If you are approaching or even thinking about retirement, market volatility can be more than just nerve-racking—it can derail retirement dreams. Morgan Stanley Wealth Management’s Global Investment Committee (GIC) studied ways to strategically protect against market risk and determined that allocating a portion of retirement assets to annuities can help transfer risk from your retirement portfolio to the issuing insurance company.

The Global Investment Committee represents some of Morgan Stanley’s best thinking on global economies and markets. Its mission is to provide our clients and the Financial Advisors who serve them with investment advice that is easy to understand and implement. In addition, the GIC determines the investment outlook that guides the firm’s asset allocation recommendations.

Recently, the GIC developed a framework for retirement investing that seeks to focus more on real-world investor circumstances, priorities and risks. Their conclusion? Including annuities in a retirement portfolio can help protect not only against volatility, but also longevity and judgment risk, and better positions investors to potentially meet their retirement goals.

Demystifying Annuities
The term “annuity” is a catchall for a broad variety of insurance products issued by insurance companies. Variable annuities offer a variety of professionally managed investment options. Assets in a variable annuity can grow tax-deferred until they are

Variable annuities can help protect against running out of money due to declining markets, poor investment decisions, overspending or longevity.
STRATEGIES TO PROTECT RETIREMENT INCOME THROUGH VOLATILE MARKETS

- withdrawn. When the time comes to retire, you can elect to receive income distributions that are calculated according to your life expectancy.

Put simply, you can receive a steady stream of income that is guaranteed to last for as long as you live.*

Annuities’ drawbacks include a lack of liquidity, reduced inheritance for heirs in the event of a shorter lifetime, and higher fees relative to traditional investments. But their most differentiating feature is their ability to mitigate anxiety by absorbing several of the key risks associated with retirement investing.

- **Market Risk.** The risk that the performance of investments earmarked for retirement will be poor.
- **Longevity Risk.** The risk that a retiree lives a long life and ultimately outlives his or her savings.
- **Judgment Risk.** The risk of retiring too early, overspending in retirement or panic selling during market selloffs.

Variable annuities offer a good complement to an investment portfolio because their features include:

**Guaranteed Minimum Income Payments**

Some variable annuities offer what are called “living benefits” that enable you to generate guaranteed income at retirement, even if your investment choices don’t perform as anticipated. These benefits vary from annuity to annuity and are available at additional cost when you purchase a contract.

Depending on the rider selected, you can be assured of receiving minimum income payments guaranteed to last a lifetime. This enables retirees to budget expenses more accurately because you’ll know a baseline of how much is coming in, as opposed to trying to figure out what you can withdraw from a portfolio with uncertain returns over an unknown period of time, and no such minimum safety net.

**Tax Advantages**

Like a 401(k) plan, variable annuity earnings accumulate on a tax-deferred basis. You pay no current income tax on interest, dividends and capital gains until you withdraw them at retirement when your tax bracket might be lower than when you were working. In addition, the structure allows you to reallocate across investments within the annuity without incurring negative tax consequences.

**To Get Started**

If you are a retirement-minded investor, we invite you to consider variable annuities as a potential solution to managing the risk that you’ll run out of money due to declining markets, poor investment decisions, overspending or longevity.

Contact your Morgan Stanley Financial Advisor.

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*All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options.

Living benefits do not protect the contract value of a variable annuity from market decline. However, they do protect the benefit base by which income benefits are calculated.

Optional riders may not be available for purchase in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract.

Morgan Stanley Smith Barney LLC offers insurance products in conjunction with its licensed insurance agency affiliates.

Annuities are long-term investments designed for retirement purposes and are subject to investment risk, including the possible loss of principal. Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value of the annuity.

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.

If you are investing in a variable annuity through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection.

Morgan Stanley Smith Barney LLC (“Morgan Stanley”), its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Clients should consult their personal tax advisor for tax related matters and their attorney for legal matters.