

## Understanding Fixed Annuities and Market Value Adjusted (MVA) Fixed Annuities

**Fixed annuities are insurance contracts that provide a guarantee of principal and interest over a stated term or for life.**

Although there are varying types and options to fixed annuities, they generally include the following:

- Investment is backed by the general account of the insurance company
- Earnings will grow at the stated interest rate on a tax deferred basis. Withdrawals are taxed at ordinary income tax rates and may be subject to a 10% penalty for individuals below the age of 59 ½.
- The option to transition control of your investment to an insurance company in return for a guaranteed income stream for your life and possibly that of your spouse (annuitization)

Fixed annuities pay a fixed rate of return for a specified time period known as a “guarantee period”. Upon the expiration of that guarantee period, the annuity will generally automatically renew subject to a contractual renewal rate. During permitted window(s), which generally fall in the days post term expiration, you may decide to reallocate your investment to an alternative guaranteed term (subject to product availability) or withdraw some of, or all of your funds.

### FEATURES:

- A. **Market Value Adjustments:** fixed annuities may allow for the adjustment of the value of the annuity (positive or negative) when you take a withdrawal(s) outside of a permitted window. This adjustment would be based on the relationship of market interest rates at the time of the withdrawal and the guaranteed interest rate of the annuity. The general relationship is as follows: if interest rates move higher than the guaranteed rate at the time of the withdrawal, you may receive less than your investment and, conversely, if interest rates move lower than the guaranteed rate at the time of the withdrawal, you may receive more than your current investment's value
- B. **Tax-Deferred Earnings:** Earnings from a non-tax-qualified fixed annuity grow on a tax-deferred basis. This means that income taxes that would have been paid on interest, dividends or capital appreciation are deferred until you make a withdrawal from the fixed annuity contract. Therefore, investments may grow faster in a fixed annuity than in a taxable investment vehicle with a similar rate of return because money that would have been used to pay taxes on earnings remains invested and continues to potentially grow and compound. It is important to note, however, that when you withdraw your money from a non-tax-qualified fixed annuity, you will be taxed on the earnings at ordinary income tax rates rather than the lower tax rates applicable to capital gains. And, if you take the withdrawal before you attain age 59½, you may be

subject to an additional 10% federal tax penalty. The benefits of tax deferral may outweigh the costs of a fixed annuity only if you hold it as a long-term investment to meet retirement or other long-range goals.

- C. **Death Benefit:** Fixed annuity contracts allow for the payment of the current contract value to your named beneficiary (or multiple named beneficiaries) upon your death. Generally, when the owner (or annuitant, as specified in the contract) of the fixed annuity dies, the beneficiary is taxed on all appreciation when the death benefit is received. This is different from investments held in a taxable account that may receive a stepped-up cost basis (i.e., the value of the account at the owner's death including all appreciation).

The earnings-enhanced death benefit is an optional death benefit that may be available. This feature entitles the named beneficiary to a death benefit that is increased by an amount—typically 25% to 40% of the earnings in the contract—that can be used to help offset taxes that may be due when the death benefit is paid. The cost for this optional death benefits is typically up to 0.30% annually.

There are some additional considerations you should be aware of regarding fixed annuity death benefits:

- The death benefits described above may terminate once you elect an income option (annuitization) and enter the payout phase of the contract
- Depending on the contract, death benefits may be payable upon the death of the owner, the annuitant or either.
- Withdrawals during the savings phase will reduce the death benefit.
- Any optional death benefit must be elected when the contract is issued and cannot be canceled.
- In a non-tax-qualified fixed annuity earnings distributed as death benefits are taxed as ordinary income when received by the named beneficiary.

Morgan Stanley does not receive any additional compensation when a client selects an optional death benefit on their fixed annuity.

- D. **Living Benefit Riders:** Annuities are characterized by their ability to provide retirement income that cannot be outlived during the payout phase. Fixed annuity products may offer, on an optional basis, “living benefits” that provide principal and/or income guarantees to help protect your retirement income (i.e., insurance for your purchase payments).

The cost for these optional living benefits is typically up to 0.95% annually. Please review the disclosure documents to ensure all fees, ranges and frequency of fee alterations are completely understood prior to purchasing an optional living benefit.

Morgan Stanley does not receive any additional compensation when a client selects an optional living benefit on their fixed annuity.

## **COSTS:**

- A. Typically, fixed annuities do not have upfront sales loads or ongoing expenses. The insurance company's costs are built into the interest rate paid on the contract. In addition to the market value adjustment described above, your contract may be subject to an early surrender charge (also called a contingent deferred sales charge) in the first 5 to 10 years of the contract. You should consult the disclosure documents for the annuity that you are considering for the specific early surrender charge schedule and any market value adjustment calculation.

- B. **Contingent Deferred Sales Charge Waivers:** Certain fixed annuity contracts offer Contingent Deferred Sales Charge (CDSC) waivers. These waivers allow you to withdraw from your contract without penalty or surrender charges. The CDSC waivers may vary by insurance company and contract and may not be available on all contracts. Please review the disclosure documents.
- **Nursing Home / Extended Care Waiver:** If you or the joint owner is confined to a nursing home or hospital you may withdraw up to 100% of the contract value free of surrender charges. Each insurance company and contract may have specific length of time requirements in order to qualify for the waiver. Restrictions may apply and are described in the disclosure documents.
  - **Terminal Illness Waiver:** If you or the joint owner incur a terminal illness you may withdraw up to 100% of the contract value free of surrender charges. Each insurance company and contract may have specific length of time requirements in order to qualify for the waiver. Restrictions may apply and are described in the disclosure documents.
  - **Unemployment Waiver:** If you or the joint owner has a total and permanent disability that prevents you from performing any work for pay or profit you may withdraw up to 100% of the contract value free of surrender charges. Each insurance company and contract may have specific length of time requirements in order to qualify for the waiver. Restrictions may apply and are described in the disclosure documents.

## **How Morgan Stanley Smith Barney LLC and Your Financial Advisor Are Compensated When You Buy a Fixed Annuity and/or a MVA Fixed Annuity**

**COMMISSIONS.** Each time a fixed annuity is purchased through a Morgan Stanley Financial Advisor, the insurance company pays Morgan Stanley Smith Barney LLC (“Morgan Stanley”) compensation, based upon a standard schedule, in the form of a commission, based upon the product, product term selected, and the amount of the client investment. The commissions payable to Morgan Stanley is consistent for each insurance company, regardless of the volume of business Morgan Stanley submits to the insurance company or the profitability of the policy to the insurance company. Further, no insurance company or the parent or affiliated company of any insurance company has any material interest in Morgan Stanley or its insurance licensed subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

Morgan Stanley, in turn, pays a portion of the commission to the Financial Advisor. Financial Advisor commissions generally range from 0% to 4% of contributions. Insurance Companies also pay Morgan Stanley trails for ongoing fixed annuity contract servicing and administration generally .25% of fixed annuity assets. Financial Advisors may be paid an additional commission if you decide to renew your fixed annuity at the end of a guarantee period. Renewal commission rates generally range from 0% to 3% of annuity assets. Not all fixed annuities pay a renewal commission. Morgan Stanley passes all or a portion of these renewal payments on to the Financial Advisor. Insurance companies may also pay Morgan Stanley an additional percentage of contributions, generally not exceeding .5%. Upfront, trail and renewal commission payments are paid out of the insurance companies general account and do not represent an additional charge to you.

**EXPENSE & DATA ANALYTICS FEES.** Morgan Stanley seeks prepayment from approved insurance companies of up to \$26,000 to help cover the costs associated with platform administration, regulatory compliance and other distribution responsibilities. In addition, Morgan Stanley seeks reimbursement from approved insurance companies, their parent or affiliated companies, or other service providers for the expenses incurred for various national, regional, and local training and education events and conferences held in the normal course of business. Approved insurance companies, their parent or affiliated companies, or other service providers independently decide if and what they will spend on these activities. Morgan Stanley also offers insurance companies the opportunity to purchase supplemental annuity sales data analytics. The amount of the fees depends on the level of data provided. The current fee is up to \$50,000 per annum. Should an insurance company offer other financial products, insurance companies may purchase sales data analytics from Morgan Stanley on those products as well.

**COMPENSATION FROM INSURANCE COMPANIES** Morgan Stanley and its parent or affiliates receive from certain approved insurance companies or their parent or affiliated companies compensation in the form of commissions and other fees for providing traditional brokerage services, including related research and advisory support, and for purchases and sales of securities for their own portfolios or the portfolios of sub-account investment companies. They also receive other compensation from certain approved insurance companies or their parent or affiliated companies for financial services performed for the benefit of such companies. Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to an approved insurance company or its parent or affiliated company to the aggregate values of our overall client holdings of the insurance company's products or to offset the expense payments described above.

For additional information on a particular insurance company's payment and compensation practices, please refer to the insurance company's product disclosure documents.

## Learning About Fixed Annuities

In order to be an informed investor in fixed annuities, you should do several things. Typically, fixed annuities offered through Morgan Stanley's licensed insurance agency affiliates are preceded or accompanied by an informational disclosure document. You should read this document carefully. Since the guarantees in each annuity depend on the financial strength and claims-paying ability of the insurance company, you should evaluate the insurance company's financial condition. Finally, you should discuss your investment goals with your Morgan Stanley Financial Advisor.

General information on annuities can be obtained from The American Council of Life Insurers website.

**Investors should carefully consider the investment objectives and risks as well as charges and expenses of a fixed annuity before investing. To obtain a disclosure document, contact your Financial Advisor. The disclosure document contains this and other information about the annuity. Read the disclosure document carefully before investing.**

Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates.