

# Registered Index-Linked Annuities

This reference document is provided by Morgan Stanley<sup>1</sup> solely to provide a general overview of Registered Index-Linked Annuities (RILAs). It is designed to provide you with a better understanding of RILAs, including the benefits they can provide in helping you plan for a secure retirement, their limitations/restrictions, and the costs associated with the product. It is not meant to describe a single type of RILA or pertain to a particular insurance company. RILAs are complex products subject to certain eligibility requirements. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document. For more information on variable annuities and RILAs, please see [Understanding Variable Annuities](#).

Also known as a buffered/structured annuity, a RILA is a long-term, tax-deferred investment primarily designed for retirement or another long-range goal. RILAs offer the opportunity for growth up to a cap and may also provide downside protection in the form of a floor or buffer. A RILA can provide clients with exposure to equity markets while also attempting to limit their amount of risk. Typically, investment returns are associated with the movement of one or more published indices, 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.

See below for a detailed explanation of cap, floors, buffers, and other RILA features.

RILAs may allow you to:



## Limit Downside Risk

Investment is partially protected from market downturns



## Participate in Market Growth

Investment may grow based on the performance of the selected index(es)



## Utilize Tax Deferral

Annuities allow clients to accumulate assets on a tax-deferred basis

<sup>1</sup> Morgan Stanley or MSWM is intended to mean Morgan Stanley Smith Barney LLC, the broker-dealer, when used in this document.

**Index Options:** RILAs allow clients to allocate amongst a variety of indices. Typically, clients can select from a set of broadly diversified market-linked indices.

## What is upside potential?

RILAs provide the opportunity for growth based on the performance of an index or indices. Upside potential may vary based on the crediting method that is chosen.

There are multiple methods to determine and calculate potential index-linked returns. Depending on the insurance company, there may be multiple crediting methods available, such as cap rate, trigger, participation rate, and dual direction. Various crediting methods will be explained in greater detail below.

## What is downside protection?

RILAs may offer the ability to limit losses with downside protection. This typically comes in the form of a buffer or floor:

- **Buffer:** A buffer offers downside protection up to a stated amount. For example, if a RILA has a buffer rate of 10%, and the market falls 12%, the insurance company absorbs 10% of the loss, and the client will absorb 2% of the loss.
- **Floor:** A floor offers downside protection after a stated threshold. For example, if the annuity floor is 10%, the client can incur up to 10% of losses. The insurance company protects against losses below the floor.

**Key Terms and Features** – RILAs offer a variety of unique features, each depending on the specific insurance company. Some of these features are outlined below.

*Note: Not all features are available from all insurance companies or from all products on the Morgan Stanley platform. Additionally, certain combination features may also be available. Refer to the prospectus for the particular RILA being considered.*

TERM	DEFINITION	EXAMPLE
<b>Crediting Period / Term Length</b>	Period over which index performance is tracked.	Common term lengths range from 1-6 years.
<b>Segment Strategy</b>	Represents the investment in a specific index, term length, buffer or floor, maturity, performance cap, participation rate, spread. This may also be referred to as Segment.	For example, you may select the S&P 500, for 1 year duration with a 10% buffer.
<b>Fixed Account</b>	Pays a fixed rate of interest.	The rate of return will vary depending on the insurance company but will typically fall between 1% to 3%.
<b>Performance Cap Rate</b>	The highest rate of return that can be credited to a segment.	If the segment cap rate is 20%, and the chosen index rises by 25%, the segment will be credited 20% at the end of the term.
<b>Performance Rate</b>	The percentage of the gain or loss received on an index strategy end date based on the index return.	The performance rate describes the performance of the underlying index, such as the performance of the S&P 500.
<b>Market Value Adjustment (MVA)</b>	An adjustment that may be applied to an early withdrawal amount that exceeds the maximum penalty-free amount specified in the contract. The MVA may result in a positive or negative adjustment to the withdrawal.	MVAs will result in an amount added to or subtracted from the withdrawal contract value based on the changes in interest rates since the beginning of the guarantee period. In general, if interest rates have decreased, the withdrawal value will increase. And, if interest rates have increased, the withdrawal value will decrease.
<b>Lock-In Feature</b>	The lock-in feature (also known as a performance lock or return lock) allows investors to lock in (once per term) the index value before the end of the term. The locked-in value is then used to calculate earnings at the end of the term.	If an annuity has a 6-year term, but the performance on the fourth anniversary is 75%, the 75% performance rate can be locked-in, and will be used to determine segment value through the end of the term, even if index performance declines at the end of the term.

TERM	DEFINITION	EXAMPLE
<p><b>Segment Interim Value</b></p>	<p>The value of an index account option on any business day during the crediting period, except the first and last day of the crediting period. The interim value for a business day is calculated at the end of that business day. See Segment Interim Value section for more information.</p>	<p>The Segment Interim Value is the amount available for:</p> <ul style="list-style-type: none"> <li>• Partial withdrawals or full surrenders (reduced by withdrawal charge, if applicable)</li> <li>• Annuitization</li> <li>• Death benefit</li> </ul>
<p><b>Interim Segment Transfers</b></p>	<p>Certain insurance companies may allow interim segment transfers prior to the segment maturity date based on the segment interim value formula.</p>	<p>If you select the 1-year duration term length, generally the funds must remain invested in the selected segment and duration until the term end date. However, certain insurance companies may allow the transfer of funds to another available segment option prior to the term duration end date.</p>
<p><b>Death Benefit</b></p>	<p>Depending on the specific insurance company, several types of death benefits may be offered. Typically, upon the death of an owner or annuitant during the accumulation phase, a death benefit can be paid to the beneficiary(ies).</p>	<p>Common types of death benefits available:</p> <ul style="list-style-type: none"> <li>• Contract Value</li> <li>• Greater of Account Value or Purchase Payment</li> <li>• Return of Premium</li> </ul>
<p><b>Index Account with Charge</b></p>	<p>Certain insurance companies may also offer index accounts with a charge. In exchange for a fee, these index accounts with a charge offer the opportunity for greater upside potential in the form of higher caps and/or higher participation rates. The index account charge is an amount deducted from the index account for each interest term.</p>	<p>For example, certain insurance companies may offer the S&amp;P500 index with a 1% charge in exchange for higher cap. The non-charge version of the S&amp;P 500 will generally offer lower caps.</p>

## Crediting Strategies Explained

*Note: Depending on the insurance company, not all crediting methods may be available. Refer to the prospectus for the RILA being considered.*

TERM	DEFINITION	EXAMPLE
<b>Segment Crediting</b>	Index performance is measured by comparing the closing index value at the end of the term to the closing index value at the beginning of the term. 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 regularly reset 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%.
<b>Participation Rate</b>	The proportion of index performance that is used to calculate earnings at the end of the term.	If the participation rate is 90%, then a 10% change in an index would result in a 9% credit ( $90\% \times 10\% = 9\%$ ).
<b>Spread</b>	The annualized percentage that is deducted from the index performance before interest is calculated.	If the index gains 10% at the end of the term, and the spread is 2%, the interest credited is 8%.
<b>Step-up Rate / Trigger Rate</b>	A rate of return for an index segment that is typically declared at the beginning of the index term and is used to determine the segment maturity value if the index performance at the end of the term is zero or positive. If the index performance is greater than or equal to zero, the performance rate is equal to the step-up/trigger rate. If the index performance is less than zero on the term end date, the segment value will be equal to the invested premium in that segment or the stated limited protection for that segment.	Assume a performance cap rate of 8%. If the index returns 3% (which is greater than or equal to 0), an 8% return is realized. If the index return is 10%, an 8% return is realized, which is the amount of the performance cap rate.
<b>Dual Direction</b>	Certain insurance companies may offer the dual direction feature. With the dual direction feature, if the chosen index declines up to or equal to the amount of the buffer, you earn a positive return that equals the amount of the index decline. If the index declines more than the buffer, you are protected within the buffer.	If the index loss is 8%, and the buffer amount is 10%, with dual direction, the annuity gains 8%. However, if the index loses 12% (which is greater than the buffer amount), the annuity is protected from 10% of the loss and you will lose 2%.

## Charges Associated with RILAs:

Generally, RILAs do not have upfront sales loads. Generally, the insurance company's costs and profits may be built into the Caps, Participation Rate, Segment Buffer, and/or other features of the contract. However, some RILAs have a base contract fee that reduces the segment rate of return. Your contract may be subject to surrender charges generally ranging from years three to six 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 an index-linked segment. You should discuss these charges with your Financial Advisor/Private Wealth Advisor prior to withdrawing, reallocating, or terminating investments in an index-linked segment.

### A. Tax-Free Transfers Among Investment Options

You may transfer your money from one investment option to another—or to a fixed account—within a RILA without paying current taxes on any earnings. If market conditions or your financial situation should change and you decide to reallocate among investment options, you may do so without worrying about current taxes. Generally, you may be permitted to transfer to another investment option only at the end of the crediting period. Note, some insurance companies may allow interim segment transfers prior to the segment maturity date based on the segment interim value. Transfers are subject to limitations and restrictions imposed by the insurance company and are detailed in the prospectus.

### B. Segment Interim Value

The segment interim value is the value of your investment in any segment prior to the segment maturity date or end of the crediting period. Segment interim value is generally calculated on each business day between the first and last day of the crediting period. The segment interim value determines the amount available on any given business day for the segment, available for withdrawals, surrenders, annuitization and other withdrawal transactions. Segment interim values could reflect significantly less gain or more loss than would be applied at the end of the crediting period. Interim values fluctuate daily, positively or negatively. Depending on market conditions, interim values could be unfavorable to you because they could reflect significantly less gain or more loss than would be applied at the end of a crediting period. As such, there could be significantly less money available to you for a transaction that is processed based on a segment interim value.

### C. Tax-Deferred Earnings

Earnings from a non-tax-qualified RILA<sup>1</sup> 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 RILA contract. Therefore, investments may grow faster in a RILA 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 RILA, 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 RILA only if you hold it as a long-term investment to meet retirement or other long-range goals.

<sup>1</sup>The tax treatment of tax-qualified RILAs may differ from the tax treatment of non-tax-qualified RILAs. The tax treatment of tax-qualified variable annuities is discussed in more detail in the section "Annuities in Tax-Advantaged Retirement Plans."

## D. Death Benefit

RILAs allow for the payment of the current contract value to your named beneficiary (or multiple named beneficiaries) upon your death. Typically, contracts may also include, as a standard death benefit, the return of premium less any withdrawals. Some contracts also offer “enhanced” death benefits for an additional charge. For example, some may offer the greater of a return of premium less any withdrawals or the current contract value. Another type of enhanced death benefit may allow you to periodically “lock in” your investment performance.

Generally, when the owner (or annuitant, as specified in the prospectus or contract) of the RILA 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 RILA 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 benefit option should only be purchased for their additional features such as optional living benefits, 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 RILA, 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 RILA.**

## E. Living Benefit Options

Annuities are characterized by their ability to provide retirement income that cannot be outlived during the payout phase. Some RILAs offer “living benefits” that provide income guarantees to help protect your retirement income from declining markets during the savings phase (i.e., insurance for your purchase payments).

The actual guarantees and corresponding fees of the living benefit available will vary by contract. The 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 benefit, it is important to weigh the costs against the benefit when purchasing such riders with your contract. Read the prospectus carefully before selecting a living benefit.

The cost for optional living benefits typically ranges from 0.30% to 2.5% 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 features are understood prior to investing.

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

Living Benefit Option	Benefit Description	Additional Considerations
<p><b>Guaranteed Minimum Withdrawal Benefit (GMWB) &amp; Guaranteed Lifetime Withdrawal Benefit (GLWB)</b></p>	<p>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.</p>	<p>During the withdrawal period, withdrawals in excess of the benefit withdrawal limit 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.</p>

**F. Lifetime Income (Annuitization)**

RILAs 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**

**A. Withdrawals**

RILAs generally offer the right to withdraw up to 15% of the contract value annually without incurring a surrender charge. However, withdrawals of earnings from a non-qualified RILA are subject to applicable income tax and, if they are taken before you attain age 59½, a 10% IRS penalty tax may also apply.

Withdrawals taken from an index account before the end of the crediting period will be processed based on the segment interim value for that index account option. As noted in the segment interim value section, depending on market conditions, interim values could be

unfavorable to you because they could reflect significantly less gain or more loss than would be applied at the end of a crediting period. See the Segment Interim Value section for more information.

Withdrawals will reduce your contract value, death benefit and living benefit guarantees. Depending on the RILA, 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.

You should carefully consider the risks and consequences associated with a withdrawal under the RILA. Surrender charges and taxes that may apply to a surrender or withdrawal may be significant. Please read the prospectus carefully for more information pertaining to contract surrenders and withdrawals.

### B. Probate

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

### C. Dollar-Cost Averaging

Dollar-cost averaging (DCA) is an administrative service designed to systematically invest equal amounts into available segments at regular intervals over a set period of time. The DCA program allows you to gradually allocate amounts to available segments by periodically transferring approximately the same dollar amount to your selected segments. Regular allocations to the Segments will allow you to invest in the segments at different performance cap rates.

### D. Tax Considerations

The tax rules that apply to RILAs can be complicated. Before investing, you should consult a tax advisor about the tax consequences of investing in a RILA.

### E. Annuities in Tax-Advantaged Retirement Plans

As noted, tax-deferred growth is a key advantage of investing in a RILA. It is important to remember that if you are investing in a RILA through a tax-advantaged retirement plan (e.g., IRA, SEP, Keogh, etc.), you will get no additional tax advantage from the RILA because the retirement plan itself is already tax-deferred. You should only consider buying a RILA in a retirement plan if it makes sense because of the RILA'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 RILA in a retirement plan. RILAs may provide financial guarantees during your retirement plan accumulation or distribution phases. RILA 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 RILAs differ and not all RILAs offer all of the benefits described here. Similar to all other types of investments within a tax-qualified retirement plan, RILAs in

a tax-qualified retirement plan are subject to required minimum distributions, which generally require distributions to begin upon attainment of age 72. Please read the prospectus carefully for more information before you invest.

The tax treatment of tax-qualified annuities is based on the tax rules that apply to the tax-advantaged retirement plan in which such annuity is purchased and may differ from the tax treatment of non-tax-qualified annuities. Similar to distributions of earnings from non-tax-qualified annuities, distributions of taxable amounts from tax-advantaged retirement plans are generally subject to ordinary income tax and, if made before age 59½, may be subject to a 10% penalty tax. However, unlike distributions from non-tax-qualified annuities where the taxable amount generally consists of the annuity's tax-deferred earnings, the taxable portion of distributions from tax-advantaged retirement plans (e.g., IRAs) generally consists of pre-tax contributions and tax-deferred earnings. To the extent there are any after-tax amounts (e.g., after-tax contributions) in a tax-advantaged retirement plan, those after-tax amounts are generally recovered pro-rata, meaning each distribution is part taxable and part nontaxable until the after-tax amount is exhausted, at which point all future payments are fully taxable (note, however, in the case of a Roth IRA, the after-tax amounts are recovered first and the earnings may not be taxable if certain conditions are met). In contrast, although annuitized income payments from a non-tax-qualified annuity are taxed similar to distributions from tax-advantaged retirement plans (i.e., each payment is part taxable and part nontaxable until the after-tax amount is exhausted at which point all future payments are fully taxable), partial withdrawals from a non-tax-qualified annuity are treated as coming from the earnings first, meaning the taxable portion is paid out first.

## G. IRS Contribution Limits

A RILA 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 RILA (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 RILA.

## H. 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 RILA, 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 72.
- Non-natural ownership of a non-tax-qualified RILA—such as by a trust—may result in the loss of tax deferral and cause the contract's internal growth to be subject to current income taxation unless certain exceptions are met. Before a non-natural person acquires a non-tax-qualified annuity, you should consult with and rely on your own legal and tax advisors to discuss the potential tax consequences of such.

## I. 1035 Exchanges

Section 1035 of the Internal Revenue Code (IRC) allows for the direct exchange of a non-qualified RILA for another non-qualified RILA 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 non-qualified RILA 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 non-qualified 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 non-qualified RILA does not apply to amounts received as an annuity payout for a period of 10 years or more, or during one or more lives.

## J. Spousal Continuation

Some RILAs 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.

## K. Purchases Outside of Morgan Stanley

In the event you purchased an annuity outside of your Morgan Stanley account, you may still be able to add Morgan Stanley as broker of record and your FA(s) as agent of record by contacting the carrier listed on your policy statement.

## How Morgan Stanley and Your Financial Advisor/Private Wealth Advisor Are Compensated

Morgan Stanley offers a wide selection of RILA products 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 technical support for the sale and servicing of RILA contracts,
- 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

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appropriate products for— our clients and their Financial Advisors/Private Wealth Advisors. Morgan Stanley Financial Advisors/Private Wealth Advisors are not permitted to recommend RILA products from insurance companies that have not been reviewed, evaluated, and approved.

## Revenue Sharing

For the RILA 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 0.11 per year (\$11 per \$10,000), calculated quarterly, based upon the aggregate value of RILA assets—including assets invested in fixed rate subaccounts within RILAs— 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). The revenue sharing payments from Providers whose products we no longer offer may be different than the amounts described above. Additionally, each RILA provider pays an annual support fee of \$500,000 to Morgan Stanley.

Revenue sharing payments and 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. Morgan Stanley's Financial Advisors/Private Wealth Advisors do not receive additional compensation as a result of these revenue sharing payments.

## Commissions and Service Fees – Brokerage Annuities

Each time a RILA is purchased in a brokerage account 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 RILA. 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 RILA to the insurance company. However, Morgan Stanley may receive differing levels of compensation depending upon the client's age.

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 RILA contract. Insurance companies also pay Morgan Stanley the following:

- Trails for ongoing RILA contract servicing and administration ranging from 0.25% to 1.00% of the RILA assets. Morgan Stanley passes all or a portion of these trails to the Financial Advisor/Private Wealth Advisor.
- An additional percentage of the amount invested in a RILA generally not exceeding 1.20%.

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.

Please note that no insurance company—or the parent or affiliated company of the insurance company—has any material interest in Morgan Stanley or its licensed insurance agency subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

## Investment Advisory/Wrap Fee Account Annuities

The insurance company does not pay Morgan Stanley any compensation when a RILA is purchased in an Investment Advisory/Wrap Fee account. When annuities are purchased in an investment

advisory account, Morgan Stanley is compensated by the annual investment advisory account wrap fee that is charged to your advisory account. This annual wrap fee is established at the opening of your account and may be modified from time to time in accordance with the terms of your agreement with us.

In addition, a platform fee equal to 0.035% per year applies to Morgan Stanley Consulting Group Advisor accounts. The platform fee will be offset by a credit reimbursed to the account from the revenue the firm collects from the annuity providers whose advisory annuities the firm distributes. For more detailed information, please review the Consulting Group Advisor ADV Brochure, available from the Morgan Stanley team servicing your account or at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV), for more detailed information on the platform fee.

**It is important to note that revenue sharing payments are credited to clients and that the Morgan Stanley team servicing your account receives no additional compensation as a result of these revenue sharing payments or fees.**

## Expense Prepayment or Reimbursement & Data Analytics Fees

Morgan Stanley seeks prepayment from approved insurance companies, their parent or affiliated companies, or other service providers (“Providers”) of up to \$64,000 to help cover the costs associated with platform administration, regulatory compliance, and other distribution responsibilities. In addition, Morgan Stanley seeks reimbursement from Providers for the expenses incurred for various national, regional, and local training and education events and conferences held in the normal course of business. Providers independently decide if and what they will spend on these activities. Morgan Stanley also gives Providers 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 \$60,000 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.

Morgan Stanley may assess an engagement fee up to \$1,000,000 to Providers to help cover the costs associated with Morgan Stanley’s due diligence review of the organization and our assessment of the Provider’s product suite and platform capabilities prior to making a determination whether to onboard that Provider.

## Compensation From Insurance Companies

Morgan Stanley, and its parent or affiliates, receive from certain approved Providers 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 RILA 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.

## Before You Decide to Buy a RILA

You should consider the following, where applicable, before you decide to buy a RILA:

### Investment Goals

- Will you use the RILA to save for retirement or a similar long-term goal?
- Are you purchasing the RILA in a retirement plan or IRA? If so, remember that you will not receive any additional tax-deferral benefit from the RILA.
- Do you intend to remain invested in the RILA long enough to avoid paying any surrender charges?
- Do you intend to remain invested in the RILA long enough to benefit from any optional living benefit riders if you must withdraw money?
- Do you understand RILAs are subject to possible loss of principal and earnings due to market fluctuation, investment risks because of fees and charges under the policy, including surrender charges, other transaction charges, and periodic charges?
  
- Have you consulted with a tax advisor and considered all the tax consequences associated with purchasing a RILA, including the effect of RILA payouts on your tax status in retirement?

### Costs and Benefits

- Do you understand the features of the RILA?
- Do you understand you are not directly invested in an index and the RILA does not directly participate in any stock or equity investments?
- Do you understand all the fees and expenses that the insurance company charges for the RILA?
- If purchasing the annuity within an Investment Advisory/Wrap fee account, do you understand all the fees and expenses that the Advisory/Wrap Fee account charges?
- Do you understand the various ways in which Morgan Stanley and your Financial Advisor/Private Wealth Advisor are compensated when you purchase a RILA?
- Are there features of the RILA that you could purchase separately and for a lower cost?
- If you are exchanging one RILA 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 Standard of Care Obligations

In recent years, regulators have expressed concern about annuity sales to seniors. There are several 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 RILA's holding period,
- The RILA's fees and charges
- Tax consequences, and
- Your ability to understand all the features, benefits and costs associated with the RILA.

## For More Information

Before purchasing a RILA, you should know as much as possible about how a RILA 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](http://www.acli.com)
- Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov)
- Financial Industry Regulatory Authority at [www.finra.org](http://www.finra.org)—see the FINRA Investor Section for additional information: Investment Products, Annuities
- Insured Retirement Institute at [www.irionline.org](http://www.irionline.org)
- North American Securities Administrators Association at [www.nasaa.org](http://www.nasaa.org)

## Disclosures

Morgan Stanley's investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be appropriate for you. For more information, please see the Morgan Stanley Consulting Group Advisor ADV Brochure, which is available from the Morgan Stanley team servicing your account or at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

**Consider Your Own Investment Needs:** This material is not intended to be a client-specific recommendation, or offer to participate in any investment. Therefore, you should not use this profile as the sole basis for investment decisions. You should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Talk to your Financial Advisor/Private Wealth Advisor about what would be an appropriate investment relationship for you.

**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.

Variable annuities are offered in conjunction with Morgan Stanley Smith Barney LLC's 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.

Note that it is your responsibility to make sure that your carrier's policy statement accurately reflects Morgan Stanley Smith Barney as the broker of record and your current FA(s) as the agent of record. This information is required for MS to continue to service and administer requests on your behalf. If there are changes in your FA relationship, you should contact the carrier to ensure this change is reflected on your policy.

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. Clients should seek advice based on their own particular circumstances from an independent tax or legal advisor.

The information contained herein has been obtained from sources that we believe are reliable, but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation by us for the purchase or sale of any security. This material, or any portion thereof, may not be reproduced without prior written permission from Morgan Stanley Smith Barney LLC.

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.

# Morgan Stanley

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Registered Index-Linked Annuities include a risk of a substantial loss of principal because the client agrees 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 your client may receive from index gains. Your client should consider their ability to sustain investment losses during periods of market downturns.

A Registered Index-Linked Annuity is generally not appropriate for individuals seeking principal preservation or who have a short time horizon. Registered Index-Linked Annuities are sold by prospectus only. The prospectus contains important information about the risks associated with this type of variable annuity contract. Your client should compare the benefits and limitations of this type of annuity to other annuities and to other types of index-linked or structured investment vehicles. The prospectus for a Registered Index Linked Annuity is available from you, the Financial Advisor. Clients should read the prospectus carefully before investing.

Annuities are long-term investment vehicles designed for retirement. There are risks involved when investing in an annuity, including possible loss of principal.

Annuities may charge fees and have other conditions, restrictions, and limitations associated with them.

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

All guarantees are backed by the claims-paying ability of the issuing company and do not apply to the underlying portfolio option.

Annuities offered through a retirement plan are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59 1/2, a 10% federal penalty may apply. Money distributed will be taxed as ordinary income in the year the money is received. Account values fluctuate with market conditions, and when surrendered the principal may be worth more or less than its original amount invested. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities are subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to your client. Dollar Cost Averaging/Systematic Investing: Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his/her financial ability to continue his/her purchases through periods of low-price levels.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors 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 and/or as described at [www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol). Clients are encouraged to consult their tax and legal advisors (a) based on their own particular circumstances and (b) regarding any potential tax, ERISA and related consequences of any investments made under a retirement plan or account.