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**Disclosure**

# Understanding your fixed indexed annuity

### Highlights

- Fixed indexed annuities offer certain benefits for long-term investors; however, performance returns linked to indexes are not guaranteed.
- There are different types of indexes and different features, so you should consider your personal circumstances, risk tolerance and investment objectives when making a selection.
- Costs associated with these annuities are built into the spread margin, cap rate, participation rate and/or other factors of the contract. There are additional costs for riders.
- It is important for you to understand how UBS and your Financial Advisor are compensated, and to be aware of potential conflicts of interest that may exist for UBS and your Financial Advisor.

### Questions

Please contact your Financial Advisor if you have questions after reviewing this information. Please consider the information about the annuity contract, including specific fees and charges, investment options and objectives, risks, death benefits, living benefits and annuity income options.

### What is a fixed indexed annuity?

A fixed indexed annuity, which is sometimes referred to as an "equity indexed annuity" or "index annuity," offers an interest rate that is linked to an index, while also offering principal protection from negative markets.

The value of your fixed indexed annuity—which can fluctuate over time—is a reflection of the performance of the indexes selected. Your investment is linked to the performance of the indexes, which generally cover a well-known segment of the market. An example would be the S&P 500.

The investments in a fixed indexed annuity are linked to an index, as opposed to being directly invested in an index. Indexes within fixed indexed annuities are "ex-dividend," which means that the performance does not include dividends.

If the index has a positive return, you will receive index interest to your annuity contract value. If the index has a negative return, there is no index interest received, but your annuity contract value does not decline.

If the index linked to your annuity goes down and you receive no or a minimal index-linked return, you could lose money on your initial investment if you make excess withdrawals prior to the end of the surrender period. In most cases, an excess withdrawal would be more than 10% of the contract value per year.

Fixed indexed annuities are considered complex. In terms of risk, fixed indexed annuities have more risk than a fixed annuity (guaranteed interest rate), but less risk than a variable annuity, since there is a minimum guaranteed interest rate. Although fixed indexed annuities have more risk than a fixed annuity, they are a conservative investment and should not be thought of as a pure equity replacement.

Fixed indexed annuities are not securities. Therefore, the SEC and FINRA do not regulate them, but they are regulated by state insurance departments.

### How are index returns calculated?

Depending on the fixed indexed annuity product you purchase, there may be different factors used to calculate the return received. The rate of these factors may change during the life of the contract.

**Cap**—A maximum rate of interest that the contract can earn in a specified amount of time, such as one year. If the index return exceeds the cap, the cap amount is used to calculate your interest.

Example—If the cap is 4% and the index returns 6%, you will receive 4%. If the index returns 2%, you would receive 2%.

**Spread**—Index interest is determined by subtracting a percentage from the return for a specific time, such as one year.

Example—If the spread is 2% and the index returns 6%, you would receive 4%.

**Participation**—The percentage of the index return that you receive.

Example—If the participation rate is 70% and the index returns 10%, your contract would receive 7%.

**Trigger**—A stated rate is received as long as the index return is not negative over a specific time, such as one year.

Example—If the stated rate is 4% and the index return is zero or greater, your contract would receive 4%.

**Index crediting methods**—Along with cap, spread and performance factors, you may also be able to choose among different crediting methods. Interest crediting methods are used to measure the amount of interest that the annuity holder can receive over a specific time period.

*Point to point*—Tracks the change in an index from a specified start date to a specific end date. The most common is an annual point to point (one contract anniversary to the next contract anniversary), but can be a point to point of multiple years.

*Monthly average*—Interest credited to the indexed account is determined by comparing the value of the index at the beginning of the one-year interest term to its average value during the interest term.

**Fixed interest rate accounts**—As well as linking to indexed options, fixed indexed annuities also provide the ability to invest in a fixed interest rate account, where the stated interest rate is guaranteed.

## Potential benefits of a fixed indexed annuity

Because of its unique features, a fixed indexed annuity may provide potential benefits not typically found in other investments, including one or more of the following features:

- A guaranteed death benefit
- Guaranteed annuity payout options
- Living benefits guarantee
- Tax-deferred treatment of earnings and
- tax-free transfers between investment options

**A guaranteed death benefit**

Fixed indexed annuities provide a guaranteed death benefit, which means that if the contract has not already been annuitized (turned into a defined guaranteed income stream), the insurance company will make a payment to the named beneficiary upon the death of either the owner or annuitant, depending on the contract. The beneficiary generally receives either the account value or some guaranteed minimum—whichever is greater, but may have the option to purchase an enhanced or stepped-up death benefit at an additional cost. Also, when a beneficiary of the fixed indexed annuity has been named, the death benefit proceeds are not subject to probate.

**Guaranteed annuity payout options**

If you decide to take income from your fixed indexed annuity, you can choose to annuitize your contract, which generally means that you set up a stream of periodic payments that can pay you either for a specified period or for as long as you and/or your spouse live. It is important to note that your decision to annuitize your contract is final and cannot be changed. To learn more about your guaranteed annuity payout, please review the contract for more details or speak with your Financial Advisor.

**Living benefits**—Living benefits guarantee an income stream for the fixed indexed annuity owner either for a specific period or for life, depending upon the option you choose. There are a variety of living benefit options available depending on the fixed indexed annuity you purchased. To learn more about the living benefit options, please review the contract prospectus or other disclosure documents for more details or speak with your Financial Advisor.

**Tax-deferred treatment of earnings and tax-free transfers between investment options**—When you purchase a fixed indexed annuity, income tax is deferred. Therefore, you are not taxed while your money is still in the annuity contract. Besides tax deferral, you can also change your allocation among the index options and/or fixed account (e.g., from an S&P 500 index to an EAFE index or from a Russell index to a fixed account) without incurring current taxes. There is no additional tax deferral benefit for contracts purchased in an IRA or other tax-qualified plan, since these are already afforded tax-deferred status. Thus, an annuity should only be purchased in an IRA or qualified plan if you value some of the other features of the annuity and are willing to incur any additional costs associated with the annuity to receive such features.

Your Financial Advisor can periodically review your fixed indexed annuity allocations with you to make sure they continue to reflect your risk tolerance and investment objectives. This type of review is intended to help you decide whether to reallocate among your investment options.

**Although you can make adjustments in your allocations, fixed indexed annuities are considered long-term investment savings vehicles that are not appropriate for those interested in frequent transfers. As a result, a fixed indexed annuity may impose restrictions for transfer activity. There may be specified timeframes when you can move from one index to another, such as on the contract anniversary.**

## What else do I need to know about a fixed indexed annuity?

**Fixed indexed annuities are long-term investments** Fixed indexed annuities are designed to help you pursue your retirement and other long-range financial goals. Withdrawals from your fixed indexed annuity may cause you to incur income taxes, penalties and insurance company-imposed surrender charges. Withdrawals will also generally reduce your contract value, death benefit and living benefit guarantees prior to turning it on or by taking excess withdrawals.

**Insurance company guarantees**
All insurance company guarantees (such as the death benefit, guaranteed minimum payout benefit and guaranteed interest rates for fixed interest options) are based on the ability of the insurance company to pay its claims and are not insured by the Federal Deposit Insurance Corporation (FDIC), the US government or UBS. Therefore, it is important for you to consider the financial strength of the issuing insurance company before purchasing a fixed indexed annuity.

**Tax-free 1035 exchanges**
If you own a fixed indexed annuity and want to replace it with a different annuity, you can make a tax-free exchange, commonly known as a "1035 exchange" (named after a section of the US Tax Code). When a 1035 exchange is done properly, it does not result in any income tax or penalty tax on the investment gains in the original fixed indexed annuity. However, you may have to pay surrender charges on the original fixed indexed annuity if the contract is still in a surrender charge period. You should be aware that you may also be subject to a new surrender charge period under the new annuity.

## What is different about purchasing a fixed indexed annuity in a UBS IRA?

Whenever you purchase a fixed indexed annuity as an investment in your UBS IRA, there are differences in your relationship with the insurance company and how you conduct transactions and the tax consequences.

When an annuity is purchased in a UBS IRA, UBS would be considered the IRA custodian and registered owner of the annuity. As the IRA custodian, UBS is responsible for reporting to the Internal Revenue Service all contributions to and distributions from the IRA. Because of these obligations, the following procedures apply to any annuity held in a UBS IRA:

- If you wish to receive a refund during the free-look period, you must immediately contact your Financial Advisor for assistance.
- Any IRA contributions to the contract must be made through UBS. You may not forward any contributions directly to the issuing insurance company.
- All withdrawals from the annuity must be made through UBS. You may not request withdrawals or IRA distributions directly from the issuing insurance company.
- UBS must be listed as the beneficiary of the annuity so that the proceeds will automatically flow through your UBS IRA. A separate beneficiary designation on file with UBS for your IRA will determine who is entitled to receive the proceeds of the annuity upon your death. It is important that you keep your beneficiary designations current. You should not complete or update any beneficiary designations with the insurance company. **If you wish to name or update your beneficiary designation, please speak with your Financial Advisor to complete a UBS IRA beneficiary designation form.**

**Free-look period**

State insurance laws require insurance companies to provide a free-look period in connection with the purchase of a fixed indexed annuity. The free-look period allows you to return the annuity contract to the issuing insurance company and receive a refund within a specified period of time after you receive the contract. The free-look provision, which is outlined in the fixed indexed annuity contract, varies from state to state. Typically, free-look periods range from 10 to 30 days from the date of delivery of the contract. If you decide to return the fixed indexed annuity during the free-look period, you will be reimbursed your account value or your premium payments depending on which state's laws apply. The fixed indexed annuity contract contains the applicable free-look requirements. If the annuity has been purchased in a UBS IRA, and you wish to return the annuity contract to the issuing insurance company, you must immediately contact your UBS Financial Advisor, who will assist you in obtaining a refund.

## Fixed indexed annuity costs at a glance

Typically, fixed annuities do not have upfront sales loads or ongoing expenses paid by clients. The fees are built into the level of interest rate the client receives under the contract. However, you will pay additional annual fees, including premium taxes and fees for any optional riders selected. Annual fees are generally deducted by the insurance company from the annuity contract value. Because fees and charges are taken out of the contract value, you should become familiar with all types of fees and charges, and the methodology for their calculation within the particular fixed indexed annuity you are purchasing.

Please contact your Financial Advisor if you have more specific questions about the costs of using fixed indexed annuities to pursue your investment objectives.

## Fees and charges paid directly by clients

**Premium Tax:**

- Several states impose a premium tax on annuity purchases either at the time of purchase or at annuitization. The tax may be as high as 5% of either the premium or the total value of the annuity contract depending upon the state. Premium taxes are similar to a sales tax.

**Optional rides:**

- Optional riders are provisions that may be added to an annuity contract to increase or limit benefits the contract otherwise provides.
- Optional rider fees are generally 0.40% to 1.50%, sometimes lower but never above, the contract value.

**Surrender charge (also referred to as the Contingent Deferred Sales Charge):**

- If the annuity is surrendered before a designated period of time (usually 5 – 8 years), you will generally have to pay the insurance company a surrender fee as specified in the contract, which is reduced over time.
- Generally, the surrender charge is a percentage of the amount withdrawn, and declines gradually over a period of several years, known as the "surrender period."
- The surrender period typically starts when you make an investment (this can be your initial investment or any additional payments you make to the contract).
- Some annuities allow for a small percentage of the account value to be withdrawn annually without incurring a surrender charge. Generally, you may use this option to make a series of withdrawals within the year without incurring the surrender charge (up to the limit set by the insurance company).
- If you withdraw money from your fixed indexed annuity, you may have to pay taxes or penalties. Please consult with your tax advisor regarding the tax consequences of any withdrawals.

The specific amounts of all fees are disclosed in the annuity contract, which you will receive directly from the issuing insurance company after purchase. Once you receive the contract, there is a limited period in which the client may cancel the contract with no penalty; this is known as the "free look period."

## Fixed indexed annuity duration

Fixed indexed annuities offer different duration periods. The duration periods available in fixed indexed annuities offered by UBS range from five years to eight years. The main differences among duration periods are the surrender charge schedules.

**How UBS and your Financial Advisor are compensated** Each time a fixed indexed annuity is purchased through a UBS Financial Advisor, the insurance company pays UBS a commission. A portion of the commission paid to UBS is, in turn, paid to the Financial Advisor.

The amount of compensation that UBS receives depends upon, among other factors: (i) the duration of the annuity; (ii) your age; (iii) the amount invested in the annuity; (iv) the chosen share class; and/or (v) the commission option selected by the Financial Advisor.

Insurance companies allow the Financial Advisor to choose among various commission structures, which generally provide that when there is a higher first-year commission, there will be a lower or no trail commission (and vice versa).

In most cases, your Financial Advisor can choose the structure of his or her commission. The choices your Financial Advisor has are enumerated in the below chart and are level throughout share classes. The structure selected by your Financial Advisor will have no financial impact on you.

Below is a general description of the compensation UBS receives in connection with fixed indexed annuities. If you have any questions, please speak with your Financial Advisor about how he or she is compensated in connection with an annuity purchase.

### Commissions paid to UBS

| Option for compensation | Description |
|---|---|
| Option 1: Upfront commissions | Insurance companies pay UBS an amount of up to 5% of your initial purchase payment as a one-time, upfront commission when you purchase the fixed indexed annuity. |
| Option 2: Hybrid commissions | Insurance companies pay UBS in two parts: an upfront commission (ranging from 0.50% to 5%) when you purchase the fixed indexed annuity plus an annual amount that equals a percentage (ranging from 0.25% – 1.00%) of the value of the contract until you surrender or annuitize your contract. |

### Additional compensation

UBS receives additional compensation in connection with the sale of fixed indexed annuities. This compensation is a result of marketing, or revenue sharing agreements we have with insurance companies offering annuities on our platform.

### Revenue sharing

UBS also receives a separate compensation amount (commonly referred to as "revenue sharing") from our insurance companies. The separate compensation amount is based on the initial premium amount on the sale of a fixed index annuity (0.20% per year paid quarterly). Revenue-sharing payments are intended to compensate us for ancillary services in connection with effecting sales of annuities. **None of these amounts are rebated to you or paid to the Financial Advisor or his or her branch office.** However, these amounts are allocated to the individual branch offices as "non-compensable revenue" (revenue that is not paid out to Financial Advisors or Branch Office Managers) but are considered part of the overall profitability of the branch, and as oneof several components used in determining Branch Office Manager compensation.

We do not receive revenue sharing on annuities purchased in qualified plans governed by ERISA, but do receive them on annuities purchased in IRAs.

### Non-cash compensation

We and our Financial Advisors receive non-cash compensation from insurance companies. This compensation includes the following:

- Occasional gifts up to $100 per vendor per year and occasional meals, tickets or other entertainment of reasonable and customary value. The receipt of occasional gifts, meals or entertainment can tend to result in recommendations of the products of the providers of such gifts, meals or entertainment.
- Sponsorship support of educational events the Financial Advisors arrange for clients and prospective clients.
- Contributions made at the firm level toward seminars and educational programs for Financial Advisors. These contributions are significant both per vendor and in the aggregate. While Financial Advisors do not receive any portion of these payments, the conflict presented is that a Financial

Advisor's attendance and participation in educational or training forums, and the increased exposure to vendors who sponsor these events, tend to lead Financial Advisors to recommend the products and services of those vendors over the products of other vendors. These seminars and educational programs often include non-educational elements.
– Various forms of marketing support.

## Conflicts of interest

**Transaction compensation**

The compensation we receive depends on the type of annuity purchased (for example: single premium immediate annuity, fixed indexed annuity and variable annuity/variable annuities), overall complexity and duration of the annuity. For example, your Financial Advisor will generally receive more compensation for the sale of a more complex variable annuity vs. a less complex Fixed Annuity. However, for Fixed Annuities of the same type, duration and complexity, the difference in compensation is not material.

Revenue Sharing: Revenue sharing payments may present a conflict between UBS interests and those of our customers because the payments give us a financial incentive to recommend that our customers purchase annuities from those insurance companies that we maintain on our distribution platform and for which we receive revenue sharing payments. At present, UBS does not have any fixed indexed annuity providers on the UBS Platform that do not make revenue sharing payments to UBS. Moreover, UBS receives greater revenue share from the sale and maintenance of variable annuities than it receives in connection with fixed annuities. Although a wide variety of annuity products (offered by different Insurance Companies) are available through our Financial Advisors, they are only part of the universe of annuity products available in the marketplace.

To mitigate the conflict, for all fixed annuities currently sold on the UBS platform, insurance companies pay us the same amount of revenue share. Further, while revenue sharing may be one factor that determines availability on the UBS platform, others include the financial stability of the insurance company and features of its products, understanding of business goals, quality of sales personnel and marketing material, range of products, level of service to Financial Advisors and branch managers, and UBS discretion.

For more information about how a fixed indexed annuity works, the benefits it can provide, and fees and charges you will pay, contact your Financial Advisor, or visit the following websites:

– Financial Industry Regulatory Authority: finra.org. See this FINRA Investor Alert "Equity-Indexed Annuities: A Complex Choice".
– Portions of this brochure have been excerpted or paraphrased from the "Buyer's Guide for Deferred Annuities" which can be found at the National Association of Insurance Commissioners website at: naic.org.

We encourage you to read these publications.

Insurance and annuity products are issued by unaffiliated third-party insurance companies and made available through insurance agency subsidiaries of UBS Financial Services Inc.

Guarantees are based on the claims-paying ability of the issuing insurance company. Underlying investment options are not FDIC insured and have fluctuating returns. Past performance is no guarantee of future results.

Annuities are long-term investment vehicles designed for retirement purposes. Withdrawals or surrenders may be subject to surrender charges. For tax purposes, withdrawals are generally deemed to be earnings out first. Taxable amounts withdrawn will be subject to ordinary income tax, and if taken prior to the age of 59½, a 10% IRS penalty may also apply. Withdrawals have the effect of reducing the death benefit, optional benefit riders and the contract value.

**You should carefully consider the investment objective, risks, and charges and expenses of the fixed indexed annuity contract and its underlying investment options before investing. This and other information can be found in the prospectus or other disclosure documents, which can be obtained from your investment representative or by calling the insurance carrier. Please read the prospectus or other disclosure documents carefully before you invest.**

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