PRE-IMMIGRATION INCOME PLANNING

FOR FOREIGN INDIVIDUALS

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Why Do We Care?

Because tax bases and tax rates are different:

- U.S. persons are taxed on their worldwide income at 39.6% (max.) for ordinary income and 20% (max.) for long-term capital gains & qualifying dividends plus net investment income tax (N.I.I.T.) of 3.8%.

- Non-U.S. persons are taxed only on certain types of income from U.S. sources, generally at 30% (or lower treaty rates), or 39.6% (max.), but not N.I.I.T.

Who Are U.S. Persons?

- U.S. citizens
- U.S. residents

Key Issues

- When does tax residency in the U.S. begin?
- When does tax residency in the U.S. end?
- Can income be deflected to a nonresident period?
- Is there continuing U.S. tax exposure?
- Are trust distributions still tax efficient for a beneficiary?

DETERMINING U.S. TAX RESIDENCY

Determining U.S. Tax Residency

- Two Tests:
  - The "**green card**" test
  - The "**substantial presence**" test

The Green Card Test

- Lawful permanent resident of the U.S. at any time during the calendar year.
- Tax status remains until immigration status rescinded.

Substantial Presence Test

- **General Rule:**
  - Presence in the U.S. 183 days or more during a rolling 3-year period, and
  - Presence for at least 31 days in the current year.

Substantial Presence Test

- **3-year period**
- **Weighting formula for days:**
  - Days in current year
    + 1/3 of days in preceding year
    + 1/6 of days in second preceding year ≥ 183 days
  - Magic number is 121 days per year to avoid U.S. tax residency

Substantial Presence Test

- **Not all days count.**
  - Days in transit between 2 foreign points
  - Days as an “exempt individual”
  - An individual with medical condition or problem that arises while in the U.S.
  - Days as certain regular commuters residing in Canada or Mexico
- **Exempt individuals include:**
  - Diplomats & family (without green cards)
  - Teachers/Trainees (2 years/7) or Students (5 years)
  - Certain athletes – days competing in a charity sports event only

Closer Connection Exception to Substantial Presence

- A foreign individual otherwise resident under the substantial presence test may be a nonresident if closer connections are maintained to another, single, foreign country.

- **Tests for qualification:**
  - Limited presence in U.S. – less than 183 days
  - Tax home in a foreign country for the entire year
  - Closer connection to that foreign country
  - Has not applied for permanent residence status

Exempt Days / Closer Connection

- **Compliance Requirements**
  - Forms 8840 or 8843 provide the I.R.S. with information describing basis of exemption
  - File Form 8840/8843 with Form 1040NR or Form 1040NR-EZ by return due date (including extensions)
  - If no return is required, file Form 8840/8843 with I.R.S. in Texas
  - Exemption may not be available if Form 8840/8843 is not filed

Residency Starting Date

- **Substantial Presence Test**
  - The first day of presence in the U.S.
  - Trap for the unwary
- **Green Card Test**
  - The first day of presence in the U.S. as a lawful permanent resident

Residency Termination Date

- **Last day of the calendar year**
  - Trap for the unwary
- **Exception** – last day of presence in the U.S., if for remainder of the calendar year:
  - Tax home established in foreign country, and
  - Closer connection to that country.

Residency Starting & Termination Dates

- ***De minimis*** **rule for substantial presence test:**
  - Presence for up to 10 days in the year without triggering residency starting date or extending residency termination date.
  - Days in *de minimis* period count when computing 183-day period of presence .
  - Requirements:
    - Tax home in a foreign country, and
    - Closer connection to that foreign country.

Elective Residency Starting Date

- An individual may elect to be a resident as of the first of the 31-day period if:
  - Physically present in the U.S. for at least 31 consecutive days,
  - Physically present for at least 75% of the subsequent days, and
  - Resident in subsequent year under the substantial presence test.

Year-to-Year No Lapse in Residence

- **Residence does not lapse.**
  - A resident during preceding year and any part of the current year – current year's residency begins on 1/1
  - A resident during any part of the current year and for any part of the next year – current year's residency lasts through 12/31

The Trap of Code §7701(b)(3)

- **Rule for "mid-term" residents (Code §877)**
  - The expatriation tax rules apply during nonresident period if:
    - U.S. residency for at least 3 taxable years,
    - Actual presence in U.S. for 183 days in each such year,
    - Residence is terminated, and
    - Residence is reestablished before the close of the third complete calendar year following the year of departure.

Exceptions for the U.S. Tax Residency

- Two Exceptions:
  - Closer Connection - Domestic Law
  - Tie-Breaker rules for dual residents – Treaty Provision

Treaty Tie-Breaker Provision

- Residence is allocated by reference to several factors:
  - Permanent home
  - Center of vital interests
  - Habitual abode
  - Nationality
  - By agreement of tax authorities
- Determining residence under the tiebreaker provision of an income tax treaty has no effect on the filing of F.B.A.R. forms.

Treaty Tie-Breaker Provision

- **Compliance:**
  - Form 8833 must be filed with the I.R.S. to disclose the treaty-based return position.
  - Failure to file results in penalty exposure, but not loss of treaty benefits.
  - Form 8833 requires less-detailed information than Form 8840 used for claiming the closer connection exception.

EXPATRIATE TAX JURISDICTION

Departing Long-Term Residents

- §877A imposes a departure tax as if all assets were sold on the day prior to the residency termination date.

- Applies to persons who:
  - Hold permanent resident status in 8 out of 15 years without claiming treaty residency tie-breaker;
  - Relinquish green cards or qualify as residents of other country under treaty tie-breaker test; and
  - Satisfy certain objective tests related to average tax liability, net worth, and statement as to compliance.

Triggers for Imposing Tax

- An expat is **subject to the §877A regime** if:
  - Net worth on the date of expatriation ≥ $2 million;
  - Average annual tax liability after foreign tax credit for 5 preceding years ≥ an amount that is adjusted annually for inflation;
    - $161,000 for 2016
    - $162,000 for 2017

    or
  - Failure to certify all Federal tax obligations for 5 preceding years have been satisfied.

TRUSTS, GRANTORS, AND BENEFICIARIES

Grantor Trust Characterization

- **General Rule:**
  - Grantor trust only when amounts are currently taken into account in computing income of a U.S. citizen, resident, or corporation.
  - This eliminates opportunities to plan for a tax vacuum based on differences between U.S. grantor trust rules and foreign rules.

Grantor Trust Characterization

- **Exceptions:**
  - Revocable trust – the power to revest is exercisable solely by the grantor:
    - Without the approval of another person, or
    - With the approval of a related or subordinate party who is subservient.
  - The power cannot be illusory.
  - The only amounts distributable during the lifetime of the grantor are to the grantor or spouse.

Distributions

- If trust is not a grantor trust, distributions are taxable to the extent of D.N.I. and U.N.I.
- If country of residence of grantor taxes grantor, U.S. beneficiary entitled to foreign tax credit for those taxes.
- Accumulation distributions are subject to throwback rules.

Disguised Distributions

- Fees to the extent unreasonable may be treated as distributions.

- Loans to beneficiaries treated as distributions, unless certain conditions are met as to period, term, interest, and statute of limitations.

Disguised Distributions

- Payments to U.S. persons routed from the trust through third parties:
  - Treated as trust distribution if made pursuant to a tax avoidance plan.
- Presumption of tax avoidance if:
  - Relationship between recipient and grantor
  - Payments within 48-month window
  - Absence of helpful facts

Partnerships and Corporations

- Gifts from a foreign partnership – **ordinary income**
- Gifts from a foreign corporation – **dividend income**
- Exception if U.S. or foreign person treats gift as distribution from entity.
- Indirect transfer from entity to trust to U.S. beneficiary is collapsed if it yields greater tax.

Reporting Obligations

- Trust must agree to provide access to records to beneficiary and allow copies for I.R.S.
- Trust must provide U.S. recipient with U.S. tax information:
  - Character, D.N.I., U.N.I.
- U.S. recipient must report the aggregate amount and character of all distributions received.
- Presumptions if records are not provided:
  - Current distribution/Accumulation distribution

PLANNING OPPORTUNITIES

Step-Up in Basis of Assets Prior to Residency Starting Date

- An actual or “check-the-box” liquidation of a family holding company,
- A sale of capital assets to a partnership comprised of the taxpayer and members of his or her family, or
- A sale of shares to nonresident spouse.

Traps for the Unwary

- **Funding the sale:**
  - Spouse purchases for note and note is illusory
- **Residency starting date:**
  - Sale occurs after residence begins because of earlier visits to the U.S.
- **Installment sale provisions:**
  - Gain recognized ratably with principal payments
- **Joint return election in year of arrival:**
  - Residency starting date is Jan. 1

Variable Annuities

- Planning opportunity for inbound executive owning a portfolio of stock.
- Profits of annuity product can be accumulated on a tax-free basis until the annuity starting date.
- Deferral turns into exemption if:
  - Premium is paid in nonresident period, and
  - Annuity starting date occurs after residency termination date.

Variable Annuities

- **Requirements:**
  - Diversification
  - Limitation on investment control
  - Relinquish access to funds
  - 10% penalty for early distributions
  - The policy holder must be an individual or his agent
- 1% excise tax if premium is paid after residency starting date.

Avoid Resident Status

- Apply **residence rules** of U.S. income tax treaties:
  - Applies to holder of green card whose family lives here but who works overseas.
  - N.B.:
    - Must avoid act that suggests abandonment of permanent resident status for immigration law purposes.
    - Does filing Form 8833 mean that individual filed a tax return as a nonresident?
      - Yes, if facts are applied literally.
      - No, if immigration law question relates only to domestic tax law.

Avoid Resident Status

- Apply **closer connection test** of domestic law:
  - Look for applicable tax home – manage the facts
  - Control days in the U.S. and at foreign tax home
  - N.B. – Location of immediate family is strong connection
  - If closer connection test yields nonresident status, such status applies to negate F.B.A.R. filing obligations

Pecuniary Trust Distributions

- Pecuniary trust distributions are not taxable if conditions are met:
  - Fixed amount
  - Provided for as a gift
  - Not more than 3 payments
  - Not payable out of income exclusively

Important Notice

This presentation is not intended to be legal advice. Reading these materials does not create an attorney-client relationship. The outcome of each case stands on its own merits.


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September 2017

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50 YEARS OF INVESTMENT MANAGEMENT & RESEARCH

PRIVATE PLACEMENT LIFE INSURANCE AND PRE-IMMIGRATION DROP-OFF TRUSTS—A WINNING COMBINATION

John McLaughlin, CFA
Director—Wealth Strategies

AB 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.

Case Study

Pre-Immigration Planning

Garcias
Latin America

$25 Mil. Liquid Assets

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Case Study

Pre-Immigration Planning

Gerald and Cherry Garcia, both 50 years old, with USD $25 million in liquid assets plan to acquire green cards and move to New York City with their two daughters, Andi and Nina.

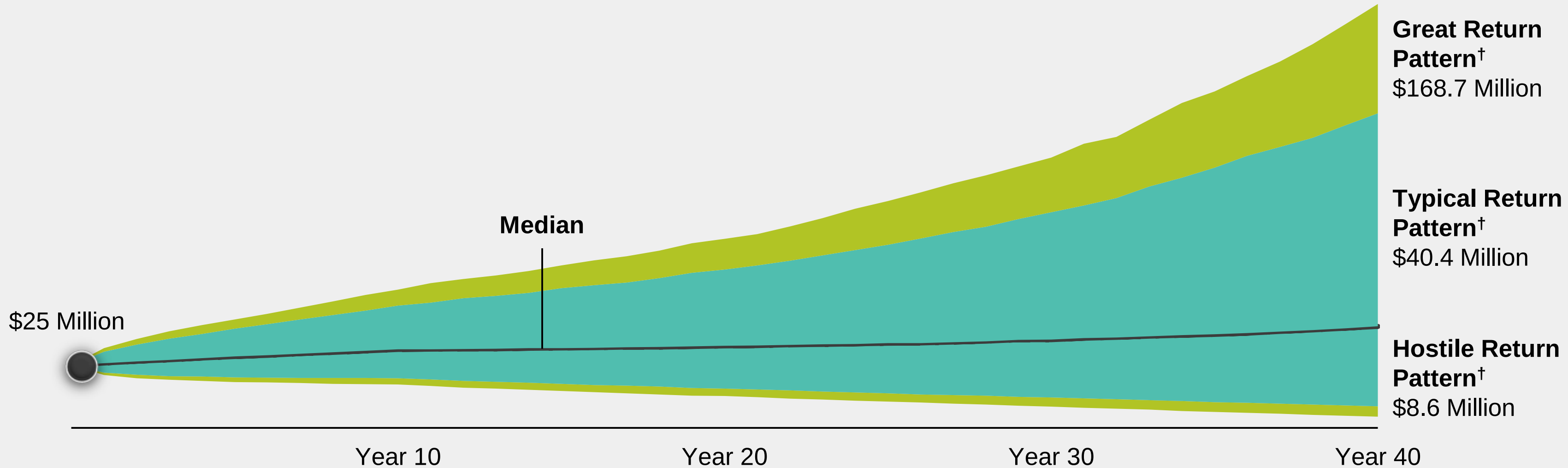
Income will be sufficient to cover spending for the next 10 years, thereafter they will need the portfolio to support spending of $500K per year.

Key Question—How will immigrating to the US impact the Garcia family legacy?

AB is not a legal, tax, or estate advisor. Investors should consult these professionals, as appropriate, before making any decisions.

Projected Growth of Assets in the US

Initial Assets $25 Mil.; Spending $500K After 10 Years*
80%/20% Allocation—After Income Taxes
USD Millions, Inflation-Adjusted

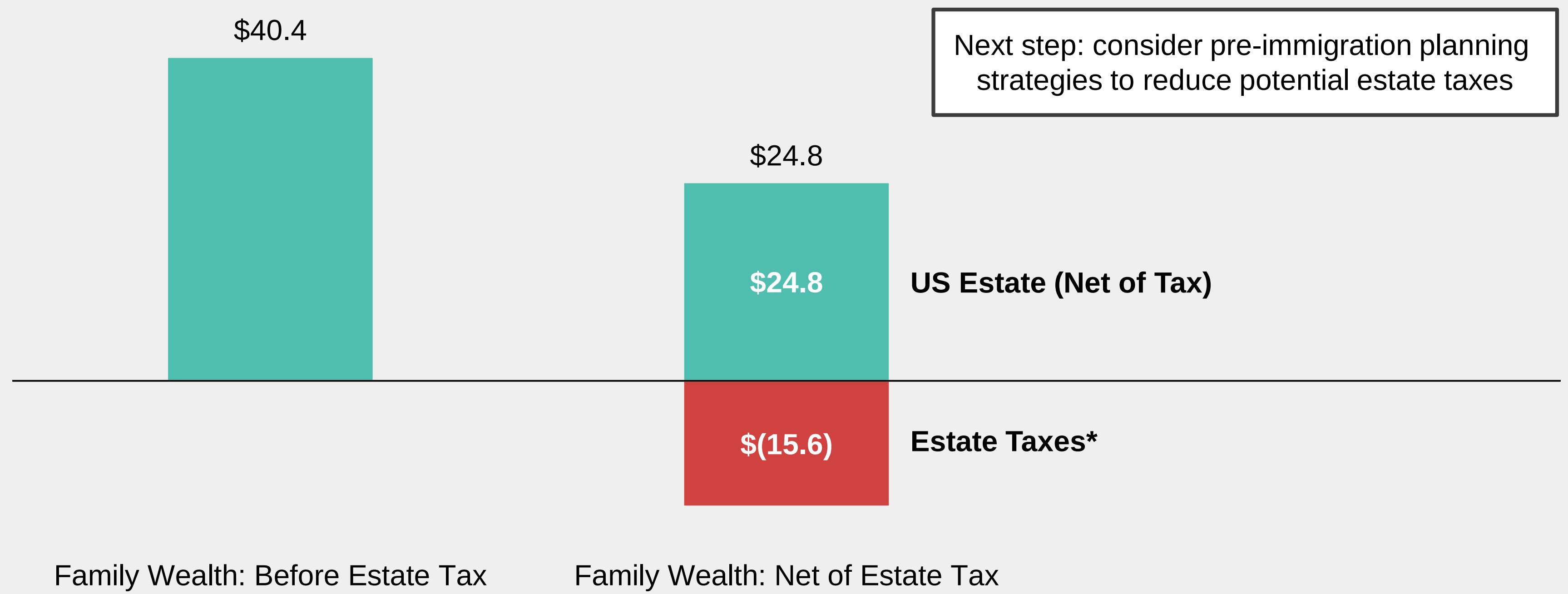


Probability >0	**>98%**	**>98%**	**>98%**	**>98%**

*Based on Bernstein's 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 future results.** Spending assumed to increase with inflation.
†Great represents 10th percentile, typical represents 50th percentile, and hostile represents 90th percentile.
See Assumptions and Notes on the Wealth Forecasting System in the Appendix for further details.

Immigrating Without Planning May Significantly Reduce the Garcias’ Legacy

Median Outcome in 40 Years for an 80%/20% Allocation
USD Millions, Inflation-Adjusted

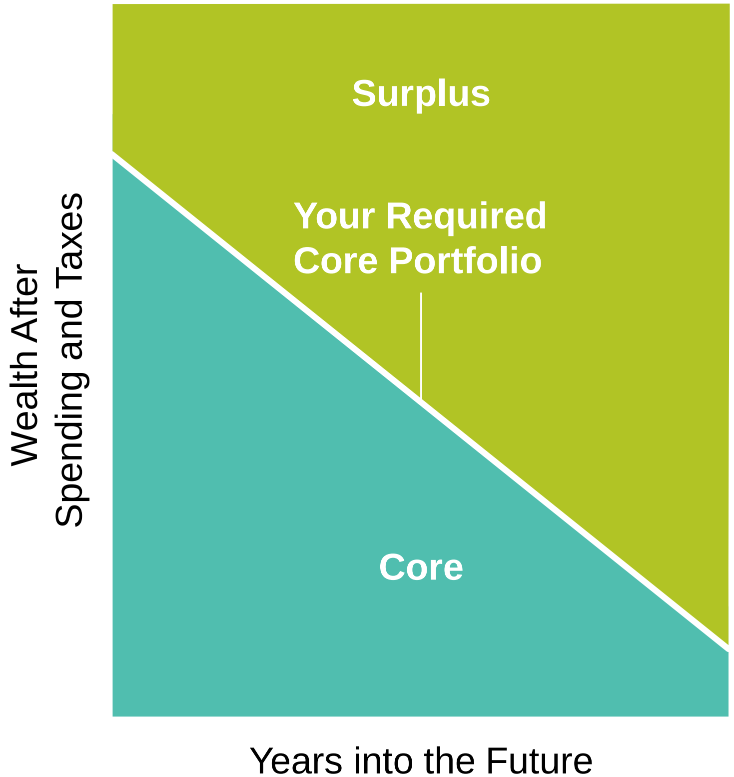


*Assumes combined federal exclusion of $10.98 million (inflation-adjusted) and marginal federal estate tax rate of 40% on assets in excess of the exclusion amount. Assumes marginal state estate tax of 16% on all assets. Based on Bernstein’s estimates of the range of returns for the applicable capital markets for the next 40 years. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on the Wealth Forecasting System in the Appendix for further details.

Planning Framework

Core Capital—A Disciplined, Research-Based Approach

Core Capital:
The Amount Needed to Sustain Your Lifestyle



Key Drivers

+ Age
+ Spending
+ Asset allocation

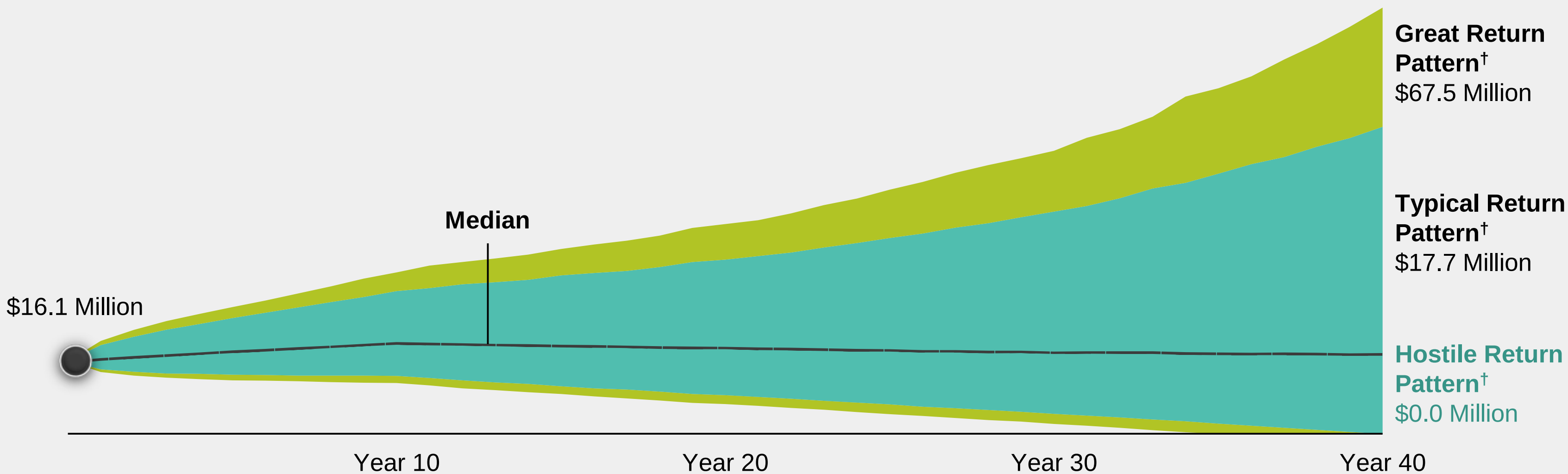
Stress Tested for

+ High inflation
+ Poor markets
+ Long life

Source: AB

Core Capital Is Sized to Sustain Spending Through Hostile Markets

Initial Assets $16.1 Mil.; Spending $500K After 10 Years*
80%/20% Allocation—After Income Taxes
USD Millions, Inflation-Adjusted



Probability >0	>98%	>98%	98%	90%

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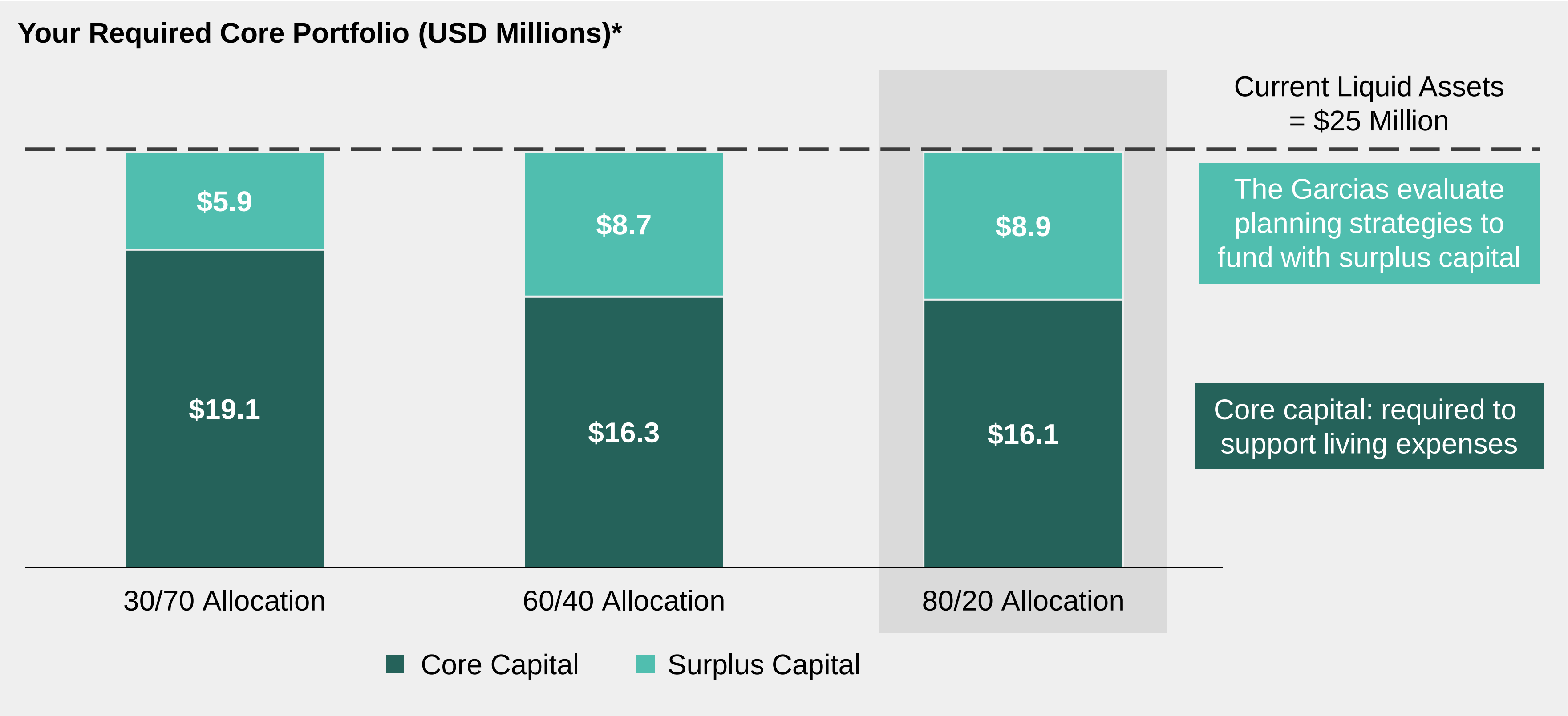
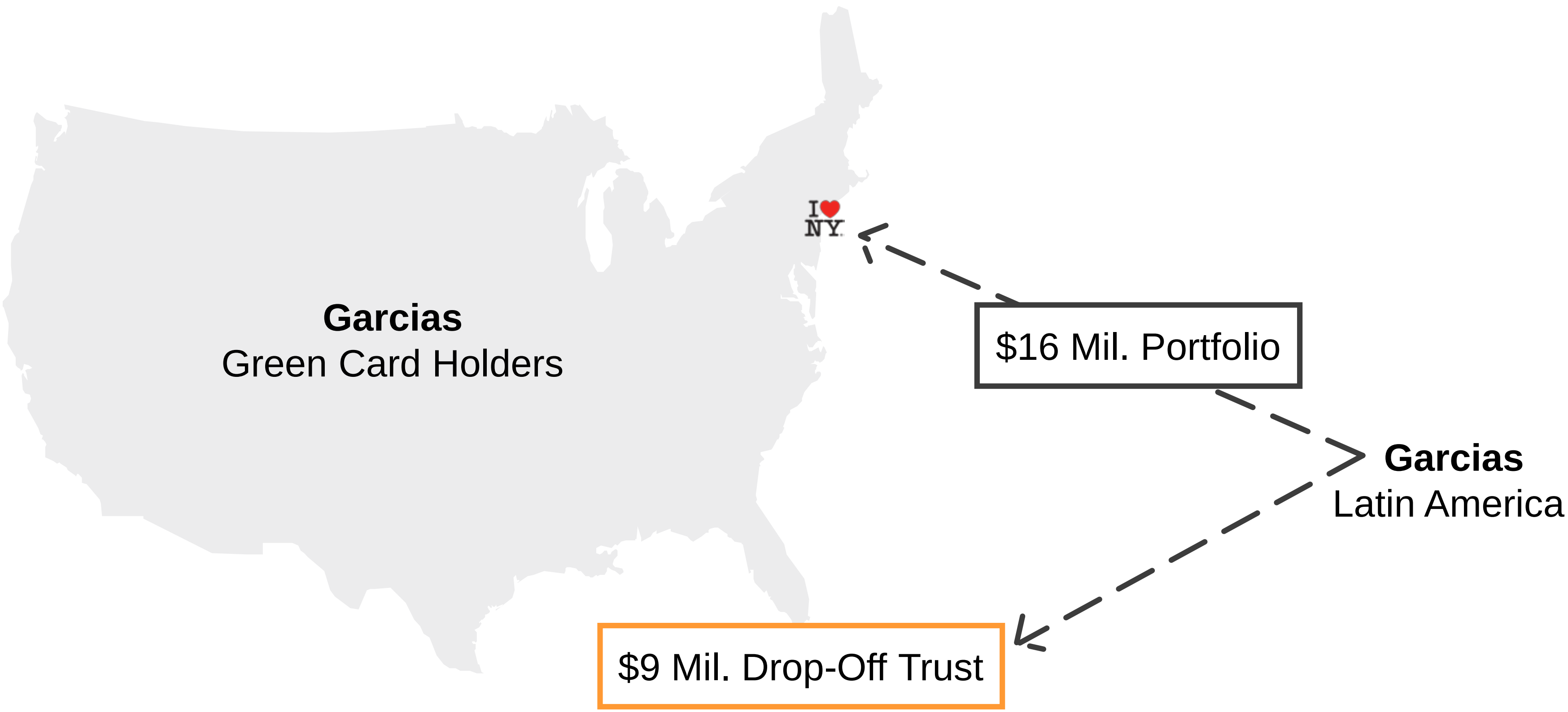
Core Capital Is Driven by Spending and Allocation



*Core capital is calculated at a 90% level of confidence of maintaining spending over 40 years. Based on Bernstein's 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 future results.** See Notes on the Wealth Forecasting System in the Appendix for further details.

Potential Plan

Fund a Pre-Immigration “Drop-Off” Trust with Surplus Capital



Not subject to US transfer tax
BUT subject to US income tax as grantor trust

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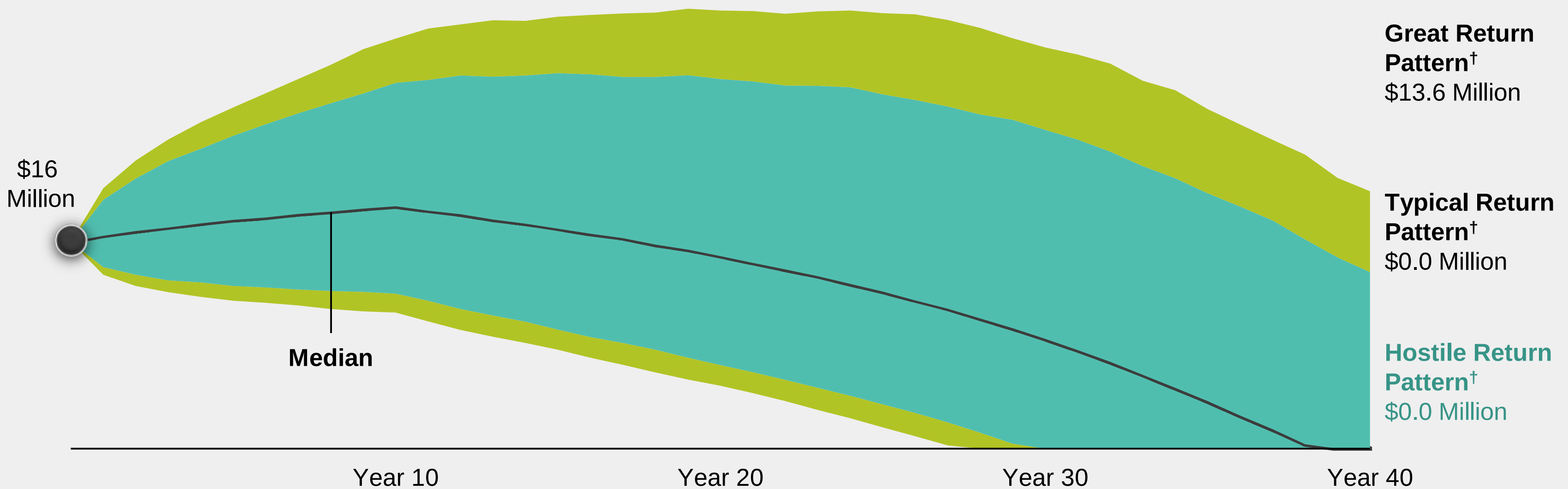
Potential Risk

Ongoing Tax Liabilities May Deplete Onshore Assets

Initial Assets $16 Mil.; Spending $500K After 10 Years*
80%/20% Allocation—After Income Taxes
USD Millions, Inflation-Adjusted



	Year 10	Year 20	Year 30	Year 40
Probability >0	**>98%**	**>98%**	**88%**	**41%**

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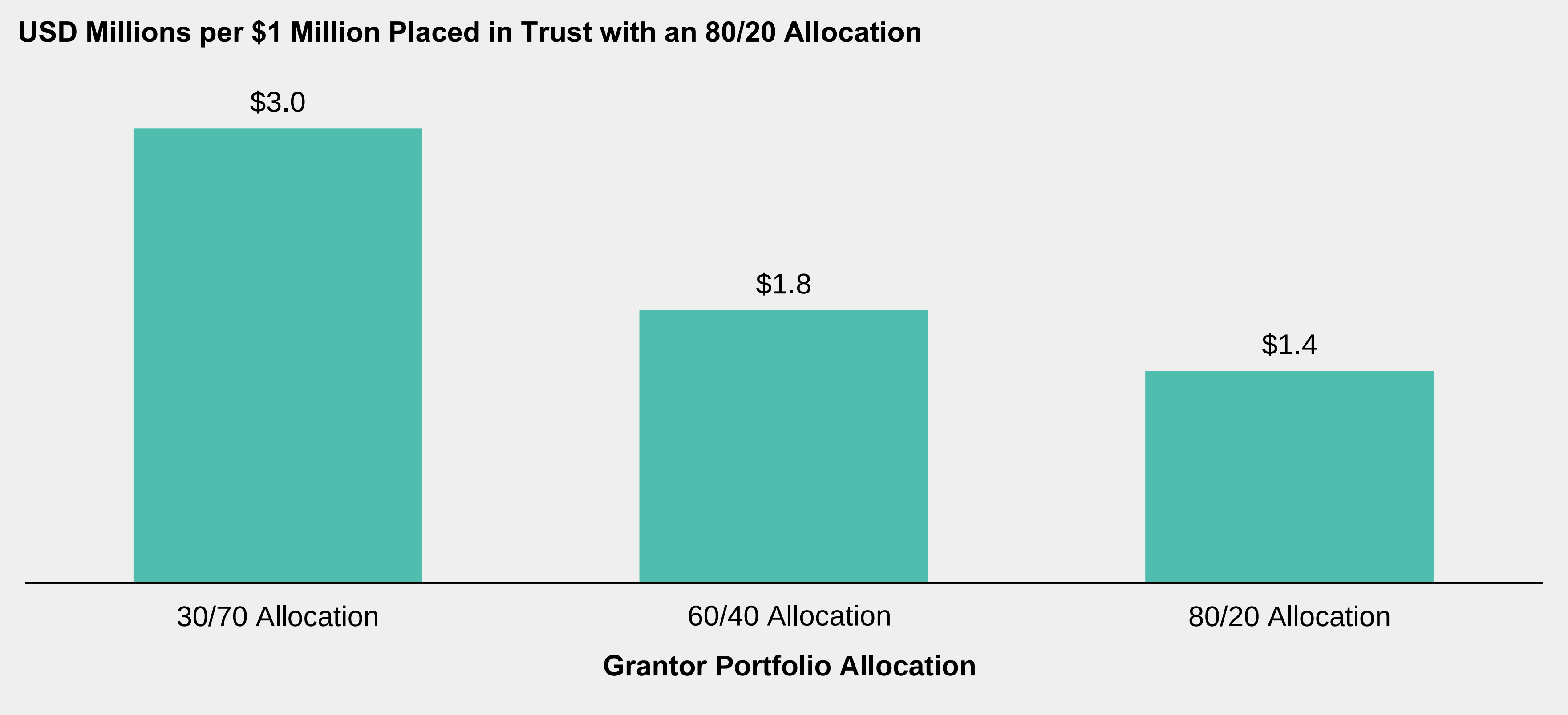
Recalculating Surplus Capital

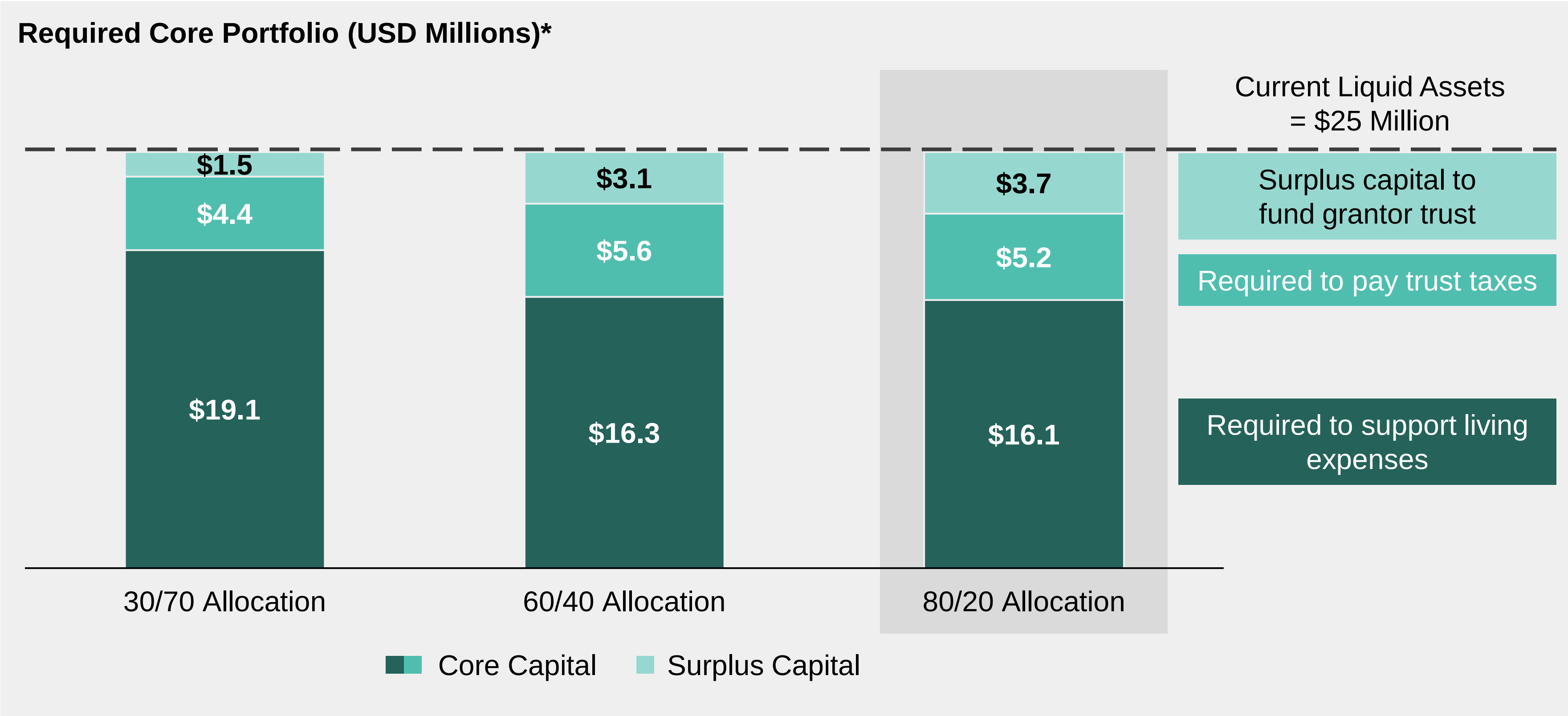
Reserve Required to Pay Taxes for the Drop-Off Trust



Capital required to support payment of grantor trust taxes with 90% confidence over 40 years. Based on Bernstein's 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 future results. See Notes on the Wealth Forecasting System in the Appendix for further details.

Recalculating Surplus Capital

Including Reserve for Drop-Off Trust Taxes



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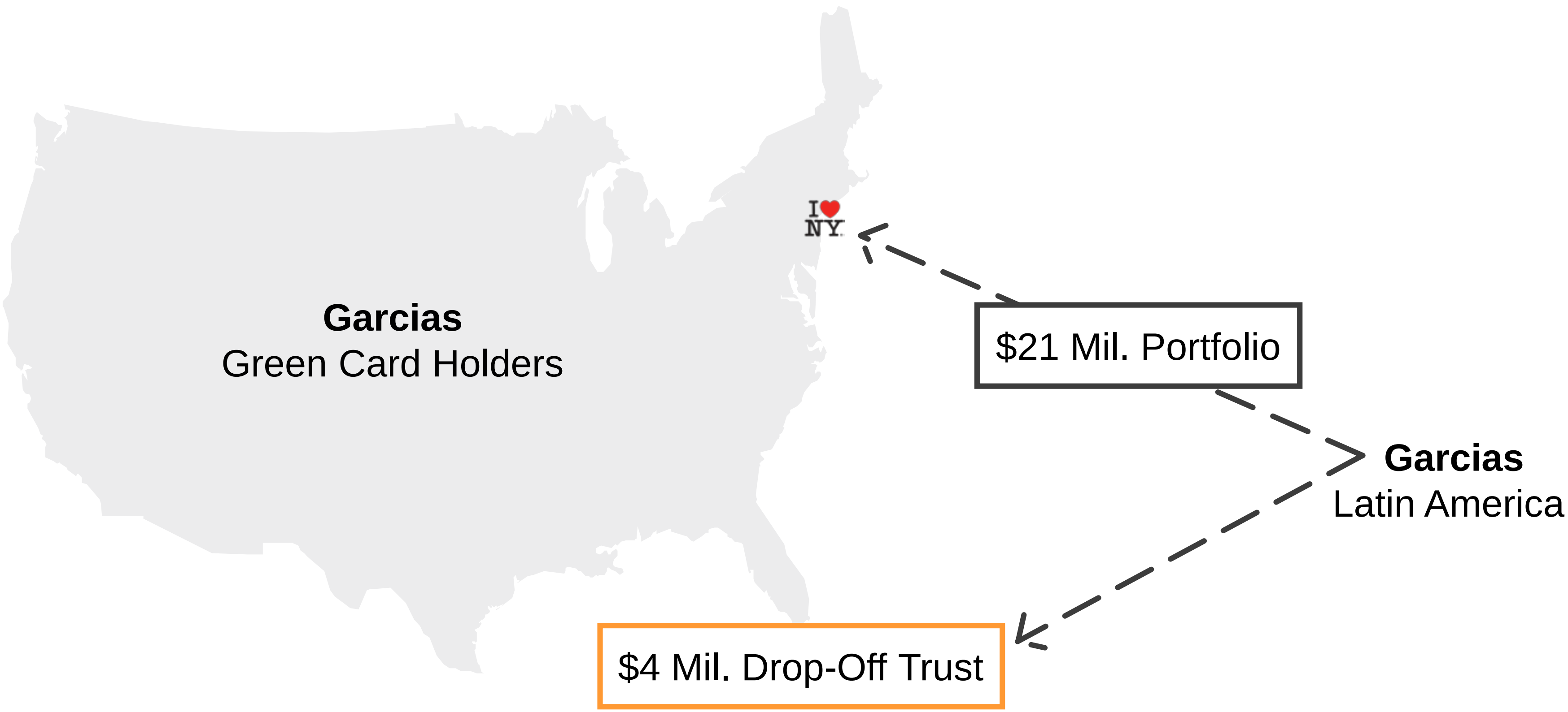
Potential Plan

Fund a Pre-Immigration “Drop-Off” Trust with Surplus Capital



Not subject to US transfer tax
BUT subject to US income tax as a grantor trust

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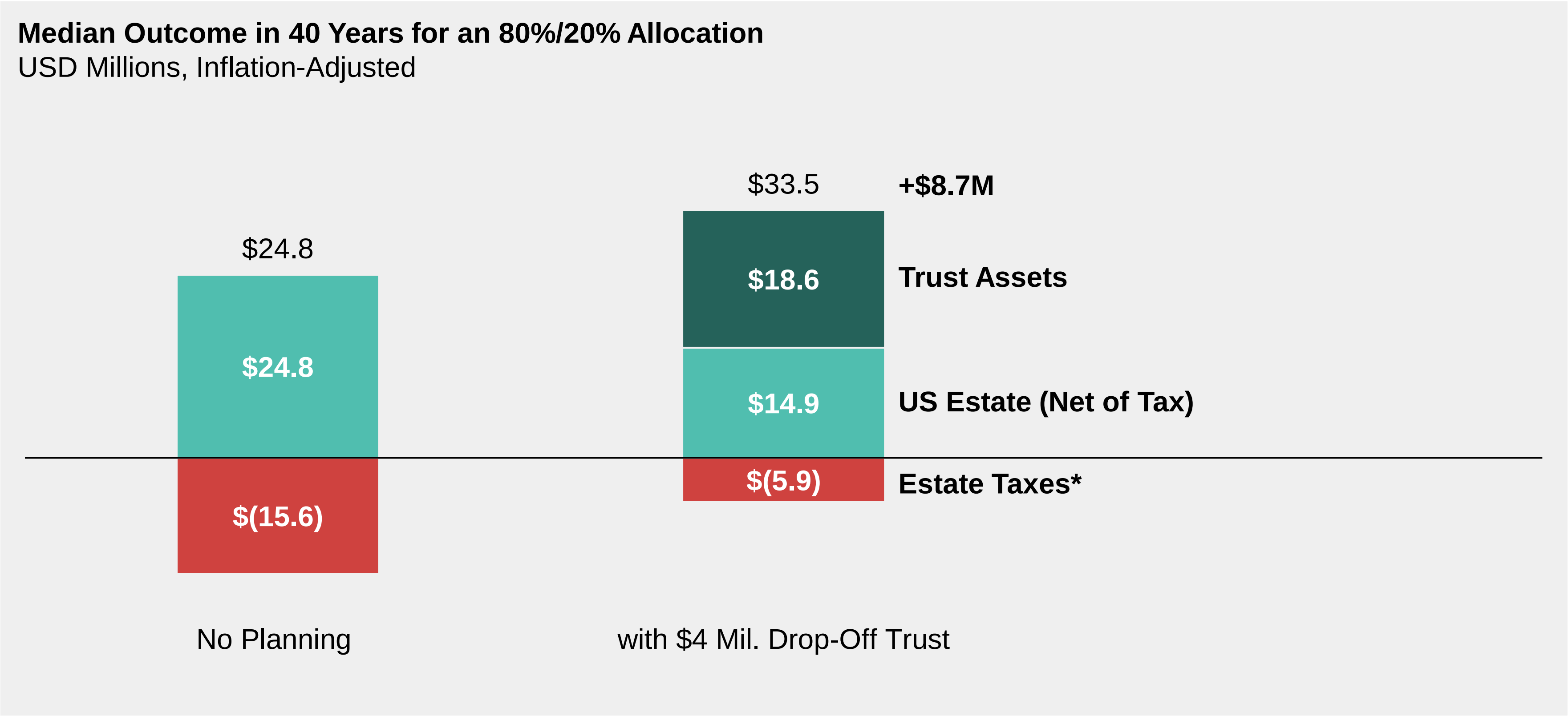
Evaluating the Potential Impact of Pre-Immigration Planning



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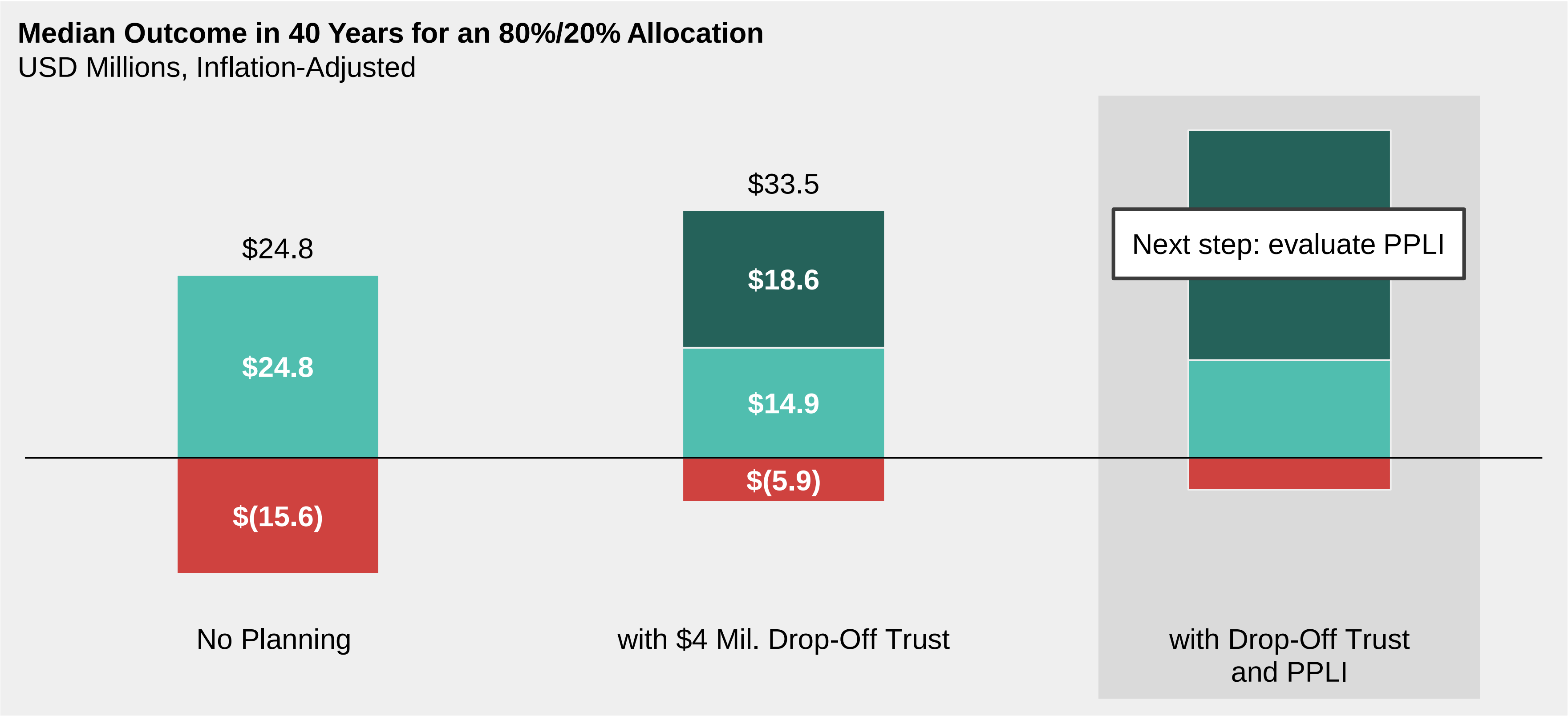
Evaluating the Potential Impact of Pre-Immigration Planning



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Private Placement Life Insurance (PPLI)

Potential Benefits

+ No income tax imposed on earnings within the policy
+ Can allocate among different investment portfolios offered by carrier
+ No annual Schedule K-1 issued to policyholders
+ Enhanced creditor protection laws may apply
+ Entire death benefit generally is free of income tax

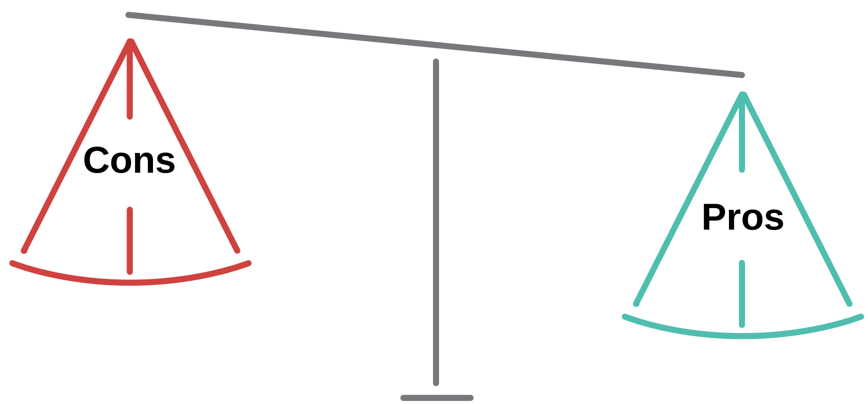
If the policy is a modified endowment contract (MEC), distributions during the lifetime of the insured generally are taxed in the same manner as an annuity, but if the policy is a non-MEC, the policyholder generally can withdraw to basis and borrow the difference, all free of income tax. A policy may qualify as a non-MEC if premiums are paid periodically, often over a period of four years or more. A single-premium policy generally will be a MEC, unless that policy is purchased in a Code Section 1035 exchange for an existing policy that is a non-MEC. Caution and sound continuing advice may be needed to avoid a possible lapse of the policy or unexpectedly harsh income tax consequences for certain withdrawals taken during the first 15 policy years. Under Code Section 7702(f)(7), withdrawals within the first 15 policy years that result in a decrease in death benefit may be subject to income taxation at ordinary rates. AB is not a tax, legal, or insurance advisor. Investors should consult these professionals, as appropriate, before making any decisions.

Private Placement Life Insurance (PPLI)

Costs to Consider

- Acquiring and maintaining PPLI involves costs:
  - PPLI usually requires an up-front aggregate load (state premium tax, federal DAC tax, and commission);
  - An annual mortality and expense (M&E) risk charge is common; and
  - Costs of insurance (COIs)

Key Question—Will the tax savings of PPLI outweigh its costs?



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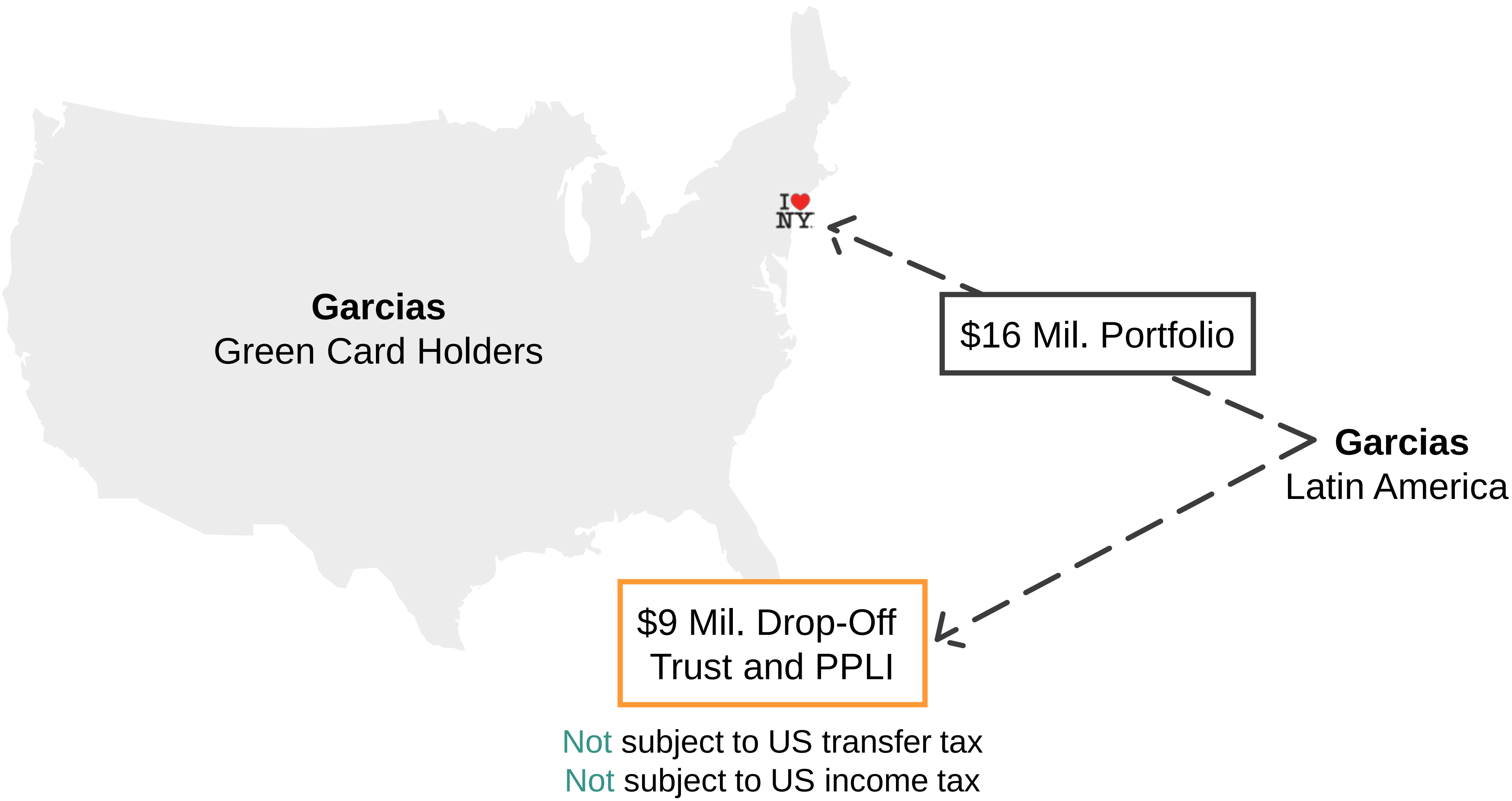
The Garcias Consider a Combination of Pre-Immigration “Drop-Off” Trust and PPLI



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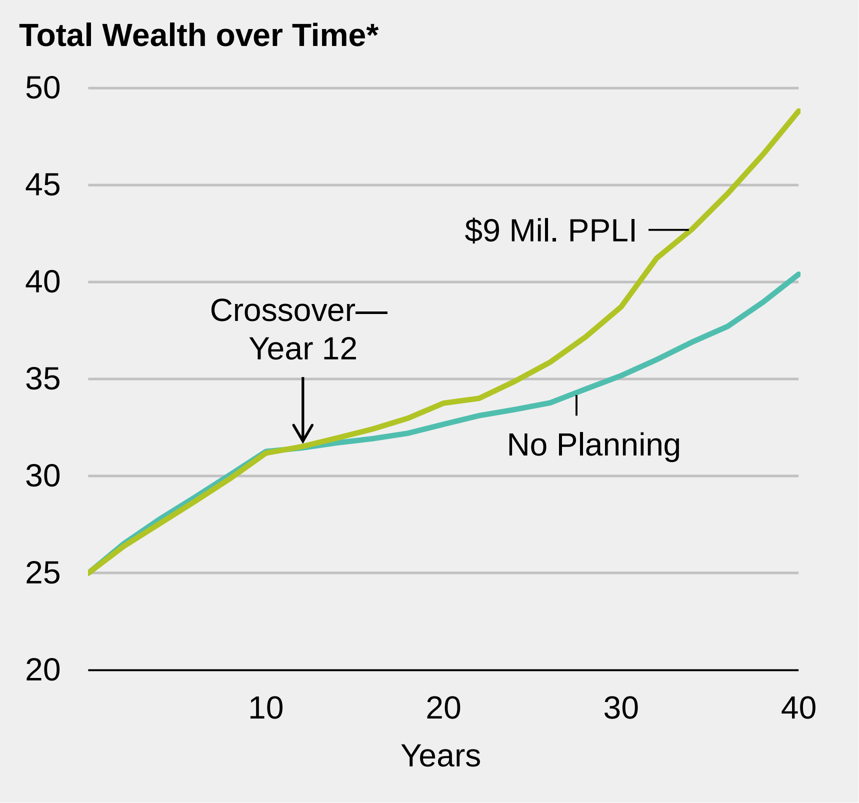
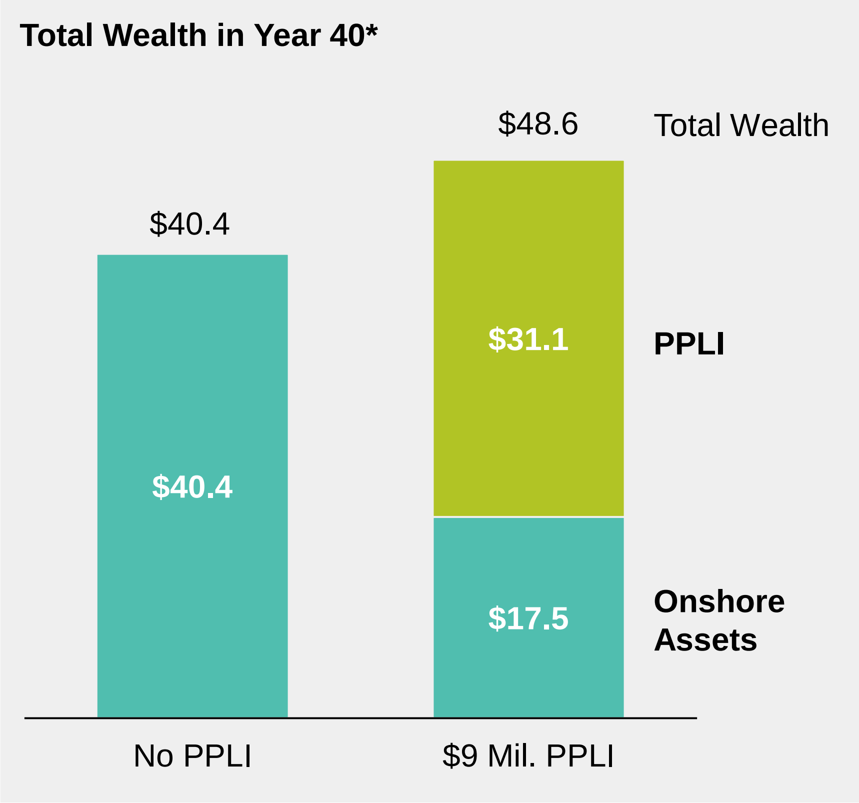
PPLI Provides Significant Potential Income-Tax Benefits

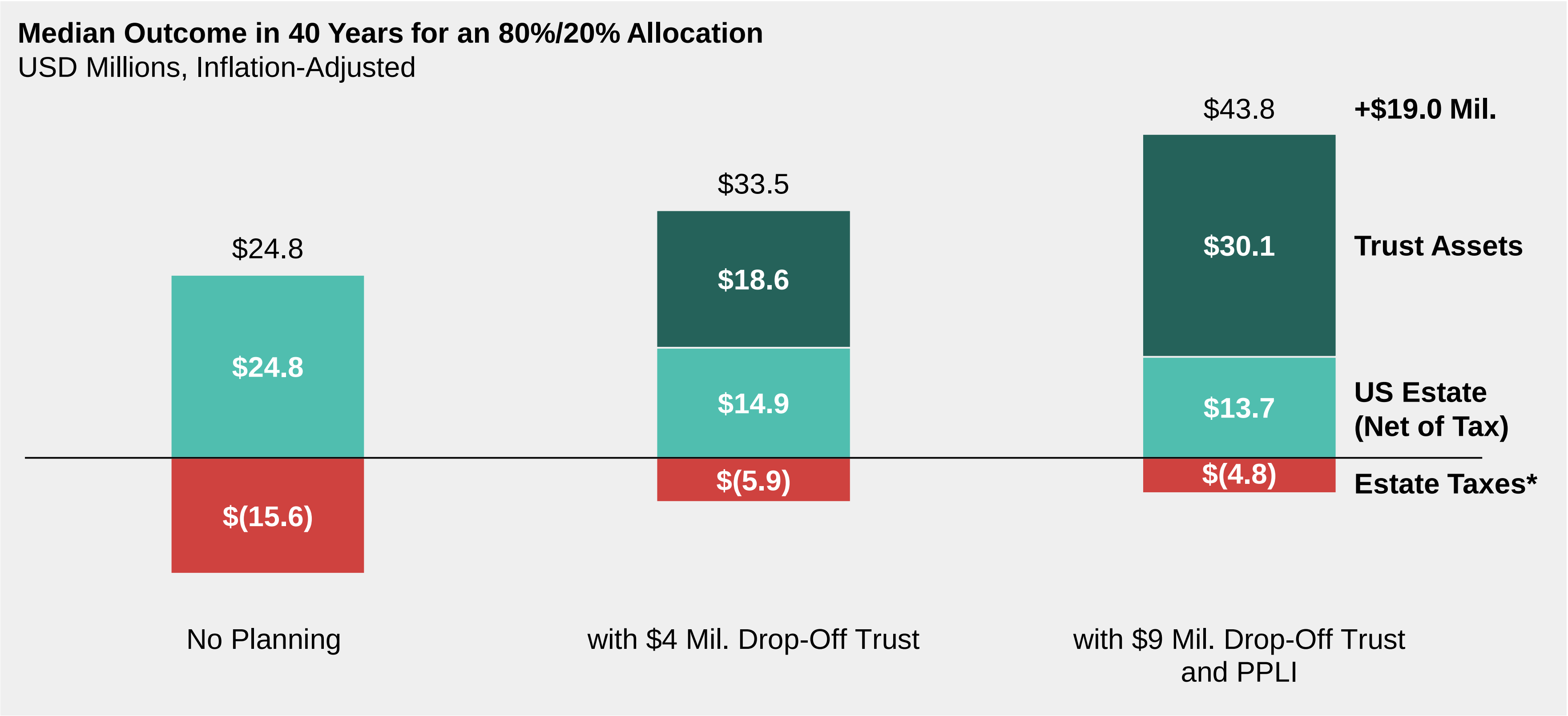
Median Outcomes for an 80%/20% Allocation (USD Millions, Inflation-Adjusted)





*Based on Bernstein's 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 future results.** Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on the Wealth Forecasting System in the Appendix for further details.

Potential Benefit of Combining a Drop-Off Trust with PPLI



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Implementing Advice

- The best time to plan is BEFORE immigration takes place
- Consider drop off trusts
  - Offshore – remember the likely grantor trust status, potentially high tax costs to grantor
  - Onshore – tax drag within the trust but can pick jurisdiction to reduce state taxes
- PPLI can eliminate income tax issues for both types of drop off trusts

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Other Scenarios Where PPLI Should Be Considered

- Especially attractive in situations where:
  - Access to funds is not generally contemplated
  - Longer time horizon
  - Tax inefficient investments or growth allocation
- Grantor Trusts
  - In high tax states
  - Where grantor can no longer afford to continue paying the trust's income taxes
- Non-Grantor Trusts
  - Existing dynastical trusts
  - GST exempt trusts
  - Foreign grantors transferring money to US beneficiaries

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APPENDIX

PPLI Assumptions*

In one scenario we assumed that the trust will purchase a Private Placement Life Insurance (PPLI) policy on the client's life with surplus capital. We have modeled the policy as follows:

- PPLI, structured as a non-modified endowment contract
- Premiums = $2.25 million per year for four (4) years (total = $9 million)

We have modeled the following PPLI expenses:

- Policy Load—$2,000 in first year
- Premium Loads
  - Premium Tax—Federal deferred acquisition costs (DAC) tax—$22,500 per year for four years
  - Premium Tax—State (Delaware)—$2,000 per year (fixed) for four years
- Periodic Charges
  - Mortality and expense risk charges
    - Year 1 to 5—55 b.p. per year
    - Year 6 and thereafter—45 b.p. per year
  - Cost of Insurance Charges
    - Year 1 to 10—$39,918 per year
    - Year 11 to 20—$31,526 per year
    - Year 21 to 30—$56,905 per year
    - Year 31 to 40—$201,058 per year
    - Year 41 to 50—$140,983 per year (not modeled as years are outside of scope)

The above amounts are based on average annual costs of insurance as outlined in an illustration provided by Lombard International. Assumptions are estimates for the average cost of the PPLI based on preliminary information provided by Lombard International. AB is not a tax, legal, or insurance advisor. Investors should consult these professionals, as appropriate, before making any decisions.

*Based on information supplied by the client and as of the date of this analysis.

Asset Allocations Model

Onshore Portfolio

	30/70 Allocation	60/40 Allocation	80/20 Allocation
Risk-Mitigating	**70.0%**	**40.0%**	**20.0%**
Total Bonds	**70.0%**	**40.0%**	**20.0%**
Int.-Term In-State Munis	70.0%	40.0%	20.0%
Return-Seeking	**30.0%**	**60.0%**	**80.0%**
Total Equities	**30.0%**	**60.0%**	**80.0%**
US Diversified	4.2%	8.4%	11.2%
US Value	5.7%	11.4%	15.1%
US Growth	5.7%	11.3%	15.1%
US SMID	2.1%	4.2%	5.6%
US Low-Vol. Equity	3.4%	6.7%	9.0%
Developed International	5.3%	10.8%	13.7%
Emerging Markets	1.7%	3.3%	4.2%
High-Risk Int'l	1.9%	3.9%	6.1%
Total	**100.0%**	**100.0%**	**100.0%**

Asset Allocations Model

Drop-Off Trust: 80%/20% Allocation

	Taxable Portfolio	PPLI Portfolio
Risk-Mitigating	**20.0%**	**20.0%**
Total Bonds	**20.0%**	**20.0%**
Int.-Term In-State Munis	20.0%	0.0%
Int.-Term Taxables	0.0%	10.0%
Global Int. Taxable Bonds Hedged	0.0%	10.0%
Return-Seeking	**80.0%**	**80.0%**
Total Equities	**80.0%**	**80.0%**
US Diversified	11.2%	11.2%
US Value	15.1%	15.1%
US Growth	15.1%	15.1%
US SMID	5.6%	5.6%
US Low-Vol. Equity	9.0%	9.0%
Developed International	13.7%	13.7%
Emerging Markets	4.2%	4.2%
High-Risk Int'l	6.1%	6.1%
Total	**100.0%**	**100.0%**

Capital Markets Projections

	Median 40-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	40-Year Annual Equivalent Volatility
Cash Equivalents	3.5%	4.0%	4.0%	0.3%	13.0%
Int.-Term In-State Munis	3.5%	3.8%	3.7%	3.8%	9.9%
Int.-Term Taxables	4.7%	5.2%	6.3%	4.7%	11.3%
Global Int.-Term Taxable Bonds (Hedged)	4.0%	4.4%	5.5%	3.9%	11.7%
US Diversified	7.5%	9.3%	3.2%	16.4%	23.7%
US Value	7.8%	9.5%	3.8%	16.0%	23.1%
US Growth	7.2%	9.4%	2.6%	18.1%	25.2%
US Small/Mid-Cap	7.6%	9.8%	2.8%	18.7%	25.7%
US Low-Volatility	7.5%	8.7%	4.5%	14.3%	19.6%
Developed International	8.2%	10.4%	3.6%	18.1%	24.4%
Emerging Markets	6.5%	10.5%	4.4%	26.1%	31.1%
High-Risk Int'l	8.2%	11.5%	2.4%	22.1%	28.0%
Inflation	3.2%	3.6%	—	1.1%	13.5%

Based on 10,000 simulated trials each consisting of 40-year periods. Reflects AllianceBernstein's estimates and the capital-market conditions of September 30, 2016.
Data do not represent past performance and are not a promise of actual future results or a range of future results.

Notes on Wealth Forecasting System

1. **Purpose and Description of Wealth Forecasting System**
   Bernstein's Wealth Forecasting System℠ 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 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 that uses our research and historical data to create a vast range of market returns, which takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of returns and asset values the client could expect to experience are represented within the range established by the 5th and 95th percentiles on "box-and-whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Expected market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet Bernstein's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized. The information provided here is not intended for public use or distribution beyond our private meeting.

Notes on Wealth Forecasting System

2. **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
Cash Equivalents	3-month US Treasury bills	100%
Int.-Term In-State Munis	AA-rated in-state municipal bonds of 7-year maturity	30%
Int.-Term Taxables	Taxable bonds of 7-year maturity	30%
Global Int.-Term Taxables (Hedged)	50% sovereign and 50% investment grade corporate debt of developed countries of 7-year maturity	30%
US Diversified	S&P 500 Index	15%
US Value	S&P/Barra Value Index	15%
US Growth	S&P/Barra Growth Index	15%
US Small/Mid-Cap	Russell 2500 Index	15%
US Low-Volatility	MSCI US Minimum Volatility Index	15%
Developed International	MSCI EAFE Index (Unhedged)	15%
Emerging Markets	MSCI Emerging Markets Index	20%
High-Risk Int’l	Country Fund	15%

Notes on Wealth Forecasting System

3. **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. 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.
4. **Technical Assumptions**
   Bernstein's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. Bernstein's Capital-Markets Engine is the module responsible for creating simulations of returns in the capital markets. These simulations are based on inputs that summarize the current condition of the capital markets as of September 30, 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 on request.
5. **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.
6. **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.

Notes on Wealth Forecasting System

7. **Tax Rates**
Bernstein's Wealth Forecasting System has used the following tax rates for this analysis:

Taxpayer	Scenario	Start Year	End Year	Federal Income Tax Rate	Federal Capital Gains Tax Rate	State Income Tax Rate	State Capital Gains Tax Rate	Tax Method Type
Client	All	2017	2056	Top Marginal	Top Marginal	12.7%	12.7%	Top Marginal

The federal income tax rate represents Bernstein's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. The federal capital gains tax rate is represented by the lesser of the top marginal income tax bracket 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 income tax rate represents Bernstein's estimate of the 'average' rate calculated based upon the applicable state's marginal tax schedule. Where an applicable state tax code permits the exclusion of a portion of capital gain income from gross income for purposes of calculating state income tax such exclusions have been included in the calculation.

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