

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.

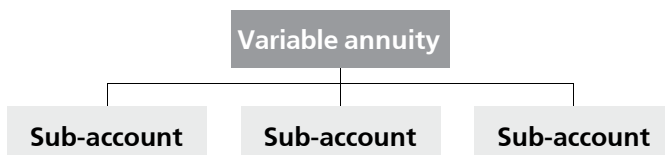
Questions

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

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 is 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-free transfers between investment options

When you purchase a variable annuity, you allocate your investment among the various investment options available. One 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 U.S. 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.

Purchase payment credit

Some variable annuities provide a purchase payment credit—an amount that is added to the contract value, if the total purchase payment meets or exceeds certain amounts. Some annuities with purchase payment credits require the return of the purchase payment credit if the contract owner cancels the contract pursuant to the contractual “free look provision” (explained below). This also may vary by state. Please speak with your Financial Advisor or refer to the contract prospectus for more specific information.

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 U.S. 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 typically ranges from 1.00% to 1.70% of your annual total account value. |
| Administrative fee and annual maintenance fee | This yearly charge covers record-keeping and other administrative expenses. This may be charged as a flat account maintenance fee (typically ranging from \$25 or \$50 per year) or as a percentage of your account value (typically in the range of 0.15% 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 generally vary depending on which investment portfolios you choose. |
| Fees for optional features | <ul style="list-style-type: none">– 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 contract charges 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 the investor intends to access their investment before the end of the surrender period – Whether the investor wants the lowest cost annuity available |
| "L share" annuities or "B share" annuities with liquidity riders | 4 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 contract charges 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 the investor values access to their money within a four-year time horizon – Whether the investor is 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 contract charges that generally range 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 the investor values access to their money immediately after investing – Whether the investor is 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

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.

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/conflicts of interest

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 ("Insurance Carriers").

Establishment fee

UBS charges a one-time establishment fee to Insurance Carriers to offset the cost of setting up insurance companies on our platform. These expenses may include marketing costs, system costs, due diligence costs, or administrative costs. No part of the establishment fee is paid to your Financial Advisor or his or her branch office.

Revenue sharing

UBS also receives separate compensation amounts (commonly referred to as "revenue sharing") from our insurance companies. The separate compensation amounts are based on two components (i) the initial premium amount on the sale of an annuity (up to 0.20% per year paid quarterly) and (ii) the amount of variable annuity assets on deposit with the insurance company, excluding the fixed assets within the variable annuity (up to 0.10% 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 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 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.

Non-Cash Compensation

In addition to the payments described above, insurance companies may contribute funds to support our Financial Advisor education programs. The contributions are used to subsidize the cost of training seminars we offer to Financial Advisors through specialized firm-wide programs and regional training forums. These contributions subsidize a significant portion of the costs incurred to support the training and education of Financial Advisors, Branch Office Managers, Field Leadership, and other personnel as well as client education and product marketing efforts conducted regionally and nationally by product specialists employed by UBS.

Not all vendors contribute to our education efforts. Neither contribution toward these training and educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether a vendor should be included or should remain in our programs or

our platform. Contributions can vary by vendor and event. In some instances, the contributions per vendor (as well as the aggregate received from all vendors) are significant. Some vendors may decide to contribute at levels different than those we request. Additional contributions may be made by certain vendors in connection with specialized events or education or training forums. Your Financial Advisor does not receive a portion of these payments. However, their attendance and participation in these events, as well as the increased exposure to vendors who sponsor the events, may lead Financial Advisors to recommend the products and services of those vendors as compared to those who do not.

In addition to the compensation to the firm described above, in the ordinary course of business, we and our Financial Advisors may, from time to time, receive non-cash compensation from mutual fund companies, investment managers, insurance vendors and sponsors of products that we distribute. This compensation may include promotional items, occasional gifts, meals, tickets and other entertainment, sponsorship support of training events and seminars, various forms of marketing support and, in certain limited circumstances, the development of tools used by the firm for training or record-keeping purposes

Potential conflicts of interest

Conflicts of interest may arise as a consequence of the firm's interests and our relationships with multiple clients, other financial services firms and vendors with whom we conduct business. An example of conflicts of interest that may arise as a result of our variable annuity compensation structures is described below. This is not intended to be an all-inclusive list, and any questions that you have should be directed to your Financial Advisor.

- When UBS receives revenue-sharing compensation or distribution support from distributors of annuity products, it presents a conflict of interest between our interests and those of our clients. Although these payments are not shared with Financial Advisors, they

can create incentives to promote those products for which we receive revenue-sharing payments. For more information, refer to ubs.com/va-revenuesharing.

It is important to know that we exercise our own discretion when providing insurance companies with access to our branches—based upon an internal review and evaluation of each insurance company and its annuity products. There are multiple factors involved in determining whether a particular insurance company will have access to our branches. Revenue sharing may be one factor along with a host of others—including the financial stability of the insurance company and the features of its products.

Revenue-sharing payments may present a conflict between our interests and those of our customers because the payments give us a financial incentive to recommend that our customers purchase annuities that we maintain on our distribution platform and for which we receive revenue-sharing payments. 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.

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: www.sec.gov
- Financial Industry Regulatory Authority: www.finra.org. See these FINRA Investor Alerts for additional information: "Variable Annuities: Beyond the Hard Sell" and "Should You Exchange Your Variable Annuity"
- 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 at: www.sec.gov/investor/pubs/varannty.htm. We encourage you to read this publication.

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 objective, 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.

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.

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.

Neither UBS Financial Services Inc, its affiliates, nor any of its employees provide legal or tax advice. Accordingly, this material is not intended to be used, and cannot be used or relied upon, by the taxpayer for the purpose of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing or recommending to another party any transaction or tax-related matter(s).

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