

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

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

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

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

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

**FEATURES** – Market Value Adjustments: fixed deferred annuities may allow for the adjustment of the value of the annuity (positive or negative) when you take a withdrawal(s) outside of a permitted window. This adjustment would be based on the relationship of market interest rates at the time of the withdrawal and the guaranteed interest rate of the annuity. The general relationship is as follows: if interest rates move higher than the guaranteed rate at the time of the withdrawal, you may receive less than your investment and, conversely, if interest rates move lower than the guaranteed rate at the time of the withdrawal, you may receive more than your current investment’s value.

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

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

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

Morgan Stanley Smith Barney LLC, in turn, pays a portion of the commission to the Financial Advisor. Financial Advisor commissions generally range from 0% to 4% of contributions. Financial Advisors may be paid an additional commission if you decide to renew your fixed annuity at the end of a guarantee period. Renewal commission rates generally range from 0% to 4% of annuity assets. Not all fixed annuities pay a renewal commission. Morgan Stanley Smith Barney LLC passes all or a portion of these renewal payments on to the Financial Advisor. Annuity companies also pay Morgan Stanley Smith Barney LLC an additional percentage of contributions, generally not exceeding .5%. Upfront and renewal commission payments are paid out of the provider's general revenues and do not represent an additional charge to you.

**EXPENSE REIMBURSEMENTS & DATA ANALYTICS FEES.** Morgan Stanley Smith Barney LLC may seek prepayment or reimbursement by approved providers, 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 and other administrative and compliance services. Beginning in 2019, Morgan Stanley Smith Barney LLC will also provide insurance companies with the opportunity to purchase supplemental annuity sales data analytics. The amount of the fees depends on the level of data provided. The current range is \$30,000 per annum. Should an insurance company offer other financial products, insurance companies may purchase sales data analytics from Morgan Stanley Smith Barney LLC on those products as well.

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

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

## Learning About Fixed Annuities

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

General information on annuities can be obtained from The American Council of Life Insurers website\*. Please contact your Morgan Stanley Financial Advisor to learn more.

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

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

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