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A Rare Opportunity to Benefit Children *and* Charity

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Most people assume that a dollar given to charity is a dollar they can't also give to their children. But in fact, with the right structure in place, gifts to charity and children can actually enhance each other. Today, the charitable lead annuity trust (CLAT) is an especially powerful tool for doing just that.

Pre-Funding Your Contribution

The CLAT is designed to make payments to charity for a term of years, after which any remaining assets pass to noncharitable beneficiaries—typically, your children or a trust for their benefit. This is, in effect, a way to pre-fund your charitable donations.

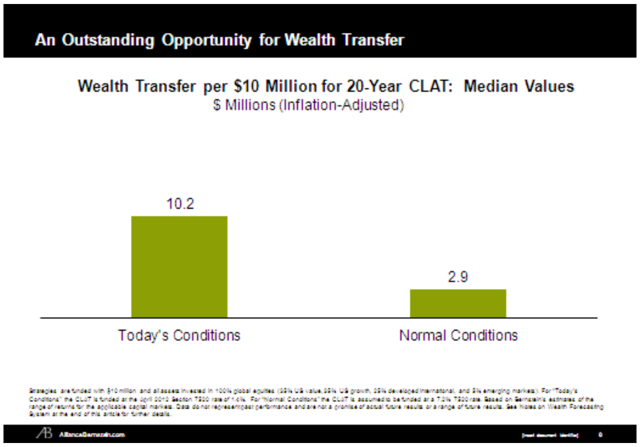
For example, if you typically give $50,000 a year to charity, you can pre-fund a 20-year CLAT today with $866,954. This amount is less than $1 million (20 years of $50,000 gifts) because the IRS assumes a modest rate of investment return. If the trust is structured to avoid transfer taxes, at its termination, any remainder interest—the appreciation of the trust assets above the IRS's assumed rate of return—will pass to your children without gift or estate tax.

The size of the required annual gifts to charity is directly related to prevailing interest rates at the time the CLAT is established; the lower the rates, the smaller the annual donations. And the smaller the donations, the better the chance that the CLAT will leave something substantial to your children without transfer tax.

Today's Opportunity

Today's unusually low interest rates create an extraordinary opportunity to transfer assets by means of a CLAT. Under the Internal Revenue Code, the relevant interest rate for CLATs is the so-called Section 7520 rate, which the IRS derives from Treasury rates. The Section 7520 rate has averaged 6.2% since it was first established in 1989, but as of this writing it stands at just 1.4% for April 2012. At a rate this low, the CLAT becomes an extremely effective wealth transfer strategy.

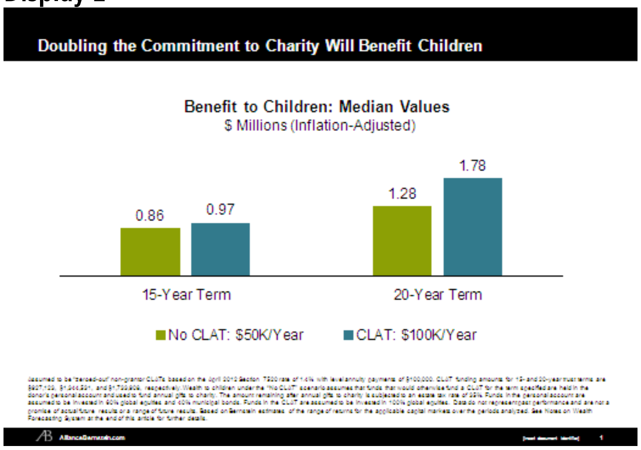
Display 1



Doubling the Charitable Commitment

Display 1 illustrates how attractive CLATs currently are relative to normal initial conditions. For every dollar invested in a CLAT today, you can expect to transfer a dollar (inflation-adjusted) to family. In essence, you can take the charitable gifts you already planned to make, wrap them in a CLAT, and get a substantial wealth transfer benefit as well. Due to their irrevocable nature, among other reasons, CLATs are often reserved for testamentary use. However, if you delay the funding of a CLAT, you'll likely miss out on today's exceptional conditions. In fact, you can currently double your charitable commitment, while still leaving a larger-than-expected legacy for your children.

Display 2



As *Display 2* indicates, your children receive more money when you donate $100,000 per year to charity via a CLAT (the blue bars) than if you directly donated $50,000 per year to charity (the green bars).

Other Strategies

While CLATs currently represent a remarkable opportunity for donors, multigenerational families, and charities, they are not the only philanthropic strategy worth considering. Direct lifetime gifts of cash and appreciated assets, testamentary gifts, private foundations, donor advised funds, charitable remainder trusts, pooled income funds, and IRAs with charitable beneficiaries are among the other possibilities. While not reflected here, Bernstein can offer research-based analytical advice to determine which single strategy or combination of strategies can best achieve your wealth-transfer and philanthropic goals.

For further information, please contact Eric Settle at eric.settle@bernstein.com■

Notes on Wealth Forecasting System:

The Bernstein Wealth Forecasting System[SM] (WFS) is designed to assist investors in making a range of key decisions, including setting their long-term allocation of financial assets. The WFS consists of a four-step process: (1) Client Profile Input: the client's asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance goals, and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as which vehicles are best for intergenerational and philanthropic giving, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long term, when to retire, and how different asset allocations might impact his/her long-term security; (3) The Capital Markets Engine: our proprietary model that uses our research and historical data to create a vast range of market returns, taking into account the linkages within and among the capital markets (not Bernstein portfolios), as well as their unpredictability; and (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated returns and asset values the client could expect to experience, represented within a range established by the 5th and 95th percentiles of probability. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Further, we often focus on the 10th, 50th, and 90th percentiles to represent the upside, median, and downside cases. Asset-class projections used in this paper are derived from the following: US value stocks are represented by the S&P/Barra Value Index, with an assumed 50-year compounding rate of 8.9%, based on simulations with initial market conditions as of December 31, 2009; US growth stocks by the S&P/Barra Growth Index (compounding rate of 8.5%); developed international 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 (compounding rate of 9.2%); emerging markets stocks by the MSCI Emerging Markets Index (compounding rate of 7.2%); municipal bonds by diversified AA-rated securities with seven-year maturities (compounding rate of 3.9%); taxable bonds by diversified securities with seven-year maturities (compounding rate of 5.4%); and inflation by the Consumer Price Index (compounding rate of 3.0%). Expected market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long-term bonds by a reasonable amount, although this is by no means a certainty. Moreover, actual future results may not be consonant with Bernstein's estimates of the range of market returns, as these returns are subject to a variety of economic, market, and other variables. **Accordingly, this 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.**

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

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