

SAVING FOR COLLEGE

Putting 529 Plans to the Test

College costs continue to grow at a rapid pace; early and strategic planning should be a priority

- Why most families should use 529 plans as their primary way to save for college
- How to assess the impact of college expenses on retirement wealth and other life goals
- When grandparents might be the optimal donors
- When wealthy donors should choose to pay for college tuition directly

JULY 2007

Authors

Christopher J. Clarkson

Director—Wealth Management Group

Mr. Clarkson, based in Los Angeles, is a Director in Bernstein's Wealth Management Group (*see box below*). He has advised on topics including the diversification of overly concentrated portfolios, philanthropic strategies, intra-family wealth transfer, and planning in advance of the sale of a business. Mr. Clarkson joined the firm in 1995 and has been with the Wealth Management Group since 1998, serving as an analyst and senior analyst before being named a Director in 2005. Mr. Clarkson earned a BA from the University of California at Santa Barbara and is a Chartered Financial Analyst charter holder.

Erik S. Hendrickson

Wealth Management Specialist

Mr. Hendrickson joined Bernstein's private-client practice in 1997 and has been with the Wealth Management Group in Los Angeles since 2004. He assumed his current role as Wealth Management Specialist in 2005. Mr. Hendrickson's areas of expertise include tax planning, risk management, advanced asset allocation, and educational-funding strategies. Prior to joining the firm, Mr. Hendrickson was with the private-client division of Sutro & Co. He earned a BS from the University of Southern California.

THE BERNSTEIN WEALTH MANAGEMENT GROUP

A unit dedicated to serving private clients with very substantial portfolios, the Wealth Management Group comprises a team of professionals with specialized expertise in areas including tax management, wealth transfer, advanced asset allocation, derivatives, and the optimal exercise of corporate stock options. Drawing on a proprietary forecasting tool, the Group can calibrate risk/return projections for various investment strategies in a range of market environments and time horizons. Working cooperatively with a client's full team of professionals, the Group—and the firm as a whole—help craft solutions that meet unique goals and circumstances.

© Copyright July 2007, AllianceBernstein L.P. All rights reserved.

This publication is for use only with the private-client business of Bernstein Global Wealth Management, a unit of AllianceBernstein L.P.

The availability of any tax or other benefits may be conditioned on meeting certain requirements.

This information is not intended to be tax or legal advice. Readers should consult their professional advisors.

Saving for College: Putting 529 Plans to the Test

By Christopher J. Clarkson and Erik S. Hendrickson

Donors—typically parents and grandparents—have made Section 529 plans a vehicle of choice for funding the costs of higher education. And indeed the plans offer many advantages for both beneficiaries and their families. Like most investments, however, 529 plans are complex and need to be evaluated within the context of a donor family’s full array of financial goals.

Many believe that helping to fund a child’s college education is one of the best investments they can make—for both financial and emotional reasons. In fact, a recent AllianceBernstein survey found that 95% of respondents expected to help pay for some of their children’s college costs, with fully 41% intending to cover *all* college expenses. And while many options are available to these investors, “529 plans”—named after the section of the Internal Revenue Code that authorizes them—have rapidly become the vehicle of choice. Established by every state (but open to both in-state and out-of-state residents) with varying contribution limits, 529 plans are generally managed by a mutual-fund provider who offers a variety of investment options. As of first-quarter 2007, investments inside these plans totaled more than \$90 billion.¹ That number is almost certain to grow, now that a recent tax-law change has made 529 plans’ most appealing benefit—the ability to grow and withdraw earnings used for higher education expenses tax-free—a permanent feature.²

In this study, we assess the pros and cons of 529 plans within the context of a family’s broader set of financial objectives—which might include, in addition to educational funding, securing adequate funds for retirement and transferring wealth to descendants or charity. Our research highlights how grandparents who have already secured their own retirement needs may be the investors likely to provide the greatest advantage from investing in 529 plans, since the plans allow them to remove a significant financial burden from both their children and grandchildren. At the same time, 529 plans offer them substantial tax- and estate-planning benefits. As for *parents*, the benefits of investing in a 529 plan can also be compelling. However, we find that very wealthy donors may be able to pay for college *and* transfer wealth in a more tax-efficient way if they pay the *tuition portion* of a child’s or grandchild’s college expenses out of their personal funds (in lieu of a 529 plan).

¹ Financial Research Corporation

² Section 1304 of the Pension Protection Act of 2006

529 Plans Can Be Hard to Beat

Regardless of how a family saves for college, one thing is certain: It's likely to be a very large expense. Average annual costs for a private college, which include tuition and room and board, were estimated at more than \$32,000 per year nationwide for the '06/'07 school year.³ For Ivy League schools, the average annual cost was \$45,000. And if tuition and room and board keep rising at their historical rates—which have run two to three percentage points *above* the rate of inflation—we'd peg the average fully loaded cost of four years at an Ivy League school for a child born in 2007 at nearly \$410,000. Early and strategic planning is clearly in order.

There's no shortage of alternatives for those looking to sock away savings for college. In addition to the more common "Educational Savings Account" 529 plan (the focus of this paper), investors can also use a "Prepaid Educational Arrangement" 529 plan, a Coverdell Education Savings Account, a Uniform Transfers to Minors Act (UTMA) account, or "Crummey" or "2503(c)" trusts; or they can just save the money in a personal account. (*See Appendix, page 9, for a detailed comparison of these options.*)

While there are advantages and disadvantages to each strategy, a 529 plan is hard to beat, offering:

- **Tax-Free Growth of Earnings:** Investment earnings inside the 529 plan grow free of federal income tax and, in most cases, state taxes. And as long as withdrawals are used for "qualified higher education expenses"—which include tuition, fees, books, supplies, and room and board—the earnings are never subject to tax.
- **Potential Tax Deduction:** Residents of some states, including New York, Illinois, and Virginia, receive a limited state income-tax deduction for contributions made to their home state's 529 plan, enhancing the tax savings. *Automatically* choosing a home-state plan is not necessarily the

best strategy, though, since expenses and other features of out-of-state plans may make them more attractive.

- **Increased Control:** For a donor worried that he might someday need money set aside for a child's college education for his own needs or that the child might squander the funds before college, a 529 plan can ease his concerns, since he can control the use of the money, change the beneficiaries at any point, and even take the funds back. That contrasts with an UTMA account, for example, in which the funds must be used for the benefit of the child for whom it is established and must eventually pass outright to the child, typically at age 21. (However, if the funds in a 529 plan are not used for higher-education expenses, any investment gain in the account is taxable income to the recipient and generally subject to a 10% penalty.)
- **Estate-Tax Benefits:** Further, with one exception (discussed below), the funds a donor contributes to a 529 plan are not included in his estate for estate-tax purposes (notwithstanding the donor's right to reclaim the funds). No other college-savings vehicle offers this unique blend of potential estate-tax savings and control.
- **Substantial Gifting Potential:** A gift to a 529 plan account qualifies for the gift-tax "annual exclusion" (currently \$12,000 per donee, indexed for inflation). And so donors can make gifts of up to \$12,000 (\$24,000 for a married couple) to 529 plan accounts for each child or grandchild (or any other person) they wish with no gift or generation-skipping-transfer (GST) tax consequences. Moreover, gifts can be treated as though they were made over a five-year period. Consequently, a donor can make five years' worth of annual exclusion gifts up front—currently \$60,000 (\$120,000 for a married couple)—to an account for a beneficiary in a single year, again without any gift- or GST-tax consequences.⁴ Of course,

³ Peterson's Annual Guide to Undergraduate Study, September 2006

⁴ If the donor dies before the end of the five-year period, the portion of the contribution allocable to years after the year of death is includable in the donor's estate for estate-tax purposes. But even then, any investment gains on the includable amount remain outside the estate. Note that if a donor wishes to have a gift treated as though it were made over a five-year period, he must file a gift-tax return electing such treatment.

such a donor would be unable to make any other annual exclusion gifts to the beneficiary over that five-year period—a potential drawback we’ll discuss in detail below (see pages 6–7).

The Power of Tax-Free Growth

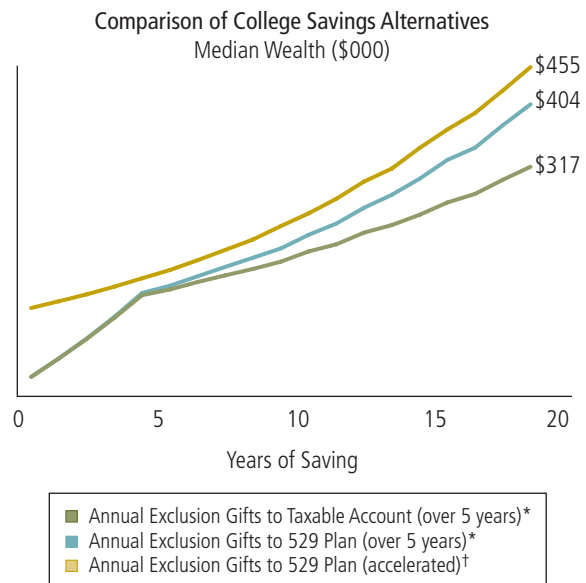
While the benefits of greater donor control are not easily quantifiable, we can estimate the advantage of some of a 529 plan’s tax benefits. To do that, we use Bernstein’s Wealth Forecasting AnalysisSM, which combines the details of a client’s financial and tax circumstances with our projections for capital-markets returns to create a range of plausible wealth outcomes (see box, page 4). We analyzed the wealth that would be available to pay for college education under three different scenarios:

1. A couple sets aside \$24,000 each year for five years and invests the funds in a personal taxable account for the benefit of their children;
2. A couple contributes \$24,000 each year for five years to a 529 plan;
3. A couple contributes \$120,000 to a 529 plan in the first year—taking advantage of the accelerated gifting discussed above.

In all scenarios, we assume that the funds are allocated 80% to global stocks and 20% to intermediate-term bonds,⁵ that the donors are in the highest marginal federal income-tax bracket, and that the wealth grows over 18 years. We estimate the advantage of tax-free growth from the 529 plan funded by a married couple at \$87,000 in the median case—a college fund of \$404,000 versus \$317,000. That’s a 27% premium over a personal account (Display 1). And if the donors accelerate the gifts into the first year, the advantage of the plan grows to almost 45%. With that kind of wealth advantage, a 529 plan can cover almost a full extra year of college expenses, using our projection of higher-education costs some two decades out.⁶

Display 1

How big are the benefits of a 529?



*\$24K invested per year

†\$120K invested up front

Portfolio allocated 80% to global stocks, 20% to intermediate-duration bonds (taxables in the 529 plan, municipals in the taxable account). Based on Bernstein estimates of the range of returns for the applicable capital markets over the next 18 years. Data do not represent past performance and are not a promise of actual future results. See Note on Wealth Forecasting, page 12, for further details.

Source: AllianceBernstein

Case Study: The Ivy Family

So the financial benefits of 529 plans can be compelling. But a potential donor also needs to assess the effects that diverting those funds may have on his lifestyle, retirement nest egg, spending power, and legacy and other key goals. And while parents are often the ones focused on pre-funding college, it’s often prudent to include grandparents in the decision-making process—assuming they’re willing donors—since they may be in a unique position to help. In fact, more than 20% of 529 plan accounts are owned by grandparents.⁷

⁵ We assume a constant allocation for the purposes of this study, although some 529 plans can be invested along a so-called “glide path,” moving progressively from a stock to a bond concentration as the remaining time until the funds are expected to be used shortens.

⁶ Of course, there are additional factors involved in analyzing 529 plans, including the investment options available to the donor both inside and outside the plans, plan expenses, the tax-efficiency of assets invested outside the plan, and any state legal requirements regarding family obligations related to college expenses.

⁷ “Profile of Households Saving for College,” Investment Company Institute, Fall 2003 (most recent) survey

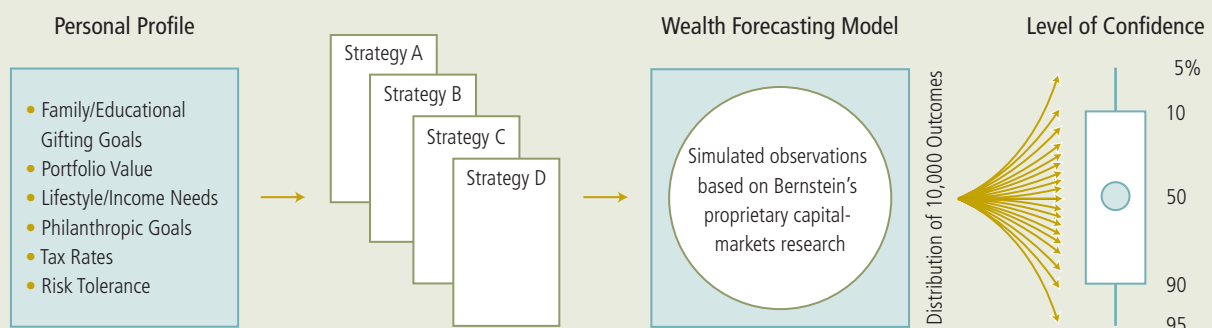
For example, consider the Ivys, a hypothetical family consisting of a set of grandparents, two children (sons Chuck and Michael), and five grandchildren. We've laid out their pertinent financial information and goals in *Display 2, left*. The grandparents, Jim and Carol, are both 65 years old and have just sold the family business for a substantial sum; their liquid net worth is now \$8 million. They peg their annual spending needs in the \$250,000 range for the rest of their lives, growing with inflation. They want to make sure that their retirement is secure and that they'll be able to share some of their wealth with their children.

Using our wealth-forecasting system, we can project how Jim and Carol's assets will fare assuming various market conditions and life spans. Our first task is to determine how large a portfolio they need to be confident they'll maintain their lifestyle for the rest of their lives.⁸ Our analysis suggests that with \$6.2 million, their portfolio will outlive them more than 90% of the time. That's a very high level of security. Given their \$8 million in net worth, we estimate they could give away \$1.8 million today (their "excess capacity") without jeopardizing their retirement (*Display 2, right*).⁹ Accordingly, they have the capital to pre-fund the college costs for their

The Bernstein Wealth Forecasting Analysis (WFA)

In helping our clients plan and stress test investment strategies, we use a proprietary Monte Carlo simulation that combines the client's circumstances and goals (e.g., net worth, portfolio assets, tax situation, gifting and legacy objectives, etc.) with 10,000 market scenarios based on history and our research (see *display below*).

The market scenarios range from spectacular to dismal, and for each of them we estimate wealth outcomes for as many strategies and time periods as the client wishes to consider. For each investment plan, we array results probabilistically, giving the client a sense of outcomes both likely and unlikely. Of course, actual future value cannot be predicted, but our research estimates make the planning exercise—whether applied to college expenses or any other investment issue—personalized and robust.



The Wealth Forecasting System, one of the biggest R&D projects ever undertaken at our firm, is based upon our proprietary analysis of historical capital-markets data over many decades. We looked at variables such as past returns, volatility, valuation ratios, and the correlations among them to address the planning questions our clients ask. The model's output is a vast range of portfolio outcomes—relating to market asset classes, not Bernstein portfolios.

⁸ See our research publication *Retirement: Plan Early and Often* for a detailed review of our methodology for estimating a retiree's financial security.

⁹ There are numerous ways that the Ivys could transfer these funds to their descendants. Our study entitled *Keeping It in the Family* focuses on intergenerational wealth-transfer techniques.

Display 2

Jim and Carol Ivy have been fortunate financially...

Grandparents

Jim and Carol Ivy

Both 65 Years Old

- Recently retired
- \$8 million in assets
- Real spending needs in \$250K range/year

Financial Goals

- Retire comfortably
- Leave a legacy

Parents

<p style="text-align: center;">Michael and Ann Ivy</p> <p style="text-align: center;">Both 37 Years Old</p> <ul style="list-style-type: none"> • \$450K in assets • \$175K of annual pretax income • \$100K of real annual spending <p style="text-align: center;">Financial Goals</p> <ul style="list-style-type: none"> • Build retirement wealth • Pay for children’s college 	<p style="text-align: center;">Chuck and Sue Ivy</p> <p style="text-align: center;">Both 40 Years Old</p> <ul style="list-style-type: none"> • \$1 million in assets • \$350K of annual pretax income • \$150K of real annual spending <p style="text-align: center;">Financial Goals</p> <ul style="list-style-type: none"> • Build retirement wealth • Pay for children’s college
--	---

Children

<p>Tara (Age 4)</p>	<p>Dianne (Age 2)</p>	<p>Jason (Age 8)</p>	<p>Andrew (Age 5)</p>	<p>Kathy (Age 5)</p>
--------------------------------	----------------------------------	---------------------------------	----------------------------------	---------------------------------

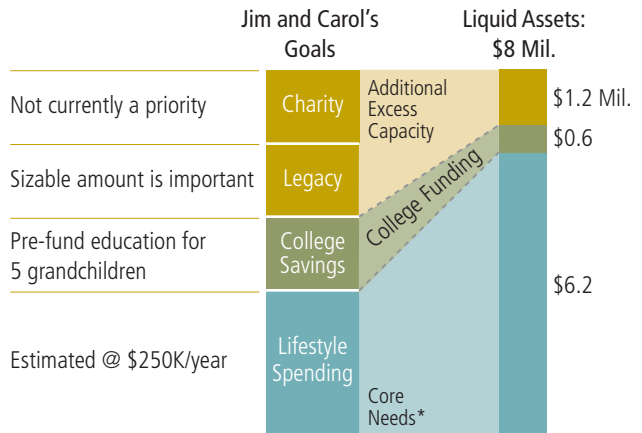
five grandchildren through 529 plans. We estimate that total gifts of \$600,000 to the plans would likely cover all future costs.¹⁰

Benefits for the Parent Generation as Well

Moreover, funding 529 plans would offer an opportunity for Jim and Carol to impact the lives not only of their grandchildren, *but also of their children*. Display 3 on page 6 sets forth our wealth projections for each set of parents when they reach their respective retirements, which we assume will begin at age 65. In one case, we assume that the parents foot the college bills by investing in 529 plans; in the other, we assume that Jim and Carol remove that financial burden by funding the 529 plan accounts for each of their grandchildren.

¹⁰ This assumes that each of their grandchildren begins a four-year private college at the age of 18, that total costs today begin at about \$45,000 per year, and that those costs grow at a rate two percentage points higher than the overall Consumer Price Index. See Note on Wealth Forecasting, page 12, for assumptions about the long-term inflation rate.

...and can readily afford to pay for college

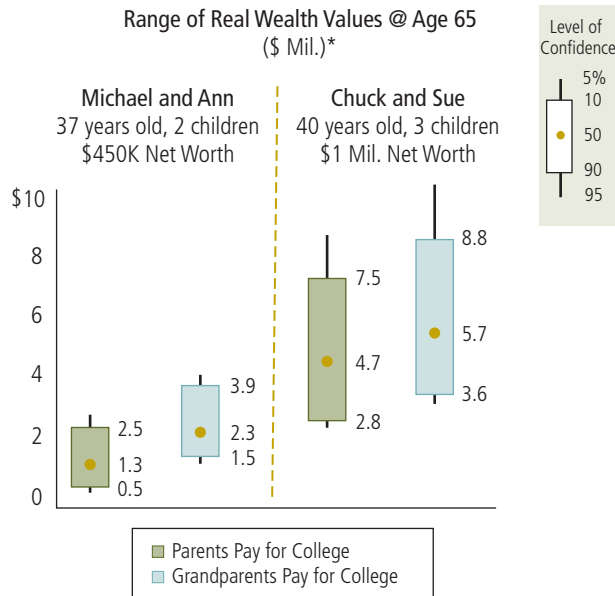


**Estimated to fund retirement needs at a 90% level of confidence; mortality-adjusted
Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein*

Let’s start with the younger couple, Michael and Ann, at the left of the display. They’re both 37 and have two children, ages 2 and 4. They’ve accumulated \$450,000 in assets to date and are earning a combined pretax annual salary of \$175,000. With \$100,000 in annual real spending needs, their ability to save is relatively modest. So if we assume that they also fund 529 plan accounts—let’s say they salt away \$24,000 for each child every year over a five-year period—we estimate that in the median case they’ll be able to accumulate only \$1.3 million, inflation-adjusted, for their retirement. And there’s a 10% chance that they’ll accumulate no more than \$500,000, represented by the bottom value in the chart. But the difference in their financial security is huge if the grandparents fund the 529 plan accounts: Michael and Ann’s median savings increase by some 75%—to \$2.3 million—putting their retirement on much firmer ground.

Display 3

The middle generation fares well if Jim and Carol fund 529s



*See Display 2 for assumptions about Michael and Ann's and Chuck and Sue's families and circumstances. Both families are assumed to reside in New York. Both own 60/40 portfolios. Equity portions are modeled as 35% US value, 35% US growth, 25% developed international markets, and 5% emerging markets. Bonds are a combination of intermediate-term municipals and taxables.

Based on Bernstein estimates of returns for the applicable capital markets over the periods annualized. Data do not represent past performance and are not a promise of actual future results or a range of results. See Note on Wealth Forecasting, page 12, for further details.

Source: AllianceBernstein

Chuck, the other son, and his wife, Sue, are in a different situation. They've been quite successful, accumulating \$1 million in liquid assets by age 40. Their combined \$350,000 salary is more than enough to cover their spending needs. They'll be big savers over the years even if they do establish 529 plan accounts for their three children. And so they don't need Jim and Carol to fund their children's college costs; their family is likely to be secure whether the grandparents help or not. Of course, Jim and Carol may still choose to fund the college costs as a matter of equity or generosity. Regardless, understanding the impact that 529 plans can have on all members of the family is crucial to sound decision making.

Best Use of Annual Exclusion Gifts

But are there any situations in which using a 529 plan to fund college expenses is not the best strategy? We believe there are. In particular, for a donor with a large estate for whom reducing estate taxes is an important goal, it's often best to pay the tuition portion of a child's or grandchild's college expenses directly.

Here's why: The government provides only a limited number of ways for a donor to move money free of gift tax to a beneficiary. One of the most valuable is the gift-tax annual exclusion, which, as discussed above, currently enables a donor to move up to \$12,000 per donee annually to as many donees as he likes, with no gift- or GST-tax consequences. A gift to a 529 plan account for a beneficiary counts toward that annual limit. But thanks to a special exception in the tax law, paying a beneficiary's tuition *directly to his or her school* is not considered a gift and therefore isn't debited against that annual limit. (Payment of other college expenses, such as room and board, generally does not qualify for this special exception.)

And so a donor can pay for a child's or grandchild's college tuition directly and still take advantage of the ability to make annual exclusion gifts to him or her. In the case of moving the money to a grandchild, the benefit of avoiding estate taxes on the funds (and any future income from or appreciation on them) can be quite significant for both the grandparents' and the parents' estates. The trade-off comes down to this: *Can the income-tax savings on gifts made to a 529 plan outweigh the estate-tax savings resulting from making annual exclusion gifts to a beneficiary and paying his or her tuition directly?* Our research finds that, in most cases, the estate-tax savings will exceed the income-tax savings provided by contributions to the 529 plan.

To illustrate, consider grandparents who wish to pay for their grandchild's education and who also wish to maximize the wealth that will pass to their

descendants by minimizing estate taxes. The issue is not whether the grandparents have the *capacity* to fund a 529 plan account, but whether taking that route makes the most economic sense after factoring in estate taxes.

529 Plan Versus Direct Gifts

We consider two alternatives. In the first, the grandparents contribute \$120,000 to a 529 plan, front-loading five years of annual exclusion gifts. In the second, the grandparents do not fund a 529 plan; instead, they make an annual exclusion gift each year for the next five years to a trust for the grandchild's benefit. The trust would be structured so that all income from the assets is taxed to the grandparents. (This type of trust is known as an Intentionally Defective Grantor Trust, or IDGT.) As a result, the assets in the trust grow tax-free for the grandchild. When he or she goes off to college, the grandparents pay the tuition bills directly.

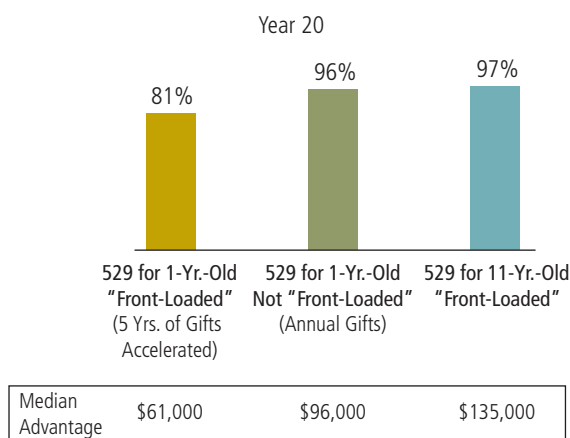
By making annual exclusion gifts in *addition* to paying tuition, the grandparents are able to remove more from their estates and thus lower their estate taxes. The result is greater overall family wealth. Even if we assume that the 529 plan account is front-loaded and used for the benefit of a one-year-old grandchild (providing nearly a full 20 years of tax deferral), we project that the total family wealth after estate taxes would be greater 81% of the time if the grandparents paid the tuition directly (*Display 4*). Further, in the median case, the estimated advantage is \$61,000. This is a *sizable sum* when viewed in the context of \$300,000 in estimated future tuition costs.¹¹

A number of factors could push the benefit of paying tuition directly even higher. For example, if a donor is uncomfortable fully front-loading the 529 plan account, the plan will lose some firepower. We estimate that the family wealth advantage of paying tuition directly would rise to \$96,000 in the median case. Moreover, if the child were older when the 529

Display 4

529s are not always the optimal choice

Probability of Greater Wealth After Estate Tax:
Annual Exclusion Gift and Direct College Payment vs. 529*



*In both cases, grandparents make annual exclusion gifts (\$24,000, indexed to inflation) to an Intentionally Defective Grantor Trust (IDGT) for the benefit of a grandchild, except during the first five years of the scenario in which they fund a 529 plan. Tuition of \$35,000 per year grown at an annual rate of two percentage points more than inflation is paid from the 529 plan to the extent possible, then directly by the grandparents, when the grandchild is between 18 and 21. Allocation is as described in the footnote to Display 3. Combined federal and state estate taxes of 50% are applied to the grandparents' estate after Year 20.

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 Note on Wealth Forecasting, page 12, for further details.

Source: AllianceBernstein

plan was established, the income-tax-free growth in the plan would have less time to build. If the 529 plan account were established when the child was 11, for instance, we estimate the advantage of paying tuition directly at \$135,000. We also didn't account for any taxes or penalties on funds in the 529 plan that wind up diverted for a use other than the beneficiary's higher education. Further, we've limited this analysis to 20 years, even though the benefit of a gift to a grandchild that escapes estate tax in both the grandparents' and parents' estates would build for many years thereafter.

¹¹ Based on our projection of college tuition costs alone for a child now one year old

On the other hand, trading off the certain benefit of income-tax-free growth now to avoid estate tax later carries some risk:

- If estate-tax rates are substantially reduced, the tax is repealed, or the family could easily reduce their estate through other planning strategies, they may have forgone the income-tax advantages of a 529 plan for little or no estate-tax savings.
- The donor may die before making the tuition payments. For a 60-year-old couple who are grandparents of a one-year-old, that may not be of great concern: There's a 93% chance that at least one of them will live another 20 years. But for a 75-year-old couple, the odds fall to approximately 40%. So for elderly grandparents or for those in poor health, the 529 plan may be a better strategy. (However, even in that case, a 529 plan may be undesirable if the *parents* are likely to leave a very large estate subject to the death tax.)

Display 5

When to think beyond a 529

A 529 plan may not be the best way to save for college tuition if a donor meets all the criteria below:

Donor Criteria	Potential Funding Solutions
<ul style="list-style-type: none"> • Has a large estate and a desire to reduce estate taxes • Has a willingness to transfer funds to the child or grandchild in excess of what's needed to pay for college education • Is likely to live long enough to pay the tuition directly* 	<ol style="list-style-type: none"> 1. Make annual exclusion gifts to an IDGT for the beneficiary 2. Fund 529 plan to pay for room and board 3. Pay tuition costs directly

**However, even if a grandparent is unlikely to live long enough to pay the tuition directly, a 529 plan established by the grandparent may still not be the best choice if the grandchild's parent will also have a very large estate subject to estate tax. Greater tax savings will be achieved if the parent pays the grandchild's tuition directly and makes annual exclusion gifts to him or her, rather than paying the tuition with funds in a Section 529 plan established by the grandparent.*

In this analysis, we consider only the tuition portion of college expenses, because, as mentioned above, only the payment of that amount is not considered a gift. So if grandparents or parents also want to pay for room and board, it will generally make sense for them to establish a 529 plan to the extent necessary to pre-fund those expenses.¹² All these considerations must be factored in for each family before arriving at the right college-funding decision for them (*Display 5*).

Conclusion

With clear objectives for college expenses, retirement, and wealth transfer, families can put into place comprehensive, tailored strategies well designed to meet all their goals. If spending is high in relation to wealth, parents should focus on meeting core needs first, and consider funding a 529 plan over time. Where there are adequate resources, fully funding a 529 plan account can maximize the benefit for most families—especially if grandparents are in a position to contribute. However, for very wealthy families whose primary goal is reducing estate taxes, other strategies alone, or in concert with a 529 plan, may maximize overall family wealth. Regardless, families should view college funding as an important aspect of their multigenerational wealth plans. ■

¹² In some cases, it may be possible for wealthy parents to pay for a child's college room and board directly without that payment being considered a gift to the child for gift-tax purposes. In those cases, it would be advantageous for the parents to pay those expenses directly as well. Please consult your tax or legal advisor.

Appendix

Comparing college savings options

	529 Plan	Crummey Trust	Coverdell Education Savings Account	Uniform Transfers to Minors Act (UTMA) Account
Primary Use	College and post-graduate education savings	Wealth transfer. Can also be used as college-savings vehicle	Kindergarten through post-graduate education savings	Wealth transfer. Can also be used as college-savings vehicle
Income-Tax Treatment of Donor	Nondeductible at federal level (32 states allow some in-state tax benefit)	Nondeductible at federal level	Nondeductible at federal level	Nondeductible at federal level
Income Tax on Earnings	No tax while funds remain in account	Taxable	No tax while funds remain in account	Taxable
Maximum Investment	Above \$250K in most state plans	None	\$2,000 per beneficiary per year	None
Qualified Expenses	Tuition, fees, books, supplies, room and board	No restrictions	Tuition, fees, books, supplies, room and board (including K-12 expenses through 2010)	No restrictions
Income Restrictions on Donor?	None	None	Yes (currently = \$220K joint / \$110K single)	None
Ability to Change Beneficiary?	Yes	No	Yes	No
Penalty for Using Funds for Non-Qualified Expenses?	Earnings portion of distribution includable in recipient's income and subject to a 10% penalty	Depending on trust terms, can be used for the beneficiary for any purpose	Earnings portion of distribution includable in recipient's income and subject to a 10% penalty	Can be used for the beneficiary for any purpose

Selected recent Bernstein publications for private clients

Full-Length Investment-Management Research

Bernstein's in-depth "blackbook" studies, focused on critical investment and wealth-building issues, both evergreen and topical:

- The Art Before the Deal:
Maximizing Personal Wealth When Selling a Business
- China:
Is the World Really Prepared?
- Commercial Real Estate:
From the Ground Up
- Commodities: Handle with Care
- Ending Oil's Stranglehold on
Transportation and the Economy
- The Enviably Dilemma:
Concentrated Stock—Hold, Sell, or Hedge?
- Hedge Funds:
Too Much of a Good Thing?
- Keeping It in the Family:
Planning for Efficient Wealth Transfer
- Looking Beyond Perpetuity:
Customizing a Private Foundation
- Managing Trusts:
Better Decisions in an Uncertain World
- The New Industrial Revolution:
De-verticalization on a Global Scale
- Retirement:
Plan Early and Often

"Research Focus" White Papers

Our perspectives on focused areas of interest, ranging from complex investment vehicles to current trends affecting the global markets:

- Home-Country Bias:
Where Traditional Asset Allocation Falls Short
- The Last Risk Premium Standing
- Oil's New Price/Demand Equation
- Research Innovation:
Knowing More...Using Knowledge Better
- Saving for College:
Putting 529 Plans to the Test
- Structured Notes:
Do They Live Up to Their Promise?

Special Topics in Investment Planning

Publications devoted to "demystifying" difficult planning issues, such as tax management, portfolio diversification, and market-timing strategies:

- Fortune & Misfortune:
Investment Planning to Achieve One and
Avoid the Other
- The Importance of Managing Investment Taxes
- Market Timing:
If It Feels So Right...How Can It Be So Wrong?
- The Role of Faith in Investing

Bernstein Journal: Perspectives on Investing and Wealth Management

A regularly published review for our private clients, highlighting our latest research findings in focused articles:

2005 Publication

- An Auspicious Time for Private Foundations?
- China: Changing the Way the World Does Business
- Gaining and Keeping the Information Advantage: A Q&A with CEO Lewis Sanders
- Hedge Funds: Finding the Right Allocation
- It's Not What a Hedge Fund Earns, But What You *Keep*
- The Proof Is in the Paying: Boosting *After-Tax* Returns
- Sharing Good Fortune: Philanthropic Strategies
- Stocks Without Borders

2006 Publication

- Energy: Is the Age of Petroleum Over?
 - The Transformative Potential of Hybrid Vehicles
 - Will Ethanol Go Mainstream?
- The Evolution of Growth Investing
- How to Succeed at Value Investing by Really, Really Trying
- Leisure Doesn't Always Come Easy
- Municipal Bonds: A New Financial Reporting Challenge Raises a Troubling Question
- US Current Account Deficit: How Great a Threat to the Dollar?
- Using the Power of Currency to Add Return

Note on Wealth Forecasting

The Bernstein Wealth Forecasting AnalysisSM is a proprietary modeling tool designed to assist investors in a range of key decisions, including setting their long-term allocations of financial assets. The Wealth Forecasting Analysis 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 guidance on, which may touch on issues such as when to retire, what his cash-flow stream is likely to be, whether his portfolio can beat inflation long-term, which vehicles are best suited for intergenerational and philanthropic gifting, and how different asset allocations might affect his long-term security; (3) the Capital Markets Engine: a model that uses our proprietary research and historical data to create a vast range of market returns, which takes into account the linkages within and among the capital markets (not Bernstein portfolios), as well as their unpredictability; and finally (4) where appropriate, a probability distribution of outcomes based on the assets invested pursuant to the stated asset allocation, with 90% of the estimated range of returns and/or asset values the client could expect to experience often represented in a graphic output. We often focus on the 10th, 50th, and 90th percentiles to understand the range of outcomes representing upside, median, and downside cases. However, outcomes outside this range are expected to occur 20% of the time; thus, the range does not establish the boundaries of all outcomes. Except if otherwise indicated, asset-class assumptions are based on the following: US value stocks are represented by the S&P/Barra Value Index with an assumed 30-year compounding rate of 7.9% based on simulations with initial market conditions of March 31, 2007; US growth stocks by the S&P/Barra Growth Index, 7.8%; developed foreign stocks by the Morgan Stanley Capital International (MSCI) EAFE Index of major markets in Europe, Australasia, and the Far East (with countries weighted by market capitalization and currency positions unhedged), 7.7%; emerging markets stocks by the MSCI Emerging Markets Index, 6.3%; taxable bonds by bonds of seven-year maturity, 5.3%; municipal bonds by bonds of seven-year maturity, 4.3%; inflation, 2.4%. The components of the diversified portfolio in this analysis are listed in the footnote to Display 3. Expected market returns on bonds are derived by taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long-term bonds by a reasonable amount, although this is by no means 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.

Bernstein was founded in 1967 to manage investments for individuals and families and is dedicated solely to investment research and management. Today, as a unit of AllianceBernstein L.P., we oversee some \$100 billion* in private capital. Research is the basis of our ability to prudently manage the assets under our care; it is also the foundation of the full array of investment products, both global and local, that we offer.

Our Client-Centered Mission

- To have more knowledge and to use knowledge better than any other investment firm in the world
- To use and share knowledge to help our clients achieve investment success and long-term security
- To place our clients' interests first and foremost

Research Excellence

We believe that superior research is the ultimate source of superior investment returns and requires both knowing more and using knowledge better. Knowing more—having an information advantage over other market participants—requires doing deep fundamental and economic research on a truly global scale. Using knowledge better means identifying and exploiting pricing anomalies that can provide incremental return and employing portfolio-construction techniques to manage risk and return efficiently.

With those goals in mind, we've built one of the largest and broadest research footprints in the business: 266 analysts* operating in 12 countries and covering thousands of securities in capital markets around the world. Our research effort is organized into separate groups dedicated to growth equities, value equities, fixed income, and real estate trusts, reflecting the unique needs of each investment approach.

Disciplined Investment Processes

We leverage our research with systematic portfolio management. Because our top investment management professionals determine the policies and make the decisions that underlie all our investment strategies, each client, regardless of account size, gets the very best our firm has to offer. These strategies and decisions are then further customized in relation to each account's tax status and the client's goals and circumstances.

Broad Array of Services

We offer value, growth, and style-blended stock portfolios across the global markets, real estate investment trusts, hedge funds, and taxable and tax-exempt fixed income portfolios—all actively managed.

Wealth Management Planning

Because we recognize that private clients of very substantial means have complex needs, we've created a team of people with expertise in a wide range of disciplines to counsel clients on sophisticated financial planning. Our wealth management professionals have experience in areas such as estate planning, intergenerational wealth transfer, philanthropy, alternative asset classes, liquidity events, and investment strategies for corporate executives. Working together with our clients' other professional advisors and aided by a quantitative state-of-the-art wealth-forecasting tool, we stress test multiple solutions to complex investment problems to help clients identify the strategies best suited to them financially and emotionally.

Client Service and Communications

We recognize that client needs are varied. Our investment professionals seek to provide clients with the investment approach that is best for them, and they pride themselves on personalized and timely service. Further, our content-rich communications explain the research basis for our portfolio decisions, our analysis of recent market developments, and our market outlook, as well as other research findings. ■

*As of March 31, 2007

Note to All Readers:

The information contained herein reflects, as of the date hereof, the views of AllianceBernstein L.P. and sources believed by AllianceBernstein to be reliable. No representation is made concerning the accuracy of any data compiled herein. In addition, there can be no guarantee that any projection, forecast, or opinion in these materials will be realized. The views expressed herein may change at any time subsequent to the date of issue hereof. These materials are provided for informational purposes only, and under no circumstances may any information contained herein be construed as investment advice. **In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.** Neither may any information contained herein be construed as any sales or marketing materials in respect of any financial instrument, product, or service sponsored or provided by AllianceBernstein L.P. or any affiliate or agent thereof. This document is not an advertisement and is not intended for public use or additional distribution.