth\*



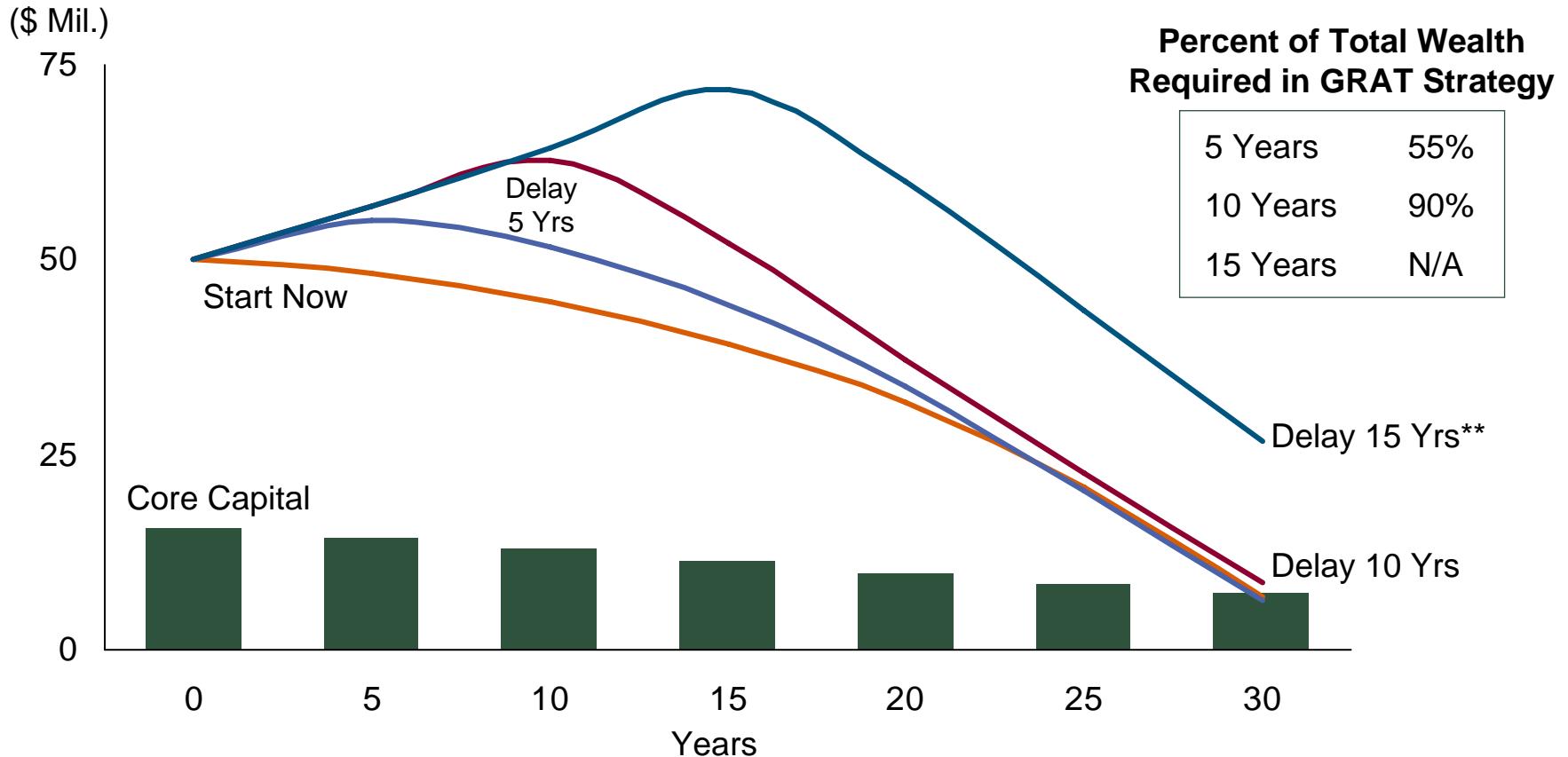
\*Typical markets; after spending, taxes and inflation; for a \$50 million family spending \$500,000 a year, with annual exclusion gifts to 10 beneficiaries, a one-time \$2 million lifetime gift to a dynasty trust, and a commitment of \$20 million to GRATs (or 40% of their total wealth)

\*\*Mortality-adjusted

Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

# Catching Up May Require More Aggressive Planning

## Senior Generation Wealth\*



\*Typical markets; after spending, taxes and inflation; for a \$50 million family spending \$500,000 a year, with annual exclusion gifts to 10 beneficiaries, a one-time \$2 million lifetime gift to a dynasty trust, and a commitment of \$20 million (or 40% of their total current wealth) to GRATs

\*\*This curve represents the median result if the senior generation waits 15 years, then contributes 90% of their assets to GRATs

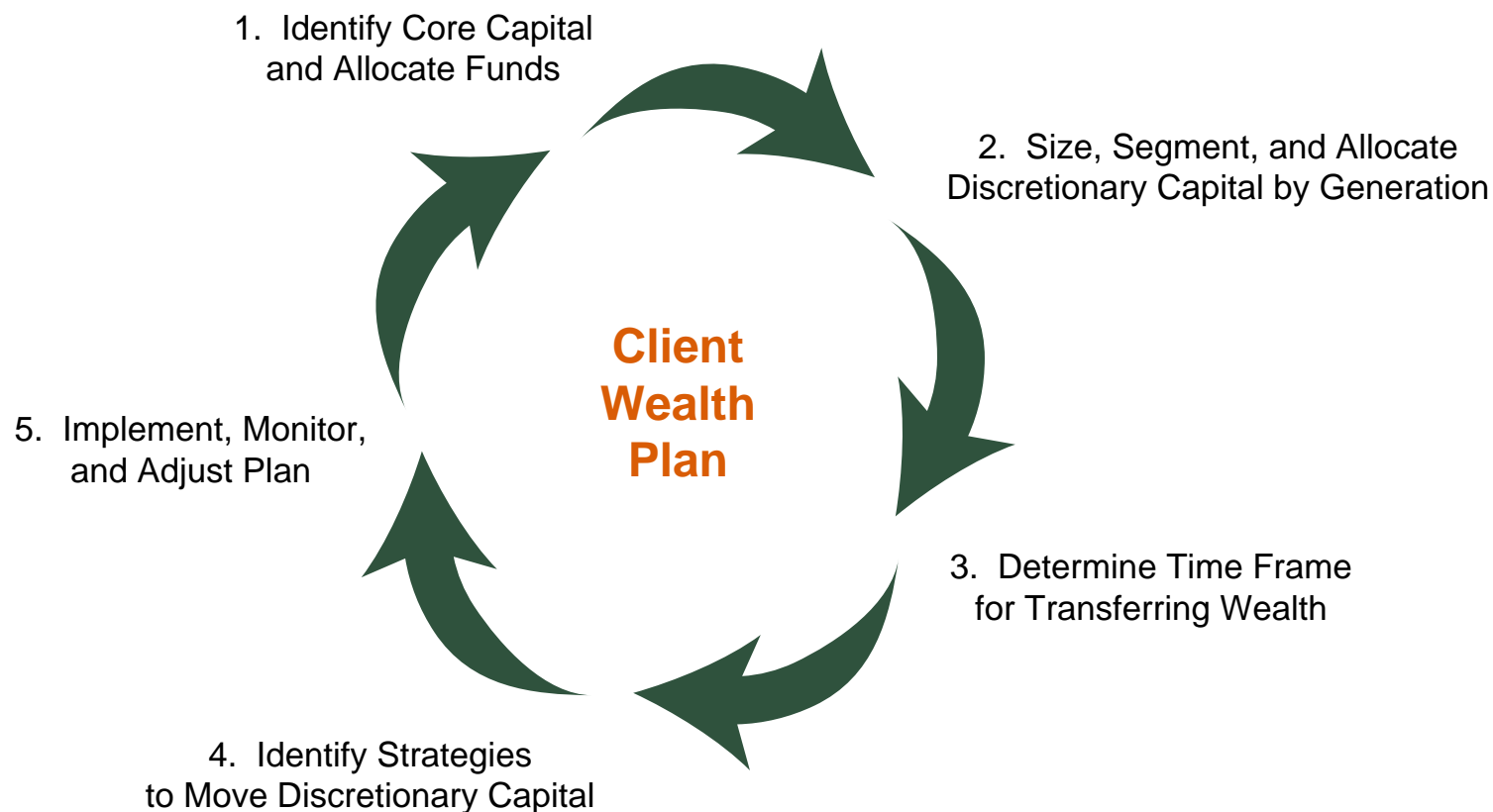
Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. Mortality-adjusted. Assumes that spouses die in same year, that each has a remaining estate tax exemption of \$1 million and that estates are subject to tax at a 45% rate. Data do not represent past performance and are not a promise of actual future results or a range of results. See Notes on Wealth Forecasting at the end of this presentation for further details.

Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein

# Are We There Yet?

## The Cycle of Multigenerational Wealth Planning

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Source: AllianceBernstein

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# Appendix

# Notes on Wealth Forecasting

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## 1. Purpose and Description of Wealth Forecasting Analysis

Bernstein's Wealth Forecasting Analysis<sup>SM</sup> 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 and takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: Based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of returns and asset values the client could expect to experience are represented within the range established by the 5th and 95th percentiles on "box and whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Expected market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet Bernstein 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. Retirement Vehicles

Each retirement plan is modeled as one of the following vehicles: IRA, 401(k), 403(b) or Keogh. One of the significant differences among these vehicle types is the date at which mandatory distributions commence. For IRA vehicles, mandatory distributions are assumed to commence during the year in which the investor reaches the age of 70½. For 401(k), 403(b) and Keogh vehicles, mandatory distributions are assumed to commence at the later of (i) the year in which the investor reaches the age of 70½ or (ii) 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](http://www.irs.gov).

## 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 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.

# Notes on Wealth Forecasting

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## 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 |
|--|--|----------------------|
| Intermediate-Term Diversified Municipals | AA-rated diversified municipal         | 30%                  |
| Intermediate-Term Taxables               | Taxable bonds with maturity of 7 years | 30%                  |
| US Value                                 | S&P/Barra Value Index                  | 15%                  |
| US Growth                                | S&P/Barra Growth Index                 | 15%                  |
| Developed International                  | MSCI EAFE Unhedged                     | 15%                  |
| Emerging Markets                         | MSCI Emerging Markets Index            | 20%                  |

## 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 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 28.8%. 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. Mortality

Mortality is modeled using our proprietary simulation model, which creates a range of death ages for a given age. The outcomes of the mortality simulation model are then combined with the outcomes of the Capital Markets Engine on a trial-by-trial basis to produce summarized mortality-adjusted results. Mortality simulations are based on the Society of Actuaries Retirement Plan Experience Committee Mortality Tables RP-2000.

# Notes on Wealth Forecasting

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## 8. Technical Assumptions

Bernstein's Wealth Forecasting Analysis 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 condition of the capital markets as of September 30, 2007. Therefore, the first 12-month period of simulated returns represents the period from September 30, 2007, through September 29, 2008, and not necessarily the calendar year of 2007. A description of these technical assumptions is available on request.

## 9. 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.

## 10. Tax Rates

Bernstein's Wealth Forecasting Analysis has used the following tax rates for this analysis:

| Start Year | End Year | Federal Income Tax Rate | Federal Capital Gains Tax Rate | Qualified Dividend Rate | State Income Tax Rate | State Capital Gains Tax Rate |
|------------|----------|-------------------------|--------------------------------|-------------------------|-----------------------|------------------------------|
| 2008       | 2010     | 35%                     | 15%                            | 15%                     | 6%                    | 6%                           |
| 2011       | 2057     | 39.6%                   | 20%                            | 39.6%                   | 6%                    | 6%                           |

Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes.

# Notes on Wealth Forecasting

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## 11. Capital Markets Projections

|  | Median 50-Year<br>Growth Rate | Mean<br>Annual Return | Mean Annual<br>Income | 1-Year Volatility | 50-Year Annual<br>Equivalent Volatility |
|--|-------------------------------|-----------------------|-----------------------|-------------------|---|
| Intermediate-Term Diversified Municipals | 4.5%                          | 4.7%                  | 4.4%                  | 4.6%              | 5.6%                                    |
| Intermediate-Term Diversified Taxables   | 5.3                           | 5.6                   | 5.2                   | 5.8               | 7.0                                     |
| US Value Stocks                          | 8.0                           | 9.9                   | 2.9                   | 18.2              | 11.8                                    |
| US Growth Stocks                         | 8.0                           | 10.2                  | 1.6                   | 20.0              | 13.8                                    |
| Developed International Stocks           | 7.8                           | 10.8                  | 2.9                   | 22.2              | 13.1                                    |
| Emerging Markets Stocks                  | 6.4                           | 11.4                  | 2.6                   | 27.7              | 21.3                                    |
| Inflation                                | 2.4                           | 2.5                   | N/A                   | 1.5               | 7.0                                     |

Based on 10,000 simulated trials, each consisting of 50-year periods. Reflects Bernstein estimates and the capital markets conditions as of September 30, 2007. Does not represent any past performance and is not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.