MorganStanley SmithBarney

# Indexed Annuities

## Indexed Annuities Defined

An indexed annuity is a type of fixed annuity that typically provides the contract owner an investment return based on a formula linked to the change in the level of one or more published equity based indexes, such as the Standard & Poor's 500 Composite Stock Price Index™ (S&P 500), which tracks the performance of the 500 largest publicly traded securities.

An indexed annuity typically provides a guarantee of a minimum accumulation value, and may also offer death benefit protection and a variety of payout options. These products are designed for investors who want a protected investment floor with the ability to partake in the benefits of a market-linked vehicle.

The index used, the formula that determines the indexed rate, and the guaranteed minimum value can vary from insurer to insurer and product to product. Some of these features include:

- Crediting method – the method used to measure the change in the underlying index (e.g., point-to-point or annual reset).
    - Example: 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%.
- Participation rate – the percentage of the calculated index gain credited to the contract owner as interest, which may be reset annually.
    - Example: If the participation rate is 90%, then a 10% change in an index would result in a 9% credit (90% x 10% = 9%).
- Spread/Margin – the percentage by which the gross index gain is reduced before being credited to the contract owner as interest.
    - Example: If there is a 2% spread or margin, then a 10% change in an index would result in an 8% credit (10% - 2% = 8%).
- Cap – the maximum index-based interest credited to the contract owner, which may be reset annually.
    - Example: If there is a 6% cap, then if the underlying index increased by 10% in a year, the credit to the contract would only be 6%.

## Learning about Indexed Annuities

In order to be an informed investor in indexed annuities, you should do several things. Certain indexed annuities that Morgan Stanley Smith Barney sells provide an informational document known as a "prospectus" or other disclosure documents. You should read the prospectus or other disclosure documents carefully. Since the guarantees in each annuity depend solely on the financial strength of the insurance carrier, you should evaluate the insurance company's financial condition. The prospectus includes a summary of the insurance company's financial information. You may also want to consult public rating agencies such as Moody's, Standard and Poor's, or A. M. Best that evaluates insurance company financial strength. Finally, you should also discuss your investment goals with your Financial Advisor.

General information on annuities can be obtained from The American Council of Life Insurers Web site at http://www.acli.com/ACLI/Consumers/Annuities/ and Morgan Stanley Smith Barney's Web sites www.morganstanleyindividual.com/investmentproducts/annuities or http://www.smithbarney.com/products_services/annuities/ provides specific information on our annuity offerings.

**Costs associated with investing in indexed annuities**

Typically indexed annuities do not have upfront sales loads or ongoing expenses. The insurance company's costs are built into spread margin, cap rate, participation rate, and/or other features of the contract. Your contract may be subject to an early withdrawal charge (also called a contingent deferred sales charge) in the first 5 - 10 years of the contract. You should consult the prospectus or other disclosure document for the indexed annuity that you are considering for the specific early withdrawal charge schedule.

**How Morgan Stanley Smith Barney and your Financial Advisor are compensated when you buy an indexed annuity.**

Compensation to Morgan Stanley Smith Barney on indexed annuities is paid by the issuing insurance company and does not represent an additional charge to you. The insurance company pays compensation out of their general revenues. Morgan Stanley Smith Barney receives commissions on the initial sale that are a percentage of your annuity contributions and may receive trails (annuity contract servicing payments) from 0.25% to 1.60% of indexed annuity assets. Morgan Stanley Smith Barney passes all or a portion of these trails on to the Financial Advisor. Commissions generally do not exceed 5% of contributions.

A portion of the payment received by Morgan Stanley Smith Barney is paid to your Financial Advisor which typically does not exceed 4%.

In addition to commissions, the insurance companies may reimburse Morgan Stanley Smith Barney for the cost of client seminars, Financial Advisor educational conferences, and other administrative and compliance services.

To compensate Morgan Stanley Smith Barney for the costs of distribution, insurance licensing, insurance company due diligence and other home office services, the insurance carriers pay Morgan Stanley Smith Barney an additional percentage of assets not exceeding 0.10%. Morgan Stanley Smith Barney may offer indexed annuities issued by more than one carrier. Contact your Financial Advisor to review the current offerings.

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