

Understanding your variable annuity

Highlights

- Variable annuities offer certain benefits for long-term investors; however, there are risks associated with these securities as well.
- There are different types of variable annuities with different features and you should consider your personal circumstances, risk tolerance and investment objectives when making a selection.
- The fees and other contract expenses associated with buying and holding variable annuities vary depending on a number of factors, including the share class of the variable annuity you choose.
- 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

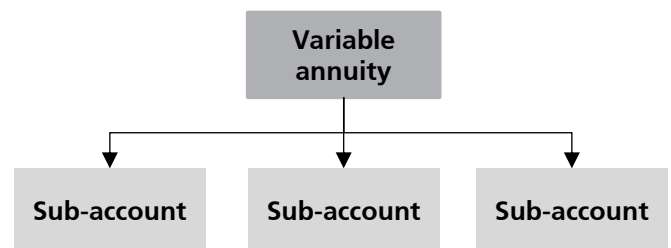
Please contact your Financial Advisor if you have questions after reviewing this information. You should also refer to the annuity's prospectus for more detailed information on your particular annuity. The prospectus contains important information about the annuity contract including specific fees and charges, investment options and objectives, risks, death benefits, living benefits and annuity income options. All of these should be considered carefully.

What is a variable annuity?

A variable annuity is a contract between you and an insurance company, in which the insurance company agrees to make periodic payments to you. The payments can begin immediately or at some future date. When these payments begin, the contract is commonly referred to as having been annuitized.

The premiums you pay are allocated among a number of sub-accounts or investment portfolios (e.g., equities,

fixed income, money market, etc.) that are offered as part of the contract.



Variable annuities are long-term investment vehicles that allow you to build your wealth on a tax-deferred basis. They typically are intended for investors who are planning for retirement and should be considered along with your overall retirement planning.

There are several features that are unique to variable annuities, including one or more of the following features:

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

The value of your variable annuity—which fluctuates over time—is a reflection of the value of the investments of the portfolios you selected (minus the contract expenses). Variable annuity investment options typically include portfolios of stocks, bonds and/or money market instruments.

You should also note that variable annuities are regulated by state insurance regulators and the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (“FINRA”).

Potential benefits of a variable annuity

Because of its unique features, a variable annuity may provide potential benefits not typically found in other investments.

A guaranteed death benefit

Most variable annuities provide a guaranteed death benefit, which means that if the contract has not already been annuitized, 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. Also, when a beneficiary of the variable annuity has been named, the death benefit proceeds are not subject to probate. All guarantees are based on the claims-paying ability of the issuing insurance company, and do not apply to the investment performance or safety of any accounts.

Stepped-up death benefit

Some variable annuities have an additional feature known as a stepped-up death benefit—which is designed either to lock in investment performance at a point in time or to guarantee a minimum periodic increase in the death benefit. When there is a step-up feature, you should be aware that it may often terminate when the person specified in the contract reaches a certain age.

Guaranteed annuity payout options

If you decide to take income from your variable 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 prospectus for more details or speak with your Financial Advisor.

Living benefits

Living benefits guarantee an income stream for the variable 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 variable annuity you purchased, including withdrawal benefits, withdrawal benefits for life and income benefits. To learn more about the living benefit options, please review the contract prospectus 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 variable annuity, income tax is deferred. Therefore, you are not taxed while your money is still in the annuity contract. Beside tax deferral. 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 the client values some of the other features of the annuity and is willing to incur any additional costs associated with the annuity to receive such features.

An additional attractive feature of variable annuities is that you can change your allocation among the investment options (e.g., from an equity portfolio to a bond portfolio or from a bond portfolio to a money market portfolio) without incurring current taxes. Your Financial Advisor can periodically review your variable 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. In addition, many variable annuities provide automated strategies, such as automated dollar-cost averaging (i.e., investing fixed dollar amounts at regular intervals) or rebalancing (i.e., adjusting a portfolio through fund transfers or sales/purchases to maintain the initial allocation of assets).

Although you can make adjustments in your allocations, variable annuities are considered long-term investment savings vehicles that are not appropriate for those interested in frequent transfers. As a result, a variable annuity may impose restrictions and/or fees for transfer activity deemed to be inconsistent with the long-term nature of the annuity or harmful to other annuity owners. For example, some insurance companies limit the number of transfers you can make in a contract year (typically 12) before you incur a fee.

What else do I need to know about a variable annuity?

Variable annuities are long-term investments

Variable annuities are designed to help you pursue your retirement and other long-range financial goals. Withdrawals from your variable 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.

Value of your variable annuity

The value of a variable annuity is based on the performance of the underlying investment options you choose. Like other investments, while the value of an annuity may increase over time, it is also exposed to market risk and you could lose money.

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. The insurance company guarantees do not apply to the investment performance or safety of your funds held in the sub-accounts. Therefore, it is important for you to consider the financial strength of the issuing insurance company before purchasing a variable annuity.

Tax-free 1035 exchanges

If you own a variable annuity and want to replace it with a different variable 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 variable annuity. However, you may have to pay surrender charges on the original variable 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 variable annuity in a UBS IRA?

Whenever you purchase a variable 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 variable 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 on the first page of a variable 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 variable 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 front page of the variable 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.

Variable annuity costs at a glance

There are fees and charges that are unique to variable annuity products. These fees and charges cover the cost of contract administration, portfolio (or investment) management and the insurance benefits (e.g., death and living benefit protection options, lifetime income options). 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 variable annuity you are purchasing.

The table on the following page provides an outline of the costs associated with investing in variable annuities. When you purchase, sell or annuitize a variable annuity, there may be fees, charges or tax consequences. Please contact your Financial Advisor if you have more specific questions about the costs of using variable annuities to achieve your investment objectives.

Variable annuity costs at a glance

Cost	Description
Mortality risk and expense charge (M&E)	This is a yearly charge that compensates the insurance company for insurance risks it assumes under the annuity contract. This charge generally ranges from 1.00% to 1.70%, sometimes lower, but never above your annual total account value.
Administrative fee and annual maintenance fee	These yearly charges cover recordkeeping and other administrative expenses. The administrative fee is a percentage of the account value and generally ranges from 0% – 0.15% per year. The annual maintenance fee is a flat fee, generally ranging from \$25 – \$50 per year. Annual maintenance fees are not generally charged when the contract value reaches a specified level of value, such as \$50,000 or \$100,000. The annuity may charge both types of fees.
Investment management fees and expenses	These fees and expenses are paid to the firm that manages the investment portfolios and may include affiliates of the insurance company. These vary depending on which investment portfolios you choose.
Fees for optional features	<ul style="list-style-type: none">– Optional riders are provisions that may be added to an annuity contract to provide additional benefits.– You will be charged additional fees if you select optional contract features, such as a stepped-up death benefit or a living benefit.– The fees for some benefits may continue after the optional feature ceases to provide a benefit for you.
Contingent deferred sales charge (“CDSC” or “surrender charge”)	<ul style="list-style-type: none">– If you withdraw money from a variable annuity within a certain period after a purchase payment (typically within seven years), the insurance company usually will assess a “surrender charge,” which is a type of sales charge.– 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 variable annuity, you may have to pay taxes or penalties. Please consult with your tax advisor regarding the tax consequences of any withdrawals.
Premium taxes	<ul style="list-style-type: none">– Several states impose a premium tax on variable annuity purchases either at the time of purchase or at annuitization.– The tax may be as high as 5% of either the purchase payments or the total value of the annuity contract depending upon the state.– The insurance company is responsible for paying this tax and may pass this cost on to you.

Variable annuity share classes

Variable annuities offer different share classes. The share classes available in annuities offered by UBS are the most common share classes: B-share, C-share and L-share. The main differences among share classes are the various surrender charge schedules and annual mortality risk and expense fees. Below is an outline of the different variable annuity share classes and their respective features, charges and fees.

Type of annuity	Surrender period	Surrender charges	Typical yearly contract fees	Investor considerations
"B share" annuities	5 – 7 years on each contribution	CDSC starts at approximately 7% and subsequently declines each year to zero over the surrender period	<ul style="list-style-type: none"> – Asset-based M&E charge that generally range from 1.00% to 1.45% – Administrative contract fees that generally range from \$0 to \$50 – Underlying fund expenses 	<ul style="list-style-type: none"> – Whether you intend to access your investment before the end of the surrender period – Whether you want the lowest cost annuity available
"L share" annuities or "B share" annuities with liquidity riders	Four years on each contribution	CDSC starts at approximately 7% – 8% and subsequently declines each year to zero over the surrender period	<ul style="list-style-type: none"> – Asset-based M&E charge that generally range from 1.50% to 1.90%. These expenses are reduced by 0.35% to 0.50% starting in the fifth year – Administrative contract fees that generally range from \$0 to \$50 – Underlying fund expenses 	<ul style="list-style-type: none"> – Whether you value access to your money within a four-year time horizon – Whether you are willing to pay higher fees in exchange for the flexibility to reposition investments if needs or goals change
"C share" annuities	Fully liquid	Offers full liquidity to owner at any time after purchase	<ul style="list-style-type: none"> – Asset-based M&E charge that generally ranges from 1.25% to 1.95% – Administrative contract fees that generally range from \$0 to \$50 – Underlying fund expenses 	<ul style="list-style-type: none"> – Whether you value access to your money immediately after investing – Whether you are willing to pay higher fees in exchange for the flexibility to reposition investments if needs or goals change

How UBS and your Financial Advisor are compensated

Each time a variable 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.

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

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 variable annuity—a portion of which is paid to your Financial Advisor.
Option 2: Hybrid commissions	Insurance companies pay UBS in two parts: an upfront commission (ranging from 0.50% to 5%) when you purchase the variable 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. A portion of the commission and annual payment is paid to your Financial Advisor.

Additional compensation

UBS receives additional compensation in connection with the sale of variable 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 receives separate compensation amounts (commonly referred to as “revenue sharing”) from our insurance companies. The separate compensation amounts are based on two components (i) UBS generally receives payments of 0.20%, sometimes lower, but never above, of the initial premium amount on the sale of variable annuities, and (ii) the amount of variable annuity assets on deposit with the insurance company, excluding the fixed assets within the variable annuity (generally 0.10%, sometimes lower, but never above, per year paid quarterly). In addition, for some older contracts in place prior to 2005, we also may receive quarterly “persistence payments” of up to 0.10% annually of assets remaining with an insurance company for an agreed minimum period, generally five or more years. This fee is not applicable to products currently sold on our platform.

Revenue-sharing payments are intended to compensate us for ancillary services in connection with effecting

chart and are level throughout share class. 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 variable 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.

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 one of 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

UBS and our Financial Advisors receive non-cash compensation from insurance companies and asset managers (“Vendors”). 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, 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 variable 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. Moreover, UBS receives greater revenue share from the sale and maintenance of more variable annuities vs. 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 variable annuities of the same type currently sold on the UBS platform (except private placement and group variable annuities), Insurance Companies pay us the same amount of revenue share. 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 variable annuity works, the benefits it can provide, and fees and charges you will pay, contact your Financial Advisor or visit the following websites:

- Securities and Exchange Commission: sec.gov.
- 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 US Securities and Exchange Commission website.
- Financial Industry Regulatory Authority: finra.org. See these FINRA Investor Alerts for additional information: "Variable Annuities: Beyond the Hard Sell" and "Should You Exchange Your Variable Annuity."

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. Guarantees do not apply to the investment performance or safety of amounts held in the variable accounts. Variable products and underlying investment options are not FDIC insured and have fluctuating returns so proceeds, when redeemed, may be worth more or less than their original value. 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 objectives, risks, and charges and expenses of the variable annuity contract and its underlying investment options before investing. This and other information can be found in the prospectus for the variable annuity and the prospectuses for the underlying funds, which can be obtained from your investment representative or by calling the insurance carrier. Please read the prospectus carefully before you invest.

UBS Financial Services Inc., its affiliates and its employees are not in the business of providing tax or legal advice. Clients should seek advice based on their particular circumstances from an independent tax advisor.

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