EQUITABLE
ADVISORS

A good financial strategy starts with knowing the whole you

Financial planning considerations

Equitable Advisors' financial planning process is an integrated program that can help charter a course toward financial independence and long-term security. It can help you assess your savings, investment and protection needs in light of your current financial goals and situation. Once you have determined your needs, your financial professional can build a strategy to help you reach your objectives.

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How you can help ensure the quality of your financial planning advice

The more complete and accurate the data you provide during this process, the more likely it will be that our recommendations will reflect your unique financial goals and investment objectives.

While completing the confidential profile with your financial professional, you will be asked to provide information that is likely to be readily obtainable, such as savings account balances or monthly expenses. In addition, you will be asked about certain assumptions and preferences that will impact the financial planning advice you receive. These assumptions are subjective and dependent on future events and, while no one can predict the future, you should do your best to be as realistic as possible.

This brochure is intended to assist you in responding to some of the questions you will be asked. Reviewing the concepts covered in this brochure may help you select the assumptions that form the basis of the financial planning advice. Careful consideration of the issues discussed in this brochure can result in a more accurate analysis of your current situation and, while there are no guarantees, also help provide a plan that can help you reach your financial goals. Your financial professional can also help guide you through the financial planning process. Keep in mind, though, that your financial plan will be customized for you, and the various assumptions and priorities used will reflect your point of view and be chosen by you.

Prior to accepting delivery of your plan, you should review the plan data summary and financial assumptions contained therein to ensure that they accurately reflect the information you provided.

Retirement

Whether retirement is on the horizon or just around the corner, it is never too early to start planning. Any sound retirement plan starts with an assessment of what you have now, followed by the determination of reasonable goals and what it may take to reach them. What is most important, no matter what your stage in life, is to start planning now.

Today, more people are retiring earlier and living longer. As a result, you could spend 25% or more of your life in retirement. The longer you live, the more assets and income you will need. And, you should expect that your living expenses will likely increase over time, due to the effects of inflation and the likelihood that medical costs will increase as you grow older. A general rule of thumb suggests that you should consider planning to meet 75% to 100% of your current income, before taxes, to maintain your current lifestyle in retirement. There are several factors everyone should consider in estimating retirement expenses, including:

- Housing
- Medical expenses
- Travel/leisure
- Long-term care
- Major expenses (such as a wedding)
- Everyday expenses (such as lifestyle expenses)
- Caring for an extended family

There may also be other expenses that you will want to consider based on your own unique situation. For many people, Social Security may not provide enough to be the sole source of retirement income. Rather, it is good to think of it as just one leg of a three-legged stool, with a second leg being your own savings and another being any employer benefits or contributions to your retirement.

Estimating the costs of a comfortable retirement is, of course, just the starting point. Next, your financial professional can help you estimate the amount of retirement income you might expect, given your current situation and portfolio positioning.

If you find there is a shortfall between the income that you might expect and the expenses you anticipate, your financial professional can help you decide how to reduce or eliminate the gap using a strategy that fits your lifestyle, taking your tolerance for risk into consideration, and evaluating your investment time horizon.

Investment objective and allocation strategy

Reaching your financial goal, whether it is a comfortable retirement or a college education for your children, requires a sound strategy. Perhaps the most important aspect of your investment strategy is the way you allocate your investment resources in various asset classes, such as stocks, bonds and cash equivalents to make up your portfolio.

Goal-specific asset allocation, used in Equitable Advisors' financial planning process, is an investment strategy that allows you to link specific assets and goals to accommodate risk over a period of time.

During the planning process, you will answer questions designed to identify whether your investment objectives require you to develop an aggressive, moderate-plus, moderate, conservative-plus or conservative strategy. These terms are listed according to their general level of risk and potential return from highest to lowest. The aggressive objective is at one end of the spectrum and seeks a higher total return, primarily through capital appreciation. High portfolio volatility and, potentially, greater risk of the loss of principal may accompany the aggressive objective. Conversely, the conservative objective lies at the other end of the spectrum and typically seeks a lower return in exchange for relatively lower portfolio volatility and chance of principal loss. Your answers to these risk tolerance related questions will not only help you determine your investment objective category, but they will also help you determine the rate of return used to illustrate the growth of your assets over time. Confirm that you understand each question before you answer it and are comfortable that the conclusions reached as a result of your answers — your investment objective category and rate of return assumptions — reflect your preferences and situation.

Your financial professional will assist you in structuring a strategy based on your individual preferences and circumstances, such as your risk tolerance and investment time horizon, as well as your existing portfolio and savings. Generally, the longer your investment time horizon, the longer you may have to offset increased portfolio volatility and vice versa. Considering your time horizon, together with your need for liquidity or access to cash, will enable you and your financial professional to plot a well-planned course toward your objectives. Please remember that there may be costs associated with reallocating your existing portfolio and savings. Before deciding to liquidate and then reinvest at a later time, consider transaction costs, such as taxes, penalties, management fees and other costs. After you consider these costs, you may decide to hold some of your current assets.

Your financial professional can assist you in understanding and assessing the risks of different investment strategies and in matching your goals to appropriate strategies. These strategies include techniques, such as diversification and dollar-cost averaging that may help reduce investment risk, although dollar-cost averaging and diversification do not ensure a profit or protect against a loss in declining markets. Ultimately, only you can determine your risk tolerance. So you should make sure that the plan, and any recommendations that your financial professional makes, are based on an understanding of your own risk tolerance comfort zone when it comes to investing. If you are not sure where that comfort zone is, your financial professional has various tools that can help you identify it.

Of course, there is no guarantee that your investment objectives will be realized, and any investment strategy that helps reduce risk does not ensure a profit or protect against loss in a declining market. You and your financial professional will reach a mutual understanding of your goals through the planning process and assess your risk tolerance to develop an appropriate investment strategy. Please also note that your financial professional will not make any specific product recommendations during the financial planning process. After your plan has been delivered to you, you may choose (at your discretion) to implement your plan, in which case, should you chose, your financial professional can assist you through specific product recommendations.

Stock options

The financial planning advice you receive may include an analysis of the potential vesting schedule and potential value of your stock options. Before including employee/director stock option grants in the plan, you should carefully consider their unique characteristics and consult with your legal and tax advisors, if appropriate. Foremost, please remember to review and understand the terms of your option grants and provide all documentation to your financial professional if you want to analyze your options. Any questions you have regarding the terms of the grants should be discussed with your human resources representative and legal and tax advisors, if appropriate. You may, for example, want to confirm that you understand the type of options you hold, their exercise price, vesting schedule and expiration date, as well as the impact of a cessation of employment and tax treatment of any gain you may earn.

Some option grants may be valuable because, over the long run, the value of the underlying stock may significantly increase above the purchase price (i.e., strike or exercise price). However, at expiration, some option grants may be without value because the market value of the underlying stock never exceeds the specially granted purchase price. Please note that Equitable Advisors and your financial professional do not give legal or tax advice! Please consult your personal legal and tax advisors as appropriate.

Cost of education

The cost of private schools, colleges and graduate or professional schools can be substantial. For estimating college costs, you may want to consider whether to assume your children will attend a public or private school. Of course, unless they are approaching college age, you may not have a precise idea of how much money you need to accumulate.

In estimating your educational funding requirements, you should decide what percentage of educational costs you want to provide, whether there is income available from other sources (e.g., financial aid, such as scholarships or grants), and whether you expect your child to share in the costs by working or through loans. Also, remember that annual college costs have been increasing at a faster rate — in some cases at a considerably faster rate — than annual costs in general, as measured by the Consumer Price Index (CPI). These costs and inflation rates may also vary depending on the type of college or university.

Long-term care

The purpose of long-term care insurance is generally to minimize the financial impact associated with the costs of caring for those who are no longer able to care for themselves. Costs for long-term care vary widely. Those who require minimal care will have much lower expenses than those who are confined to a nursing home and require constant care.

When considering long-term care insurance, it is important to evaluate the following:

- Amount and length of coverage.
- Level of care (i.e., skilled nursing care, immediate care, custodial care, assisted-living care, adult day care or respite care).
- Limitations and exclusions, such as preexisting conditions and restoration of coverage.
- Inflation protection and coverage allowing for an increase in benefits.

For most of us, the primary source of long-term care funding is personal savings. If income and assets are low enough, state Medicaid programs may also provide some benefits. Also, paying in advance for a life-care facility is becoming increasingly popular. However, you may find that it is unlikely that private medical insurance and Medicare will cover the potential costs of long-term care. Long-term care insurance is intended to provide an alternative funding source.

Expense estimates for survivor needs

How much money would your family need to live if you passed away? A good place to start is your family's current expenses today — would there be enough income to cover your family's expenses if you were not here to provide it?

Prior to your meeting with your financial professional, you should carefully consider the dollar amount you want to provide for your survivors. If, for example, you are raising young children, you may want to provide income to cover 70%–100% of your family's current expenses until your youngest child reaches age 18, and then provide enough income to cover 50%–100% of your family's current expenses for an additional period of time.

Your income or assets may also be a source of income for your parents or other elderly relatives today or in the future. Again, you must consider the realistic amount of replacement income needed and the length of time it must be available. In estimating your survivor income needs, you should also take into account other potential income sources, such as existing investments, pension and Social Security benefits, and the continued income of your survivor(s).

Additionally, you will be asked to select a rate of return to apply to the investment of insurance proceeds. You should consider whether your answers to the risk tolerance questionnaire would change if you were the survivor investing the insurance proceeds. You should discuss with your financial professional whether you would want these proceeds invested differently than the assets in your portfolio.

Estate planning

A review of estate planning issues is an important part of many financial plans. Many people believe that estate planning is only for the wealthy. This is simply not true. An estate plan may help any individual dictate his or her final wishes, and how your assets are distributed both during your lifetime and at or after your death. Your estate plan should be structured to achieve your personal objectives and also maximize the wealth passed on to heirs and charities, while minimizing taxes and other expenses.

Estate planning begins with a consideration of the following questions:

- Who should receive your assets? Should it be your children, grandchildren, friends or charity?
- Do you want to transfer your assets during your lifetime, as well as at death?
- Who do you want to take care of minor children if you were to die prematurely?
- What are the needs of your survivors?
- Do you have a will? Does it meet your current personal objectives, and is it structured properly to minimize taxes and expenses?
- Do you have beneficiary designations on your life insurance policies and retirement plans?
- How are your major assets titled? Are they solely or jointly owned? Do jointly owned assets automatically transfer to the survivor upon your death, or do they pass through your will? Is your estate balanced between you and your spouse to effectively minimize estate taxes?

Carefully consider whether you would like guidance on estate planning techniques. If you choose to purchase our estate planning services, remember that we will provide only an overview. Estate planning involves many tax and legal documents, as well as concepts and strategies. You should consult your tax and legal advisors before making any estate planning decisions. Equitable Advisors and your financial professional do not provide tax or legal advice.

Inflation rate

You will be asked to select the future annual long-term inflation rate that you would like us to use in developing your plan. This assumption will be used throughout different parts of your plan, and is important because inflation erodes purchasing power by increasing the costs of goods and services we buy. You should select a long-term rate you feel comfortable with for each goal being considered.

In doing so, you should be aware that choosing a higher rate will cause the plan to increase the amount of capital you will need to accumulate for future needs, since higher inflation means that prices generally will increase more quickly. Conversely, a lower inflation assumption will reduce the amount of capital that the plan will project you need. Thus, you should be as realistic as you can in selecting a rate.

Rates of return

In order to estimate how your assets may grow over time, it is necessary to make assumptions about the average rates of return you may realize on your investments. For purposes of the plan, typically we have utilized the pretax targeted rate of return shown in the financial assumptions and the executive summary sections of the plan. Where you have identified specific assets for a particular goal, we typically use the pretax targeted return for those assets, if available. When calculating the additional funding needed to meet a goal, typically we have utilized the pretax targeted return for your current allocation in your current plan and the pretax targeted return for your proposed allocation in your proposed plan. Both of these returns are shown in the asset allocation section.

For the purpose of determining capital and income requirements to help meet your goals, we typically assume a compounded average annual rate of return, which is known as the geometric return. When arriving at the current and proposed targeted return rate for your portfolio, we typically assume a corresponding simple average estimated rate of return known as the arithmetic return. Both returns are derived from historical data. However, geometric returns are generally slightly lower than the corresponding arithmetic return to account for the effect of compounding. Using lower returns typically means that your analysis will show that you may need to save or invest more to reach your stated goals.

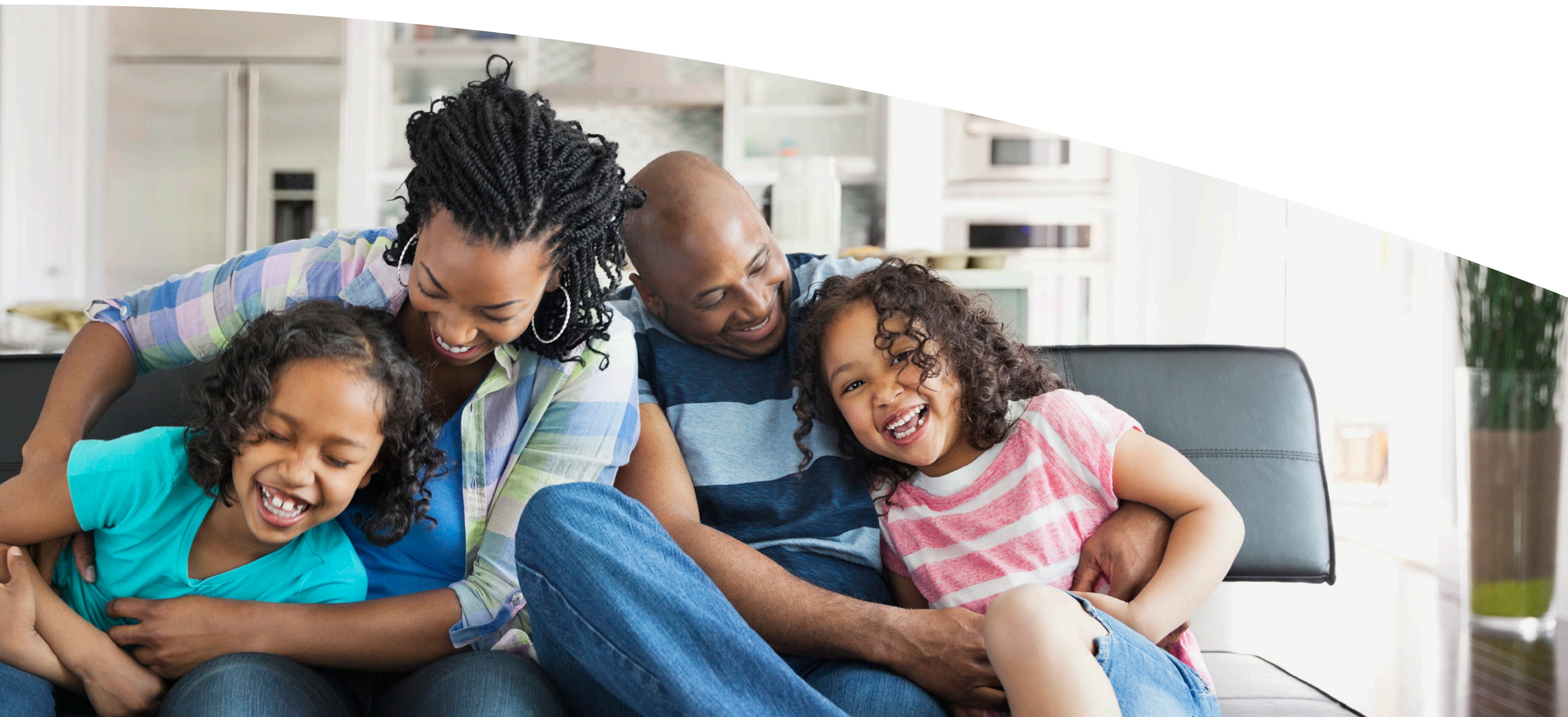
Be aware that, regardless of the rate you choose to use in your plan, it is likely that your actual rate of return will be different than the targeted return. There is no assurance that the targeted return will be met. If your actual return is higher than the rate you choose to use, you will likely accumulate more assets than the plan estimates, all other things being equal. Conversely, if it is lower, you will probably accumulate less — meaning that you may have to save more or longer to meet your goals.

Also, be aware that the targeted rate of return shown for the proposed asset allocation assumes that you will promptly make adjustments to your portfolio to conform to the model suggested and that those adjustments do not trigger taxes, penalties or other costs that (as is frequently the case) would reduce the amount available for reallocation. If you do incur taxes, penalties or other costs (which is beyond the scope of the plan to identify), your capital available for reinvestment will be reduced by such amount, which will reduce the amount you will accumulate over time, all other things being equal. Please remember that Equitable Advisors and your financial professional do not give tax or legal advice. Please consult your personal tax advisor.

Financial planning services

Financial planning services may address all or some of the following topics, depending upon your needs and circumstances. We encourage you to carefully consider which areas you would like your financial plan to address. Although you may believe some topics do not need immediate attention, understanding each issue can be important in establishing your priorities and developing appropriate strategies.

- Education
- Major purchases
- Income tax
- Disability
- Survivorship
- Retirement or distribution
- Asset allocation
- Stock options
- Long-term care
- Estate planning



Below are key terms and concepts you should review in order to help you understand the financial planning process and any advice you receive. While you may see many of the terms listed in your financial plan, you and your financial professional may discuss others as you provide information and select the assumptions that will be used to create the plan. Please refer back to this brochure as needed during the financial planning process, particularly when you receive the financial planning advice.

Equity asset classes

Asset class

A category of investments that share similar characteristics and may be expected to respond similarly to changes in the market.

The asset classes that may be referenced within your financial plan may include:

Large-cap growth — Stocks of large companies may be classified as large-cap growth stocks. The price-to-earnings (P/E) and price-to-book (P/B) ratios are usually higher than large-cap value stocks. Corporations in this asset class generally do not pay a large dividend to stockholders and choose to reinvest their earnings into research and development.

Large-cap value — Stocks of large companies may be classified as large-cap value stocks. The price-to-earnings (P/E) and price-to-book (P/B) ratios are usually lower than large-cap growth stocks.

Small/mid-cap growth — Stocks of small- to medium-sized companies may be classified as small-/mid-cap growth stocks. These companies tend to have higher price-to-earnings (P/E) and price-to-book (P/B) ratios than small/mid-cap value stocks.[1]

Small/mid-cap value — Stocks of small- to medium-sized companies are classified as small-/mid-cap value stocks. The price-to-earnings (P/E) and price-to-book (P/B) ratios of small-/mid-cap value stocks are usually lower than small/mid-cap growth stocks, with higher dividend yields.[1]

International (developed) — Stocks include investments in larger, more developed markets, including but not limited to, the United States, Japan, Germany, France, Italy, the United Kingdom and Canada.[2]

Emerging markets — Stocks of countries that have a low per-head income compared with the developed world, but which nevertheless have functioning stock exchanges; e.g., India, China and South Africa are called emerging markets.[2]

1 Stocks of small companies may have less liquidity than those of larger companies, and may be subject to greater price volatility than the overall stock market.

2 International investing is subject to certain risks, including currency exchange rate volatility, possible political or economic instability, foreign taxation and differences in financial standards.

Taxable debt asset classes

Long-term govt/corp — Government or investment-grade corporate bonds that have a maturity, or average maturity (in the case of bond mutual funds), of 10 years or more.[3]

Short/intermediate-term govt/corp — Government or investment-grade corporate bonds that have a maturity, or average maturity (in the case of fixed-income mutual funds), of less than 10 years.[3]

High-yield — Corporate debt that has a rating, or average rating (in the case of fixed-income mutual funds), of BB or lower by a major rating agency.[4]

Tax-free debt

Long-term muni — State and local government-sponsored-and-issued tax-free debt with maturity greater than 10 years.[3]

Short/intermediate muni — State and local government-sponsored-and-issued tax-free debt with maturity less than 10 years.[3]

Other core asset classes

Cash-muni — Federally tax-exempt investments, such as short-term municipal debts with maturity of 12 months or less.

Cash or cash equivalents — Fxed-income investments, including Treasury Bills, money market accounts and funds, as well as commercial paper with less than a 12-month maturity.

Alternative asset classes

Alternative investments — The term alternative investment applies to a number of different nontraditional investments. The reason they are classified as alternative is that they are unlike the traditional brokerage securities, such as stocks, bonds or mutual funds, and are generally not traded on an exchange. Hard assets such as gold, silver, art and commodities are also sometimes referred to as alternative investments.[5]

Real estate investment trusts (REITs) — Professionally managed pools of commercial real estate holdings and/or real estate mutual funds.[6]

International bonds — All foreign government and corporate bonds traded outside the United States and comprising all credit qualities and maturities.[2, 3]

3 Bond investments are subject to interest rate risk so that when interest rates rise, the prices of bonds can decrease and the investor can lose principal value.

4 High-yield bonds are subject to a high degree of credit and market risk.

5 Investing in alternative investments is risky and not suitable for all clients.

6 The assets in a non-diversified portfolio may be focused in a smaller number of issues or one sector of the market that may make the value of the portfolio's shares more susceptible to certain risks than shares of a diversified portfolio.

Glossary of terms and concepts

Annuitize
Refers to the transition of an annuity contract from the accumulation phase into the income distribution phase. In the income distribution phase, the accumulated value of the annuity is distributed via a computed stream of income payments over a duration of time or through varying withdrawals from the annuity.

Asset allocation
The process of positioning investable resources among various categories of asset classes based on your time horizon, risk tolerance and present financial situation. Some of your assets may be in variable insurance products or have a particular tax status (i.e., qualified or nonqualified) that would in most cases limit your desire to liquidate and/or reallocate those assets. You may choose in some circumstances (after you consider the costs and expenses) to reallocate to insurance products or assets with the same tax status. Therefore, your portfolio may first be divided into several portfolios based on these categorizations and there may be a different asset allocation for each sub-portfolio based on the time horizon, the specific goal each portfolio is designed to meet and other personal considerations such as liquidation and reallocation costs including taxes.

Asset mix
The combination of asset classes within an investment portfolio. It can also be a further division within an asset class of assets such as a mix of small, medium, and large company stocks.

Average tax rate
The assumed average tax rate that is applied against salary, self-employed, Social Security, defined benefit, pension and other taxable income. The assumed average tax rate is typically less than the marginal tax rate based on the assumption that income is spread over multiple tax brackets.

Capital Asset Pricing Model (CAPM)
A model in which the cost of capital for any security or portfolio of securities equals the riskless rate plus a risk premium that is proportionate to the amount of systematic risk of the security or portfolio.

Community property
In states with community property laws, any property acquired by a married couple is considered to be equally owned by both parties.

Current asset mix
The combination of asset classes assigned to the assets included in the current plan.

Entire portfolio
The entire portfolio for the current plan represents the asset mix of all accounts in the plan. The entire portfolio for the proposed/recommended plan is the combined suggested and assumed asset mixes associated with all of the goals included in the plan.

Fixed expenses

Fixed expenses include ongoing expenses that you have determined cannot be easily changed or eliminated, such as basic living expenses or retirement expenses.

Fixed incomes

The definition of fixed incomes includes the pretax income from the following income sources: benefit formula and estimate benefit pensions, income entered with the pension type, Social Security income of the family head(s) (retirement, survivor and disability benefits), income entered with the type salary and annuity income (excluding income from annuities with the annuitization type of withdrawals as needed).

Fixed needs

Fixed needs include all your fixed expenses, plus other expenses that have been calculated based on your financial information. These expenses include liability payments, insurance premiums, property taxes and income taxes.

Inflation rate/index rate

The rate that dollar values are discounted over time. The rate is measured by an index that indicates the change in the cost of various goods and services as a percentage.

Investment profile

The investment profile is the result of an analysis of an individual’s investment objectives, time horizon and risk tolerance in reference to investing.

Marginal tax rate

The marginal tax rate is derived from the federal income tax brackets. It is the amount of tax that would be paid on any additional dollars of income.

Mean-Variance Optimization (MVO)

The process of identifying portfolios that have the highest possible return for a given level of risk or the lowest possible risk for a given level of return. The inputs for MVO are return, standard deviation and the correlation coefficients of returns for each pair of asset classes.

Modern portfolio theory

Introduced by Nobel Prize winner Harry Markowitz in the 1950s, modern portfolio theory proposes that investors may minimize market risk for an expected level of return by constructing a diversified portfolio. Modern portfolio theory emphasizes portfolio diversification over the selection of individual securities.

Portfolio

The combination of assets a client owns and that are considered in this plan to fund the client’s goals.

Required Minimum Distribution (RMD)

The amount required by the IRS to be withdrawn each year from traditional IRAs and employer-sponsored retirement plans, starting on the required beginning date, which generally, but not always, occurs in the year following the year in which the owner turns 70½.

Re-sampling

Re-sampling is a statistical process that reduces the sensitivity of the mean variance optimization process by generating multiple variations of the original inputs, creating new efficient frontiers based on each set of inputs, and then generating an efficient frontier that is the average of all simulated frontiers.

Standard deviation

Standard deviation is a statistical measure of risk that measures the range of an investment's return over a specified time period. A higher standard deviation indicates a wider range of returns and thus greater volatility. Standard deviation does not indicate how the investment actually performed, but merely indicates the volatility of returns over time.

Suggested asset mix

The asset mix that is derived based on the investment profile as determined by answers to a risk tolerance questionnaire.

Time horizon

The length of time desired to achieve a financial goal. A longer time horizon usually allows an individual to withstand more volatility, whereas a shorter time horizon typically requires less volatility and more liquidity.

Total needs

The definition of total needs includes all fixed needs, all other expenses that are not considered in the fixed needs definition, and total taxes. The total needs in the plan account in part for expenses that are more discretionary in nature.

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