

Understanding Variable Annuities

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Why Consider a Variable Annuity?

A variable annuity is a long-term investment primarily designed for retirement or other long-range purposes that provides the ability to accumulate assets on a tax-deferred basis. People looking to supplement other sources of retirement income, including Social Security and pension plans, may want to consider a variable annuity. Variable annuities offer additional features not generally found in other types of investment products, including:

- Tax-free transfers among a variety of professionally managed investment options
- Tax-deferred earnings
- Death-benefit protection options
- Living-benefit protection options
- Lifetime-income options

Variable annuities are generally not suitable for meeting short-term liquidity needs as the additional cost of unexercised protection options and insurance company early surrender charges may supplant the benefits associated to tax deferral. This brochure was designed to provide you with a better understanding of variable annuities and the benefits they can provide in helping you plan for a secure retirement.

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

What Is a Variable Annuity?

A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you at some future date. You can purchase a variable-annuity contract by making either a single purchase payment or a series of purchase payments (certain benefit guarantees may limit additional purchase payments).

An annuity contract has two phases—the savings (or “accumulation”) phase and the payout (“annuitization” or “retirement income”) phase. During the savings phase, you make purchase payments into the contract and earnings accumulate on a tax-deferred basis. The payout phase occurs when you begin receiving regular payments from the insurance company by electing an annuity income option.

“Free Look” Period

Variable annuity contracts typically have a “free look” period of ten or more days from receipt, during which you can terminate the contract without paying any surrender charges and get back your purchase payments (which may be adjusted to reflect charges and the performance of your selected investments). You can continue to ask questions during this period to make sure you understand your variable annuity before the “free look” period ends.

BENEFITS AND FEATURES OF A VARIABLE ANNUITY

Investment Options

During the savings phase, a variable annuity offers a wide range of fixed- and variable-investment options with different objectives and strategies. The value of your variable annuity will vary depending on the performance of the investment options you choose. The variable-investment options include professionally managed portfolios (investments may also include index or other quantitative driven strategies) (“subaccounts”) that typically invest in various asset classes that may include stocks, bonds, derivatives, commodities and money-market instruments. 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 investment options.

Because of their complex nature, some derivatives 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 a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase the volatility and may require liquidation of securities when it may not be advantageous to do so.

The fixed-investment options offer a fixed rate of return that is guaranteed by the insurance company for a period of one or more years. If you withdraw or transfer from a fixed account during the guarantee period, a market-value adjustment may apply. Similar to price fluctuations of bonds, market-value adjustments 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 adjustment will be a positive amount and if rates have increased the adjustment will be negative.

Tax-Free Transfers

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

Tax-Deferred Earnings

Earnings from an 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 contract. Therefore, investments may grow faster in an 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 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 taken prior to age 59½, may be subject to an additional 10 percent 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 and other long-range goals.

Death Benefit

Most contracts include a standard death benefit where your named beneficiary is guaranteed to receive a specified amount—typically, the greater of the current contract value or the amount of your purchase payments, less any withdrawals.

Some contracts also offer “enhanced” death benefits for an additional charge. An example of this type of death benefit includes the allowance to periodically “lock in” your investment performance and/or guarantee a minimum rate of return on the value of your account.

Another optional death benefit that may be available for an additional charge is the earnings-enhanced death benefit. This feature entitles the beneficiary to a death benefit 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 on the death benefit.

Generally, when the owner (or annuitant, as specified in the prospectus or contract) of the annuity dies, the beneficiary is taxed on all appreciation when the death benefit is received, whereas investments held in a taxable account may receive a stepped-up cost basis (i.e., the value of the account at the owner's death).

The cost for these optional death benefits typically ranges from 0.15% to 1.35% annually.

Note:

- 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 both
- Withdrawals during the savings phase will reduce the death benefit
- Most optional death benefits must be elected when the contract is issued and cannot be canceled
- Earnings distributed as death benefits are taxed as ordinary income when received by the named beneficiary

Living Benefits Options

Annuities have been long characterized by their ability to provide retirement income that cannot be outlived during the payout phase. Recent annuity products have “living benefits” that provide principal and/or income guarantees to help protect your retirement income from declining markets during the savings phase—insurance for your purchase payments.

There are three basic types of living benefits, each with a distinct objective. The chart below provides a summary and some additional considerations. The actual guarantees and corresponding fees will vary by contract. **These benefits are optional and 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 with regard to the benefits you elect.

The cost for these optional living benefits typically ranges from 0.25% to 1.70% of the benefit base annually.

Living Benefits

Living Benefits Options	Benefit Description	Additional Consideration
Guaranteed Minimum Accumulation Benefit (GMAB)	Generally, this benefit guarantees the return of your purchase payments or a higher stepped-up value at the end of a waiting period, typically ten 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.
Guaranteed Minimum Income Benefit (GMIB)	Generally, this benefit guarantees a lifetime income stream when you annuitize the GMIB amount (after a seven-to-ten-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 4% 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.
Guaranteed Minimum Withdrawal Benefit (GMWB)/Guaranteed Lifetime Withdrawal Benefit (GLWB)	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 4% 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%) 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.

Note: All living-benefit guarantees are backed only by the claims-paying ability of the issuing insurance company.

Lifetime Income

Variable annuities offer several income options for receiving payments from your annuity, 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 annuity payments begin.

OTHER FEATURES AND BENEFITS

Withdrawals

Annuity contracts generally offer the right to withdraw up to 10% of the contract value annually without incurring a surrender charge (discussed below). However, withdrawals of earnings are subject to applicable income tax and, if taken prior to age 59½, a 10% IRS penalty tax may also apply. You are generally not required to begin withdrawals at age 70½ (unless your annuity is held in a qualified plan), so your money can keep growing tax deferred until you need it. Annuity distributions are generally not required until age 90, although this rule varies by contract.

Withdrawals above the prescribed amount reduce your contract value, death benefit(s) and living benefit guarantees. Depending on the annuity contract, a withdrawal above the prescribed amount will generally reduce the death and living benefits 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 the 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 also reduce the death benefit by 50%, or \$150,000 (the proportional decrease in the contract value), not merely by the amount of the withdrawal. Please read the prospectus carefully.

Bypass Probate

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

Dollar-Cost Averaging

Dollar-cost averaging is a feature that allows you to systematically invest equal amounts into the same investment options at regular intervals over a set period of time. Many variable annuities offer you the option of automatic dollar-cost averaging by using a money-market or fixed account option to hold money and then invest it into the available investment options 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 balance.

Automatic Rebalancing

The investment allocation within your variable annuity may change over time due to changing market conditions. Most variable annuities offer and some require programs that automatically rebalance your portfolio back to your original desired allocation. You select the frequency for rebalancing your portfolio when you set up the program.

Note: Dollar-cost averaging and automatic rebalancing do not assure a profit or protect against a loss. Before beginning a dollar cost averaging program, you should consider your ability to continue purchases through periods of fluctuating price levels.

Other 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

Although tax-deferred growth is a key advantage of a variable annuity, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k), 403(b), IRA, SEP or Keogh), **you will get no additional tax advantage from the variable annuity** because the retirement account already provides tax-deferred growth. In addition, you should confirm with your tax advisor whether or not such features may be appropriate when offered through a qualified retirement account, where all distributions are taxable at ordinary income rates). You should only consider buying a variable annuity in a tax-advantaged retirement plan if it makes sense because of the annuity's other unique features, such as guaranteed lifetime income payments, guaranteed living benefits and death-benefit protection. However, if you are risk averse you may consider annuities as an IRA or qualified-plan investment alternative, particularly 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. Variable annuities may provide financial guarantees during your IRA accumulation or distribution. They can also be converted into a guaranteed lifetime income stream. And at death, 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 the benefits described. You can find this information in the prospectus for the variable annuity. Please read it carefully before you invest.

Unlimited Contributions

A nonqualified annuity (an annuity purchased outside a tax-advantaged retirement plan with after-tax dollars) offers distinct advantages over other tax-favored retirement plans such as a 401(k), 403(b), IRA, SEP or Keogh, because there is no IRS-imposed limit to the amount that can be contributed for tax-deferred growth (carriers may however impose contribution limitations). While it is advisable to first make the maximum allowable contributions to your qualified plan, it may be appropriate to invest any additional assets earmarked for retirement into a nonqualified annuity.

No Annual Tax Reporting

There are no required annual IRS forms to be filed for nonqualified annuities. There is no IRS reporting requirement until you actually make a withdrawal from the annuity. Qualified plans that invest in annuities will have the December 31st value reported to the IRS in order to calculate Required Minimum Values for distribution purposes.

IRC 1035 Exchange

Section 1035 of the Internal Revenue Code allows for the direct exchange of an annuity or life-insurance contract for another 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.

Note: While this type of exchange is a tax-free event, other charges, such as a surrender charge, may be incurred, or a new surrender charge period may be imposed. Discuss the exchange with your Financial Advisor and speak to your tax advisor to make sure the exchange is tax free and to understand what charges may be incurred to determine whether the benefits of the new annuity outweigh the costs of surrendering the old one.

Effective June 30, 2008, the IRS issued guidelines concerning the tax treatment of partial 1035 exchanges of annuity contracts. If a surrender of, or a withdrawal from, either contract occurs within 12 months of the partial 1035 exchange, the partial 1035 exchange will be treated as a taxable event unless one of the following exceptions exists:

- Taxpayer becomes at least 59½ years old
- Taxpayer becomes deceased
- Taxpayer becomes disabled
- Distribution is received from a qualified plan
- Distribution is allocable to an annuity issued prior to August 14, 1982
- Distribution is from personal injury liability assignment
- Distribution is from a plan purchased by an employer after the termination of a qualified plan
- Distribution is a result of any similar life event such as divorce or loss of employment

If any of the above exceptions are met, or if no distributions are made from either contract within 12 months, the IRS will treat the partial 1035 as a tax free exchange and treat the two annuities separately even if they are issued by the same insurance company. **You should seek advice from your own tax advisor regarding your particular circumstances.**

Spousal Continuance

Some variable annuities offer your spouse the opportunity to continue the contract in the event of your death. The spousal-continuation feature allows 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 a higher death benefit, and at the same time delaying a taxable event for the new beneficiary.

Charges and Fees

There are charges and fees that are unique to annuity products. These charges cover the cost of contract administration, portfolio management and the insurance benefits (death and living benefits, lifetime income options). The most common fees are:

Contingent Deferred Sales Charge (“Surrender Charge”)

Most variable annuities do not have an initial sales charge. This means that 100% of your funds are available for immediate investment in the available investment options. However, insurance companies usually assess a contingent deferred sales charge, known as a surrender charge, to an annuity owner who liquidates a contract (or makes a partial withdrawal in excess of a specified amount) during the “surrender period.”

The surrender charge is generally a percentage of the amount withdrawn and declines gradually during the surrender period. A typical surrender schedule has an initial surrender charge ranging from 5% to 9% and decreases each year the contract is in force, until the surrender 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.

Annual Contract Charges for Insurance and Maintenance

You will pay several fees and charges when you invest in a variable annuity. Among these are mortality and expense risk charges and administrative and distribution fees. These asset-based charges are assessed daily and typically range from 1.15% to 1.85% annually. These and other common fees are described below:

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 annuity contract. M&E charges are deducted from the value of the subaccounts. The fees for the optional death and living benefits described above are charged separately and are not included in this M&E charge.

Administrative and Distribution Fees

These fees cover the costs associated with servicing and distributing the annuity, including the cost of transferring funds between subaccounts, tracking purchase payments, issuing confirmations and statements and customer service. Administrative and distribution fees are also deducted from the value of the subaccounts.

Contract Maintenance Fee (Annual Fee)

This is an annual flat fee for record-keeping and administrative purposes, generally \$30 to \$50 deducted on the contract anniversary. This fee is typically waived for contract values over \$50,000.

Underlying Subaccount Expenses

Fees and expenses are also charged on the subaccounts. These include management fees, which are paid to the investment advisor, who is responsible for making investment decisions affecting your subaccounts. This is similar to the investment manager’s fee in a mutual fund. Expenses include the cost of buying and selling securities as well as administering trades. These asset-based expenses will vary by subaccount and typically range from 0.70% to 1.85% annually.

Charges and fees may vary depending upon the share type of annuity as well as other factors and are all disclosed in the annuity contract prospectus and in the subaccount prospectus fee tables. Be sure you understand all the charges and fees before you invest.

The table below summarizes typical charges and fees by contract type. Please read the prospectus carefully with regard to the applicable fees and charges for your annuity contract.

Type of Annuity	Fees or Charges
“B Share” Annuities	These annuities have a six- to eight-year surrender period on each contribution; 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 0.70% to 1.85%.
Premium enhanced or “Bonus” Annuities	These annuities have an eight- to nine-year surrender period on each contribution; 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 0.70% to 1.85%. Because this annuity contains an investment credit (e.g., a credit of generally 2%–6% of your premiums is added to your contract/policy by the insurance company to increase your potential to realize tax deferred growth), it may have higher fees and expenses and a longer surrender period than other similar annuities without an investment credit.
“L Share” Annuities	These annuities offer a shorter surrender period, three to four years on each contribution, but somewhat higher asset 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 0.70% to 1.85%.
“C Share” Annuities	May offer either full liquidity at any time without front-end or back-end surrender charges or up to a 2% back-end surrender charge in the first year of issue, but typically have higher fees in the range of 1.60% - 1.80%.

These charges and fees will reduce the value of your annuity and the return on your investment.

Generally, “B Share” and “Bonus” annuities are the lowest-cost alternative among the alternatives listed above—provided you are willing to keep your investment until the end of the surrender period. However, if you value the option to access your

money earlier, you may prefer the shorter surrender period alternative. You should read the description of costs, including the applicable surrender schedule in the variable annuity prospectus carefully before you decide to invest. You should weigh the higher costs of variable annuities versus the benefits before you invest. Also, since annuity terms differ and not all variable annuities offer the benefits described above, you should understand the features, benefits and costs of the variable annuity you are considering. You can find this information in the prospectus for the variable annuity. Please read it carefully before you invest.

Generally, “C” Share annuities offer full liquidity at any time; however, certain living benefit options may not be available unless you are willing to keep your investment until the end of the living benefit option waiting period.

HOW MORGAN STANLEY SMITH BARNEY AND YOUR FINANCIAL ADVISOR ARE COMPENSATED WHEN YOU BUY A VARIABLE ANNUITY

Morgan Stanley Smith Barney offers clients a selection of variable annuities from approved insurance-company families or providers. We review and evaluate each provider whose products we offer based upon various factors, including but not limited to:

- Quality and competitiveness of products offered;
- Financial strength of the provider;
- Systems compatibility and ability to provide technological support for the sale and servicing of contracts;
- Ability and commitment to support our Financial Advisors and clients through training, education and sales literature; and
- Level of interest and demand among our clients and Financial Advisors.

Evaluating providers in this manner allows us to focus marketing and sales-support resources on the providers of greatest interest to, and that offer the most competitive and suitable products for, our clients and their Financial Advisors. Financial Advisors are not permitted to recommend investments in products from providers that have not been reviewed, evaluated and approved.

Revenue Sharing

For the variable-annuity products offered, Morgan Stanley Smith Barney seeks to collect from insurance companies a revenue-sharing payment. In 2011, providers paid 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 accounts within variable annuities) invested in contracts for which Morgan Stanley Smith Barney is designated as the broker/ dealer or agent of record. This rate may be subject to volume discounting (that is, as the number of assets increases, the basis-point payment for those assets will decrease). **It is also important to note that Financial Advisors receive absolutely 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 Smith Barney Financial Advisor, the provider pays Morgan Stanley Smith Barney compensation, in the form of a commission, based upon the product and share class selected and the amount of the client investment. Morgan Stanley Smith Barney, in turn, pays a portion of the commission to the Financial Advisor. Financial Advisor commissions generally range from 0% to 5% of contributions and trails (annuity contract servicing payments) from 0.25% to 1.40% of variable annuity assets. Insurance companies also pay Morgan Stanley Smith Barney an additional percentage of contributions generally not exceeding 1.80%. Upfront and trail commission payments are paid out of the insurance companies' assets, but derived from the product fees and expenses described in the prospectus.

Expense Reimbursements

Morgan Stanley Smith Barney may seek prepayment or reimbursement by approved providers, their parent or affiliated companies, or other service providers for the expenses we incur for platform and regulatory enhancements and maintenance, various sales meetings, seminars and conferences and other administrative and compliance services held in the normal course of business.

Compensation from Providers

Morgan Stanley Smith Barney 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 subaccount 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 prohibits linking the determination of the amount of such brokerage commissions and service fees charged to an approved

provider or its parent or affiliated company to the aggregate values of our overall variable 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 provider's payment and compensation practices, please refer to the provider's product prospectus and statement of additional information.

MORGAN STANLEY SMITH BARNEY'S RELATIONSHIP WITH THE FUNDS OFFERED IN VARIABLE ANNUITIES

The variable annuities offered through Morgan Stanley Smith Barney include funds managed by Morgan Stanley & Co. Incorporated and its affiliates as well as funds managed by independent money managers. Morgan Stanley & Co. Incorporated, as a firm, earns management fees if you choose to invest in the Morgan Stanley & Co. Incorporated funds available within a variable annuity. However, our Financial Advisors receive the same commissions and trails regardless of the variable insurance funds you pick. Before you decide to buy a variable annuity, consider the following:

Investment Goals

- Will you use the variable annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges or 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 investment options perform poorly?
- Have you consulted with a tax advisor and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments 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 variable-annuity provider charges?
- Do you understand the various ways in which Morgan Stanley Smith Barney and your Financial Advisor are compensated in connection with your variable-annuity purchase?
- If a variable annuity offers a bonus credit, will the bonus outweigh higher fees and charges that the product may charge?
- Are there features of the variable annuity that you could purchase more cheaply separately?
- If you are exchanging one annuity for another one, do the benefits of the exchange provide a substantial financial benefit that outweighs the costs, such as any surrender charges to be paid on the old annuity and the impact on your liquidity resulting from any new surrender charge schedule for the new annuity?

Senior Suitability Considerations

In recent years regulators have expressed concern about annuity sales to the elderly. There are a number of key points of interest you should consider in advance of investing including your investment risk tolerance, liquidity and potential long-term care needs, life expectancy in contrast with the investment holding period, fees and charges of the product, tax consequences, as well as your ability to understand all the features, benefits and costs of the investment.

For More Information

Before purchasing a variable annuity, you owe it to yourself to learn as much as possible about how they work, the benefits they provide and the charges you will pay. For more information, contact your Financial 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
- Insured Retirement Institute at www.irionline.org
- The FINRA Investor Alert, "Variable Annuities: Beyond the Hard Sell," at <http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/AnnuitiesAndInsurance/P005976>
- The FINRA Investor Alert, "Should You Exchange Your Variable Annuity," at <http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/AnnuitiesAndInsurance/P006045>

You may also contact your state insurance department if you wish to file a consumer complaint.

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. Please read the prospectus carefully before you invest.

Payment obligations of the issuing insurance company are backed only by the financial strength of the issuing insurance company.

For clients whose account is carried by Morgan Stanley Smith Barney LLC, variable annuities are offered in conjunction with Morgan Stanley Insurance Services, Inc. For clients whose account is carried by Citigroup Global Markets Inc., Morgan Stanley Smith Barney LLC offers variable annuities in conjunction with SBHU Life Agency, Inc.

An annuity is not a deposit of, or other obligation of, or guaranteed by, the Depository Institution or an affiliate of the Depository Institution; is not insured by the Federal Deposit Insurance Corporation (FDIC) or any other agency of the United States, the Depository Institution, or an affiliate of the Depository Institution; and involves investment risk, including the possible loss of value.

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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/varannnty.htm>. We encourage you to read this publication.