What is a Variable Annuity?

A variable annuity is a contract between you and an insurance company. With a variable annuity, the insurance company agrees to make periodic payments to you in the future. You can purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments. Please note that certain benefit options (e.g., death benefit or living benefit protection options) may limit additional purchase payments.

Variable annuities offer features not generally found in other types of investment products, including:

- Tax-deferred earnings,
- Tax-free transfers among a variety of investment options (or “subaccounts”),
- Access to the research and due diligence of the variable annuity’s professionally managed, unique investment options and investment allocation strategies,
- Death benefit protection options,
- Living benefit protection options, and
- Lifetime income options.

A variable annuity has two phases—the savings (or “accumulation”) phase and the payout (or “annuitization” or “income”) phase. During the savings phase, you make purchase payments into the contract and the earnings accumulate on a tax-deferred basis. The payout phase starts when you begin receiving regular payments from the insurance company by electing a variable annuity income option. Many contracts include a variable annuity commencement date, generally between ages 85 and 95, where variable annuity owners are required to select a payout option (also known as “forced annuitization”). Annuitzation of annuity contracts generally requires control of the investment to be given to the insurance company and will generally terminate any living or death benefits provided in the contract.
Why Consider a Variable Annuity?

A variable annuity is a long-term investment primarily designed for retirement or another long-range goal. As noted above, a variable annuity lets you accumulate assets on a tax-deferred basis. If you are looking to supplement other sources of retirement income—such as Social Security and pension plans—you may want to consider a variable annuity.

When considering the purchase of a variable annuity, numerous factors should be taken into account including, but not limited to, your:

- Age,
- Annual income,
- Financial situation and needs,
- Investment experience and investment objectives,
- Intended use for the variable annuity (e.g., to leave assets to beneficiaries, to receive income for life, tax deferred investments, etc.),
- Investment time horizon,
- Existing assets including investment and life insurance holdings,
- Liquidity needs (see the section titled “Share Class and Surrender Periods” for more information),
- Liquid net worth,
- Net worth,
- Tolerance for risk, and
- Tax status.

Please note that variable annuities involve investment risk and a variable annuity may lose value. Therefore, you should consider your ability to sustain investment losses during periods of market downturns. Before buying any variable annuity, you should request a prospectus from your Financial Advisor/Private Wealth Advisor and read it carefully. The prospectus contains important information about the variable annuity contract including fees and charges, investment options and objectives, risks, death benefits, living benefits and variable annuity income options. All of these should be considered carefully. You should compare the benefits and costs of the variable annuity you are considering to other variable annuities and to other types of investments before investing.

“Free Look” Period

Variable annuities typically have a trial period of 10 or more days from your receipt of the contract. This is known as the “free look” period. During this time, you can terminate the contract and get back your purchase payments without paying any surrender charges. The purchase payments may be adjusted to reflect charges and the performance of the subaccounts you selected. You are encouraged to ask questions before the “free look” period ends to make sure you understand your variable annuity and confirm that it is right for you.

Variable Annuity Fees and Charges

There are fees and charges that are unique to variable annuity products. These fees and charges cover the cost of contract administration, distribution, portfolio (or investment) management and the insurance benefits (e.g., death and living benefit protection options, lifetime income options). Because fees and charges may be assessed on the original investment, the current account value or the benefit’s base value (or “benefit base”), you should become familiar with all types of fees and charges, and the methodology for their calculation within the particular variable annuity you are purchasing. The most common fees and charges are:

- **Mortality and Expense Risk Charge (M&E):**
  The M&E charge compensates the insurance company for insurance risks and other costs it assumes under the variable annuity contract. M&E charges are deducted from the value of the subaccounts (i.e., the investment options you
The fees for any optional death and/or living benefit you may select are described below and are not included in the M&E charge. M&E charges are assessed daily and typically range from 0.95% to 1.80% annually.

- **Administrative and Distribution Fees:** These fees cover the costs associated with servicing and distributing the variable annuity. These fees include the costs of transferring funds between subaccounts, tracking purchase payments, issuing confirmations and statements as well as ongoing customer service. Administrative and distribution fees are deducted from the value of the subaccounts. These fees are assessed daily and typically range from 0% to 0.60% annually.

- **Contract Maintenance Fee (or “Annual Fee”):** The contract maintenance fee is an annual flat fee charged for record keeping and administrative purposes. The fee typically ranges from $30 to $50 and is deducted on the contract anniversary. This fee is typically waived for contract values over $50,000.

- **Underlying Subaccount Fees and Expenses:** Fees and expenses are also charged on the subaccounts. These include management fees that are paid to the investment adviser responsible for making investment decisions affecting your subaccounts. This is similar to the investment manager’s fee in a mutual fund. Expenses include the costs of buying and selling securities as well as administering trades. These asset-based expenses will vary by subaccount and typically range from 0.28% to 3.26% annually.

- **Contingent Deferred Sales Charge (“CDSC” or “Surrender Charge”):** Variable annuities available at Morgan Stanley do not have an initial sales charge. This means that 100% of your funds are available for immediate investment in the available subaccounts. However, insurance companies usually assess early termination charges to a variable annuity owner who liquidates his or her contract (or makes a partial withdrawal in excess of a specified amount) during the surrender period (see the section titled “Share Class and Surrender Periods” for additional information). The charge is generally a percentage of the amount withdrawn and declines gradually during the surrender period. A typical surrender schedule has an initial charge ranging from 5% to 9% and decreases each year that the contract is in force until the charge reaches zero. Generally, the longer the surrender schedule, the lower the contract fees. Most contracts will begin a new surrender period for each subsequent purchase payment, specific to that subsequent purchase payment.

### Share Class and Surrender Periods

Variable annuities are traditionally offered with varying fee and surrender charge periods. These are otherwise known as “share classes.”

“B Share” annuities are generally lower-cost alternatives with the longest surrender periods while “B Share with Early Withdrawal Feature,” “C Share” and “L Share” annuities are higher-cost alternatives with the shortest surrender periods. **Since the share class selected will determine the fees and surrender charge associated with your selected variable annuity contract, you should familiarize yourself with the share classes available before you decide to invest.**

Specific points to consider include:

- The benefits of tax deferral and the selection of optional living benefit protection options generally involve a long-term time horizon.
- Contract fees and/or surrender charges may significantly impact the variable annuity contract’s investment performance.
- Unexpected life events and individual preference may lead an investor to prioritize greater access
to his or her investment and therefore choose a more expensive share class option.

- Investors who do not anticipate needing access to the dollars they invest in a variable annuity should consider purchasing a B Share variable annuity because this will be the lowest-cost option available at Morgan Stanley over long-term time horizons. This will enhance the potential for increased returns versus the purchase of the more expensive B share with Early Withdrawal Feature L Share and C Share annuities.

Determination of the appropriate balance between a) access to your investment, b) contract fees and charges, and c) the duration required to take full advantage of any optional benefit you may select are important factors to review with your Financial Advisor/Private Wealth Advisor. Before you invest, you should carefully read and compare the description of costs, including the applicable surrender schedule, included in the variable annuity prospectus. You should understand the features, benefits and costs of the variable annuity you are considering. This information is also included in the variable annuity prospectus.

<table>
<thead>
<tr>
<th>TYPE OF VARIABLE ANNUITY</th>
<th>SURRENDER PERIOD</th>
<th>SURRENDER CHARGES</th>
<th>TYPICAL CONTRACT FEES</th>
<th>TYPICALLY SUITABLE FOR THESE TYPES OF INVESTORS</th>
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</table>
| “B Share” Annuities     | 5-8 years on each contribution | CDSC starts at approximately 8% for each contribution and subsequently declines each year to zero over the Surrender Period. | Asset-based contract charges generally in the 1.15% to 1.55% range; contract fees generally range from $0 to $50; and underlying fund expenses that generally range from 0.28% to 3.26%. | • Those who have a long-term time horizon (e.g., 5-8 years or longer)  
• Those who do not intend to access their investment until the end of the entire surrender period  
• Those who want the lowest cost annuity available at Morgan Stanley |
<p>| “B Share Annuities w/ Early Withdrawal Feature” | 4 years on each contribution | CDSC starts at approximately 8% for each contribution and subsequently declines each year to zero over the Surrender Period. Those who make additional contributions/purchase payments to their policies after their initial investment will extend the Surrender Period (each contribution/purchase payment will include a separate and distinct surrender charge/period) and will not have complete access to their investment until four years have elapsed on each contribution. | Early Withdrawal Feature Fee at an additional annual cost of 30-40 bps (to be assessed in years 1-4 for each contribution). This additional fee is included in the asset-based charges below. Asset-based contract charges generally in the 1.45% to 1.80% range including the additional Early Withdrawal Feature fee; contract fees generally range from $0 to $50; and underlying fund expenses that generally range from 0.28% to 3.26%. | • Those who are willing to pay higher fees in exchange for complete access to their initial investment after four years instead of five to eight years |
| Investment Only Variable | 5 years on each contribution | CDSC starts at approximately 5% - 6.5% for each contribution and | Asset-based contract charges in the range of 1.0%-1.10%; and | • Those who are seeking growth and do not want a death |</p>
<table>
<thead>
<tr>
<th>TYPE OF VARIABLE ANNUITY</th>
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<tbody>
<tr>
<td>Annuities (IOVA)</td>
<td></td>
<td>subsequently declines each year to zero over the Surrender Period.</td>
<td>underlying fund expenses that generally range from 0.28% to 3.26%</td>
<td>benefit or living benefit. Those who are primarily interested in tax-deferral</td>
</tr>
<tr>
<td>Investment Only Variable Annuities (IOVA) with Early Withdrawal Feature</td>
<td>Fully Liquid</td>
<td>Offers full liquidity to the owner at any time after purchase</td>
<td>Asset-based contract charges in the range of 1.25%-1.35%; and underlying fund expenses that generally range from 0.28% to 3.26%</td>
<td>• Those who are seeking growth and do not want a death benefit or living benefit. Those who are primarily interested in tax-deferral</td>
</tr>
<tr>
<td>“Bonus Share” or “X Share” Annuities (may also be called “Premium Enhanced Annuities”) (Not available for new sales after Q3 2016)</td>
<td>8-9 years on each contribution</td>
<td>CDSC starts at approximately 9% for each contribution and subsequently declines each year to zero over the Surrender Period</td>
<td>Asset-based contract charges generally in the 1.40% to 1.85% range; contract fees generally range from $0 to $50; and underlying fund expenses that generally range from 0.28% to 3.26%</td>
<td>• Those who have a long-term time horizon (e.g., 10 years) • Those who anticipate the investment credit to outweigh the additional cost of the annuity</td>
</tr>
<tr>
<td>“L Share” Annuities (Not available for new sales after Q3 2016)</td>
<td>3-4 years on each contribution</td>
<td>CDSC starts at approximately 8% for each contribution and subsequently declines each year to zero over the Surrender Period</td>
<td>Asset-based contract charges in the 1.60% to 1.75% range; contract fees generally range from $0 to $50; and underlying fund expenses that generally range from 0.28% to 3.26%</td>
<td>• Those who value easier access to their initial investment within a 3-4 year time horizon • Those who are willing to pay higher fees in exchange for the flexibility to reposition investments if needs or goals change</td>
</tr>
<tr>
<td>“C Share” Annuities* (Not available for new sales after 1Q2017)</td>
<td>Fully liquid</td>
<td>Offers full liquidity to owner at any time after purchase</td>
<td>Asset-based contract charges in the range of 1.65% to 1.95%; contract fees generally range from $0 to $50; and underlying fund expenses that generally range from 0.28% to 3.26%</td>
<td>• Those who value easier access to their investment immediately after investing • Those who are willing to pay higher fees in exchange for the flexibility to reposition investments if needs or goals change</td>
</tr>
</tbody>
</table>

Please note that certain insurance companies may limit their variable annuity offerings to a single share class that may have a surrender period ranging from five to eight years. Not all types of annuities are available at all insurance companies or at Morgan Stanley.

A. Investment Options (“Subaccounts, Investment Programs & Strategies”)

During the savings phase, a variable annuity offers a wide range of fixed and variable subaccounts with different objectives and investment strategies. The value of your variable annuity will vary depending upon the performance of the investment options you choose.

VARIABLE SUBACCOUNTS: The variable subaccounts may include actively managed portfolios, exchange-traded funds, indexed or

Benefits and Features of a Variable Annuity
indexed-linked portfolios, alternative investments and other quantitative-driven strategies. The variable subaccounts typically invest in various asset classes that may include stocks, bonds, derivatives, commodities, money market instruments or other investments. Although the subaccounts within variable annuities are similar in many respects to mutual funds, fees and expenses may differ. Like mutual funds, you bear all the investment risk for amounts allocated to the variable subaccounts.

**FIXED INVESTMENTS:** The fixed subaccounts offer a fixed rate of return that is guaranteed by the insurance company for a period of one or more years (i.e., the “guarantee period”). If you withdraw or transfer from a fixed subaccount during the guarantee period, a market value adjustment (or “MVA”) may apply. MVAs will result in an amount added to or subtracted from the contract value based on the changes in interest rates since the beginning of the guarantee period. In general, if interest rates have decreased, the investment value will increase. And, if interest rates have increased, the investment value will decrease.

Please note that in a low interest rate environment, the performance of interest rate-sensitive subaccounts, e.g., money market funds, may not be sufficient to override contract fees and/or subaccount expenses, which could lead to negative returns for your variable annuity.

**ASSET ALLOCATION/BALANCED PORTFOLIO:**
While investment in certain asset allocation or balanced portfolios could mitigate losses during declining market conditions, they may also hamper potential gains during rising market conditions. Asset Allocation/Balanced Portfolio investments may be required to gain access to a certain living or death benefit guarantee and may provide very different potential risk/reward characteristics. These investments may manage volatility to mitigate the insurance company’s guarantee obligations by potentially reducing investment returns that an investor might have received during favorable market conditions.

It is important to note that diversification and asset allocation do not assure a profit or protect against a loss in a declining market.

**COMPLEX INVESTMENT STRATEGIES:**
Alternative Investment strategies (liquid and illiquid) are available as a variable subaccount or a model asset allocation investment in certain traditional and nontraditional variable annuities (IOVAs). Alternative Investment strategies are speculative, involve a high degree of risk to loss in principal, typically have higher fees than other investments, and may engage in the use of leverage, short sales and derivatives. These may increase the risk of investment loss. Alternative Investment strategies include derivative exposure that may not perform as intended, can significantly increase each portfolio’s exposure to the existing risks of the underlying investments and may be illiquid and difficult to value. As a result, the portfolio may not realize the anticipated benefits from the derivative it holds or it may realize losses. Alternative Investment strategies may create investment leverage, which may increase the volatility and may require liquidation of securities when it may not be advantageous to do so. These investments are designed for investors who understand and are willing to accept these risks. Liquid Alternative Investment strategies seek alternative-like exposure and may be available as a variable subaccount or model allocation within many variable annuities. These investments include alternative-like exposure and seek investment returns that have lower correlation to traditional markets in an attempt to increase diversification in an overall portfolio.

Unlike traditional hedge funds, subaccounts that seek alternative-like exposure a) do not require the same investor pre-qualifications, b) enable efficient tax reporting, c) are subject to lower investment minimums and lower fees, d) provide portfolio transparency, e) offer daily liquidity, and f) are
required to provide daily Net Asset Value (or “NAV”) pricing.

Because of 1940 Act limitations, subaccounts that seek alternative-like exposure generally must utilize a more limited investment universe and, therefore, will have relatively higher correlation with traditional market returns. Registered variable investment funds are statutorily limited in their use of leverage, short sales and the use of derivative instruments. Therefore, they may not provide the same market exposures and opportunities as traditional alternative investment strategies.

Hedge funds typically charge an asset-based fee and a performance fee. Potential benefits to hedge funds include a) greater flexibility in terms of seeking enhanced returns through the use of leverage, b) exposure to less liquid investments, and c) the more flexible use of complex instruments such as derivatives.

As a result of these differences, performance for a variable subaccount that seeks alternative-like exposure and its portfolio characteristics may vary from a traditional hedge fund that is seeking a similar investment objective.

MARKET-LINKED SEGMENT BUFFERS: Certain registered annuities provide other, more limited, forms of downside protection called “Segment Buffers.” These limited guarantees typically track investment returns associated with the change in the level of one or more published equity or commodity-based indexes, such as the Standard & Poor’s 500 Composite Stock Price Index™ (“S&P 500”), which tracks the performance of the 500 large-cap publicly traded securities.

Some of the features unique to Market-Linked Segment Buffers include:

- **SEGMENT CREDITING:** This is the method (e.g., point-to-point) used to measure the change in the underlying index over an investment term (or time period) that may reset regularly such as every three or every five years. For example, on a one-year term segment, if the underlying index equals 1000 on the date of purchase and equals 1100 on the first anniversary date of purchase, then the change in the index (1100 – 1000 = 100) divided by the index value at purchase (1000) equals 10%.

- **PERFORMANCE CAP:** This is the maximum index-based performance that is credited to the contract upon the investment’s segment termination. For example, on a one-year term segment, if there is a 6% cap and the underlying index increased by 10% in a year, the credit to the contract would only be 6%, thereby foregoing 4% on the upside.

- **BUFFER:** This is the maximum indexed-based percentage performance loss that the insurance company will absorb—typically ranging from 10% through 100%, selected by the contract owner. For example, on a one-year term segment, if the product includes a 10% Buffer, the insurance company will absorb the first 10% of the index’s loss. In this example, the contract’s value will decline by any losses in the index beyond 10%. Please note that contracts can see a substantial risk of loss if the index falls beyond the Buffer or protection level.

- **PERFORMANCE CAP THRESHOLD:** When available, this is a minimum rate specified by the contract owner for a new segment to be equaled or exceeded in order for amounts to be transferred into a new segment. For example, on a one-year term segment, if the product includes a 6% Performance Cap Threshold (set by the contract owner) and a Cap of 5%, the investment will be held in a holding account until the Cap rate reaches 6% or the threshold is reduced by the contract owner to 5%.

- **PARTICIPATION RATE:** This is the percentage of the calculated index gain that will be credited to the contract as interest may be reset annually. For example, if the Participation Rate is 90%, then a 10% change in an index would result in a 9% credit (90% x 10% = 9%).
Please note that Performance Cap Thresholds can be an important tool to investment in Market-Linked Segment Buffers. Not specifying a threshold would risk the possibility that the Performance Cap established will have a lower cap on returns than you would otherwise find acceptable. You may wish to discuss the appropriate Performance Cap Threshold with your Financial Advisor/Private Wealth Advisor. When specifying a Performance Cap Threshold, please review the effective date and date of expiration.

Market-Linked Segment Buffers include a risk of a substantial loss of principal because you agree to absorb all losses from the portion of any negative index performance rate that exceeds the Segment Buffer at maturity. Also, the Performance Cap limits the maximum amount you may receive from indexed gains. You should consider your ability to sustain investment losses during periods of market downturns. A variable annuity with a Market-Linked Segment Buffer is generally not suitable for individuals seeking principal preservation or who have a short time horizon. Before buying a variable annuity with Market-Linked Segment Buffers, request a prospectus from your Financial Advisor/Private Wealth Advisor and read it carefully. The prospectus contains important information about the risks associated with this type of variable annuity contract. You should compare the benefits and limitations of the variable annuity to other annuities and to other types of market-linked or structured investment vehicles.

**CHARGES ASSOCIATED WITH MARKET-LINKED SEGMENT BUFFERS:** Typically, Market-Linked Segment Buffers do not have upfront sales loads. The insurance company’s costs and profits are built into the Caps, Participation Rate, Segment Buffer and/or other features of the contract. Your contract may be subject to surrender charges in the first three to 10 years of the contract. You may also be subject to a fair value (“Segment Interim Value”) calculation if an early withdrawal, reallocation or termination is requested while invested in a market-linked segment.

**Tax-Free Transfers**

You may transfer your money from one subaccount to another—or to a fixed account subaccount — within a variable annuity without paying current taxes on any earnings. If market conditions change, you may reallocate money among the investment options without worrying about current taxes. Transfers are subject to limitations and restrictions imposed by the insurance company and are detailed in the prospectus.

**B. Tax-Deferred Earnings**

Earnings from a non tax-qualified variable 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 variable annuity contract. Therefore, investments may grow faster in a variable 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 grow and compound. It is important to note, however, that when you withdraw your money from a non tax-qualified variable 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 variable annuity only if you hold it as a long-term investment to meet retirement or other long-range goals.

**C. Death Benefit**

Variable annuity contracts allow for the payment of the current contract value to your named beneficiary (or multiple named beneficiaries) upon your death. Typically, contracts (exclusive of IOVAs) may also include, as a standard death benefit, the greater of a
return of premium less any withdrawals or the current contract value.

Some contracts also offer “enhanced” death benefits for an additional charge. For example, one enhanced death benefit includes the allowance to periodically “lock in” your investment performance. Another enhanced death benefit may guarantee a minimum rate of return on the value of your account.

The earnings-enhanced death benefit is another 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.

Generally, when the owner (or annuitant, as specified in the prospectus or contract) of the variable 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 cost for these optional death benefits typically ranges from 0.20% to 1.50% annually.

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

- The death benefits described above may terminate once you elect an income option 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.
- Contracts that include a return of account value death benefit as the sole death benefits option should only be purchased for their additional features such as optional living benefit, access to a certain unique investment strategy or the benefits of tax deferral on non tax-qualified contracts and should not be purchased solely for death benefit protection.
- Most optional death benefits must be elected when the contract is issued and cannot be canceled. In a non tax-qualified variable 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 variable annuity.

D) Living Benefit Options

Annuities are characterized by their ability to provide retirement income that cannot be outlived during the payout phase. Many variable annuity products offer, on an optional basis, “living benefits” that provide principal and/or income guarantees to help protect your retirement income from declining markets during the savings phase (i.e., insurance for your purchase payments).

There are three basic types of living benefits, each with a distinct objective, that are summarized in the chart below. The actual guarantees and corresponding fees will vary by contract. These living benefits are available for an additional cost. Minimum holding periods and investment restrictions may apply. Deviations from these limitations may result in material reduction or termination of the benefit. As with any optional benefit, it is important to weigh the costs against the benefit when adding such riders to your contract. Read the prospectus carefully before selecting a living benefit.

The cost for optional living benefits typically ranges from 0.30% to 2% annually. The costs (or fees) may be identified as static or dynamic. Dynamic fees may go up or down, with the range bound by contractual limitations, and in certain instances are tied to a
specific benchmark (e.g., VIXX or U.S. 10-Year Treasury). Please review the prospectus to ensure all fees, ranges, caps and frequency of fee alterations are completely understood prior to investing.

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

### LIVING BENEFITS OPTIONS

<table>
<thead>
<tr>
<th>Benefiit Description</th>
<th>Additional Considerations</th>
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<tbody>
<tr>
<td><strong>Guaranteed Minimum Accumulation Benefit (GMAB)</strong></td>
<td>Generally, this benefit guarantees the return of your purchase payments or a higher stepped-up value at the end of a waiting period, typically 10 years from issue or last step-up, regardless of your investment performance. If your contract value is below the guaranteed amount at the end of the waiting period, the insurance company will increase your contract value to equal the guaranteed amount (adjusted by any withdrawals). At the end of the waiting period, the benefit may be renewed for another waiting period, depending on the terms of the contract. If the benefit is not renewed, your purchase payments will become subject to market risk and may lose value. Additionally, some contracts require that all of your assets be allocated in specified investment options during the waiting period, and deviation from these investment options may result in material reduction or termination of this benefit.</td>
</tr>
<tr>
<td><strong>Guaranteed Minimum Income Benefit (GMIB)</strong></td>
<td>Generally, this benefit guarantees a lifetime income stream when you annuitize the GMIB amount (after a 7- to 10-year waiting period), regardless of your investment performance. The GMIB amount is generally based on the greater of your current contract value, your purchase payments (adjusted pro rata or dollar-for-dollar by any withdrawals) compounded annually at a rate of 3% to 8% (often referred to as the roll-up value), or it may equal the greater of the contract's highest anniversary value or the roll-up value (roll-up/anniversary value may be adjusted pro rata or dollar-for-dollar by withdrawals). The GMIB amount must be annuitized. It is not available as a lump-sum payment. The income stream is often limited to payments for life with a minimum number of payments guaranteed. The GMIB income stream is determined by applying the GMIB payout rates to the GMIB amount, although you may receive a higher income stream by annuitizing under the regular provisions of your contract. In this case, the GMIB provides no additional benefit. Additionally, some contracts require that all of your assets be allocated in specified investment options during the waiting period and deviation from these investment options may result in material reduction or termination of this benefit.</td>
</tr>
<tr>
<td><strong>Guaranteed Minimum Withdrawal Benefit (GMWB)/Guaranteed Lifetime Withdrawal Benefit (GLWB)</strong></td>
<td>Generally, these benefits guarantee a return of your purchase payments over a specified number of years or over the lifetime of an individual or an individual and spouse through a series of annual withdrawals. Certain benefits may provide for a higher stepped-up benefit base via a 3% to 10% annual roll-up of your benefit base and/or an annual reset based on positive market performance. During the withdrawal period, withdrawals in excess of the benefit withdrawal limit (3% to 7.5%) may negatively affect the guarantee. Additionally, some contracts require that all of your assets be allocated in specified investment options, and deviation from these investment options may result in material reduction or termination of this benefit. Generally, there is no waiting period to begin withdrawals, but liquidity limitations based on current age or before age 59½ may apply. Withdrawals not taken generally do not accumulate or carry over to the next year.</td>
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### E. Lifetime Income (Annuitzation)

Variable annuities offer several income options for receiving payments, including the option to receive payments for the rest of your life (or your life and the life of your spouse or any other person you designate). This feature, known as annuitization,
offers protection against the possibility that you will outlive your assets. Generally, you cannot change the income option once variable annuity payments begin. Once a contract has been annuitized—whether the decision has been made to annuitize or it has been done through forced annuitization—the contract owner surrenders control of the contract to the insurance company.

Other Features, Benefits and Considerations

Withdrawals
Variable annuity contracts generally offer the right to withdraw up to 10% of the contract value annually without incurring a surrender charge. However, withdrawals of earnings from a nonqualified variable annuity are subject to applicable income tax and, if they are taken before you attain age 59½, a 10% IRS penalty tax may also apply.

As noted earlier, withdrawals will reduce your contract value, death benefit and living benefit guarantees. Depending on the variable annuity contract, a withdrawal will generally reduce the death and living benefit’s base on a dollar-for-dollar or pro rata basis (or the greater of the two). A pro rata reduction means that the withdrawal will reduce the benefit base by the proportion that the withdrawal reduces the contract value. If at the time of withdrawal, the contract value is less than the benefit amount, a pro rata reduction will reduce the benefit base by an amount greater than the withdrawal. For example, if the contract value is $200,000 and the death benefit is $300,000, a withdrawal of 50% of the contract value (or $100,000) will reduce the death benefit by 50% (or $150,000), not merely by the amount of the withdrawal.

When calculating a withdrawal, you should take note of the minimum contract value required to maintain a contract as active. This calculation should include an analysis of the impact of fees and negative fund performance to a contract’s value as these factors may cause the insurance company to liquidate the contract and terminate existing benefits (“forced liquidation”). Please read the prospectus carefully for more information pertaining to contract withdrawals.

Probate
By simply naming a beneficiary, the assets of your variable annuity are transferred directly to your beneficiaries, bypassing probate.

Dollar-Cost Averaging
Dollar-cost averaging allows you to systematically invest equal amounts into the same subaccounts at regular intervals over a set period of time. Many variable annuities offer you the option of automatic dollar-cost averaging by using a liquid subaccount or fixed account option to hold money and then periodically/systematically invest it into the available subaccounts of your choice. For dollar-cost averaging programs that require an initial investment in the fixed account, the annual effective yield on the fixed account is paid on a declining base (i.e., as money is moved from the fixed account to the variable subaccounts there is less money in the fixed account earning the fixed interest rate).

Before beginning a dollar-cost averaging program, you should consider your ability to continue purchases through periods of fluctuating price levels.

Automatic Rebalancing
Due to changing market conditions over time, the investment allocation within your variable annuity may change. Most variable annuities offer—and some require—programs that automatically rebalance your portfolio back to your original desired allocation. You can select the frequency for rebalancing your portfolio when you set up the program (e.g., quarterly, annually, etc.).

Please note that dollar-cost averaging and automatic rebalancing do not assure a profit or protect against a loss.
Tax Considerations
The tax rules that apply to variable annuities can be complicated. Before investing, you should consult a tax advisor about the tax consequences of investing in a variable annuity.

Annuities in Tax-Advantaged Retirement Accounts
As noted, tax-deferred growth is a key advantage of investing in a variable annuity. It is important to remember that if you are investing in a variable annuity through a tax-advantaged retirement plan (e.g., IRA, SEP, Keogh, etc.), you will get no additional tax advantage from the variable annuity because the retirement account itself is already tax-deferred. You should only consider buying a variable annuity in a retirement plan if it makes sense because of the variable annuity’s other unique features, such as guaranteed lifetime income payments, access to a unique investment option or guaranteed living and/or death benefit protection.

If you are concerned about market risk, the risk of outliving your income or the impact on your named beneficiaries if you die during a down market, then you might consider buying a variable annuity in a retirement plan. Variable annuities may provide financial guarantees during your retirement plan accumulation or distribution phases. Variable annuities can be converted into a guaranteed lifetime income stream, or the value of your investment can be protected with a death benefit guarantee. The terms of variable annuities differ and not all variable annuities offer all of the benefits described here. Similar to all other types of investments within a tax-qualified retirement plan, variable annuities in a tax-qualified retirement plan are subject to required minimum distributions, which generally require distributions to begin upon attainment of age 70½. Please read the prospectus carefully for more information before you invest.

IRS Contribution Limits
A variable annuity purchased outside of a tax-advantaged retirement plan with after-tax dollars (a “non-tax-qualified variable annuity”) offers distinct advantages over tax-advantaged retirement plans (e.g., 401(k), 403(b), IRA, SEP, Keogh, etc.) because there is no IRS-imposed limit on the amount that can be contributed to the variable annuity (although insurance companies may suspend or impose contribution limitations). While it is advisable to make the maximum allowable contributions to your tax-advantaged retirement plan(s) first, it may be appropriate to invest any additional assets earmarked for retirement into a non tax-qualified variable annuity.

Tax Reporting
Here are some things you should be aware of when it comes to annuities and tax reporting:

- There are no required annual IRS forms that need to be filed for non tax-qualified annuities owned by an individual.
- Once you begin to take withdrawals from the variable annuity, they will be reported on IRS Form 1099-R.
- IRAs that hold annuities as investments need to report the December 31st value to the IRS annually in order to satisfy Fair Market Value reporting requirements and to calculate the Required Minimum Distribution once you attain age 70½.
- Non-natural ownership of a non tax-qualified variable annuity—such as by a trust—may result in the loss of tax deferral and cause the contracts within to be subject to current income taxation, unless certain exceptions are met. Before a non-natural person acquires a non tax-qualified annuity, clients should consult with and rely on their own legal and tax advisors to discuss the potential tax consequences of such.

1035 Exchanges
Section 1035 of the Internal Revenue Code (IRC) allows for the direct exchange of a non-qualified variable annuity for another non-qualified variable annuity without tax consequences. A 1035 exchange
may be appropriate if your contract is older and does not provide features offered in newer products such as more flexible or enhanced death benefits, living benefits or a wider choice of investment options.

Please note that while a 1035 exchange is a tax-free event, other charges—such as surrender charges—may be incurred, or a new surrender charge period may be imposed. If you are considering a 1035 exchange, you should discuss it with your Financial Advisor/Private Wealth Advisor. You should also consult with your tax advisor to make sure the exchange is tax-free, to understand the charges that might be incurred and to determine whether the benefits of the new variable annuity outweigh the costs of surrendering the old one.

The IRS has issued Revenue Procedure 2011-38 (or “Rev. Proc. 2011-38”) which provides modified guidance with respect to the federal tax treatment of partial 1035 exchanges of multiple annuity contracts. Under Rev. Proc. 2011-38, if any surrender—in whole or in part—of either contract occurred within 180 days of the partial 1035 exchange, the partial 1035 exchange would be treated as a taxable event. The limitation on amounts withdrawn from or received under a variable annuity does not apply to amounts received as an annuity payout for a period of 10 years or more, or during one or more lives. Rev. Proc. 2011-38 amended Rev. Proc. 2008-24, and it became effective for partial 1035 exchanges that were completed on or after October 24, 2011.

**Spousal Continuation**

Some variable annuities offer your spouse the opportunity to continue the contract in the event of your death. The spousal continuation feature may allow your spouse to continue the contract at the greater of the contract value or the death benefit amount. This has the advantage of locking in the higher death benefit and, at the same time, delaying a taxable event for the new beneficiary.

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**How Morgan Stanley and Your Financial Advisor/Private Wealth Advisor Are Compensated When You Buy a Variable Annuity**

Morgan Stanley offers a wide selection of variable annuities from approved insurance companies (or providers) for you to choose from. We review and evaluate each insurance company, whose products we offer, based upon various factors including, but not limited to:

- Quality and competitiveness of the products offered,
- Financial strength of the insurance company,
- Systems’ compatibility and ability to provide technological support for the sale and servicing of variable annuity contract,
- Ability and commitment to support our Financial Advisors/Private Wealth Advisors through training, education and sales literature, and
- Level of interest and demand among clients and Financial Advisors/Private Wealth Advisors.

Evaluating insurance companies in this manner allows us to focus our marketing and sales support resources on the companies of greatest interest to—and that offer the most competitive and suitable products for—our clients and their Financial Advisors/Private Wealth Advisors. Morgan Stanley Financial Advisors/Private Wealth Advisors are not permitted to recommend variable annuity products from insurance companies that have not been reviewed, evaluated and approved.

**Revenue Sharing**

For the variable annuity products that are offered, Morgan Stanley seeks to collect a revenue sharing payment from insurance companies. Insurance companies currently pay fees on assets of up to 0.25% per year ($25 per $10,000), calculated quarterly, based upon the aggregate value of variable annuity assets—including assets invested in fixed rate subaccounts within variable annuities—invested in contracts for which Morgan Stanley is
designated as the broker-dealer or agent of record. For certain legacy contracts, this rate may be subject to volume discounting (i.e., as the amount of assets increases, the percentage payment for those assets decreases). Additionally, beginning in 2017, each variable annuity provider pays an annual support fee of $500,000 to Morgan Stanley Smith Barney LLC. Revenue sharing payments and Product Support Fees are paid out of the insurance company’s revenues or profits and not from a client’s contract value or the assets invested in the subaccounts. It is important to note that our Financial Advisors/Private Wealth Advisors receive no additional compensation as a result of these revenue sharing payments.

Commissions and Service Fees
Each time a variable annuity is purchased through a Morgan Stanley Financial Advisor/Private Wealth Advisor, the insurance company pays Morgan Stanley compensation—based upon a standard schedule for all insurance companies—in the form of a commission (or “upfront commission”). The commission amount is based upon the commission option elected, the product selected, and the amount invested in the variable annuity. The commissions payable to Morgan Stanley are consistent for all insurance companies regardless of the volume of business Morgan Stanley submits to the insurance company or the profitability of the variable annuity to the insurance company. However, Morgan Stanley may receive differing levels of compensation depending upon the client’s age. Please note that no insurance company—or the parent or affiliated company of the insurance company—has any material interest in Morgan Stanley Smith Barney LLC or its licensed insurance agency subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

A portion of the commission paid to Morgan Stanley is, in turn, paid to the Financial Advisor/Private Wealth Advisor. Financial Advisor/Private Wealth Advisor commissions generally range from 0% to 5% of monies invested in a variable annuity contract.

Insurance companies also pay Morgan Stanley the following:

- Trails for ongoing variable annuity contract servicing and administration ranging from 0.25% to 1.60% of the variable annuity assets. Morgan Stanley passes all or a portion of these trails to the Financial Advisor/Private Wealth Advisor.
- Insurance companies may also pay Morgan Stanley an additional percentage of the amount invested in a variable annuity generally not exceeding 0.80%.

Upfront and trail commission payments are paid out of the insurance company’s assets and are derived from the product fees and expenses described in the prospectus.

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

Expense Prepayment or Reimbursement
Morgan Stanley may seek prepayment or reimbursement by approved insurance companies, their parent or affiliated companies, or other service providers for the expenses incurred for various sales meetings, seminars and conferences held in the normal course of business. Morgan Stanley may also seek prepayment or reimbursement for expenses related to administrative and compliance services.

Compensation From Insurance Companies
Morgan Stanley—and its parent or affiliates—receive from certain approved insurance companies—or their parent or affiliated companies—the following:

- 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 subaccount investment companies.
• Compensation for financial services performed for the benefit of these companies. Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to these companies to the aggregate values of our overall variable annuity product sales or client holdings of these products, or to offset the revenue sharing or expense reimbursements described above.

For additional information on a particular insurance company’s payment and compensation practices, please refer to the insurance company’s product prospectus and Statement of Additional Information.

Morgan Stanley’s Relationship With the Funds (or Subaccounts) Offered in Variable Annuities

The variable annuities offered through Morgan Stanley may include subaccounts managed by Morgan Stanley & Co. LLC and its affiliates as well as subaccounts managed by independent money managers. Morgan Stanley & Co. LLC, as a firm, earns management fees if you choose to invest in the Morgan Stanley & Co. LLC subaccounts available within a variable annuity. However, our Financial Advisors/Private Wealth Advisors receive the same commissions and trails regardless of the subaccounts you select.

Before You Decide to Buy a Variable Annuity

You should consider the following before you decide to buy a variable annuity:

Investment Goals
• Will you use the variable annuity to save for retirement or a similar long-term goal?
• Are you purchasing the variable annuity in a retirement plan or IRA? If so, remember that you will not receive any additional tax-deferral benefit from the variable annuity.
• Do you intend to remain invested in the variable annuity long enough to avoid paying any surrender charges?
• Do you intend to remain invested in the variable annuity long enough to benefit from any optional living benefit riders if you have to withdraw money?
• Are you willing to take the risk that your account value may decrease if the underlying subaccounts perform poorly?
• Have you consulted with a tax advisor and considered all of the tax consequences associated with purchasing a variable annuity, including the effect of variable annuity payouts on your tax status in retirement?

Costs and Benefits
• Do you understand the features of the variable annuity?
• Do you understand all of the fees and expenses that the insurance company charges for the variable annuity?
• Do you understand the various ways in which Morgan Stanley and your Financial Advisor/Private Wealth Advisor are compensated when you purchase a variable annuity?
• Are there features of the variable annuity that you could purchase separately and for a lower cost?
• If you are exchanging one variable annuity for another, do the benefits of the exchange provide a substantial financial benefit that outweighs the costs? Be sure to consider any surrender charges that need to be paid on the old annuity and the impact on your liquidity resulting from the surrender charge schedule on the new annuity.
• Is your investment time horizon and preference for access to your money consistent with the pricing option that you selected?
Senior Suitability
In recent years, regulators have expressed concern about variable annuity sales to seniors. There are a number of key points of interest you should consider in advance of investing. These include:

- Your investment risk tolerance,
- Your liquidity and potential long-term care needs,
- Your life expectancy in contrast with the variable annuity’s holding period,
- The variable annuity’s fees and charges,
- Tax consequences, and
- Your ability to understand all of the features, benefits and costs associated with the variable annuity.

For More Information
Before purchasing a variable annuity, you owe it to yourself to learn as much as possible about how a variable annuity works, the benefits it can provide and the fees and charges you will pay. For more information, contact your Financial Advisor/Private Wealth Advisor or visit the following websites:

- American Council of Life Insurers at www.acli.com
- Securities and Exchange Commission at www.sec.gov
- Financial Industry Regulatory Authority at www.finra.org—see these FINRA Investor Alerts for additional information: “Variable Annuities: Beyond the Hard Sell” and “Should You Exchange Your Variable Annuity?”
- Insured Retirement Institute at www.irionline.org
- North American Securities Administrators Association at www.nasaa.org
Variable annuities are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the variable annuity contract and the underlying investments, which should be considered carefully before investing. Prospectuses for both the variable annuity contract and the underlying investments are available from your Financial Advisor/Private Wealth Advisor. Please read the prospectus carefully before you invest.

Variable annuities are long-term investment vehicles designed for retirement. There are risks involved when investing in a variable annuity, including possible loss of principal.

Withdrawal and distributions of taxable amounts from a nonqualified variable annuity are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty.

Early withdrawals will reduce the death benefit and cash surrender value.

Optional benefits, such as living benefits and enhanced death benefits, are available for an additional fee.

If you are investing in a variable annuity through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection.

Payment obligations of the issuing insurance company are backed by the financial strength and claims-paying ability of the issuing insurance company.

Morgan Stanley Smith Barney LLC offers insurance products in conjunction with its licensed insurance agency affiliates.

A variable annuity is not a deposit of, or other obligation of, or guaranteed by, the Depository Institution, or an affiliate of the Depository Institution, and involves investment risk, including the possible loss of value.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC (“Morgan Stanley”), its affiliates and its employees do not provide tax or legal advice and are not “fiduciaries” (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley. Clients should seek advice based on their own particular circumstances from an independent tax or legal advisor.

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Portions of this brochure have been excerpted or paraphrased from the online publication, “Variable Annuities: What You Should Know,” which can be found at the U.S. Securities and Exchange Commission website, http://www.sec.gov/investor/pubs/varannty.htm. We encourage you to read this publication.

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