Leaning In to Social Distancing:
Planning for Politics

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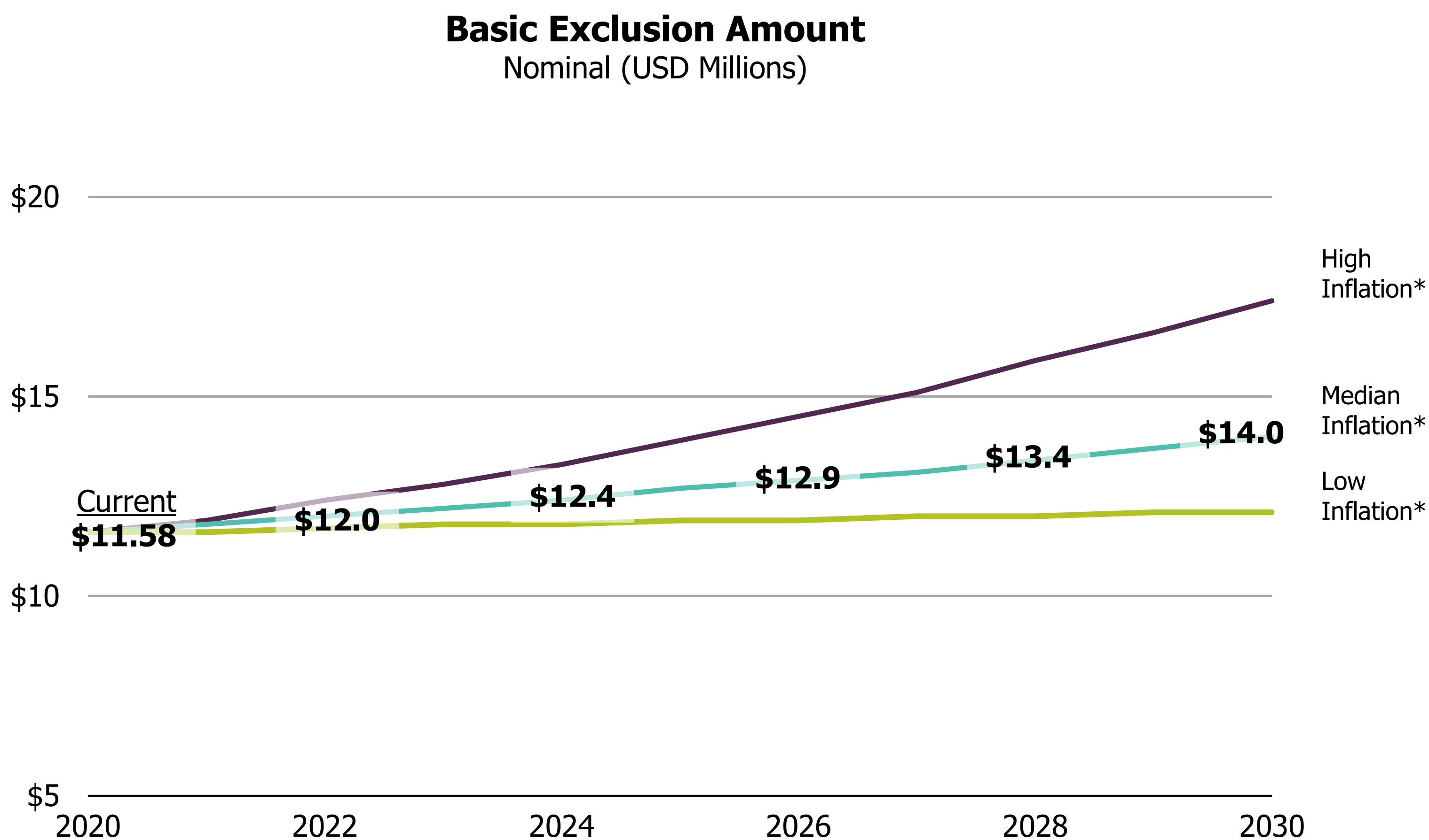
Comparative Highlights of Prior Law and "The Legislation Formerly Known as the Tax Cuts and Jobs Act"

	ATRA, et al. 2017	2020
Top marginal corporate income tax rate	35%	21%
Top marginal individual income tax rate	39.6%	37%, but up to 20% of domestic qualified business income is deductible
Surtax on net investment income	3.8%	Same
Nonitemizers	Combination of standard deduction and personal exemptions	2x standard deduction; personal exemptions eliminated
Itemized deductions	Subject to "3% cutback"	"3% cutback" and most deductions repealed; state and local tax deduction limited to $10,000 per year
Estate and GST taxes	$5.49M inflation-indexed exclusion; 40% "flat" rate	Same, except 2x prior basic exclusion amount through 2025 (now $11.58M)
Step-up in income tax basis at death	Applies to all decedent's estates	Same

Sources: https://www.congress.gov/congressional-report/115th-congress/house-report/466/1?overview=closed, Rev. Proc. 2019-44 § 3.41 (Nov. 6, 2019), and AB

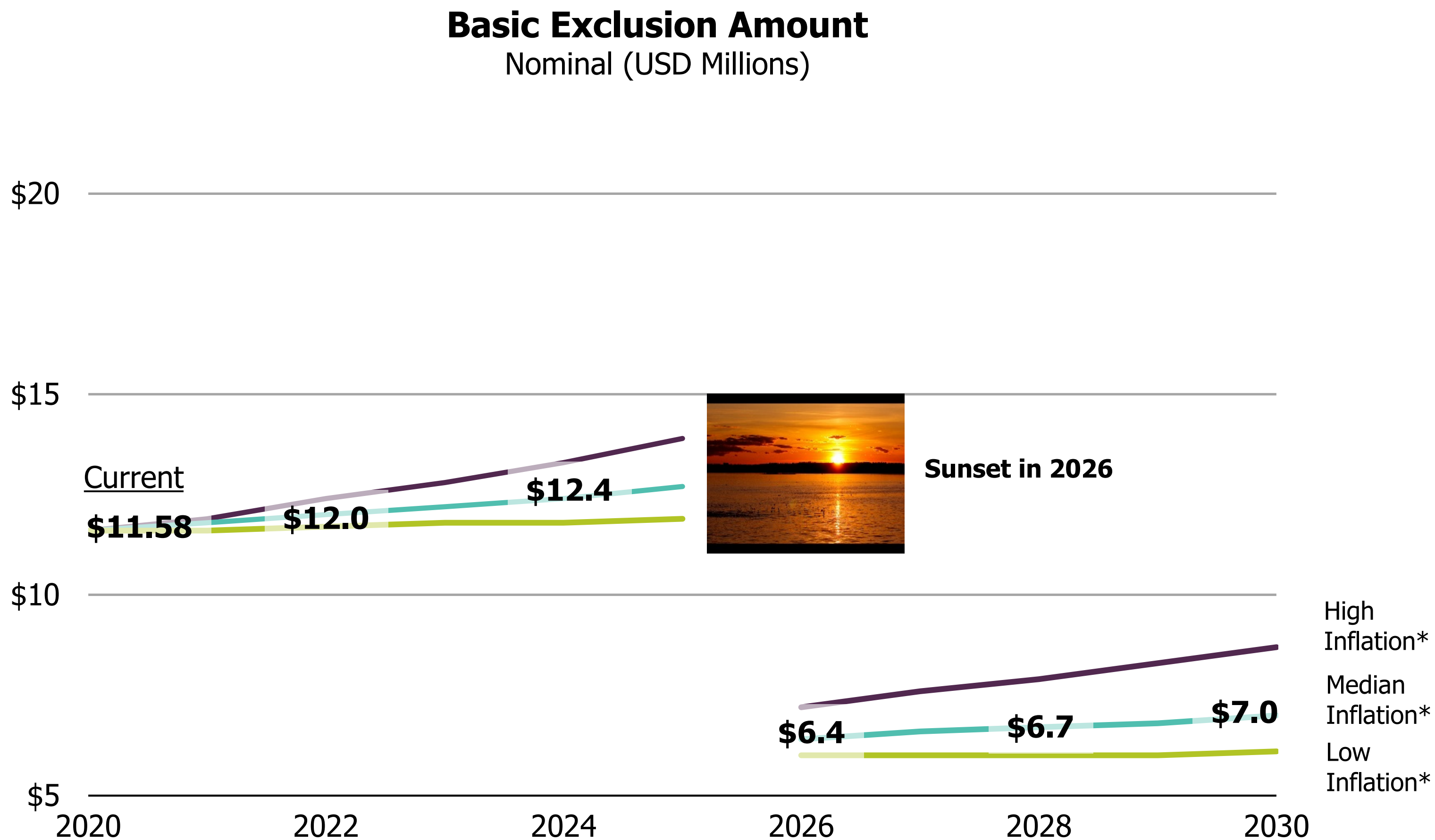
For the “Lucky” Few to Whom the Estate Tax Still Applies . . .

Projected Effect of Inflation on Basic Exclusion Amount . . .



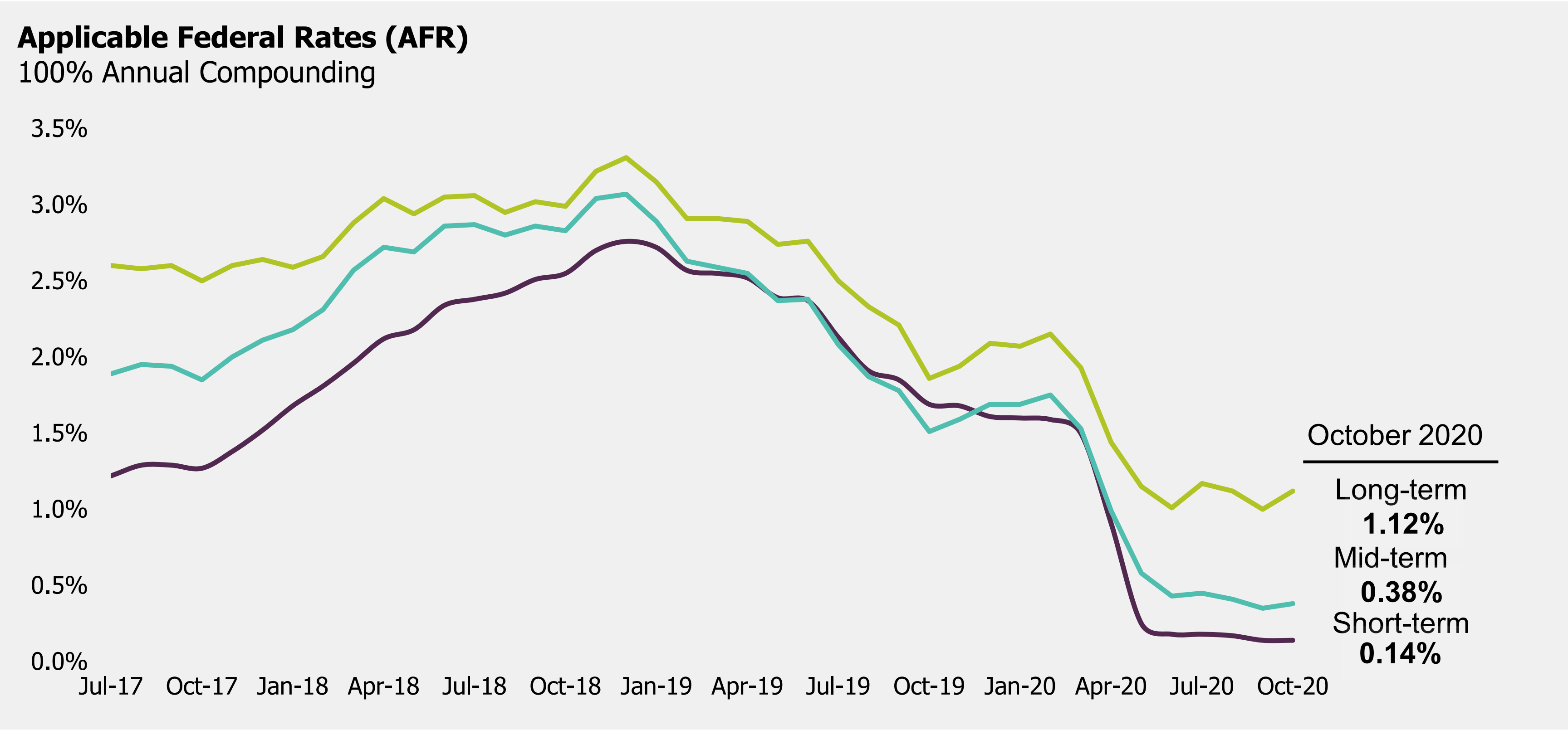
*Based on projected increases in "chained" CPI-U, rounded (except for 2020) to the nearest $100,000 in this display. Basic exclusion amount shown is for an individual, based upon 10th ("high"), 50th ("median"), and 90th ("low") percentile outcomes for the inflation-adjusted basic exclusion amount.
Based on Bernstein's estimates of the range of returns for the applicable capital markets. **Data do not represent past performance and are not a promise of actual results or a range of future results.** See Appendix, Notes on Wealth Forecasting, for details.
Source: AB

. . . Unless We Get This



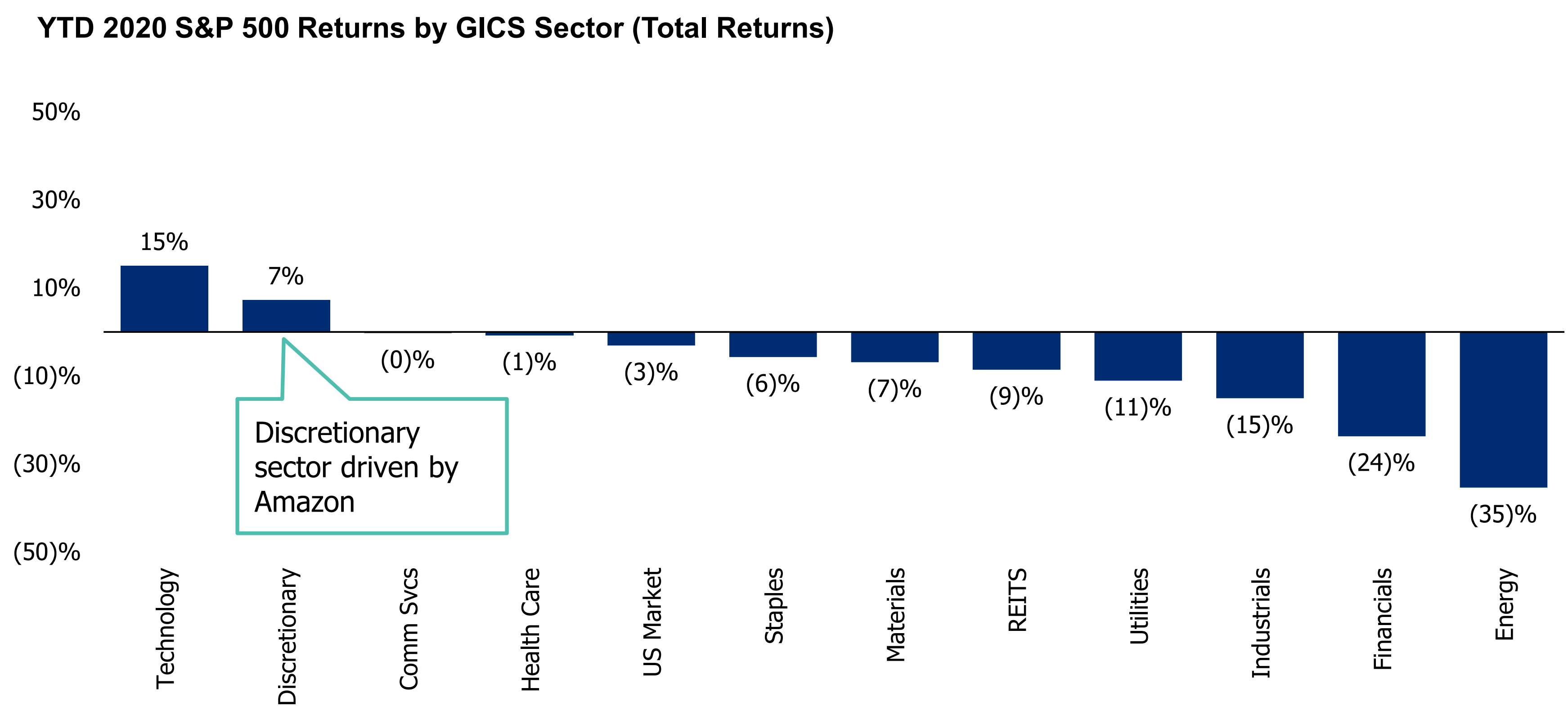
*Based on projected increases in "chained" CPI-U, rounded (except for 2020) to the nearest $100,000 in this display. Basic exclusion amount shown is for an individual, based upon 10th ("high"), 50th ("median"), and 90th ("low") percentile outcomes for the inflation-adjusted basic exclusion amount.
Based on Bernstein's estimates of the range of returns for the applicable capital markets. **Data do not represent past performance and are not a promise of actual results or a range of future results.** See Appendix, Notes on Wealth Forecasting, for details.
Source: AB

Potential Strategy: Lock in Today's Still-Low Interest Rates… But Retain the Option to Complete the Gift Later



Source: www.irs.gov

Potential Future Appreciation Exists Across a Range of Asset Classes



Past performance is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

As of June 30, 2020

Source: S&P

The Ballot: Top Candidates for Wealth Transfer

Asset category or investment service	Description	Installment sale	Short-term, rolling GRATs	Long-term GRAT	Outright gift
Concentrated, publicly-traded single stock	Stock in a single company that makes up a substantial part of an investor's portfolio.		X		
Diversified portfolio, publicly-traded stocks	A portfolio of companies of different market capitalization, sectors, and geographies.	X	X		X
Responsible US equities	Large cap ,high-conviction portfolio of 80-90 companies. Optimized to minimize exposure to tobacco, defense, guns, fossil fuels, and nuclear power. Selects companies with strong or improving ESG characteristics.	X	X		X
Sustainable international equities	Targets a global (ex-US) universe of companies with strong ESG practices.	X	X		X
Global core equities	High-conviction portfolio of 50-80 companies with high active share and low turnover.	X	X		X
High yield fixed income	Invests primarily in non-investment grade corporate debt.	X	X		X
Securitized assets	Capitalizes on opportunities in securitized assets with a focus on mortgage credit.	X			
Financial services fund	Seeks to capitalize on secular opportunities within the micro-cap bank space.	X	X		X
Energy	Invests across the capital structure in private and public debt and equity of oil producers in the US.	X			
Real Estate	Bernstein real estate portfolios focus on "distressed" opportunities during the early stages of a slow and uneven recover by identifying mispriced assets, restructuring, recapitalizing, and stabilizing.				
High cash flow				X	
Low cash flow		X			
No cash flow		Pair installment sale of real estate with short-term, rolling GRATs funded with marketable stocks			X
Closely held business interests	A business entity whose shares are held by a small number of stockholders, often within just one family. Current valuations of such interests are extraordinarily low due to economic uncertainties.				
High cash flow				X	
Low cash flow		X			
No cash flow		Pair installment sale of business interest with short-term, rolling GRATs funded with marketable stocks			X

Leaning In to Social Distancing: A Perfect Storm for Wealth Transfer

- Environmental factors
  - Favorable valuations
  - Historically low interest rates
  - Huge applicable exclusion amount
  - **Possibility of adverse tax legislation as early as 2021**
- Current wealth transfer opportunities
  - Grantor retained annuity trust (GRAT) or installment sale to irrevocable grantor trust (IGT)
  - GRAT immunization
  - "Value-shifting" strategy
  - Roth conversion
  - Refinancing intrafamily debt

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

Rumored Provisions of the Biden Tax Plan

Rumored Income Tax Provisions of Biden Plan

- Increase income taxes for taxpayers with income > $400,000
  - Restore pre-2018 top marginal rate of 39.6%
  - Limit itemized deductions to 28% tax benefit
  - Restore Section 68 3% limitation on itemized deductions
  - Impose 12.4% payroll tax (employee and employer share)
  - Eliminate Section 1031 exchanges for real estate investors
  - Repeal Section 199A deduction for taxpayers with income over $400,000
- Tax capital gains and dividends at ordinary rates for taxpayers with income > $1 million
- Increase corporate tax rate from 21% to 28%
- Repeal $10,000 limitation on state and local tax (SALT) deduction

Source: AB

Rumored Transfer Tax Provisions of Biden Plan

- "Back to the Future": Return to 2009
  - $3.5 million estate tax exclusion not indexed for inflation
  - $1 million lifetime gift tax exclusion not indexed for inflation (would reduce estate tax exclusion if used)
  - 45% estate, gift, and generation-skipping transfer (GST) tax rate
- Tax unrealized capital gains or eliminate basis "step-up" at death (carried over from Obama-era proposal)
  - Transfers to spouses and charity exempt
  - $100,000 per-person exclusion
  - Tangible personal property excluded
  - Capital gains tax paid is deductible against estate tax

Source: AB

Potential Resuscitation of Obama-Era Transfer Tax Proposals

- Grantor retained annuity trusts (GRATs)
  - Prohibit annuity terms shorter than 10 years
  - Require minimum remainder interest of 25% at inception
- Grantor trusts
  - Prohibit grantors from engaging in tax-free exchanges with trust
  - Require property transferred to trust by sale or exchange, increased by appreciation and distributions of such property, to be included in grantor’s estate
- Annual cumulative cap of $50,000 on annual exclusion gifts

Source: AB

Overview: The Path for Enactment

- Democrats would need to sweep the House, Senate, and White House
  - Maintain control of House
  - Pick up four seats in the Senate (simple majority)
  - Win the White House
- What about the Senate filibuster?
  - Can be bypassed using budget reconciliation process
  - Byrd Rule is not applicable because Biden tax proposals would reduce, not increase, deficit
- Two additional obstacles
  - Political capital of Senators in purple states
  - Fragility of economic recovery during ongoing recession and pandemic

Source: AB

Possible Retroactivity of Biden Tax Plan

- Act becomes generally becomes effective on the date of its enactment, unless otherwise provided
- Retroactive tax law is permitted, provided it doesn't create new tax
  - No Constitutional prohibition against retroactivity
  - "A taxpayer has no vested right in the Internal Revenue Code," U.S. v. Carlton, 512 U.S. 26, 33 (1994)
- Example: Deficit Reduction Act of 1993 increased estate tax rate from 50% to 55%
  - Top marginal transfer tax rate decreased from 55% to 50%, effective 1/1/93
  - Act purported to restore 55% rate, retroactive to 1/1/93
  - Congress passed bill, and President Clinton signed into law on 8/10/93
  - Taxpayers lost Constitutional challenges at Federal District Court level

Source: AB

Planning for Income Tax Increases

Accelerate income prior to effective date of tax increases

- Convert traditional IRAs to Roth IRAs
- Sell appreciated assets now to fund future spending needs
- Opt to not defer income into deferred compensation plans
- 83(b) election on restricted stock grants
- Make an NUA election of eligible distributions from retirement plans
- Complete business sales transactions
- Gain harvest
- Postpone charitable contributions and other deductible expenses
- Realize gains in irrevocable grantor trusts
- Be cautious about establishing new CRTs
- Shift assets to non-qualified private placement variable annuities or life insurance
- Shift to a more passively managed approach or index funds
- 100% AGI limitation for qualified charitable contributions for 2020
  - In cash
  - Not to donor-advised fund (DAF), private foundation, or supporting organization

Source: AB

Planning for Transfer Tax Increases

Take Advantage of High Exclusion Amount and Low Interest Rates

- Review existing trusts for general powers of appointment
- Use applicable exclusion and GST exemption prior to effective date of tax increases
  - Married couples who are unwilling or unable to gift full $23.16 million should fully use one spouse's exclusion first (no gift splitting this year)
  - Give to an intentionally defective grantor trust (IDGT) or spousal lifetime access trust (SLAT)
- Retain flexibility by structuring transfer to IDGT as an installment sale in exchange for a promissory note:

Blue wave materializes in November …	Political gridlock continues …	"Donor's regret" …
✓ Forgive note, quickly completing gift	✓ Maintain arbitrage	✓ Prepay principal

Source: AB

Case Study: Potential Effect of Biden Tax Proposal

Core Capital Framework

Hierarchy of Objectives

Lifestyle Spending

Core Capital*
Assures long-term well-being

Children/ Grandchildren

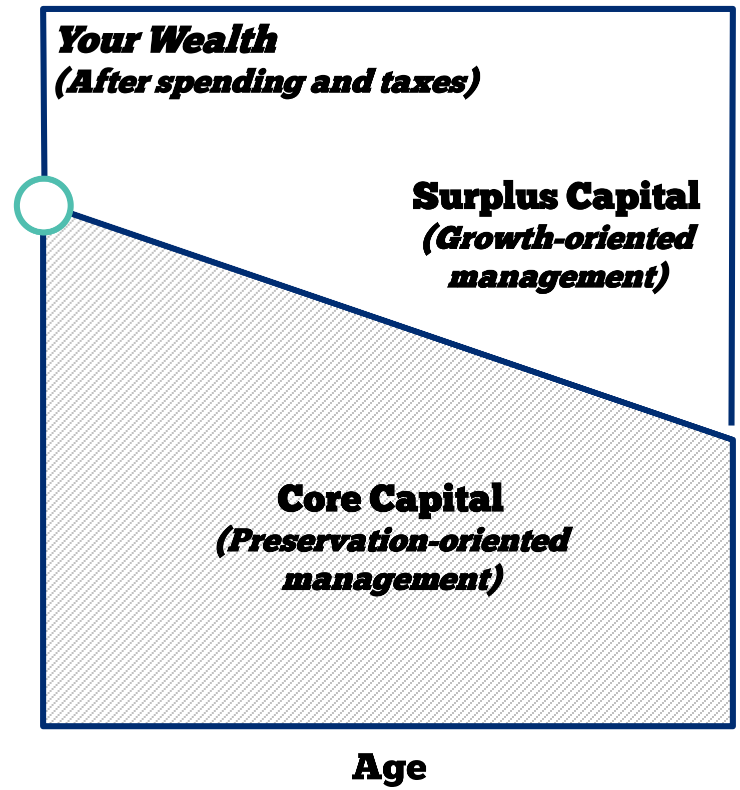
Discretionary Spending

New Ventures

Charity

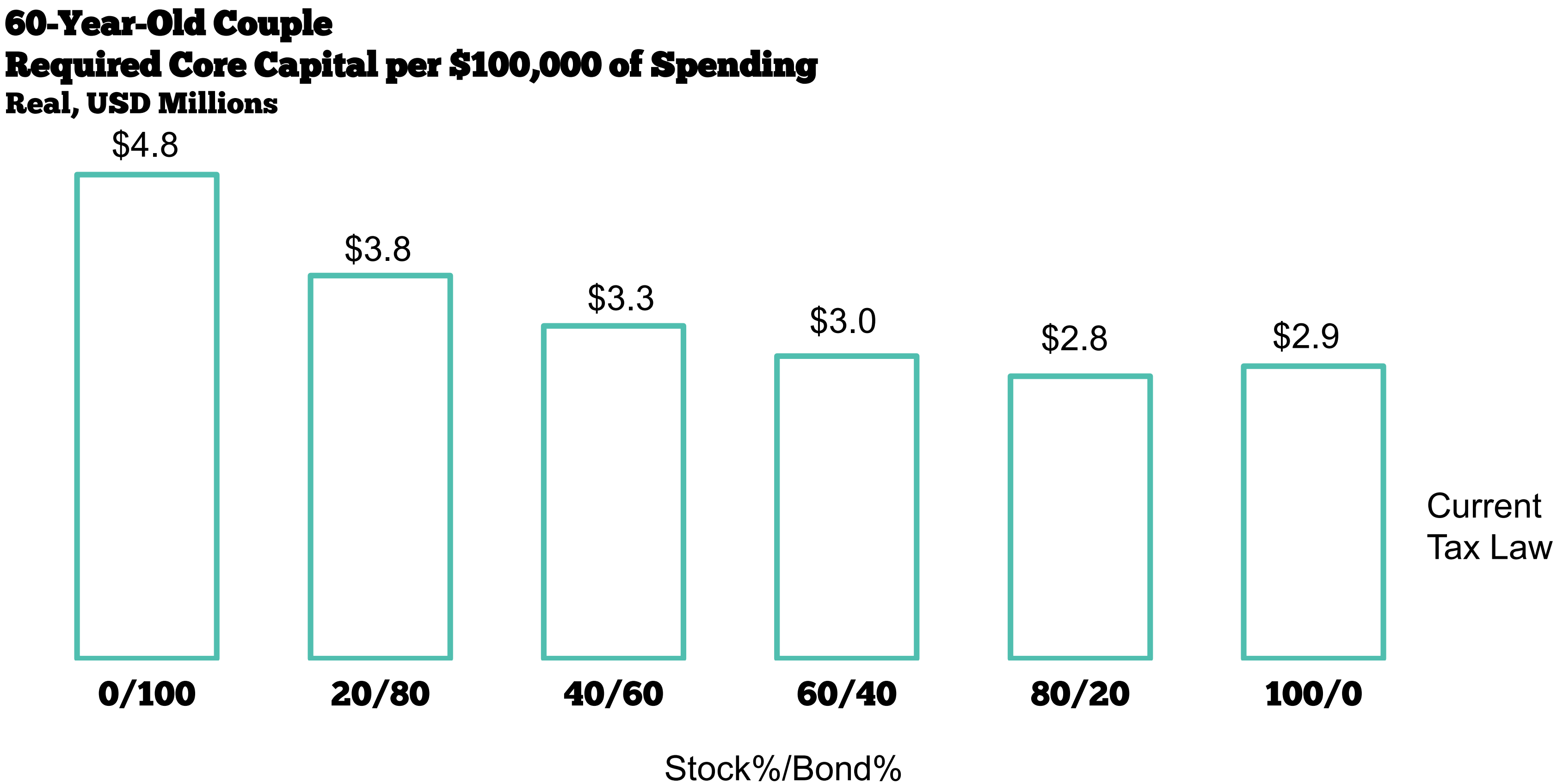
Surplus Capital
Provides for other goals

The Critical Goal



*The amount needed to support your lifestyle as long as you live.
Source: AB

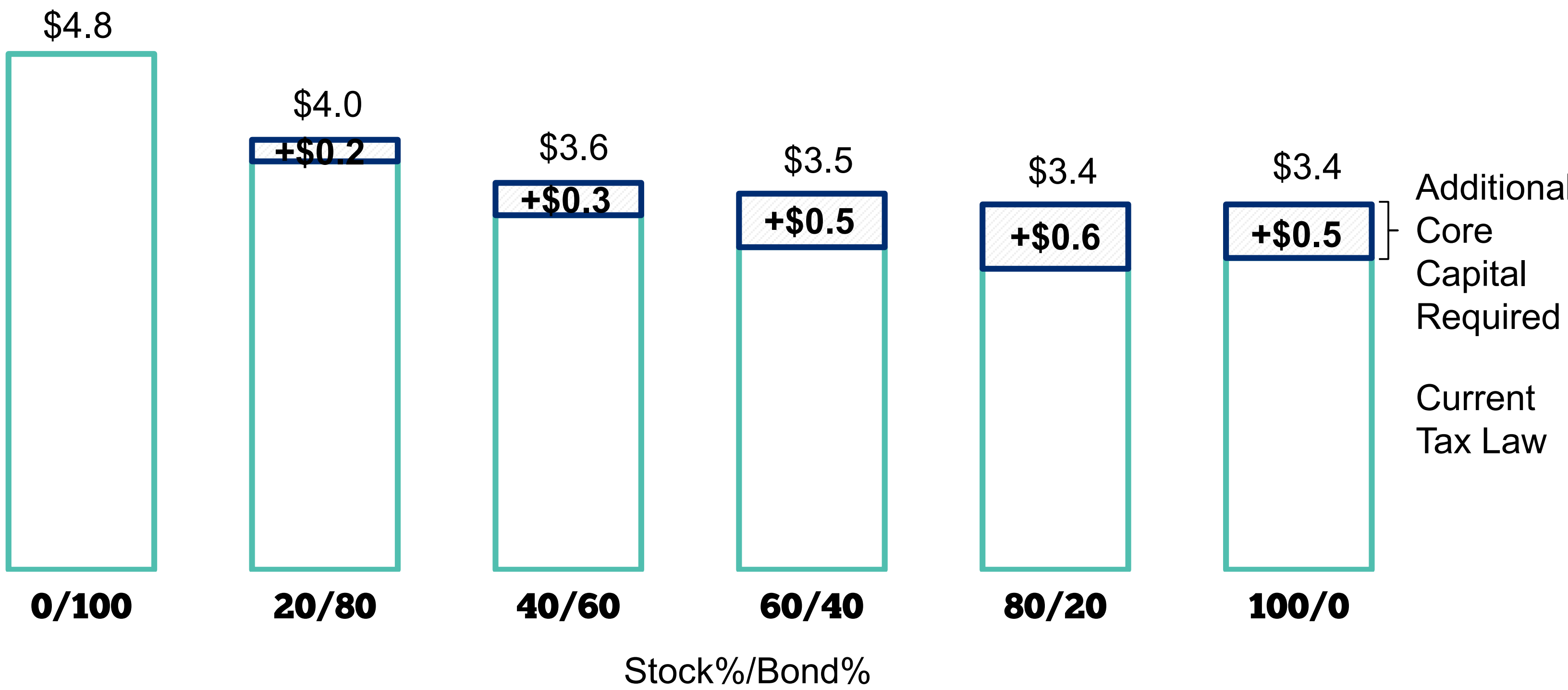
Core Capital Under Current Law



"Required Core Capital" is per $100,000 of inflation adjusted spending and is calculated at a 90% level of confidence. Variations in actual income, spending, applicable tax rates, lifespan and market returns may substantially impact the likelihood that a core capital estimate will be sufficient to provide for future expenses. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the period. 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

Core Capital Under Biden Tax Plan

60-Year-Old Couple
Required Core Capital per $100,000 of Spending
Real, USD Millions



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Analysis Assumptions

- Portfolio assets = $66.6 million
- No income other than portfolio income
- Inflation-adjusted spending of $500,000 to $800,000 per year
- Under the Biden tax plan, we assume a flat 39.6% rate on all taxable income, including long-term capital gains and qualified dividends
- Planning strategy: $23.16 million gift in trust to utilize both spouses' applicable exclusion
- Asset allocations
  - Trust: 80% global stocks, 20% bonds
  - Personal: 60% global stocks, 40% bonds

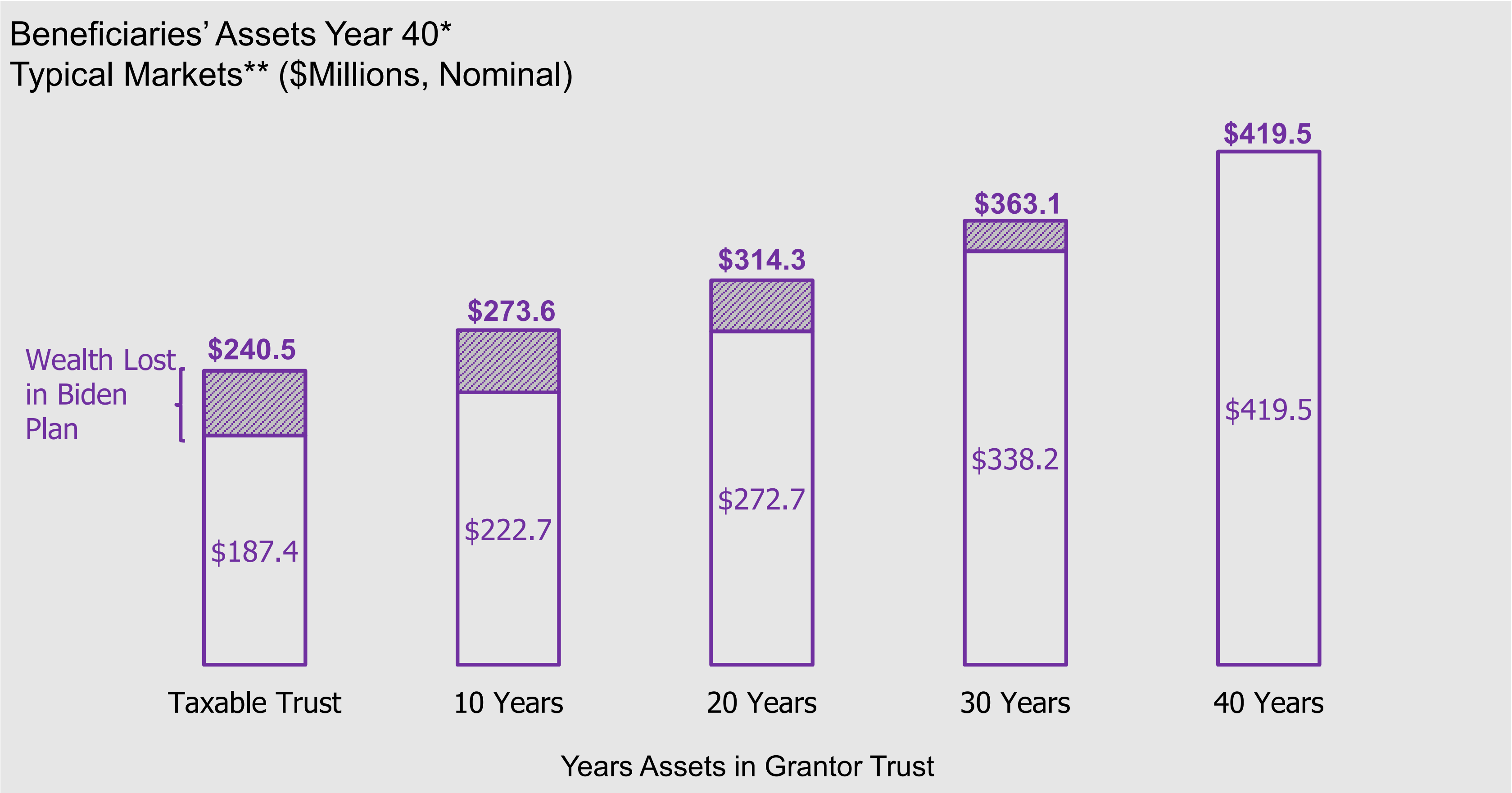
Source: AB

Key Questions

- How important is it to leave grantor trust income tax status “turned on”?
- Will grantor trust income taxes adversely affect personal spending?
- How long can you afford to pay grantor trust income taxes?
- How much incremental value does grantor trust income tax status add over time?

Source: AB

Leaving Assets in a Grantor Trust Shifts Substantial Additional Wealth that Escapes Transfer Tax … and Creditors' Claims



*"Taxable Trust" assumes assets are never held by a grantor trust and are given to a non-grantor trust on day 1. The non-grantor trust is governed by the state of Wyoming for income tax purposes.

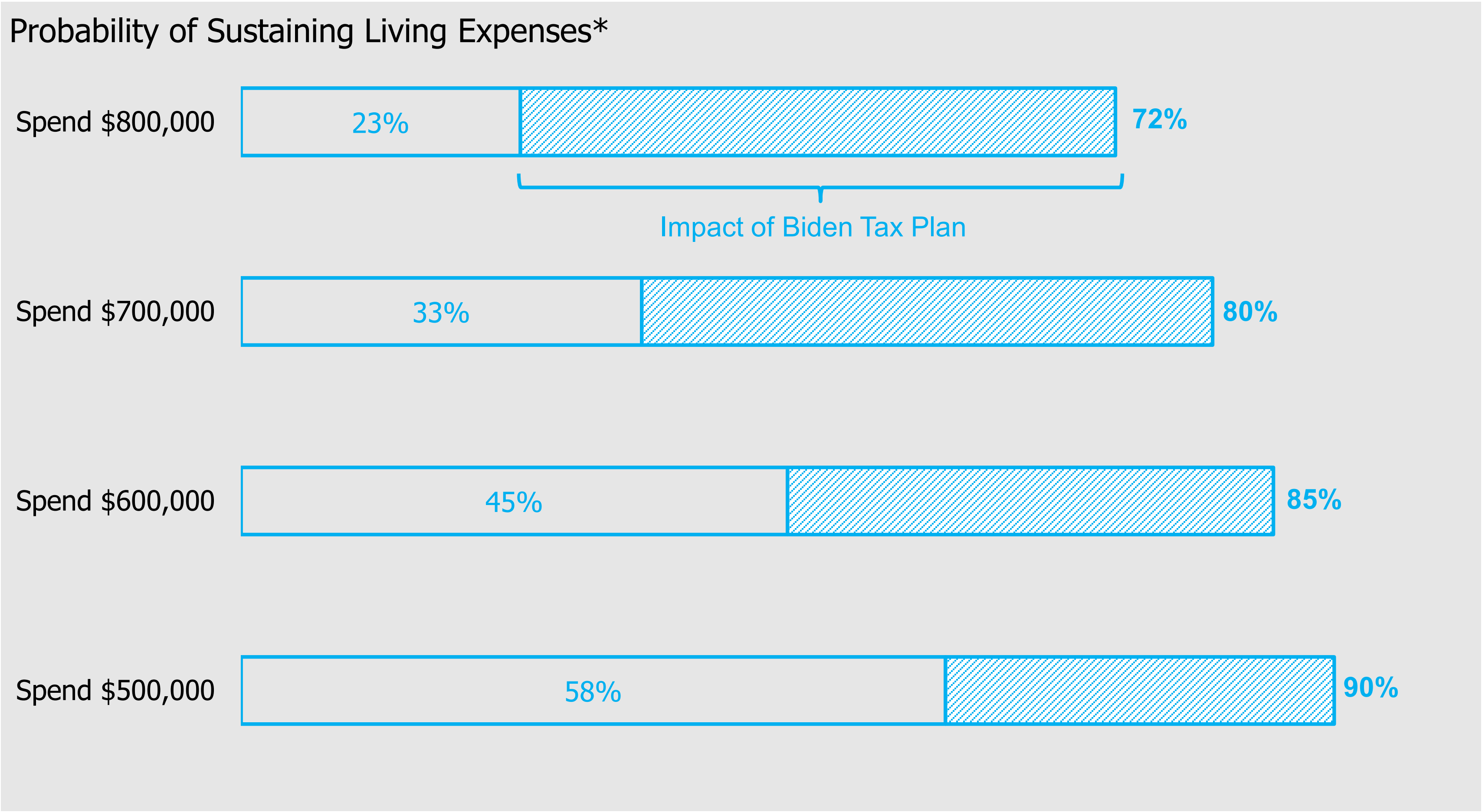
**"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of March 31, 2020) over the next 40 years.

Scenarios that include a grantor trust assume assets are held in a grantor trust for the period of time noted, after which they are transferred to a non-grantor WY trust where they continue to grow based on the underlying allocation until the end of year 40.

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

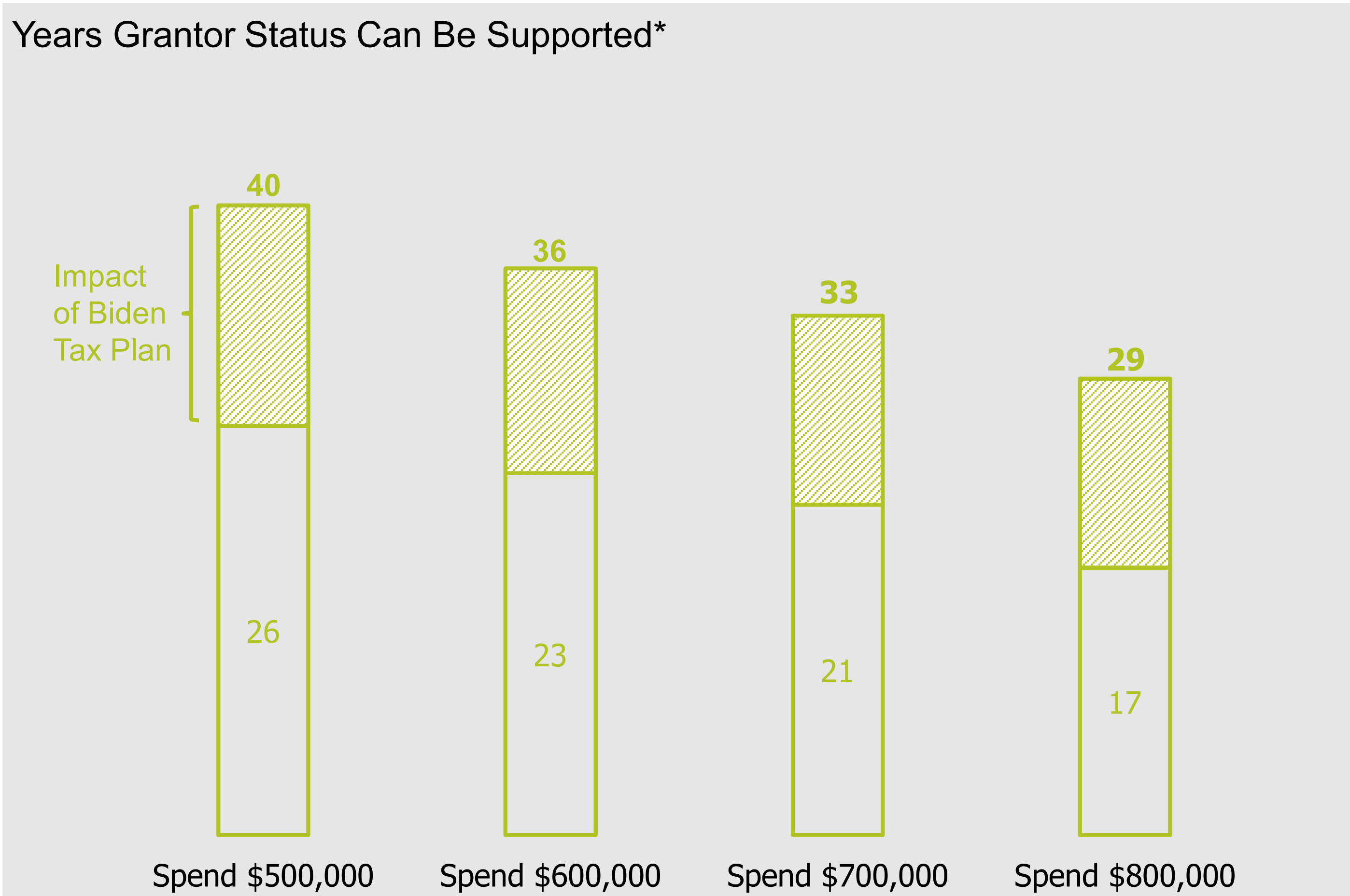
Source: AB

Grantor Trust Income Taxes May Impact Personal Spending



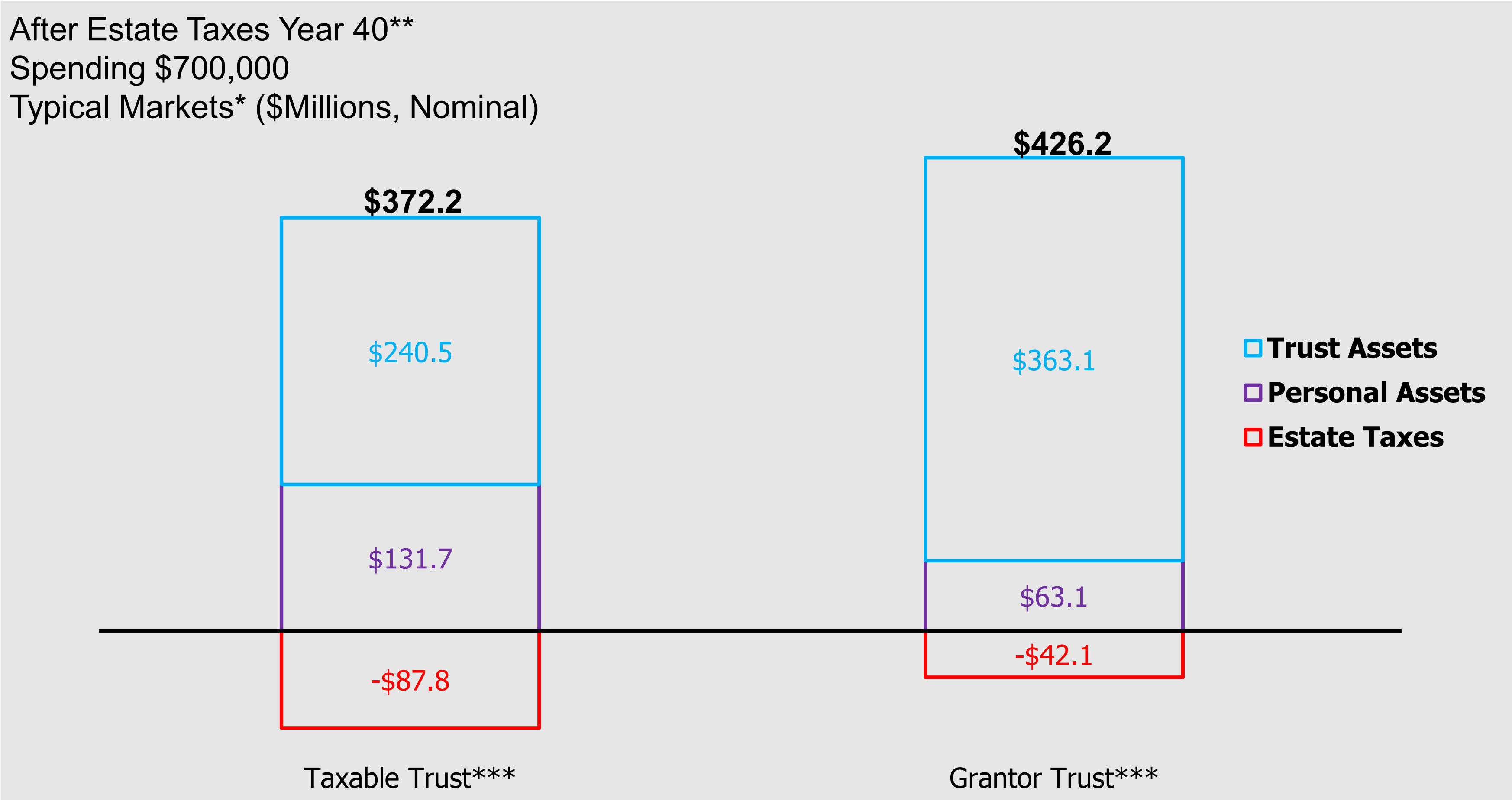
*Represents the probability of the personal portfolio having more than $0 at the end of year 40 assuming a gift of $23.16M is made to a grantor trust in year 1. Based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. **Data do not represent past performance and are not a promise of actual or range of future results.** Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Assumptions and Notes on the Wealth Forecasting System in the Appendix for further details.
Source: AB

When Might You First Need to Consider "Turning Off" Grantor Trust Status?



*Years grantor trust can be supported is defined as the number of years grantor can pay the taxes on a grantor trust funded with $23.16M and provide a 90% probability their personal assets are more than $0 in 40 years. Based on AB'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 or range of future results**. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Assumptions and Notes on the Wealth Forecasting System in the Appendix for further details.
Source: AB

What Is the Incremental After-Tax Benefit of a Grantor Trust?



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of March 31, 2020) over the next 40 years.
**Estate taxes calculation assumes a "flat" 40% estate tax rate are assessed on the total assets remaining in the estate in year 40.
***"Taxable Trust" assumes $23.16M gift is made to a non-grantor WY trust. "Grantor Trust" assumes $23.16M gift is made to a grantor trust and after 30-years transferred to a non-grantor WY trust.
Please see "Analysis Assumptions" for more information about assumed assets and allocations. **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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.
Source: AB

Case Study: Value-Shifting Strategy

Value-Shifting Strategy: Overview

Purpose: To shift future growth and corpus from an existing nonexempt trust ("existing trust") to a new, otherwise virtually identical GST-exempt trust ("new trust") by having the existing trust sell assets to the new trust in exchange for a balloon note at the long-term AFR. The strategy is most effective when the existing trust is the deemed owner of the new trust for federal income tax purposes. See Private Letter Ruling 201633021.

Sense of urgency: This strategy is effective only when the long-term AFR is very low, as it is currently. In May 2020, the long-term AFR will be 1.15%, an all-time low. As the Treasury yield curve steepens, as it inevitably will, the long-term AFR will rise.

New trust: The new trust may be structured either as a beneficiary defective inheritors' trust (BDIT) or as a beneficiary deemed ownership trust (BDOT):

- A BDIT typically would be funded with a gift of $5,000 to which the donor would allocate GST exemption. The new trust would grant the trustee of the existing trust a one-time "Crummey" power of withdrawal over the $5,000 contribution to corpus. Creditworthiness of the new trust typically would be established using one or more personal guarantees.
- A BDOT typically would be funded with a much more substantial gift (e.g., $500,000) to which the donor would allocate GST exemption. The new trust would grant the trustee of the existing trust an annual power of withdrawal over taxable income of the new trust. Based upon common practice, the new trust should be able to purchase $9 of assets from the existing trust for each $1 contributed.

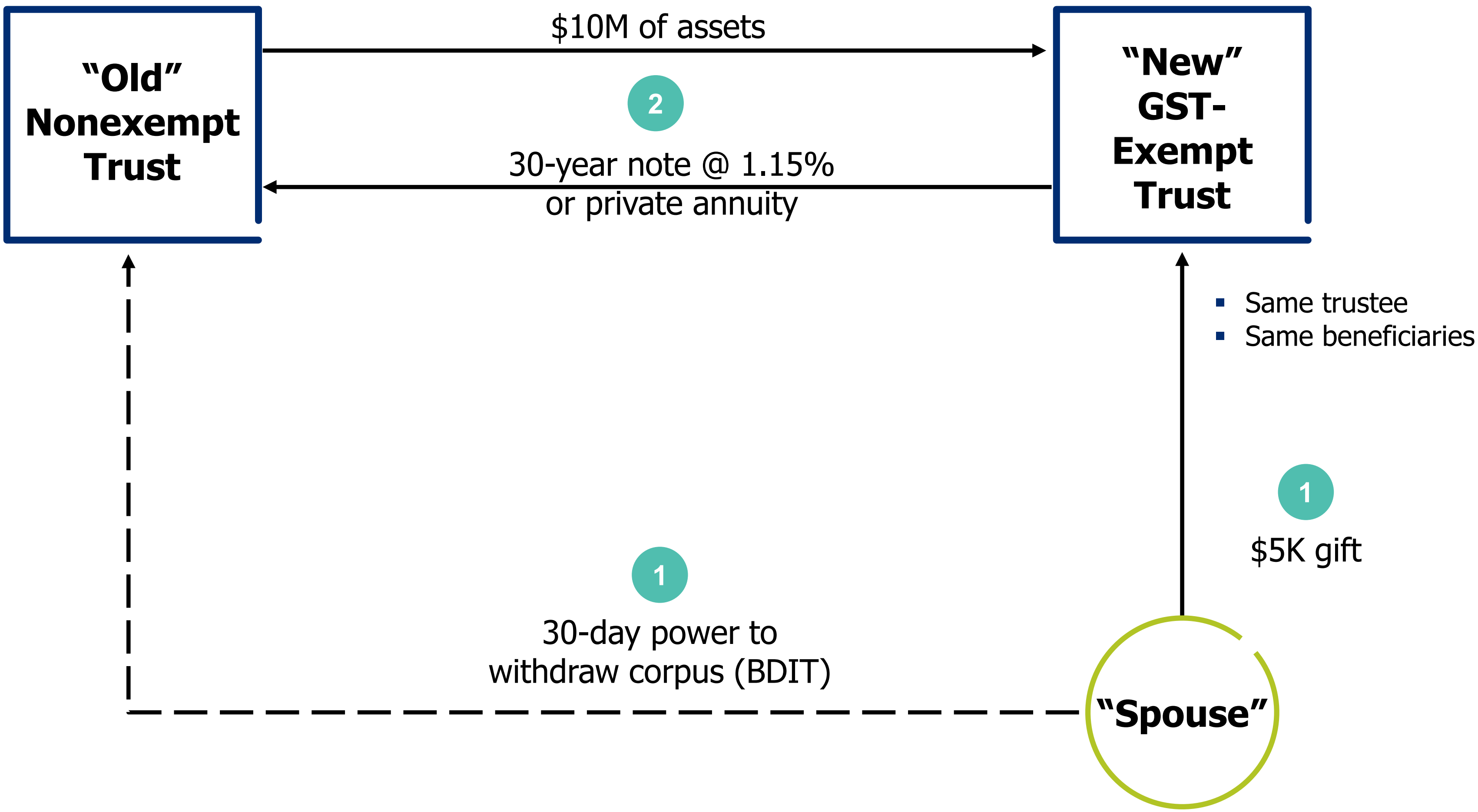
Value-Shifting Strategy: Assumptions and Scenarios

Assumptions: For purposes of this analysis, we disregard any seed capital, personal guarantees, or regulatory "trust exhaustion rules." Each trust portfolio is invested 80% in global stocks and 20% in intermediate-term municipal bonds. Except as otherwise provided in the scenario descriptions below, we disregard income other than portfolio income, and assume no distributions from or expenses incurred by either trust. We assume top marginal federal and Virginia income tax rates.

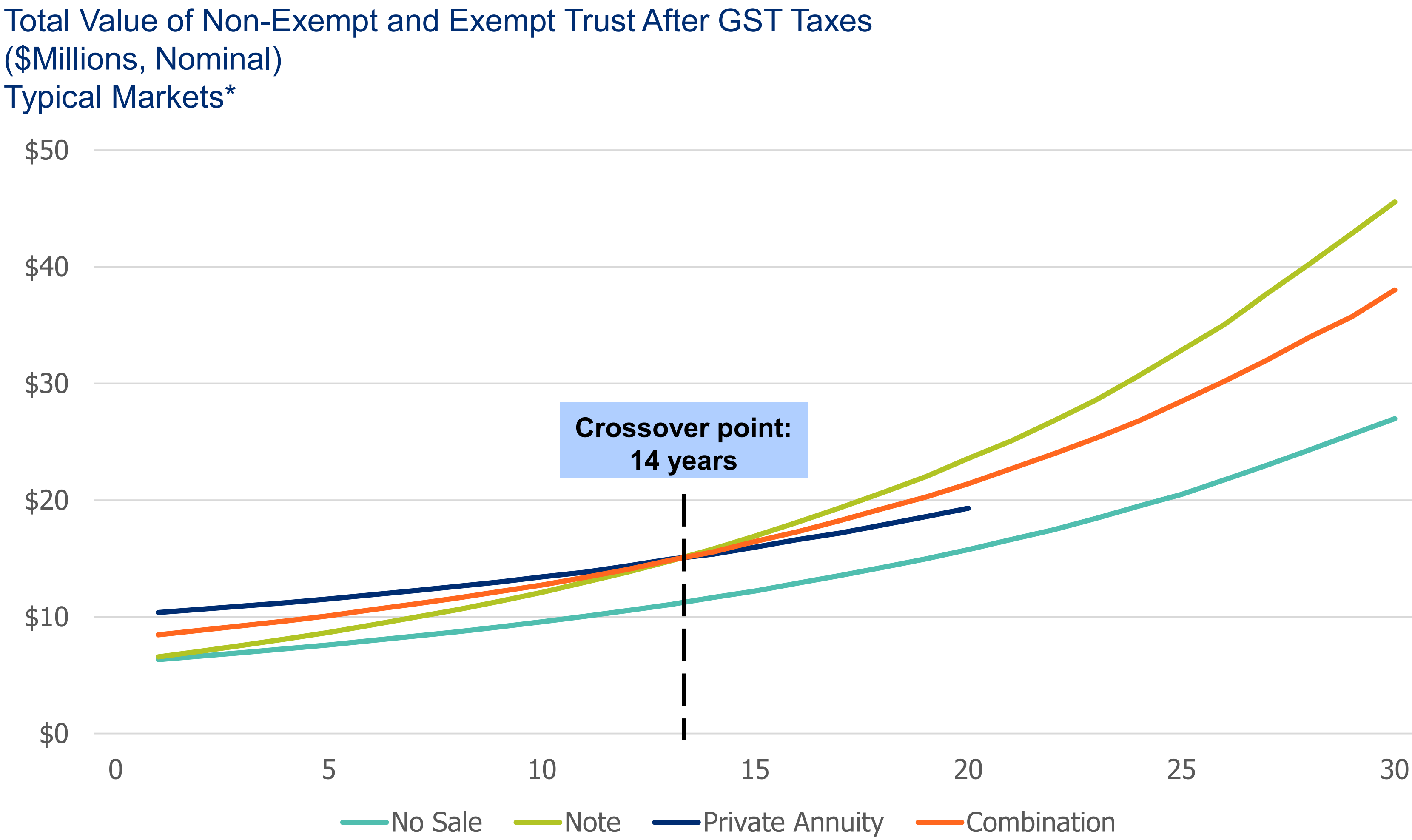
Scenarios:

- Scenario A: No wealth transfer.
- Scenario B: Existing trust sells $10 million of portfolio assets to new trust in exchange for a 30-year balloon note at the May 2020 long-term applicable federal rate (AFR) of 1.15%.
- Scenario C: Same as B, except assets are exchanged for a private annuity of $615,926 per year for the life of a 65-year-old nonskip person beneficiary.
- Scenario D: Existing trust sells $10 million of portfolio assets to new trust in exchange for (1) a $5 million 30-year balloon note at the May 2020 long-term applicable federal rate (AFR) of 1.15%; and (2) a private annuity of $307,963 per year for the life of a 65-year-old nonskip person beneficiary.

Value-Shifting Strategy



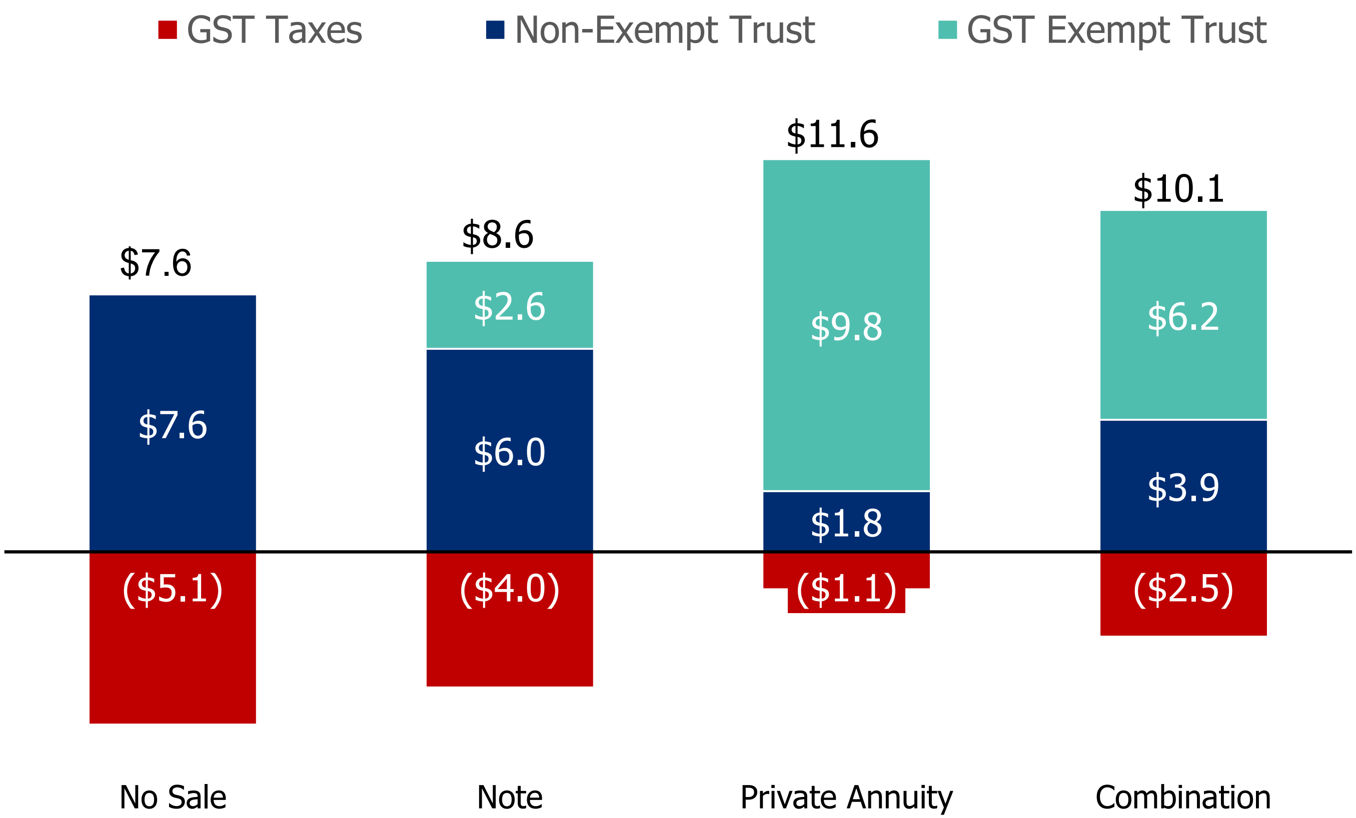
The Private Annuity Produces a Better Outcome than the Sale ... But Only if the Annuitant Lives Less than 15 Years



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimate of returns for the applicable capital market (as of December 31, 2019) over the next 30 years. In Scenario C (the "Private Annuity" scenario), the Exempt Trust portfolio is exhausted in a substantial portion of our 10,000 market trials after 20 years. Values reflect the after GST tax value of the combined non-exempt trust and exempt trust assets, assuming GST taxes were paid in the year indicated. Assumes GST tax rate of 40% on assets held in the non-exempt trust. 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 Wealth Forecasting System in the appendix.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 5

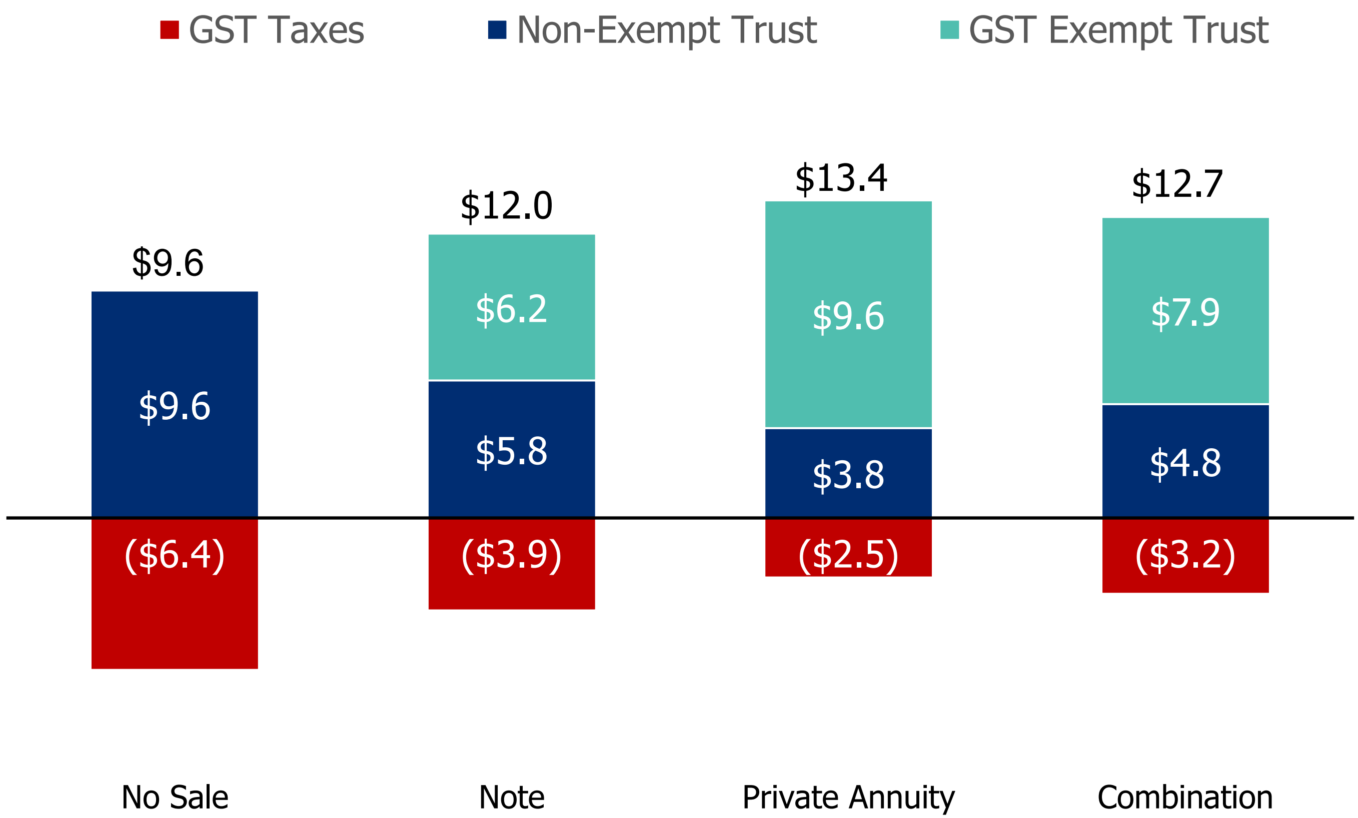
Typical Markets* ($Millions, Nominal)
After GST Taxes**



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 5 years.
In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. Please see "Analysis Assumptions" for more information about assumed assets and allocations. **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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 10

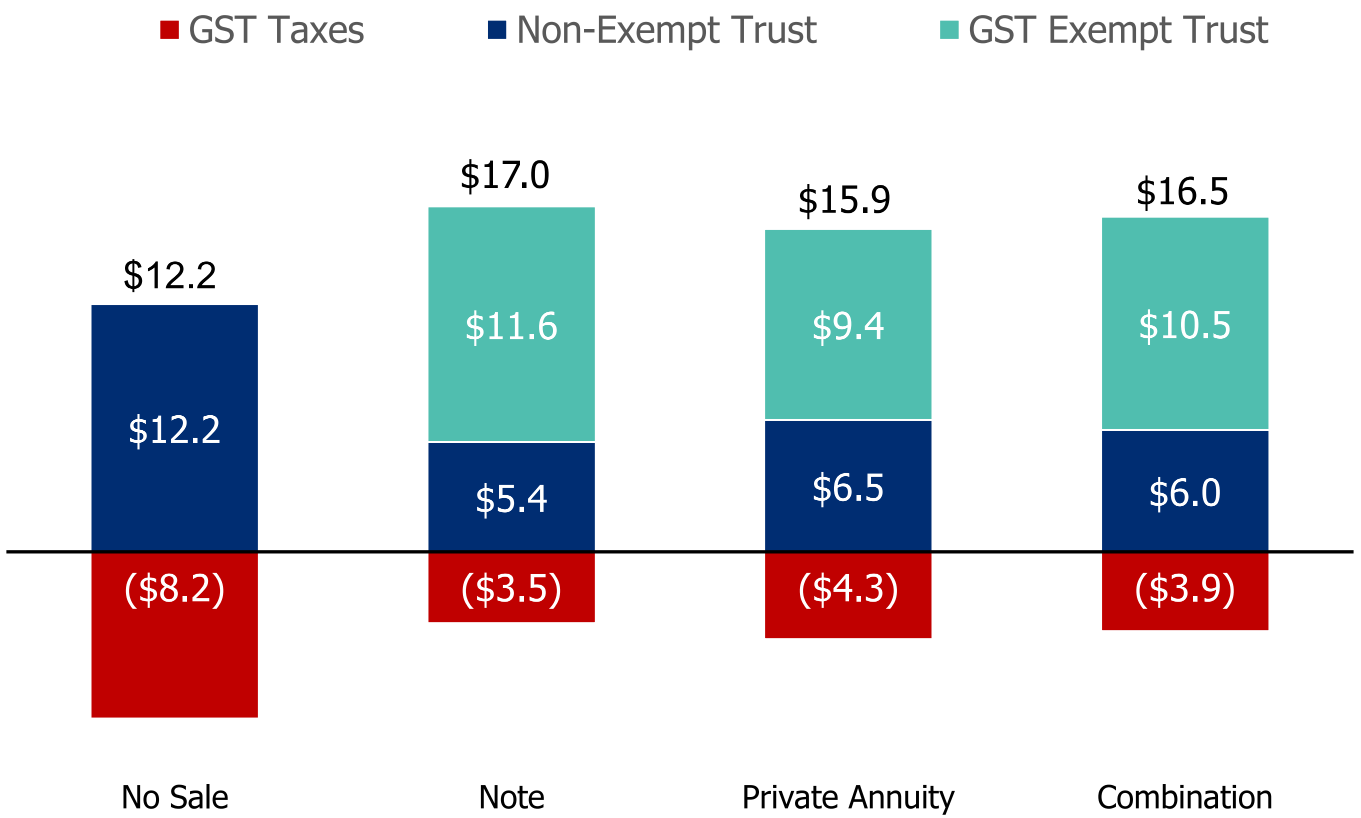
Typical Markets* ($Millions, Nominal)
After GST Taxes**



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 10 years.
In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. Please see "Analysis Assumptions" for more information about assumed assets and allocations. **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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 15

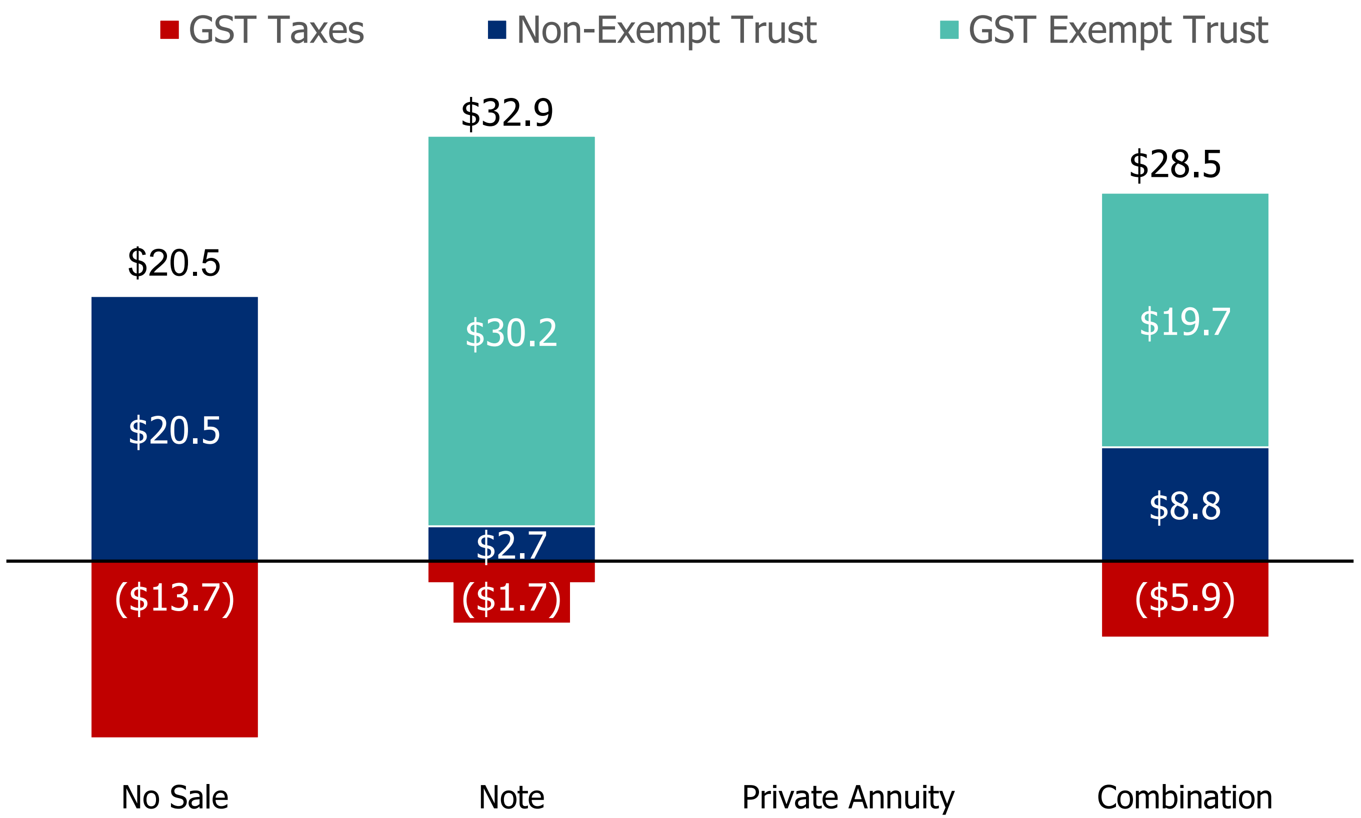
Typical Markets* ($Millions, Nominal)
After GST Taxes**



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 15 years.
In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. Please see "Analysis Assumptions" for more information about assumed assets and allocations. **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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 25

Typical Markets* ($Millions, Nominal)
After GST Taxes**



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 25 years. In Scenario C (the "Private Annuity" scenario), the Exempt Trust portfolio is exhausted in a substantial portion of our 10,000 market trials after 20 years.
In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. Please see "Analysis Assumptions" for more information about assumed assets and allocations. **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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Case Study: Tax-Sensitive Investor

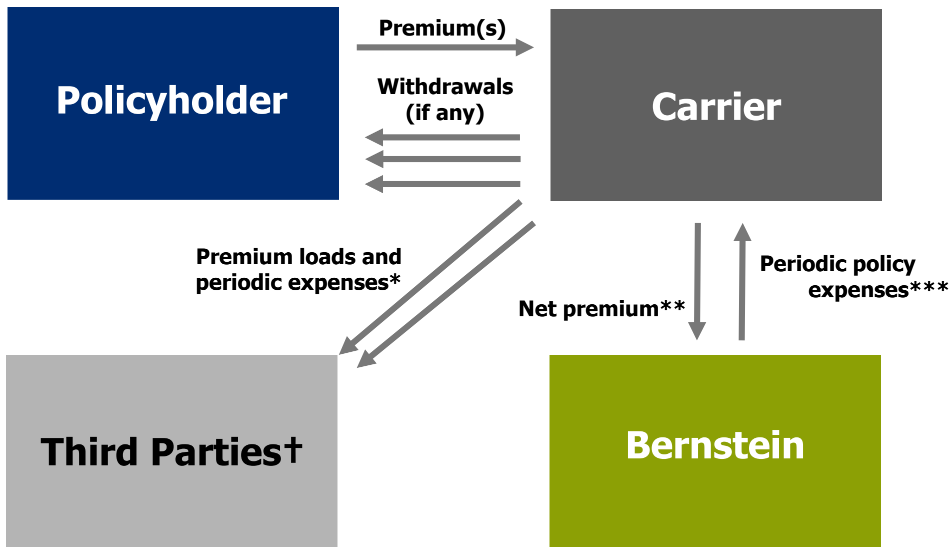
Tax-Sensitive Investor Case Study Assumptions

- Investor, Walter, age 60 and a New York City resident, is concerned about the future return potential of his traditional stock and bond portfolio
- He would like to invest $10 million of surplus capital in an array of potentially high-returning, "targeted" investment opportunities, but is unwilling to bear the considerable future income tax liabilities associated with some of those investment services
- It has been suggested that wrapping the more tax-inefficient of these investments in low-cost, "private placement" variable universal life (PPVUL) insurance may be a solution, but Walter is not a fan of life insurance

What does "low-cost" mean? Is it essential to get "best pricing"? Is the income tax savings worth the complexity?

Source: AB

PPVUL Financial Structure and Tax Issues



Key tax issues:

- Every state assesses a premium tax (generally 2%, but some states charge much less) at inception
- If properly structured, income tax on portfolio gains should be deferred
- In a modified endowment contract (MEC), withdrawals are taxed based on LIFO—just like an annuity
- In a non-modified endowment contract (non-MEC), withdrawals are taxed based on FIFO (i.e., withdraw to basis free of income tax, then borrow the balance from the carrier at modest interest rate, also tax-free)

At death, full death benefit (1) ordinarily is income-tax-free, <u>but</u> (2) subject to estate tax unless the insured then possesses no "incidents of ownership" over the policy (e.g., irrevocable life insurance trust)

*"Premium loads" typically are (a) 0.08% to 2%+ state premium tax; (b) 1% deferred acquisition cost (DAC) tax; (c) 1-2% compensation to the licensed agent who sold the policy; and (d) $2,000 or $3,000 underwriting fee.
**"Net premium" means total premium paid, less initial premium loads.
***"Periodic contract expenses" generally are (a) 0.35% to 0.75% annual mortality and expense (M&E) risk charge assessed against the policyholder's account value, a portion of which the carrier may allocate to the licensed agent who sold the policy; (b) 0.12% to 0.4% (based on account value) costs of insurance (COIs) to compensate the carrier for risk of death within the next 12 months; and (c) modest policy administration fees. COIs actually are calculated based upon the net amount at risk (NAR), which is the difference between the death benefit and the account value, but is expressed in this footnote based upon its approximate relationship to account value.
†"Third Parties" means (a) the state where the policy is sold (as to premium tax) and (b) the licensed agent who sold the policy (who receives a fraction of the annual M&E risk charge, usually for a period not exceeding 10 years).
Sources: Lombard International, AB

Potential Benefits of PPVUL

- General value proposition: Take advantage of the income tax deferral opportunity in a low-cost life insurance policy

- Works best when one or more of the following circumstances exists
  - Investor anticipates a high blended federal and state income tax rate on portfolio income
  - Underlying investments are taxed at ordinary, rather than capital gain, income tax rates (e.g., high turnover rate, nonqualified dividends, taxable interest)
  - Long time horizon / investor doesn't anticipate needing access to portfolio assets or income any time soon
  - Cumulative cost of insurance "wrapper" is low relative to projected portfolio income taxes

Source: AB

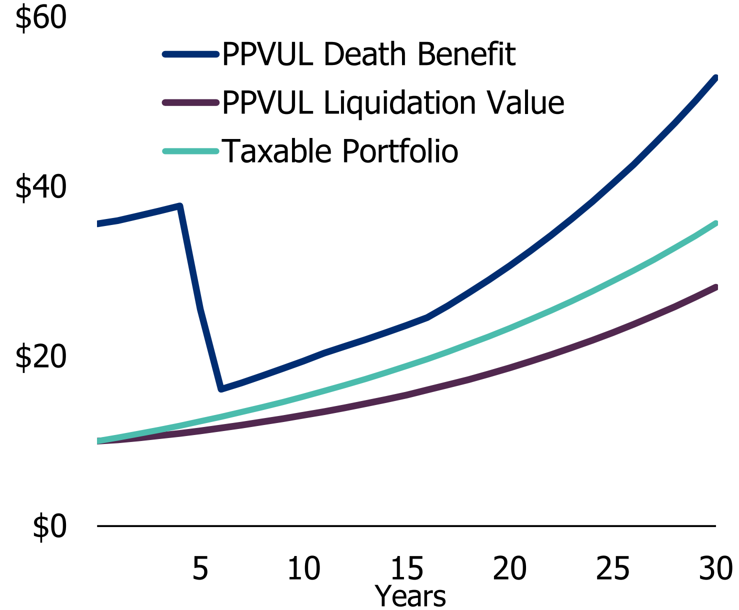
Overview of Product Features

- Purchase of a PPVUL policy generally is limited to
  - Qualified purchasers (QPs)
  - Accredited investors (AIs)
- Insurance carrier may provide investment options (including hedge funds) that are not available in traditional annuity and insurance products
- Product loads and periodic charges are considerably lower than most retail life insurance products
- Fully transparent structure
- No surrender charges

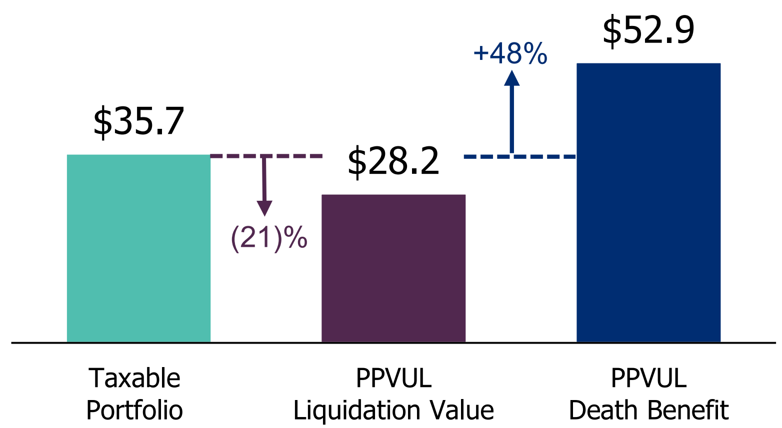
Source: AB

Traditional Stock and Bond Portfolio*: Either Structure as a Non-MEC . . . or Wait For the Death Benefit

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions

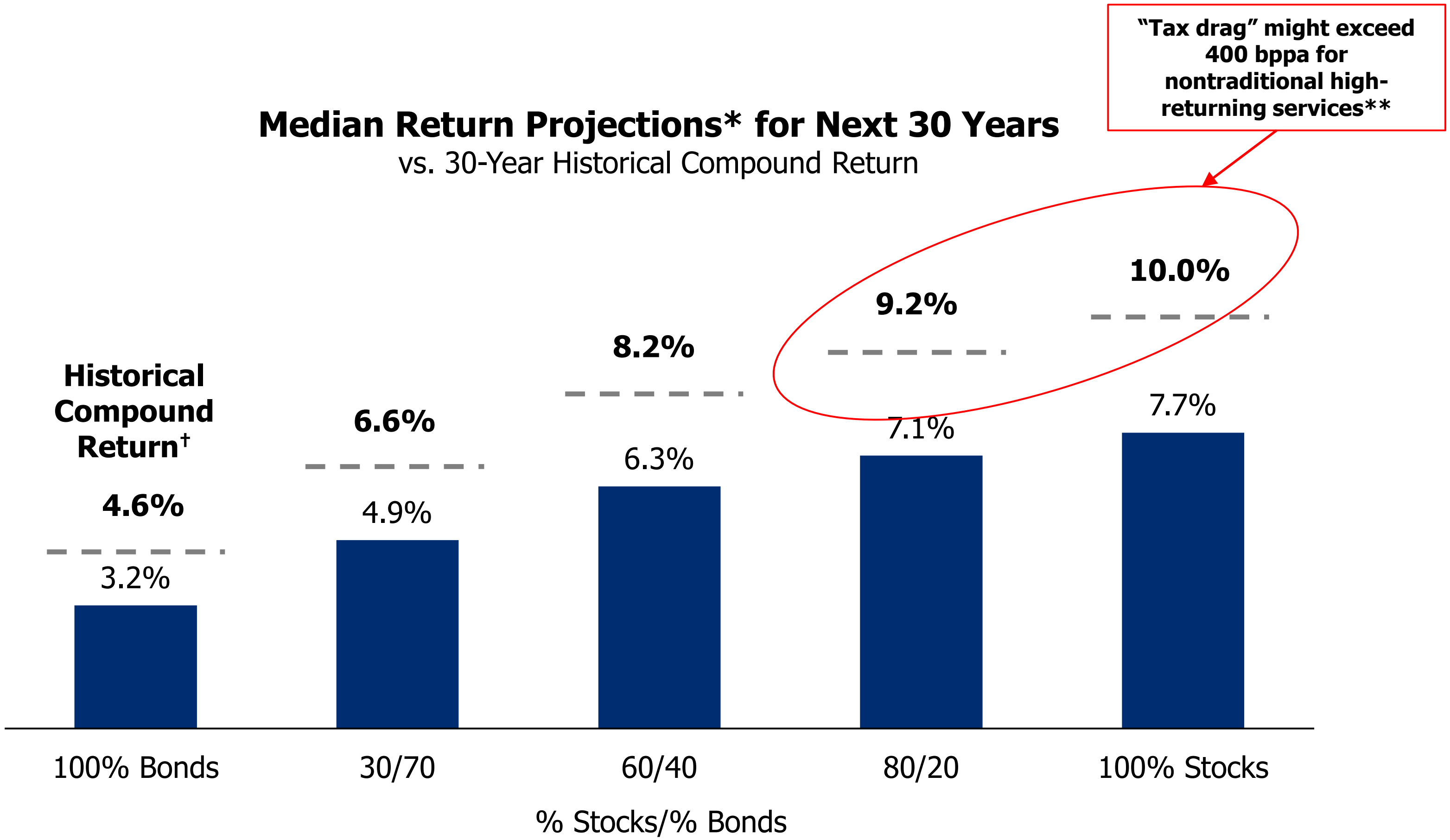


Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 6.5% return each year, consisting 2/3 of long-term capital gains with a 3-year holding period and 1/3 qualified dividends. Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. Data do not represent past performance and are not a promise of actual future results or a range of future results.
Based on AB analysis and illustration provided by insurance provider. AB is not a legal, tax, estate, or insurance advisor. Investors should consult these professionals as appropriate before making any decisions.

Historical Returns Are Achievable … But Probably at High Income Tax Cost



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 future results or a range of future results**. See Appendix, Notes on Wealth Forecasting System, for details.

*Projected pretax 30-year compound annual growth rate. Stocks (or "global equities") are modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small-/mid-cap,22.5% developed international, and 7.5% emerging-market stocks, and bonds are modeled as intermediate-term diversified municipal bonds. Reflects Bernstein's estimates and the capital-market conditions as of December 31, 2015.

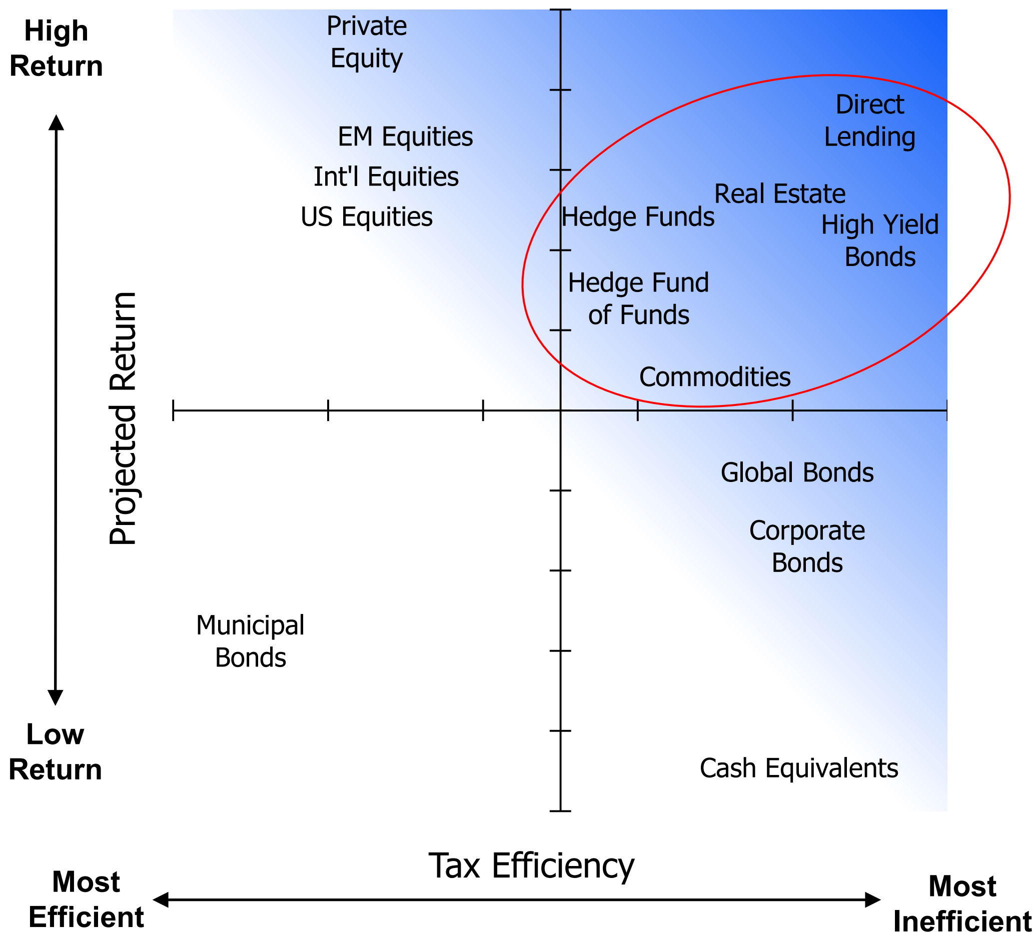
**Estimated annual income tax cost, expressed as a fraction of portfolio value.

†Historical compound return calculated from January 1, 1986, through December 31, 2015 with equities represented as follows: 70% S&P 500 and 30% MSCI EAFE from 1986 through 1987, and 70% S&P 500, 25% MSCI EAFE, and 5% MSCI EM thereafter; bonds represented by the Lipper Short/Intermediate Municipal Bond Fund Average.

Sources: Lipper, MSCI, Standard & Poor's, and AB

What Types of Investments Are Best Suited to PPVUL?

Asset Classes Best Suited to PPVA / PPVUL



+ **High-returning investments**
  - Returns must be sufficient to offset contract / policy costs
+ **Tax-inefficient investments**
  - Examples of such income include taxable interest, rental income, and short-term capital gains
+ **Illiquid investments**
  - Often tax-inefficient in nature
  - Matches long time horizon of PPVUL

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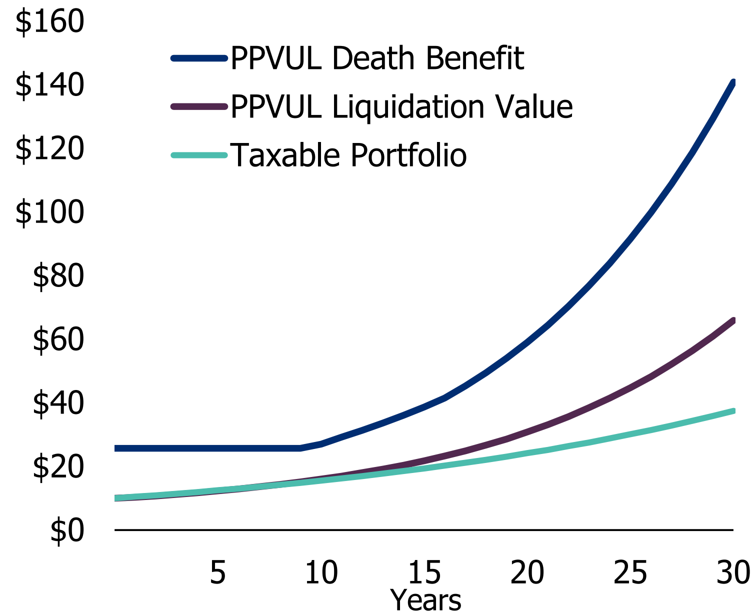
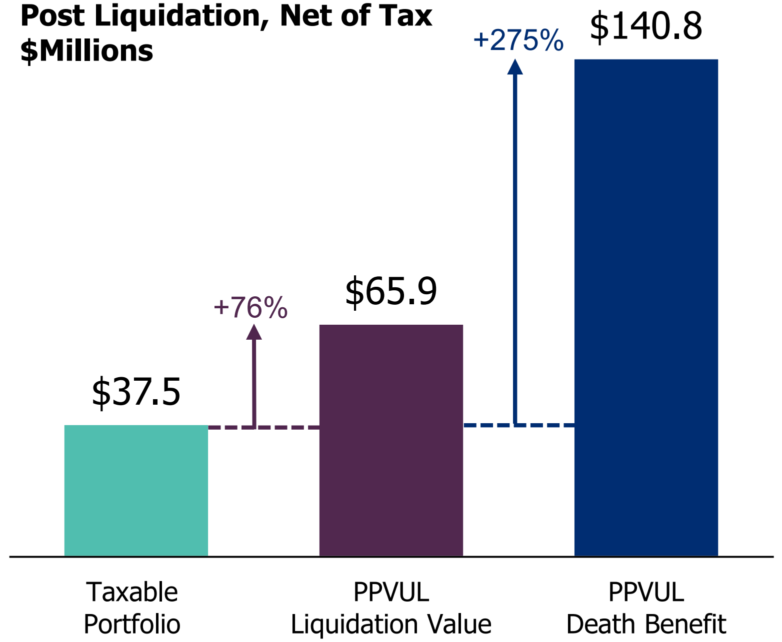
Source: AB

Single High-Returning, Tax-Inefficient Strategy*: Impressive . . . But Is It Prudent?

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 10.0% return each year, consisting 100% of ordinary income / short-term capital gain. Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. 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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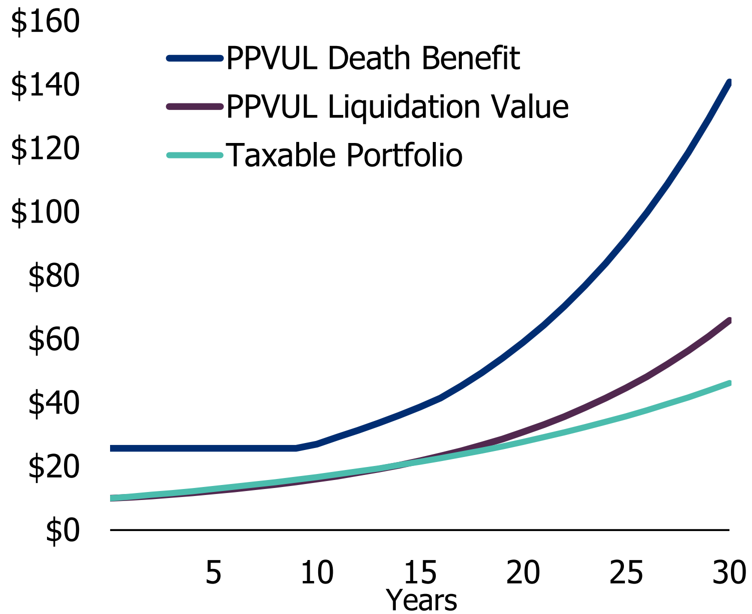
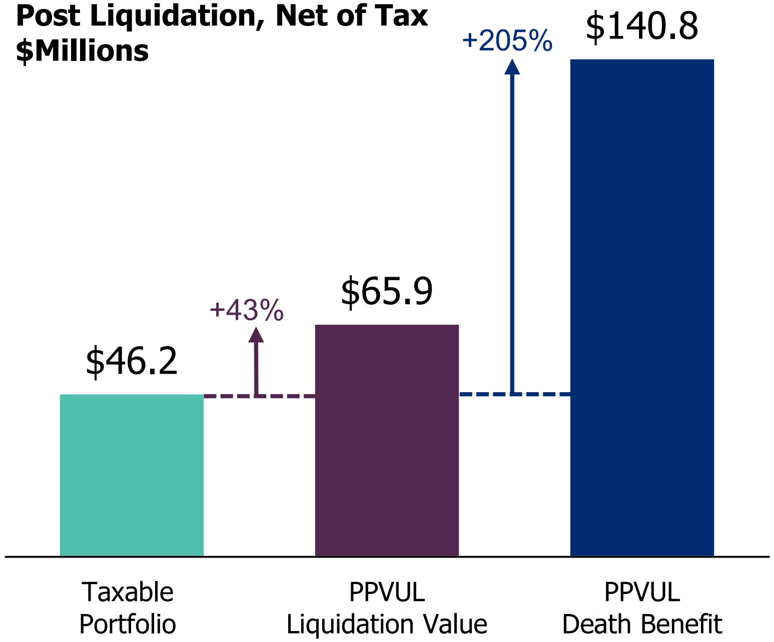
Diversified Approach: Compelling . . . But a Bit Inefficient at "Normal" Product Pricing*

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 10.0% return each year, consisting 2/3 of ordinary income / short-term capital gain and 1/3 of long-term capital gain / qualified dividends (2/3 long-term capital gain with 3-year holding period and 1/3 qualified dividends). Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. 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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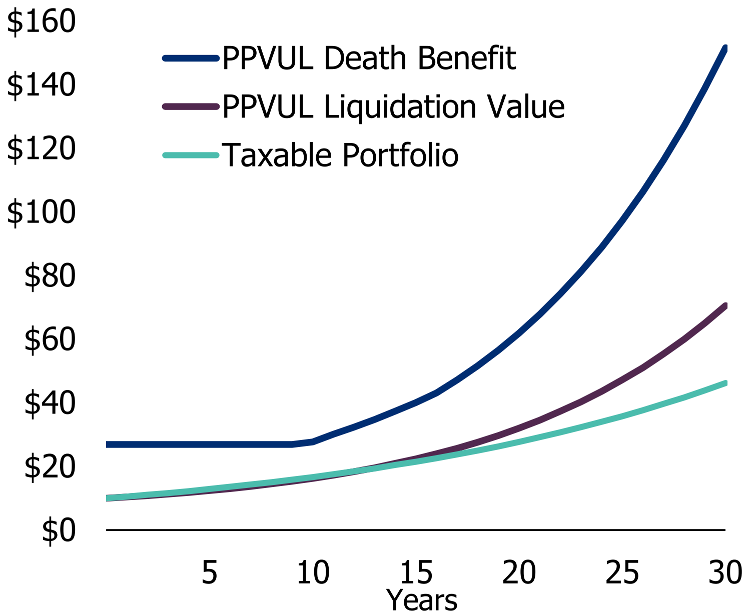
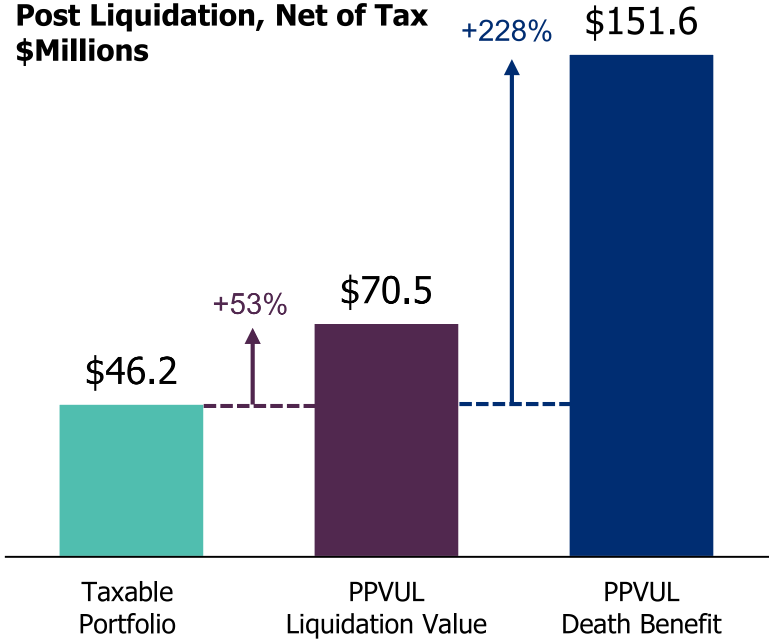
Diversified Approach with "Institutional" Pricing*: Best Absolute Outcome, Enhanced Efficiency

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 10.0% return each year, consisting 2/3 of ordinary income / short-term capital gain and 1/3 of long-term capital gain / qualified dividends (2/3 long-term capital gain with 3-year holding period and 1/3 qualified dividends). Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $26,870,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $152,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $50,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. 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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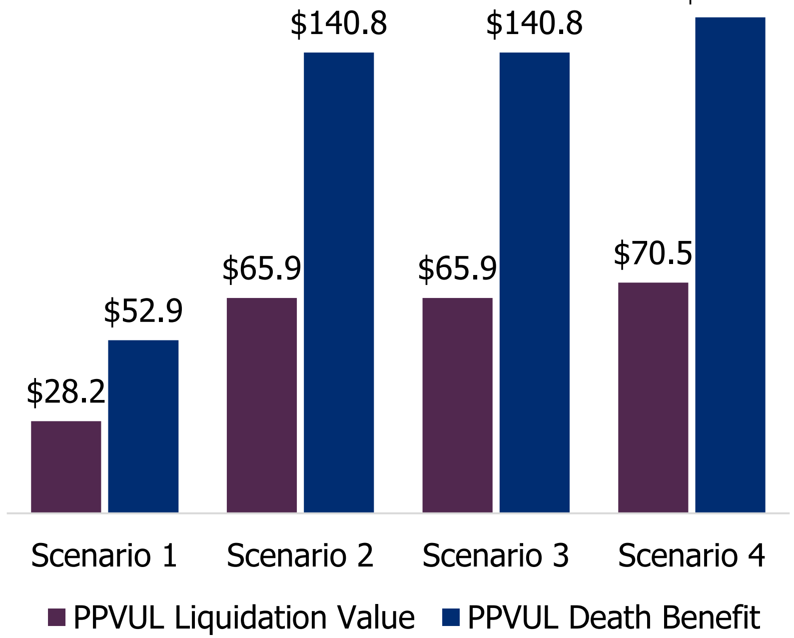
Diversified Approach Is More Tax-Efficient than Single-Strategy . . . So Product Pricing Becomes More Important

Investment Scenario	Crossover Point*
1. Traditional Portfolio, Normal Pricing	>30 Years
2. Single-Strategy, Normal Pricing	8 Years
3. Diversified Approach, Normal Pricing	15 Years
4. Diversified Approach, Institutional Pricing	13 Years

Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*"Crossover Point" means time when PPVUL liquidation value first exceeds after-tax liquidation value of taxable portfolio.
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Appendix

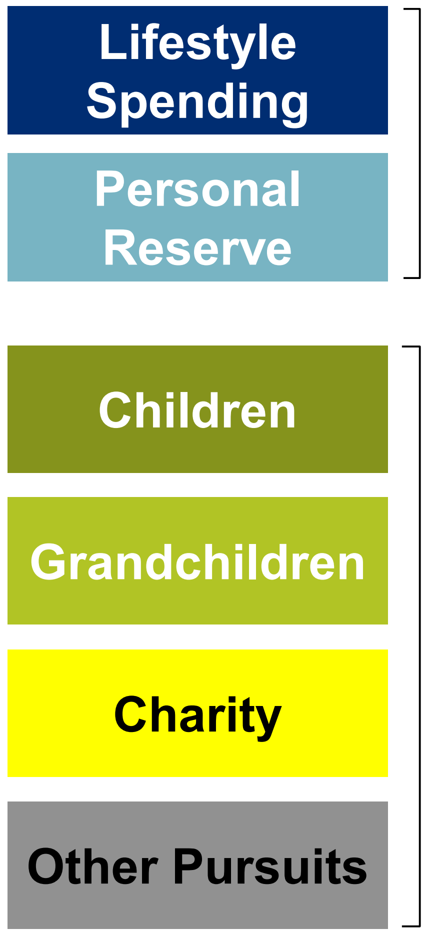
Case Study: Preparing for the *Next* Transaction

Assumptions

- John, age 43, is an Illinois resident, is married, and has four children
- Assets
  - $10 million liquid, assumed to be invested 60% global stocks* and 40% bonds
  - Closely held business interest, with second liquidity event in five years** expected to generate between $20 million and $35 million, pre-tax
- Annual pre-tax salary of $250,000, expected to increase 5% each year for the next five years
- Spending
  - We modeled core spending of $125,000 to $250,000 per year, indexed for inflation
  - We assumed that 10% of John's pre-tax salary will be tithed to the church each year for the next five years
- Time horizon: 50 years

*Throughout this analysis, "global stocks" means 21% U.S. value, 21% U.S. growth, 21% U.S. diversified, 22.5% developed international, 7.5% emerging markets, and 7% U.S. small/mid-cap.
**This case was modeled in December 2013; second liquidity event was expected in May 2018. Our advice would not change directionally if this case were modeled under current market conditions. See Appendix, Notes on Wealth Forecasting, for details.
Source: AB

Planning for Wealth Transfer: Core and Discretionary Capital



Core Capital

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

Surplus (Discretionary) Capital

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

Source: AB

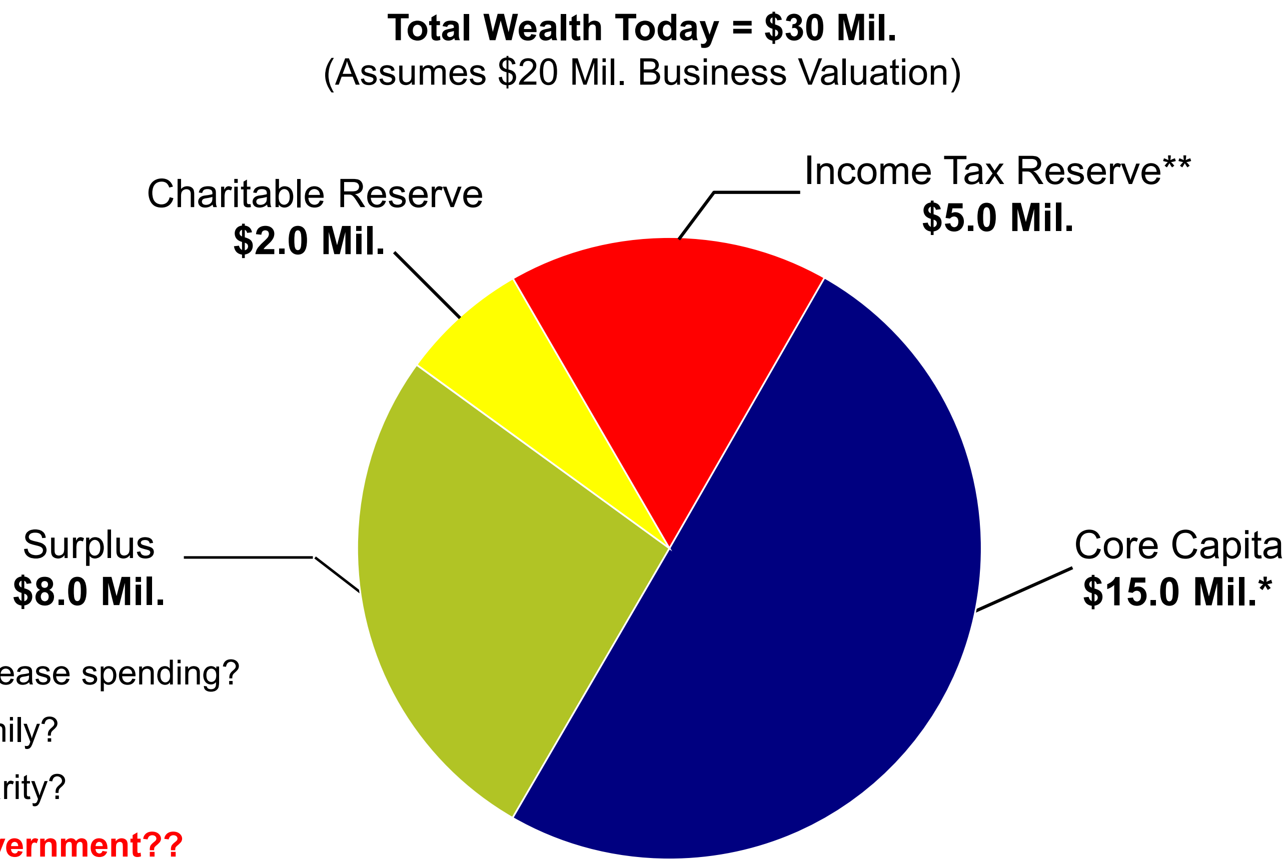
Amount Needed to Fund Core Spending for 50 Years*

Core Capital Required Today
95% Confidence; Maintain $3 Mil. (Real) Cushion
60% Global Stocks, 40% Bonds
$Millions

Annual Living Expenses**

Based on Bernstein's estimate of returns for the applicable capital markets for 50 years. Data does not represent past performance and is not a promise of actual or range of future results.
*Core capital calculated at 95% level of confidence with a $3 million (real) "cushion" throughout. Variations in actual income, spending, applicable tax rates, time horizon, and market returns may substantially impact the likelihood that a core capital estimate will be sufficient to provide for future expenses. See Appendix, Notes on Wealth Forecasting System, for details.
**Annual living expenses are indexed for inflation. Computations assume pre-tax income of $250,000 per year, and charitable gifts of $25,000 per year, each grown by 5% annually, for the next five years.
Source: AB

Proposed Allocation of Wealth Today



- Increase spending?
- Family?
- Charity?
- **Government??**

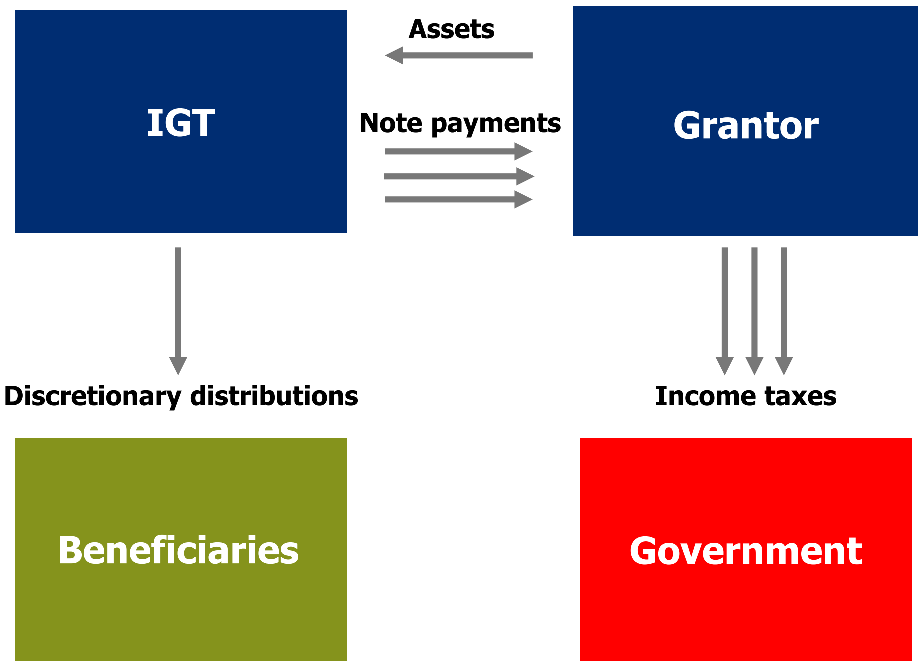
Bernstein's estimates of the range of returns for the applicable capital markets over next 50 years. Data does not represent past performance and is not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.

*"Core Capital" calculated at 95% level of confidence with a $3 million (real) "cushion" throughout. Variations in actual income, spending, applicable tax rates, time horizon, and market returns may substantially impact the likelihood that a core capital estimate will be sufficient to provide for future expenses.

**"Income Tax Reserve "assumes that the pre-tax proceeds of the business sale are $20 million, offset in part by a 10% ($2 million) cash contribution to charity that qualifies for an income tax charitable deduction.

Source: AB

How Installment Sale to Irrevocable ("Intentionally Defective") Grantor Trust Works



Key points:

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

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

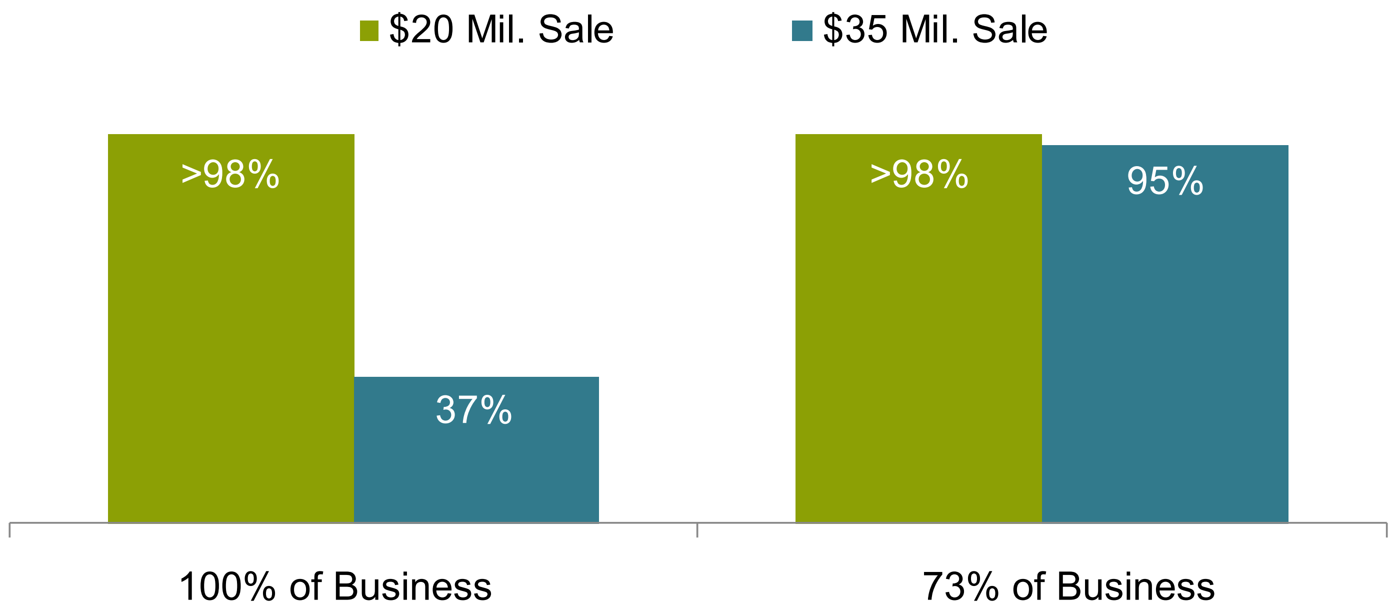
*Potential benefit to trust and its beneficiaries equals post-transfer growth of assets given, plus growth of assets sold in excess of interest payable. "AFR" means applicable federal rate, annual compounding, as published by the Treasury Department. The mid-term AFR applies to fixed debt having a term greater than three years, but not greater than nine years; the long-term AFR applies to longer term loans; the short-term AFR to shorter term loans.

For illustrative purposes only; not an advertisement and does not constitute an endorsement of any particular wealth transfer strategy. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.

Source: AB

Correctly Sized, Estate Planning Strategy Should Not Affect John's Spending Plan

Probability of Assets Greater than $3 Million (Inflation Adjusted) in 50 Years*
$250,000 (Real) Annual Spending; 95% Confidence; Maintain $3 Mil. (Real) Cushion
60% Global Stocks, 40% Bonds



Amount Sold to Grantor Trust

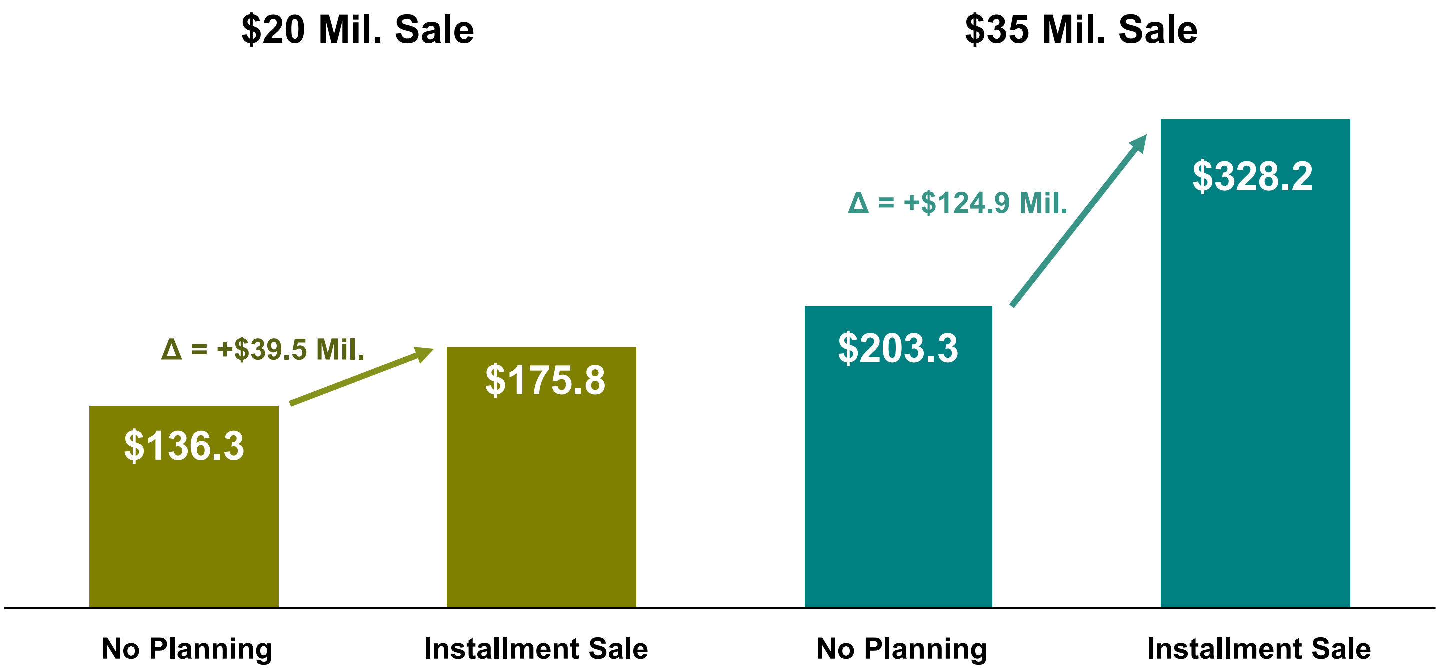
Based on Bernstein's estimate of returns for the applicable capital markets for 50 years. Data does not represent past performance and is not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.

*Calculated at 95% level of confidence with a $3 million (real) "cushion" throughout, assuming John pays income taxes as "deemed owner" of all assets held in an intentionally defective grantor trust for 25 years after the sale. Variations in actual income, spending, applicable tax rates, time horizon, and market returns may substantially impact the likelihood that a core capital estimate will be sufficient to provide for future expenses.

Source: AB

Pre-Transaction Planning Plus Compounding Wealth Off Balance Sheet Can Provide Huge Tax Savings

Wealth to Beneficiaries—Year 50
After Federal and State Estate Taxes*
60% Global Stocks, 40% Bonds; Typical Markets**
$Millions (Nominal)



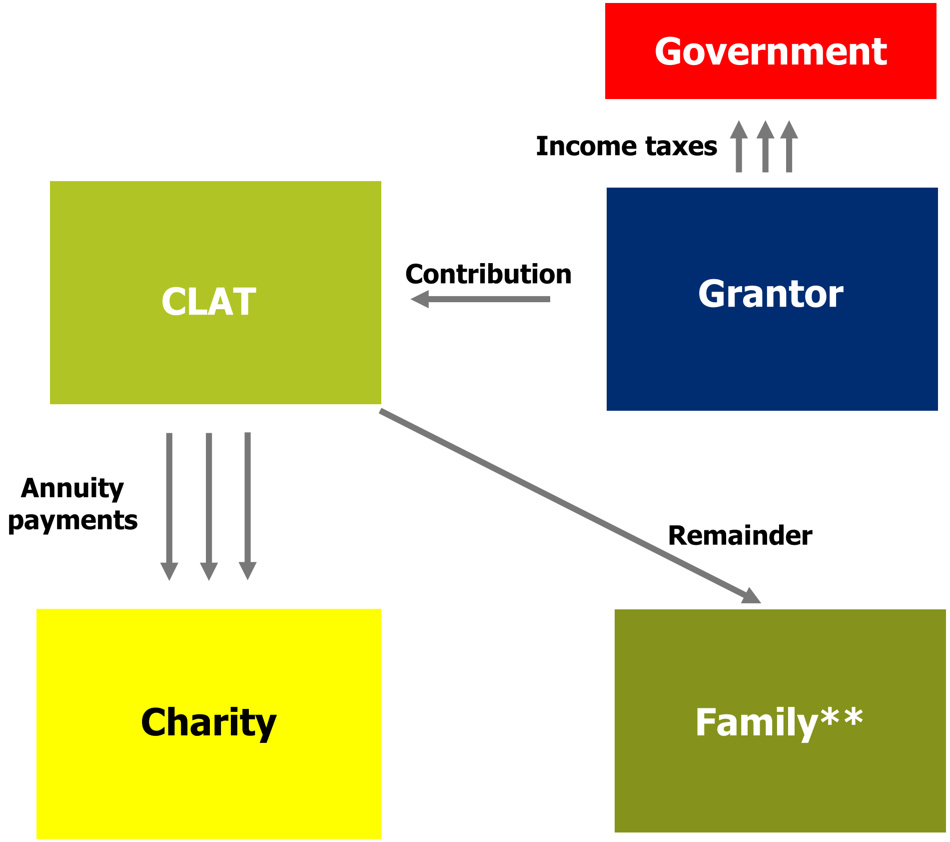
Based on Bernstein's estimates of the range of returns for applicable capital markets for 50 years. Data does not represent past performance and is not a promise of actual future results. See Appendix, Notes on Wealth Forecasting, for details. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.

*Assumes federal basic exclusion amount "reverts" to $5.25 million in 2013 dollars, indexed for inflation for 50 years, "flat" federal estate tax rate of 40%, and deduction for state death tax paid; assumes Illinois estate tax at rates described in Section 2011(b) of the Internal Revenue Code of 1986, as amended, for taxable estates in excess of $4 million.

**"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System.

Source: AB

How Inter Vivos Grantor CLAT Works



Key points:

- Grantor transfers assets to CLAT, and receives upfront income tax deduction for present value of annuity stream
- Charity receives annuity payments each year from CLAT
- Grantor pays income taxes each year on taxable trust income, but receives no ongoing income tax charitable deductions for annuity payments made each year
- If CLAT assets grow faster than applicable Section 7520 rate, that excess may pass to remainder beneficiaries free of gift or estate (but not necessarily GST) tax*

No gift tax imposed on "zeroed-out" CLAT established during life

*If present value of annuities payable to charity equals value of contribution to trust, transfer qualifies in full for gift tax charitable deduction; such a CLAT is said to be "zeroed out." In addition, assets pass free of GST tax at the end of the annuity term in an amount equal to the GST exemption allocated to the CLAT, grown at the applicable Section 7520 rate, compounded annually; any excess is not exempt from GST tax. *See* Treas. Reg. § 26.2642-3.
**"Family" means one or more designated family members and/or trusts established for their benefit. Non-GST-exempt assets passing to skip persons would be subject to GST tax.
Sources: AB and Rev. Rul. 2017-11

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