Morgan Stanley

PRIVATE WEALTH MANAGEMENT

SPENDING & SAVING IN THREE EASY STEPS

Establishing sound budgeting, savings and cash management practices often presents particular challenges to newly independent members of ultra high net worth households. Those accustomed to the amenities of the affluent lifestyle are well advised to follow a disciplined process to determine how much they can spend, how much they need to save and what tools they need to manage their cash flow.

1 Set Goals

Most of us can't have everything we want any time we want it. Setting clear short-, intermediate- and long-term goals will help you decide what trade-offs you are willing to make.

2 Establish a Budget

Don't let your financial life just happen to you. Make deliberate decisions about what types and levels of spending and saving best support your goals, given your earnings and other income (trusts, family support, etc.).

3 Open Appropriate Accounts

Establish the banking and investment accounts you need to manage your cash and to support your longer-term savings goals.

STARTING TO SAVE: HOW MUCH YOU SHOULD PUT WHERE.

FIRST: ESTABLISH A WAY TO PAY YOUR REGULAR EXPENSES
Account: Checking or money market with checking
Amount: One or two months' expenses, or slightly more if needed to meet account minimums
Also: Consider setting up overdraft protection to eliminate bounced-check fees

NEXT: BUILD AN EMERGENCY FUND
Account: Savings or money market accounts
Amount: Three to six months' expenses
Also: Link savings accounts to checking accounts for convenience and fee reduction

THEN: START SAVING FOR LONGER-TERM GOALS
Account: 401(k) at least to the extent of your company match; additional investment accounts
Amount: Varies greatly according to your personal and philanthropic goals
Also: Discuss long-term savings goals with an advisor who understands your family's wealth transfer strategy

SETTING A BUDGET

While maintaining a household budget does have a certain "eat your spinach" quality, it doesn't have to be that way. As the process demands that you set priorities, budgets are a tool to help you get the things you really want by showing you what you have to do to get them.

STEP ONE: CALCULATE YOUR TOTAL INCOME
Add up all the income you receive regularly from all sources on a pretax basis. In addition to your salary and bonus, this may include:

- Freelance or consulting income
- Investment income that is not intended for savings
- Distributions from trusts
- Recurring gifts/support from your family

STEP TWO: TRACK YOUR CURRENT EXPENSES

1. Write down everything you spend for at least three months and what you spend it on (use bank records, debit and credit card statements, if you need some help). Be sure to include an expense line to cover your philanthropic commitments.
2. Divide all of these expenses into reasonably broad categories (i.e., "clothing" instead of shoes, hats, coats and scarves).
3. Separate broad categories into three lists:
   - "Needs," or fixed expenses over which you have very little control (i.e., health insurance, income taxes, rent).
   - "Wants," or discretionary expenses over which you have great control (i.e., entertainment, restaurants, leisure travel).
   - "Gifts," or the grants and donations you have made to philanthropic organizations. (Certain categories, like food and clothing, are likely to have both a "need" and "want" aspect. Divide the expense and assign a reasonable portion to each column).
4. Add a fourth column with the total amount of money you saved over your tracking period.

STEP THREE: SET YOUR SPENDING POLICY
If you're lucky, your expenses fall short of your income with enough left over to support your longer-term savings needs. If not, consider setting adjustments:

- Start with the "Needs" column and determine whether those needs can be met for less money. (Can you find cheaper car insurance? Do you need to think about getting a roommate?)
- Determine your priorities within your discretionary spending and philanthropic commitments. (Would you trade dining out less often for keeping your summer beach share?)
- Replace the spending numbers with target number reflecting your new priorities.

STEP FOUR: STICK WITH IT
Track your actual expenses against the budget you have set for yourself. Try to stay within your targets, but also use the first few months to reconsider the priorities you set. (Perhaps the restaurants are more important to you than the beach vacation).

BUDGETING RESOURCES
Simple budget programs can be found in software packages. As a Morgan Stanley client, you can have access to the Spending and Budgeting Tool.

Information related to a client's external accounts is provided for information purposes only. It is provided by third parties, including the financial institutions where the client's external accounts are held. Morgan Stanley does not verify that the information is accurate and makes no representation or warranty as to its accuracy, timeliness or completeness. Additional information about the features and 5 services offered through Spending and Budgeting are available on the Spending and Budgeting site on Morgan Stanley Online and also in the Terms of Use for Asset Aggregation and Budgeting Services.

TOP BUDGETING TIPS

KNOW WHAT YOU CAN COUNT ON: Be conservative in your income assumptions, especially from bonuses, gifts and investment income. Better to expect less and get more than vice versa.
BUDGET FOR SAVINGS AND PHILANTHROPY AS WELL AS SPENDING: Your budget should help you achieve your long-term goals as well as your immediate goals.
BE SPECIFIC, BUT NOT TOO SPECIFIC: Keep your expense categories reasonably broad to simplify tracking your expenses.
KEEP IT CURRENT: Revisit your budget plan at least once a year to make sure it remains relevant.
TRACK YOUR SPENDING AGAINST YOUR BUDGET: Budgets only help you if you follow them.
STICK WITH IT: Don't let a momentary lapse discourage you. If you've had a run of unusually high expenses, your budget can help you get back on a sustainable track.

MORGAN STANLEY PROVIDES OPPORTUNITIES FOR MEMBERS OF ULTRA HIGH NET WORTH FAMILIES

BENEFIT FROM YOUR RELATIONSHIP: The Morgan Stanley multigenerational pricing extends incentive pricing through three generations. Your relationship with Morgan Stanley is recognized and may help you qualify for relationship-based pricing discounts for you and your immediate family.

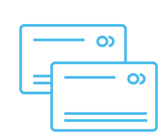
GETTING ACCESS TO YOUR FUNDS: You can use your Morgan Stanley Debit Card to conveniently make purchases or access your available funds at ATMs that display the Mastercard, Maestro or STAR network acceptance marks. Additionally, as a Morgan Stanley client, you can benefit from rebated ATM fees when using your Morgan Stanley Debit Card at over 400,000 ATMs across the U.S.

DETERMINING SUSTAINABLE INCOME FROM INVESTMENT ACCOUNTS: If your parents' or grandparents' Private Wealth Advisors manage assets held in trust for you, you should understand what income or distributions you can expect from those accounts and when you can expect them. Ask your family's Private Wealth Advisor to supply you with any cash flow projections you need for budgeting purposes.

THE DIFFERENCE BETWEEN CREDIT CARDS, DEBIT CARDS AND CHARGE CARDS

CREDIT CARDS: Are essentially vehicles to borrow money on demand. Issuers of American Express, Visa, Mastercard and other cards give you a credit limit, the maximum amount you are allowed to borrow, and you are required to pay them back a portion of that money every month. They give you more flexibility than debit cards because you can spend more than you currently have on account. This also gives you the opportunity to run up a lot of relatively high-cost debt, so use your cards carefully.

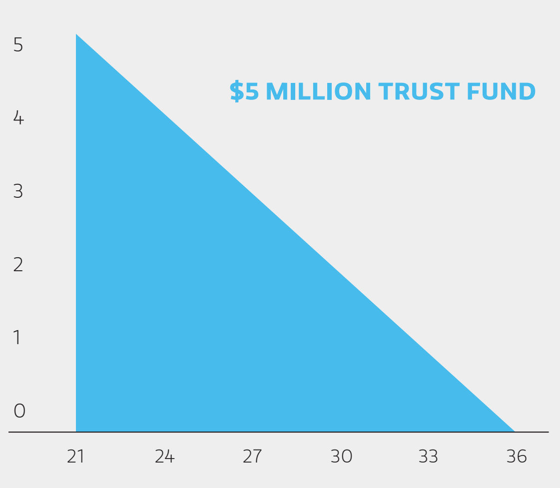
DEBIT CARDS: These can be used in similar fashion to credit cards, but the funds are withdrawn directly from your account — just as if you had written a check. For that same reason, you need to keep a close eye on your account balances to avoid overdrawing your account. Unlike credit cards, debit cards do not help you build a credit history, nor offer rewards points. This can be considerable disadvantage for those with higher spend levels.



CHARGE CARDS: Charge cards like many store cards are similar to credit cards, but you are required to pay your balance in full every month. Be careful not to charge more than you can pay off at the end of the month, or you may incur large penalties and potentially damage your credit rating.

HOW TO DEPLETE A $5 MILLION TRUST FUND IN 15 YEARS, OR LESS: A CAUTIONARY TALE.

There is a limit to how much income a given amount of assets can produce on a sustainable basis. Exceed that limit, and you may imperil your long-term financial security. The chart below illustrates the impact of drawing $35,000 per month out of a $5 million fund. (assumes a 25% marginal tax rate and a yield of 4%).



For Illustrative Purposes Only

DETERMINING THE RIGHT BANK ACCOUNT FOR THE JOB

Three variables determine the appropriate of any banking account for any given purpose:

- **Return** is the measure of how much you earn on assets in an account.
- **Liquidity** is the measure of how quickly you can gain access to money in an account.
- **Fees** are the expenses an institution charges to maintain your account and conduct transactions within it.

CHECKING ACCOUNTS: Checking accounts are particularly useful tools for paying your day-to-day expenses. Typically, there are few, if any, limits on the number of deposits and withdrawals that can be made.
How to choose one:

- **Convenience:** Consider how you will use both the institution's branch network and online services, and choose one that will make your life simpler.
- **Fees:** Fees vary considerably from institution to institution and account to account. To reduce, or eliminate, many of these fees, consider an account with a higher minimum balance requirement.
- **FDIC Insurance:** Choose a chartered bank with FDIC insurance to protect your assets.

SAVINGS ACCOUNTS: Savings accounts are used to earn somewhat higher returns on your cash, while keeping it available for near- to mid-term use.
How to choose one:

- **Interest rate:** Rates vary considerably from institution, so it pays to shop around.
- **Overall costs:** Many banks will link accounts and give you credit for all assets you hold in combined accounts. It may be worth accepting a lower interest rate on savings if it qualifies you for free checking and other reduced fees.
- **FDIC Insurance:** Choose a chartered bank with FDIC insurance to protect your assets.

MONEY MARKET ACCOUNTS: As most money market accounts let you write a limited number of checks, they can serve the purposes of both a savings and a checking account if you have light cash management needs.
How to choose one:
The same criteria as savings accounts apply, but also consider the number of checks you can write and any fees that apply for things like ATM withdrawals.

NOTE: There are considerable differences between a money market account and a money market mutual fund. One of the largest of these is that a money market deposit account at an FDIC-insured bank is covered by FDIC insurance, dollar-for-dollar, including principal and any accrued interest through the date of the insured bank's closing, up to the insurance limit.

CERTIFICATES OF DEPOSIT (CD): CDs pay a set interest rate for a specified length of time, usually from three months to over 10 years. Generally, the longer you are willing to lock up this money, the higher the rate will be. They can be a good place to park money to pay for a predictable future expense.
How to choose one:

- **Term:** Decide when you will need your money back and choose the appropriate term.
- **Interest rate:** Rates vary considerably, so it pays to shop around.
- **Penalties:** While you can withdraw your money before the term of your CD's expiration, you may have to pay penalties of at least one month's interest.
- **FDIC Insurance:** Choose a CD with access to FDIC insurance coverage to protect your assets.

FDIC: WHAT IT IS AND WHAT IT COVERS: The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects depositors of insured banks against the loss of their deposits if any of the banks fail. The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category.

The FDIC covers checking accounts, negotiable Order of Withdrawal (NOW) accounts, savings accounts, money market deposit accounts (MMDAs), time deposits such as certificates of deposit (CDs), cashier's checks, money orders, and other official items issued by a bank.

The FDIC does not cover stock investments, bond investments, mutual funds, life insurance policies, annuities, municipal securities, safe deposit boxes or their contents, U.S. Treasury bills, bonds or notes.

RECORD-KEEPING

It's essential to keep good records of all your accounts, so you have a better understanding of where your money is going and will be properly prepared to file your taxes.

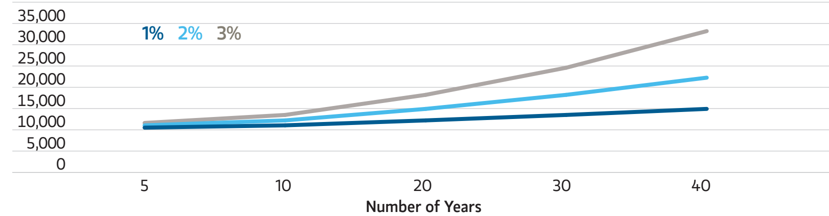
BALANCING YOUR CHECKBOOK: Your checkbook will come with a ledger for recording your deposits and withdrawals. When you receive your monthly statement, check it against the ledger to make certain everything is in order.

YOUR MONTHLY STATEMENT: Every account will send you a record of all activity at the end of each month, either in the mail or online. Check it for accuracy.

TAX REPORTING: At the end of the year, you will receive tax forms for any account that has earned at least $10 in interest. You will also receive statements from your investment accounts detailing the amount of dividends and interest you have earned and any capital gains and/or losses.

HOW COMPOUNDING AFFECTS RETURNS

Albert Einstein reportedly quipped that "compound interest is the most powerful force in the world." As the chart below illustrates, even small differences in the rate of return will achieve significantly different results over time.



$10,000 compounded daily at 1% vs. 2% vs. 3%. For Illustrative Purposes Only

10 BANKING TIPS

1. SHOP AROUND. Rates and fees can vary considerably from bank to bank and account to account.

2. LINK YOUR ACCOUNTS. It will make it easier to transfer funds from one to the other and may reduce your fees.

3. SIGN UP FOR OVERDRAFT PROTECTION AND LOW-BALANCE ALERTS. They may help you avoid costly bounced-check fees. (First, check to see if your bank charges for these services.)

4. BALANCE YOUR CHECKBOOK. It can help you stay on budget and catch any mistakes.

5. USE THE RIGHT TOOL FOR THE JOB. Use checking accounts for short-term cash management and savings or investment accounts for longer term goals.

6. LOOK FOR FDIC AND SIPC PROTECTION. Don't assume that your accounts are insured against the insolvency of the financial institution.

7. GET ONLINE ACCESS. It's an added measure of convenience you can use 24/7.

8. READ YOUR ACCOUNT STATEMENTS. It will help you understand where you are spending your money, and help you catch discrepancies.

9. USE YOUR CONNECTIONS. Find out if you have access to better rates or lower fees through your parents' or grandparents' multigenerational pricing programs. Students may also qualify for free student checking accounts through their colleges or universities.

10. READ, THINK, ACT. Read the terms and conditions statement for an account and consider whether it suits your purpose before signing up.

Federal Deposit Insurance Corporation ("FDIC") - Cash balances swept into deposit accounts at participating banks in the Bank Deposit Program are protected by FDIC Insurance up to applicable FDIC limits. FDIC insurance is a federal government program administered by the Federal Deposit Insurance Corporation. This insurance covers bank deposits held in checking accounts, savings accounts, certificates of deposits and money market deposits (not money market funds). This insurance comes into play in the event of a bank failure and covers client cash up to a total of $250,000, per bank, for each "insurable capacity" (e.g. each individual, joint, etc.). It does not cover investment products that are not deposits, such as mutual funds, annuities, life insurance policies, stocks or bonds. Refer to https://www.fdic.gov for additional details.

As a Morgan Stanley client, you can have access to cash management solutions for your everyday finances.