Morgan Stanley

Understanding Insurance

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Insurance is an essential part of financial planning, especially if loved ones rely on you for financial support and livelihood.

Your Morgan Stanley Financial Advisor or Private Wealth Advisor will work with you to develop and implement a well-considered strategy – one based on your unique financial goals and opportunities.

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An Introduction to Insurance

This reference document is provided by Morgan Stanley[1] solely to provide a general overview of the various forms of insurance. It is designed to provide you with a better understanding of insurance, including the benefits that policies can provide in helping you plan and protect, as well as potential limitations/restrictions and associated costs. It is not meant to describe a single product or pertain to a particular insurance company. Not all products discussed herein are available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document.

What is Insurance?

Insurance protects you and your loved ones against uncertainties. Insurance policies provide a payout for specified death, damage, or sickness in return for premium payments. These policies are a form of financial risk management that help protect you and the things you value.

There are several types of insurance policies offered through Morgan Stanley[2], which include:

- Term Life Insurance
- Permanent Life Insurance
- Long Term Care Insurance
- Disability Insurance

Insurance policies provide many benefits that may appeal to you including tax advantages, income replacement, and access to a non-equity market correlated asset class (the time when death, disability, or long term care needs strike and beneficiaries receive a payout is irrespective of market circumstances). These benefits may be attractive to those who want tax preferred investments, need income replacement in case of pre-mature death, have long term care needs, are unable to work, or want access to an asset class that is not sensitive to market changes. These benefits will be discussed in detail later within this booklet.

Morgan Stanley Products and Intellectual Capital

Preparation and planning are foundational components to a successful financial future. Morgan Stanley provides the combination of its renowned intellectual capital, access to case design specialists, and a leading due diligence and screening process to help optimize insurance products that service your needs.

This booklet contains a general overview of the types of insurance product offerings at Morgan Stanley, which you can review and discuss with your advisor.

1. Morgan Stanley Smith Barney LLC is referred to as "Morgan Stanley" throughout this document.
2. Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency.

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Understanding Permanent Life Insurance

This reference document is provided by Morgan Stanley[1] solely to provide a general overview of the various forms of permanent life insurance. It is designed to provide you with a better understanding of permanent life insurance, including the benefits that policies can provide in helping you plan and protect, as well as potential limitations/restrictions and associated costs. It is not meant to describe a single product or pertain to a particular insurance company. Not all products and/or features discussed herein may be available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document.

What is Permanent Life Insurance?

Insurance protects you and loved ones against uncertainties.

Life insurance is a type of insurance that pays out a sum of money, called a "death benefit", after your death as an insured individual. The death benefit is paid to your named beneficiaries, who are typically family or business partners that you would like to pass money to after you die.

The purpose of a death benefit is to help ensure that those financially dependent on you have a healthy economic future after your death. The death benefit received can help cover loved ones' expenses and take away the onus of replacing your lost economic value immediately (i.e. providing money to help pay a mortgage or other debts).

Permanent life insurance is a specific form of life insurance that provides lifelong coverage (assuming all required premiums are paid). Not all life insurance policies provide lifelong coverage, those of which are discussed in another chapter of this booklet.

In order to purchase permanent life insurance coverage, you will need to pay premiums to an insurance company. Premiums are the price you pay in return for life insurance coverage over time. They are either lump-sum or periodic payments indicating the insurance company's obligation to provide coverage for claims covered by the purchased policy.

The premium amount paid is based on your age, health, life expectancy, and other factors. To qualify for permanent life insurance and prove your insurability, you will likely need to undergo a medical assessment. Results from the exam may be used to aid the insurance company in approximating your lifespan by factoring into an actuarial calculation that determines the premium, or cost.

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Generally, when you pay premiums on permanent life insurance, you are building equity. The premiums create policy value, which is transferred to beneficiaries as part of a death benefit.

Permanent life insurance premiums are allotted to three different areas. One portion of the payment goes towards the policy's death benefit, another portion goes towards the insurance company's profits and operational costs, and the last portion goes towards the policy's "cash value".

Cash value is the fraction of your premium payment that is in excess of the amount needed to cover both the death benefit and insurance company's profits and operational costs. It is generally invested by the insurance company and can be thought of as the money that potentially grows tax-deferred within your policy.[1] Cash value is the fraction of your policy's death benefit that can be leveraged and used as a financial resource. As a policyholder, it is your right to access this cash value.

If you opt to cancel or "surrender" your permanent life insurance contract, you will generally recover your cash value.

Types of Permanent Life Insurance

There are four basic types of permanent life insurance (listed below), which may be appropriate for you based on specific individual needs.

Whole Life Insurance
Whole life insurance is the simplest type of permanent life insurance which offers a fixed death benefit in exchange for fixed premium payments.

Whole life insurance has a cash value component which grows at a guaranteed rate over time. It may pay dividends from the insurance company's profits, which could provide additional cash value to the policy, potentially offsetting a portion of your premiums over time.

Universal Life Insurance
Universal life insurance parallels whole life insurance with its death benefit and cash value element. However, unlike whole life insurance, universal life insurance allows you to adjust your premiums and death benefit to fit your needs.

Universal life insurance is adaptable — under this policy, you are able to adjust the amount and timing of premiums. This flexibility extends to your death benefit, which you have the option of increasing or decreasing even after the policy is considered inforce.[2]

The interest rate on your cash value component is subject to change by the insurance company, yet maintains a guaranteed minimum interest rate defined in the policy.

Variable Universal Life Insurance
Variable universal life (VUL) insurance parallels universal life insurance in that it offers lifelong coverage, flexibility, and cash value. However, VUL policies provide more investment options for the policy's cash value.

Cash value can be invested in certain "sub-accounts" offered by the insurance company. Sub-accounts typically invest in various asset classes which may include stocks, bonds, derivatives, commodities, money market instruments, or other investments. You assume all of the risk related to your sub-account investments. Rates of return will mirror wider market trends and may give you a greater investment rate than whole life or universal life insurance - but with more risk.[3]

1. Consult a tax advisor for more detailed information on tax implications.
2. Increases to the death benefit will require you to provide evidence of your insurability for the higher coverage amount.
3. Features of an insurance policy may need to be discussed with a licensed insurance agent.

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Buffered Investment Options:

Buffered investment options offer the potential for market-linked growth while providing a level of downside protection against market losses. These crediting strategies can be found in some VUL policies. Policyholders can allocate premium proceeds net expenses to these buffered investment options within their VUL policy, affecting the policy's cash value per the investment performance of the chosen strategy. These strategies provide a unique blend of life insurance protection, flexibility, and potential cash value growth.

Unlike whole life or traditional universal life policies, permanent insurance policies offer the opportunity for enhanced cash value growth, as they are linked to market performance. While these investment options include a selection of indices such as the S&P 500, it's important to note that the cash value doesn't directly correlate with any index. One of the noteworthy advantages of including these investment options in VUL policies is the ability to provide limited downside protection while also setting an upper limit on potential gains.

This investment optionality aims to combine the benefits of life insurance coverage with the potential for market-linked returns.

Here's How Buffered Investment Options Work:

Investment Components:

- **Term Length:** The period over which index performance is tracked. Common term lengths include 1, 3, 5, and 6 years.
- **Buffer Level:** Defines the percentage decline in the linked index that the investment protects against. For example, if the buffer level is 10%, the policyholder is shielded from the first 10% of losses. The policyholder would be subject to any additional losses in excess of the buffer level.
- **Participation Rate:** Determines how much of the index's gains the policyholder will participate in. For example, if the index return is 10% and the participation rate is 50%, the policyholder receives 5% of the index return.
- **Cap Rate:** The highest rate of return that can be credited to a segment. If the cap rate is 20%, and the chosen index rises by 25%, the segment will be credited 20% at the end of the term. In other words, the cap rate represents the maximum rate of return possible for the invested cash value.
- **Segment Strategy:** Represents the investment in a specific index, term length, buffer, maturity, and cap rate. For example, a policyholder may select the S&P 500, 1year term with a 10% buffer.

Risks and Potential Returns:

Buffered investments within VUL policies can provide a balance between risk and potential returns. They offer some downside protection within the buffer range, and the potential benefit from market gains up to the cap rate. Nonetheless, buffered investment strategies do not protect from market losses beyond the buffer level or allow benefit from market gains above the cap rate.

Given potential loss in cash value, it is important to consider negative investment performance and its correlation to future premium payments. For that reason, consider pairing this option with a no lapse guarantee rider where available.

It's important to note that buffered investments within life insurance policies, like all investments, come with risks and considerations. Policyholders should carefully review the terms, buffer level, participation rate, cap rate, and other policy details before making investment decisions. Additionally, life insurance policies may have fees and expenses associated with the investment component, which can impact potential returns.

Indexed Universal Life Insurance

Indexed universal life (IUL) insurance parallels universal life insurance in that it delivers death benefit protection, flexibility, and cash value.

Unlike whole life or universal life insurance policies, this type of permanent insurance has the opportunity for potentially greater cash value growth because it's based on a market index. Policies generally offer a selection of well-known indices, such as the S&P 500; however, the policy's cash value does not directly participate in any index. Nonetheless, while IUL policies have potential for cash value growth based on the performance of a market index, they also carry the risk of under performance. If the index performs poorly, the credited interest may be lower than expected, which can result in reduced cash value accumulation. This may increase the risk of policy lapse, particularly if the policyholder relies on cash value to cover ongoing premium amounts. To account for this risk, many IUL policies include a floor, which guarantees a minimum account growth rate (more details below).

Similar to buffered VULs, a key benefit associated with many IUL policies is that they provide downside market protection with an upside cap. However, buffered VULs only provide downside protection up to the buffer, whereas IULs protect the full downside. To account for this risk, buffered VULs usually have higher cap rates than IULs, meaning there is greater opportunity to capture market growth. In the end, each type of strategy has pros and cons that should be taken into account depending on the intended use and risk appetite of the owner.

Participation rates are another differentiating feature of IUL policies. These rates are set by the insurance company and represent a percentage of change in an index that your account receives as interest credit. For example, if the policy's associated index gains 20% and the participation rate is 75%, the policy will receive an interest credit of 15% (75% x 20%).

IULs also have an index floor, which is the guaranteed minimum amount of account growth. If index performance is less than the index floor, you will receive the index floor amount. There is also an index cap, which can limit potential upside gains, or crediting to the policy. If the market performs well and the index moves higher than the index cap, you will get the increase in the cap. Renewal rate risk applies to cap rates, which is when renewal rates set by the insurance company are lower than the initial period. A lower cap rate could lead to comparatively less crediting to the policy, putting the policy at risk of lapsing given a lower-than-expected cash value.

Like other types of insurance policies, there are ongoing costs (i.e., administrative, rider and coverage charges, premium load, cost of insurance, etc.) associated with the policies that are deducted from the policy accumulation regardless of any interest credited, or lack thereof, which may cause a decrease in the policy value performance if the index performs poorly.

Some IUL contracts include charge structures that should be well understood prior to purchase:

- **Performance factor/multiplier:** a non-guaranteed feature that multiplies the credited rate by a performance factor. This could potentially add x to the index interest credited, but this feature may also increase the charges associated with the policy.
- **Asset charge:** a charge based on the policy's accumulated value which may increase the cap rate thus potentially allowing for higher interest crediting.

Features, Benefits, Drawbacks, and Considerations for Permanent Life Insurance

Cash Value

While cash value in your policy may be used to pay for premiums, under certain circumstances this may cause the policy to lapse. It's also possible to withdraw from your cash value, but this may chip away at your death benefit. If you have accumulated a sizable cash value, you can also choose to take out a loan against it. Cash value can be recaptured if you choose to surrender your policy. However, surrendering your policy will result in you also surrendering the policy's death benefit, losing coverage, and possibly having to pay surrender fees and/or income taxes on the cash value.

Longevity

Rather than expiring after a certain date, permanent life insurance provides lifetime coverage as long as you continue paying premiums. While this is a key differentiator from other types of life insurance policies, it does generally mean premiums are more expensive (see “"Cost" below).

Non-Correlated Asset Class

The cash value and insurance benefit provided by whole life, universal life and indexed universal life insurance are generally considered uncorrelated assets. A non-correlated asset class is not strongly influenced by market movement and is independent of traditional market effects. There is an arrangement between you and the insurance company that proceeds will be paid to beneficiaries when you die— irrespective of timing or market circumstances.

Tax Considerations

Cash value potentially grows tax-deferred, and dividends are received tax-free. These cash values are accessed through withdrawals and policy loans. Loans are charged interest and they are usually not taxable. Withdrawals are generally tax-free to the extent that they do not exceed the total premium amount paid into the policy, also known as the basis.

If you take out loans or withdrawals and the policy lapses or is surrendered, you may also be subject to taxes on the extracted amounts. In an active policy, unpaid loans or withdrawals reduce the policy cash value and death benefit. If not managed correctly, these actions may cause the policy to lapse and have tax consequences.

For Modified Endowment Contracts (MECs), which are tax qualified life insurance policies with funding in excess of federal tax limits, all withdrawals (including loans) are generally subject to income taxes. Moreover, a 10% penalty may apply to gains on the policy value for early withdrawals before the age of 59 and a half.

Cost

Permanent life insurance policies may be more expensive initially than other policies which expire after predetermined periods of time. However, permanent life insurance policies may have lower annual premiums over time than temporary policies since they do not have to be renewed at a higher attained age.

Common Riders

A rider is a clause that can be added to an insurance policy to enhance or change coverage terms. Most riders enhance coverage for an additional cost. A handful of common riders are as follows:

Long Term Care Rider

A long term care rider accelerates the death benefit payout and may be further supplemented by an extension of benefits rider if the insured is chronically ill and meets certain eligibility criteria. Eligibility generally includes a certification from a licensed health professional that the insured cannot perform two of the six activities of daily living (i.e. eating, bathing, dressing, toileting, transferring and continence) or that the insured has severe cognitive impairment. This applies to both temporary and permanent conditions. The long term care rider allows for the condition of the insured to be fully recoverable.

Benefit payments may require evidence of actual expenses paid or may be used for any purpose depending on the policy. There's typically an elimination period prior to receiving benefits. The long term care rider should not be confused with either a chronic illness rider or a terminal illness rider, which are discussed later in this section.

Chronic Illness Rider

This rider accelerates the death benefit payout and ensures that payment will be received if you are diagnosed with a pre-specified chronic illness that is likely to last for the rest of your life (condition must be non-recoverable), as well as meet specific qualifications.

Qualifications generally include that the insured has been recently certified as needing services that are likely to be necessary for the rest of the insured's life and either 1) is unable to perform at least two of the six activities of daily living for a specified period of time, or 2) requires substantial supervision from someone else to protect the insured due to severe cognitive impairment.

If qualified, you may be able to accelerate up to 100% of the death benefit. You can generally receive the benefit as either monthly payments or a one-time lump sum payment. Generally, the payments can be used for any purpose. There is typically an elimination period prior to receiving any benefits.

A key differentiating factor which makes a chronic illness rider dissimilar from a long term care rider is that it provides coverage for those with likely no potential for recovery. For this reason, it is important to ensure that you fully understand the limitations in coverage of a chronic illness rider.

Terminal Illness Rider

A terminal illness rider generally ensures that you will receive a payment if you are terminally ill, your life expectancy is reduced to 12 months or less, and all other eligibility conditions have been met. There is generally no waiting period to receive a benefit under this rider.

A terminal illness rider payment is generally paid as a lump sum. The purpose of this rider is to provide an early payment of the death benefit to assist with medical costs prior to death.

The key distinction for this rider is that it provides coverage for those with terminal illnesses and short life expectancies.

Waiver of Premium

This rider ensures that your policy will not lapse if you cannot pay your future premium due to disability.

Accidental Death or Dismemberment

This rider ensures that if you die due to an accident, you will receive a payment. Most payments are generally in surplus of the original death benefit.

Partial and Permanent Disability

This rider is useful if you face permanent or temporary disability due to an accident. Most policies pay a percentage of your original income for a set period of time.

Learning about Permanent Life Insurance

Permanent life insurance companies, who offer products in conjunction with Morgan Stanley's licensed insurance agency affiliates, provide informational documents and disclosures. In order to be an informed purchaser, you should read these documents carefully. Moreover, since any guarantees in your insurance contract will depend on the financial strength and claims-paying ability of the insurance company, you should also evaluate the insurance company's financial condition.

After you apply, the insurance company approves your application for coverage, and your initial premium is paid, you will receive your policy contract.
There are usually five basic parts to these insurance policy contracts, which should be read and understood:

- Declaration Page
- Insuring Agreement
- Exclusions
- Conditions
- Endorsements and Riders

Permanent life insurance policies also come with forms, disclosure documents, and a policy prospectus, if applicable. These documents may contain investment objectives, risks, expenses, cap rates, and other information regarding the life insurance policy, which should be considered carefully before purchasing.

Your financial status and any policies held should be routinely reviewed with your Financial Advisor to ensure that they remain appropriate. Assumptions shown by insurance companies in illustrations, or rates shown in your policy that are subject to change, may vary over time.

General information on permanent life insurance and other offerings can be provided by your Morgan Stanley Financial Advisor.

Costs Associated With Purchasing Permanent Life Insurance

Permanent life insurance is generally intended to provide a federally tax-qualified death benefit. However, like any other financial product, there are costs to be aware of before purchasing permanent life insurance. Generally, premiums must continue to be paid by the policyholder to cover the policy and any added riders. Life insurance is medically underwritten, with premiums generally based on age, gender, health, and other factors. Death benefit payments are generally received income tax free, although you should consult with your own tax advisors regarding tax advice. As long as each premium is paid on time, coverage will continue either as long as the policyholder lives or until the policy is surrendered.

You may be subject to a fair value calculation (or interim value formula) should the policy be terminated early. Surrender charges may be imposed. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

How Morgan Stanley and Your Financial Advisor Are Compensated When You Buy Permanent Life Insurance

Commissions and Compensation
Each time permanent life insurance is purchased through a Morgan Stanley Financial Advisor, the insurance company pays Morgan Stanley compensation, based upon a standard schedule for each insurance company, in the form of a commission, dependent on the product selected and the amount of the client investment. Other fees are received for providing traditional brokerage services, including related research and advisory support, and for purchase and sale of securities.

There may be split compensation with a third party consultant or specialist in coordination with point of sales support and platform access. Utilization of a third party in no way impacts contract fees paid by you as a client.

The commissions payable to Morgan Stanley are generally consistent for each insurance company, regardless of the volume of business Morgan Stanley submits to the insurance company or the profitability of the policy to the insurance company. Further, no insurance company or the parent or affiliated company of any insurance company has any material interest in Morgan Stanley or its insurance licensed subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to an approved insurance company or its parent or affiliated company to the aggregate values of our overall client holdings of the insurance company's products or to offset the marketing allowance or expense reimbursements.

For additional information on a particular insurance company's payment and compensation practices, please refer to the insurance company's product prospectus and/or the insurance company's other disclosure documents.

Expense Reimbursements & Data Analytics Fees

Morgan Stanley may seek prepayment or reimbursement by approved insurance companies, their parent or affiliated companies, or other service providers for the expenses incurred for various sales meetings, seminars and conferences held in the normal course of business and other administrative and compliance services.

Morgan Stanley may provide insurance companies and other service providers with the opportunity to purchase supplemental sales data analytics. The fee amount depends on the level of data provided. Insurance companies may also purchase sales data analytics from Morgan Stanley on other financial products offered on the platform.

Before You Decide to Buy Permanent Insurance

You should consider the following before you decide to buy permanent life insurance:

Investment Goals

There are a number of points to consider before purchasing permanent life insurance.

These include:

- Do you want life insurance for as long as you live?
- Will you use the permanent life insurance to provide a payout to beneficiaries upon your death?
- Are you aware that your permanent life insurance beneficiary will likely not have to pay income tax on the death benefits received?
- Do you intend to continue paying premiums to avoid a lapse in coverage?
- Have you consulted with a financial advisor to decide whether permanent insurance is appropriate for you?

Costs and Benefits

There are a number of points regarding policy costs and benefits to consider before purchasing permanent insurance.

These include:

- Do you understand the features of permanent life insurance?
- Can you afford premiums for the rest of your life?
- Will your beneficiaries rely on a death benefit to help replace your economic value?
- Do you want to accumulate a savings element that potentially grows on a tax-deferred basis?
- Have you considered how much permanent life insurance you need?
- Do you understand all of the fees and expenses that the insurance company charges for permanent life insurance?
- Do you understand the various ways in which Morgan Stanley and your Financial Advisor/ Private Wealth Advisor are compensated when you purchase permanent life insurance?

Appropriateness

There are a number of appropriateness points to consider before purchasing permanent life insurance.

These include:

- Your investment risk tolerance.
- Your liquidity and costs, which could be difficult to manage with potentially large permanent life insurance premiums.
- The permanent life insurance's fees and charges.
- Your ability to understand all of the features, benefits and costs associated with permanent life insurance.

Disclosures

- Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLCs licensed insurance agency affiliates.
- Since life insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy may require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.
- Tax laws are complex and subject to change. Morgan Stanley, its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Individuals are urged to consult their personal tax or legal advisors to understand the tax and legal consequences of any actions, including any implementation of strategies or investments described herein.

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Understanding Term Life Insurance

This reference document is provided by Morgan Stanley[1] solely to provide a general overview of the various forms of term life insurance. It is designed to provide you with a better understanding of term life insurance, including the benefits that policies can provide in helping you plan and protect, as well as potential limitations/restrictions and associated costs. It is not meant to describe a single product or pertain to a particular insurance company. Not all products and/or features discussed herein may be available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document.

What is Term Life Insurance?

As discussed previously, life insurance protects you and your loved ones against uncertainties. It is a way to help ensure that beneficiaries have a healthy economic future in the event of your death and takes away the onus of immediately replacing your economic value.

Term life insurance is a specific type of life insurance that provides death benefit coverage (a payment to beneficiaries in the event of your death) over a predetermined period of time, generally 10 to 30 years. This type of insurance is usually appropriate if the policyholder expects their beneficiaries to only need the death benefit payout for a certain period of time before outgrowing the necessity (e.g. single parent with young children, individual with currently high expenses that expects expense to lower after the term period). If you die during this time period your named beneficiaries will obtain the benefit.

Once the stated time period passes, you can either choose to renew the policy or let it expire.

Term life insurance's only function is to insure you in case of death, and all premium payments go towards covering that cost. This contrasts other varieties of life insurance which potentially accrue cash value over time and provide lifelong coverage. In other words, in the event of death, payment is not provided beyond the stated contract benefit and the policy has no cash value.

The premium amount paid is based on your age, health, life expectancy, and other factors. To qualify for term life insurance and prove your insurability, you will likely need to undergo a medical assessment to aid the insurance company in approximating your lifespan and determining how much it will cost to insure you.

Term life insurance can offer:

- Temporary Coverage
- Pure Death Benefit
- No Cash Value Build-Up

1. Morgan Stanley Smith Barney LLC is referred to as "Morgan Stanley" throughout this document.

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- Increasing Premiums By Age or Age Bracket
- Conversion
- Renewability

The aforementioned features will be discussed in the following pages.

Types of Term Life Insurance

There are five basic types of term life insurance, which may be appropriate for you based on specific individual needs.

Annual Renewable
An annual renewable term life insurance policy is written to provide one year of coverage, with the option to renew at the end of that year. If you choose to renew the policy, you will not have to provide proof of insurability, but the new premiums will be based on your attained age.

Level Term Insurance
Level term life insurance provides you with coverage for a specified time span. During this time span, premiums are guaranteed to remain static. Time spans for these policies generally range from 10 to 30 years. Once the chosen time span ends, most level term policies have a renewal option, which enables you to continue the policy on an annual renewable basis, if desired.

Family Income Benefits
Family Income Benefits term life insurance enables the death benefit to be paid out in either a lump sum or regular payments over a set period of time. This can help beneficiaries budget the death benefit received so that it is spent responsibly and lasts over time.

Increasing Term Life Insurance
Increasing term life insurance features a death benefit that grows annually according to a predetermined schedule. Concurrently, as the death benefit increases, so does the premium. This gives you the advantage of having a smaller policy early-on when you probably can least afford it. You may also appreciate how coverage increases since family and assets usually grow over time.

Decreasing Term Life Insurance Decreasing term life insurance includes a death benefit which declines annually according to a predetermined schedule. You pay a fixed, level premium. Decreasing term policies are often used in tandem with mortgages; coverage lessens with the declining mortgage principal. This type of term insurance is typically beneficial for those expecting their beneficiaries to need less financial support as time passes. Given the decreasing death benefit feature, this type of policy is typically more affordable than other term life insurance policies.

Features, Benefits, Drawbacks, and Considerations for Term Life Insurance

There are many considerations involved in assessing whether or not term life insurance is right for you. These include:

Conversion
Level term life insurance can be converted to permanent life insurance when coverage expires. This will enable you to attain lifelong coverage without having to meet prerequisites for a new policy based on current health. This is a crucial element to take into consideration since you will be older at the end of the policy's term, and may have developed physical or mental conditions which would otherwise have made you unfit for future coverage. Nonetheless, your policy may be subject to new rates upon conversion and the permanent insurance may be more expensive than if you had purchased it originally.

Temporary Coverage
Term life insurance satisfies a short-term need for death benefit protection. It is appropriate if beneficiaries will outgrow their need for the benefit.

Cost

Term life insurance generally allows young, healthy purchasers to acquire a large death benefit for a low-cost premium when the policy is first issued. This is because coverage is only provided for a specific period of time and has no cash value, in addition to other factors. However, this statement may not be true for everyone as cost is a function of age, health status, and amount of coverage among other factors. Term life insurance premiums generally significantly increase over time based on attained age and other factors.

No Cash Value Build-up

While the cost of term life insurance may be attractive depending on your age, health and other factors, you may find it unappealing that there is no cash value. In this instance, you might want to consider permanent life insurance, which provides lifelong coverage and potentially builds cash value. Although permanent life insurance is generally more costly, you will have the security of knowing that you have accrued cash value.

Investment Horizon

Given the cash value component, the potential for growth of permanent life insurance policies is by definition greater than term life insurance policies, which do not have a cash value feature. Nonetheless, the cash value growth rates of permanent life insurance are often smaller than other individual financial products in comparable time periods (e.g. stocks). If the potential investment value growth is a key priority and other considerations like investment time horizon and needs align, policyholders may consider buying term life insurance and investing the difference in other financial products as part of a broader diversification strategy.[1]

Tax Considerations

Similar to other types of insurance, generally, your named beneficiaries will not have to pay income taxes on your term life insurance death benefit.

Common Riders

A rider is a clause that can be added to a term life insurance policy that can enhance or change the coverage terms,usually for an added expense. A handful of common riders are as follows:

- **Waiver of Premium:** This rider ensures that your policy will not lapse if you cannot pay your future premium due to disability.
- **Accidental Death or Dismemberment:** This rider ensures that if you die due to an accident, you will receive a payment. Most payments are generally in excess of your original death benefit.
- **Partial and Permanent Disability:** This rider is useful if you face permanent or temporary disability due to accident. Most policies pay a percentage of your original income for a set period of time.
- **Accelerated Death Benefit Rider:** This rider allows you to collect a portion of your policy's death benefit early if you are diagnosed with a pre-specified illness and meet certain qualifications.

Learning about Term Life Insurance

Term life insurance companies that offer products in conjunction with Morgan Stanley's licensed insurance agency affiliates, provide informational documents and disclosures. In order to be an informed purchaser, you should read these documents carefully.

Since any guarantees in your insurance contract will depend on the financial strength and claims-paying ability of the insurance company, you should evaluate the insurance company's financial condition.

After you apply for term life insurance, the insurance company approves your application for coverage, and your initial premium is paid, you will receive your policy contract. There are usually five basic parts to these insurance

[1] Clients should discuss investment strategies based on their broader financial status and needs with their Financial Advisors before purchasing any type of life insurance product.

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policy contracts which should be read and understood:

- Declaration Page
- Insuring Agreement
- Exclusions
- Conditions
- Endorsements and Riders

Term life insurance policies come with forms and disclosure documents outlining the objectives, risks, fees, expenses, and other information regarding the life insurance policy. These should be considered carefully before purchasing.

Your financial status and any policies held should be routinely reviewed by your Financial Advisor to ensure that they remain appropriate. Assumptions shown by insurance companies in illustrations, or rates shown in your policy that are subject to change, may vary over time.

General information on term life insurance and offerings can be provided by your Morgan Stanley Financial Advisor.

Costs Associated With Investing in Term Life Insurance

Term life insurance is generally intended to provide a federally tax-qualified death benefit for a specified period of time. However, like any other financial product, there are costs to be aware of before purchasing term life insurance. Generally, premiums must be paid by the policyholder according to a set payment schedule to cover the policy costs, which would include any added riders. Life insurance is medically underwritten, with premiums generally based on age, gender, health, and other factors. Death benefit payments are generally received income tax free, although you should consult with your own tax advisors regarding tax advice. As long as each premium is paid on time, coverage will continue until the specified contract coverage period ends.

How Morgan Stanley and Your Financial Advisor Are Compensated When You Buy Term Life Insurance

Commissions and Compensation

Each time term life insurance is purchased through a Morgan Stanley Financial Advisor, the insurance company pays Morgan Stanley compensation, based upon a standard schedule for each insurance company, in the form of a commission, based upon the product selected and the amount of the client investment. Other fees are received for providing traditional brokerage services, including related research and advisory support, and for purchase and sale of securities.

There may be split compensation with a third party consultant or specialist in coordination with point of sales support and platform access. Utilization of a third party in no way impacts contract fees paid by you as a client.

The commissions payable to Morgan Stanley Smith Barney LLC are generally consistent for each insurance company, regardless of the volume of business Morgan Stanley submits to the insurance company or the profitability of the policy to the insurance company. Further, no insurance company or the parent or affiliated company of any insurance company has any material interest in Morgan Stanley or its insurance licensed subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

Morgan Stanley prohibits linking the amount of brokerage commissions and service fees (charged to an approved insurance company or its parent or affiliated company) to the aggregate values of our overall client holdings of the insurance company's products or to offset the marketing allowance or expense reimbursements.

For additional information on a particular insurance company's payment and compensation practices, please refer to the insurance company's informational forms and/ or other disclosure documents.

Expense Reimbursements & Data Analytics Fees
Morgan Stanley may seek prepayment or reimbursement by approved insurance companies, their parent or affiliated companies, or other service providers for the expenses incurred for various sales meetings, seminars and conferences held in the normal course of business and other administrative and compliance services.

Morgan Stanley may provide insurance companies and other service providers with the opportunity to purchase supplemental sales data analytics. The fee amount depends on the level of data provided. Insurance companies may also purchase sales data analytics from Morgan Stanley on other financial products offered on the platform.

Before You Decide to Buy Term Life Insurance

You should consider the following before you decide to buy term life insurance:

Investment Goals
There are a number of points regarding investment goals to consider before purchasing term life insurance. These include:

- Will you use the term life insurance to provide a payout to beneficiaries upon your death?
- Are you certain that you do not need long-term coverage?
- Are you aware that your term life insurance beneficiary will likely not have to pay income tax on the death benefits received?
- Do you intend to continue paying premiums to avoid a lapse in coverage?
- Have you consulted with a financial advisor to decide whether term insurance is appropriate for you?

Costs and Benefits
There are a number of points regarding policy costs and benefits to consider before purchasing term life insurance. These include:

- Do you understand the features of term life insurance?
- Do you understand all of the fees and expenses that the insurance company charges for the term life insurance?
- Do you understand the various ways in which Morgan Stanley and your Financial Advisor/ Private Wealth Advisor are compensated when you purchase term life insurance?
- Do you understand that as time passes, term life insurance premiums will likely increase with attained age?

Appropriateness
There are a number of appropriateness points to consider before purchasing term life insurance. These include:

- Your liquidity, which could be difficult to manage as term life insurance premiums increase over time.
- Your life expectancy in contrast with the length of your term life insurance's predetermined coverage period.
- The term life insurance's fees and charges.
- Your ability to understand all of the features, benefits and costs associated with the term life insurance.

Disclosures

- Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates.
- Since life insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy may require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.
- Tax laws are complex and subject to change. Morgan Stanley, its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Individuals are urged to consult their personal tax or legal advisors to understand the tax and legal consequences of any actions, including any implementation of strategies or investments described herein.

Before You Buy Life Insurance: Is Term, Permanent, or a Combination Right for You?

	Key Questions:	Term	Permanent	Combination
1	Will you use life insurance to provide a payout to beneficiaries upon your death?	✓	✓	✓
2	Generally requires proof of insurability to qualify.	✓	✓	✓
3	Do you intend to pay premiums consistently to avoid a lapse in coverage?	✓	✓	✓
4	Will your beneficiaries outgrow the need for death benefit protection?	✓		
5	Would you like to provide death benefit protection for a predefined time period?	✓		
6	Are you looking for a product with income tax free death benefit payouts ((if structured correctly)??	✓	✓	✓
7	Do you want to accumulate a cash value savings element that potentially grows on a tax-deferred basis?		✓	✓
8	Is temporary coverage more important to you than life-long coverage and potential cash value accumulation?	✓		
9	Would you like life-long coverage and accumulated cash value? Premiums may be more expensive initially, but can potentially save you money over the lifetime of the policy.		✓	✓
10	Would you like to use term as temporary additional coverage with a permanent life insurance policy?			✓
11	Are you looking for an affordable way to get the full life insurance coverage you need today,in a way that would balance cost and long-term protection?			✓
12	Will you need more coverage over time? If you upgrade to a larger house or have a new child you may consider adding more life insurance.			✓

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Understanding Long Term Care Options

This reference document is provided by Morgan Stanley[1] solely to provide a general overview of the various forms of long term care coverage options. It is designed to provide you with a better understanding of your long term care options, including the benefits provided in helping you plan and protect, as well as potential limitations/restrictions and associated costs. It is not meant to describe a single product or pertain to a particular insurance company. Not all products and/or features discussed herein may be available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document.

What Are My Long Term Care Options?

Planning for long term care can help protect you and your loved ones against uncertainties. The options outlined in this section may remove some of the economic constraints associated with paying for long term care services.

Long term care services can help people meet their health and personal needs, such as providing assistance with activities of daily living (i.e. dressing, bathing, and using the restroom).

The cost of long term care options may be based on the age at which you purchase the policy, the maximum daily amount of money that the policy will pay, how long the policy will last, health status, life expectancy, and other factors.

Generally, there are two types of long term care options – traditional long term care insurance policies and permanent life insurance policies with added riders.

Types of Long Term Care Options

There are various ways to use insurance to help pay for long term care services. These include:

Traditional Long Term Care Insurance
Long term care insurance provides benefits to those who need assistance with daily living activities or that have severe cognitive impairments. You pay premiums for long term care coverage; unused premiums will not be returned.

If you qualify for long term care benefits, there's usually a waiting period of approximately 90 days before coverage kicks in. During this timeframe, you will have to pay for your expenses. Thereafter, you will receive a periodic payment thereafter from the insurance company for the time period specified in your contract.

Permanent Life Insurance with Added Riders

There are a few different ways that permanent life insurance can be used to pay for long term care services. The policies discussed below are life insurance based, and should not be confused with traditional long term care insurance mentioned above.

Option 1: Linked Life/LTCI Policy

A linked life/LTCI policy can be thought of as a combination of life insurance with tax qualified long term care insurance. Linked policies use permanent life insurance as their foundation, and offer a long term care rider that can be added in order to provide for long term care services. The long term care rider accelerates the death benefit and is further supplemented by an extension of benefits rider if the insured is chronically ill and meets certain eligibility criteria.

If you need long term care, your life insurance death benefit is accelerated and used to pay you first. This is usually followed by an extension of benefits, which extends payouts beyond depletion of the primary policy's death benefit.

Eligibility for long term claims generally requires a licensed health professional to certify that the insured cannot perform two of the six activities of daily living (i.e. eating, bathing, dressing, toileting, transferring and continence) or that the insured has severe cognitive impairment. This applies to both temporary and permanent conditions.

The long term care rider allows the condition of the insured to be fully recoverable. Benefit payments may require evidence of actual expenses paid or may be used for any purpose depending on your policy. There is typically an elimination period prior to receiving any benefits.

The long term care rider used in linked life/LTCI policies should not be confused with either a chronic illness rider or a terminal illness rider, which are discussed later in this section.

The advantage of permanent life insurance with a long term care rider is that if you never require long term care services, your named beneficiaries will receive the entire death benefit. On the other hand, while you will have coverage for necessary services if you do require long term care, the death benefit portion of your policy will diminish with every payout.

Option 2: Chronic Illness Rider

A chronic illness rider can be added to a permanent life insurance policy in order to provide for long term care services, if needed. This rider accelerates the death benefit and ensures that you will receive payment if you are diagnosed with a pre-specified chronic illness that is likely to last for the rest of your life (condition must be non-recoverable), as well as meet specific qualifications.

Qualifications generally include that the insured has been recently certified as requiring services that are likely to be needed for the rest of the insured's life and either 1) is unable to perform at least two of the six activities of daily living for a specified period of time, or 2) requires substantial supervision from another individual to protect the insured from threats to health and safety due to severe cognitive impairment.

If qualified, you may be able to accelerate up to 100% of the death benefit. You can generally receive the benefit as either monthly payments or a one-time lump sum payment. Generally, the payments can be used for any purpose.

There is typically an elimination period prior to receiving any benefits.

A key differentiating factor which makes a chronic illness rider dissimilar from a long term care rider is that it provides for long term care services for those with likely no potential for recovery. For this reason, it is important to ensure that you fully understand the service limitations of a chronic illness rider.

The advantage of permanent life insurance with a chronic illness rider is that if you never require long term care services, your named beneficiaries will receive the entire death benefit. On the other hand, while you will have coverage for necessary services if you do end up needing long term care due to the development of a chronic illness, the death benefit pool of your policy will diminish with every payout.

<u>Option 3: Terminal Illness Rider</u>

A terminal illness rider can be added to a permanent life insurance policy in order to provide for long term care services. A terminal illness rider generally ensures that you will receive a payment if you are terminally ill, your life expectancy is reduced to 12 months or less, and all other eligibility conditions have been met. There is generally no waiting period to receive a benefit under this rider.

A terminal illness rider payment is generally paid as a lump sum. The purpose of this rider is to provide an early payment of the death benefit to assist in medical costs prior to death. The key distinction for this rider is that it provides for long term care services for those with terminal illnesses and short life expectancies.

The advantage of permanent life insurance with a terminal illness rider is that if you never require long term care, your named beneficiaries will receive the entire death benefit. On the other hand, while you will have coverage for necessary services if you do end up needing long term care due to the development of a terminal illness, the death benefit pool will convert to one accelerated payout versus go to your beneficiaries.

Features, Benefits, Drawbacks, and Considerations for Term Care Options

There are many considerations involved in assessing whether or not a long term care option is right for you. These include:

Maintaining Control of Invested Premiums

Permanent life insurance policies with added riders allow you to maintain control of your invested dollars and pass the death benefit to your named beneficiaries if you never need long term care. With traditional long term care insurance, invested premiums yield no death benefit; there is a “use it or lose it” mentality.

Guaranteed Renewability

Long term care insurance is generally guaranteed to be renewable. It cannot be canceled due to your age or any acquired physical and/or mental decline. The policy will not expire unless you use up all of your benefits or cease premium payments. Permanent life insurance does not have to be renewed as it is meant to last as long as the policyholder lives. The policy will not expire unless the policy is canceled or premium payments cease.

Tax Considerations

Benefits paid through long term care insurance or tax-qualified long term care riders are generally not taxed as income.

Health Care, Medicare, and Medicaid
Daily, protracted long term care services are not covered by health insurance. Medicare only covers long term care services for short periods of time which must follow a recent hospitalization for the same or related condition. Medicaid does cover long term care services, but recipients must meet several financial eligibility criteria. As a result, Medicaid is typically a last resort for most individuals. It is thus important to plan ahead for long term care needs. The aforementioned life insurance riders and long term care insurance options help prepare for potential long term care needs.

Long Term Care Benefit Periods
Long term care insurance policies and tax-qualified long-term care riders pay a fixed benefit for a predetermined period of time. Periods can be capped to a certain number of years, which may leave you still needing care even after your benefit payouts have ceased.

Elimination Periods
There is sometimes an elimination period, or “waiting period”, between needing long term care and actually receiving benefit payments. Waiting periods typically range from approximately 60 to 90 days for long term care insurance. Some life insurance policies with riders lack elimination periods, however, this is specific to the policy contract.

Cost
Long term care insurance can be expensive. The actual cost of the premiums depends on several factors including: your age, your state of health when you apply for the policy, the benefit amount, the length of the total coverage, the maximum pool of dollars, the waiting period or elimination period, and whether you choose to add optional riders to your policy.

Although the aforementioned permanent life insurance policies with riders are generally more expensive than traditional long-term care policies, you may consider them more economical since your named beneficiaries can receive a death benefit, or portion of it, if long term care is never needed or does not fully exhaust the death benefit. Premiums for these policies, like long term care insurance policies, are determined by your age, health, gender, and other factors.

Learning about Long Term Care Options

Insurance companies, who offer products in conjunction with Morgan Stanley’s licensed insurance agency affiliates, provide informational documents and disclosures. In order to be an informed purchaser, you should read these documents carefully. Moreover, since any guarantees in your insurance contract will depend on the financial strength and claims-paying ability of the insurance company, you should also evaluate the insurance company’s financial condition.

After you apply, are approved for coverage, and your initial premium is paid, you will receive your policy contract. There are usually five basic parts to these insurance policy contracts, which should be read and understood:

- Declaration Page
- Insuring Agreement
- Exclusions
- Conditions
- Endorsements and Riders

Long term care insurance policies and life insurance policies come with forms and disclosure documents outlining the objectives, risks, fees, expenses, and other information regarding the insurance policy. This should be considered carefully before purchasing.

Your financial status and any policies held should be routinely reviewed by your FA to ensure that they remain appropriate.

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Assumptions shown by insurance companies in illustrations, or rates shown in your policy that are subject to change, may vary over time. General information on long term care options and offerings can be provided by your Morgan Stanley Financial Advisor.

Costs Associated With Purchasing a Long Term Care Option

Long Term Care Insurance
Long term care insurance is generally intended to provide federally tax-qualified long term care coverage. There are costs to be aware of before purchasing long term care insurance. Premiums must be paid by the policyholder according to the policy's payment schedule. Long term care insurance is medically underwritten, with premiums generally based on age, gender, health, and other factors. As long as each premium is paid on time, long-term care coverage will continue until the specified contract coverage period ends or until the maximum long term care benefits have been paid.

Permanent Life Insurance with Riders for Long Term Care Services
Life insurance is generally intended to provide a federally tax-qualified death benefit. There are costs to be aware of before purchasing permanent life insurance with a rider. Generally, premiums must continue to be paid by the policyholder to cover the policy and riders. Life insurance is medically underwritten, with premiums generally based on age, gender, health, and other factors. Death benefit payments generally are received income tax free, although you should consult with your own tax advisors regarding tax advice. As long as each premium is paid on time, coverage will continue as long as the policyholder lives or until the policy is surrendered.

Surrender charges may be imposed. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

How Morgan Stanley and Your Financial Advisor Are Compensated When You Buy a Long Term Care Option

Commissions and Compensation
Each time a long term care option is purchased through a Morgan Stanley Financial Advisor, the insurance company pays Morgan Stanley compensation, based upon a standard schedule for each insurance company, in the form of a commission, based upon the product selected and the amount of the client investment. Other fees are received for providing traditional brokerage services, including related research and advisory support, and for purchase and sale of securities.

There may be split compensation with a third party consultant or specialist in coordination with point of sales support and platform access. Utilization of a third party in no way impacts contract fees paid by you as a client.

The commissions payable to Morgan Stanley are generally consistent for each insurance company, regardless of the volume of business Morgan Stanley submits to the insurance company or the profitability of the policy to the insurance company. Further, no insurance company or the parent or affiliated company of any provider has any material interest in Morgan Stanley or its insurance licensed subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

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Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to an approved insurance company or its parent or affiliated company to the aggregate values of our overall client holdings of the insurance company's products or to offset the marketing allowance or expense reimbursements.

For additional information on a particular insurance company's payment and compensation practices, please refer to the insurance company's disclosure documents.

Expense Reimbursements & Data Analytics Fees
Morgan Stanley may seek prepayment or reimbursement by approved insurance companies, their parent or affiliated companies, or other service providers for the expenses incurred for various sales meetings, seminars and conferences held in the normal course of business and other administrative and compliance services.

Morgan Stanley may provide insurance companies and other service providers with the opportunity to purchase supplemental sales data analytics. The amount of the fees depends on the level of data provided. Should an insurance company offer other financial products, insurance companies may purchase sales data analytics from Morgan Stanley on those products as well.

Before You Decide to Buy a Long Term Care Option

You should consider the following before you decide to buy a long term care option:

Investment Goals
There are a number of points regarding investment goals to consider before purchasing a long term care option. These include:

- Will you use the insurance to provide coverage in the event of an illness or cognitive impairment?
- Would you be okay with not leaving a death benefit to your heirs?
- Are you aware that you will likely not have to pay income tax on the benefits received?
- Do you intend to continue paying premiums to avoid a lapse in coverage?
- Have you consulted with a financial advisor to decide whether a long term care option is appropriate for you?

Costs and Benefits
There are a number of points regarding policy costs and benefits to consider before of purchasing a long term care option. These include:

- Do you understand the features of the insurance policy?
- Do you understand all of the fees and expenses that the insurance company charges for policy?
- Do you understand the various ways in which Morgan Stanley and your Financial Advisor are compensated when you purchase a long term care option?

Appropriateness
There are a number of appropriateness points to consider before purchasing a long term care option. These include:

- Your policy's fees and charges.
- Your ability to understand all of the features, benefits and costs associated with a long term care option.

Disclosures

- Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's license insurance agency affiliates
- Since life insurance and long-term care insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy may require a medical exam. Actual premiums may vary from any initial quotation. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.
- Tax laws are complex and subject to change. Morgan Stanley, its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Individuals are urged to consult their personal tax or legal advisors to understand the tax and legal consequences of any actions, including any implementation of strategies or investments described herein.

Before You Buy A Long Term Care Option: Which Is Right For You?

	Key Questions:	LTC Insurance	Life Insurance with a Chronic Illness Rider	Linked Life/ LTCI Insurance	Life Insurance with a Terminal Illness Rider
1	Will you need money to meet chronic illness or cognitive impairment expenses if they occur?	✓	✓	✓	✓
2	Requires proof of insurability to qualify.	✓	✓		
3	Do you intend to pay premiums consistently to avoid a lapse in coverage?	✓	✓	✓	✓
4	Are you looking for a product with income tax free death benefit or long term care payouts (if structured correctly)?		✓	✓	✓
5	If you never need long term care benefits or use only a portion of them, would you like your premiums to instead be put towards a death benefit payout, rather than a "use it or lose it" methodology?		✓	✓	✓
6	Are you okay with a waiting period before coverage kicks in after meeting your contract eligibility specifications?	✓	✓	✓	
7	If you need long term care services, would you prefer your life insurance death benefit to be accelerated and used to pay you first, followed by an extension of benefits?			✓	
8	If you need long term care, would you prefer your life insurance death benefit to be accelerated, with no additional coverage beyond the death benefit?		✓		✓
9	Would you like your policy to allow for customization with premiums based on the benefit level and/or options selected, rather than solely being based upon the death benefit?	✓		✓	
10	Would you be comfortable only receiving a finite stream of benefit payments based on the death benefit that last a predetermined, fixed amount of time?		✓		✓
11	Would you like protection from policy cost increases in the future?		✓		

Morgan Stanley

Understanding Disability Insurance

This reference document is provided by Morgan Stanley[1] solely to provide a general overview of the various forms of disability insurance. It is designed to provide you with a better understanding of disability insurance, including the benefits that policies can provide in helping you plan and protect, as well as potential limitations/restrictions and associated costs. It is not meant to describe a single product or pertain to a particular insurance company. Not all products and/or features discussed herein may be available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document.

What is Disability Insurance?

The ability to work is perhaps your most important asset. Disability insurance is a means of helping you keep yourself financially stable if you become disabled. It is an important way of helping to make sure that loved ones have a sound economic future in the event of your inability to work.

Disability insurance policies provide you with a monthly benefit to replace a percentage of absent income once you meet the definition of "disabled" and a predetermined elimination period has past. The elimination period is the time span between the commencement of a disability and the time that you begin receiving benefits.

Many insurance companies define a disability as the incapacity to perform "any occupation" that you are trained for based on education and work experience. Other contracts define a disability as the incapacity to execute your "own occupation."

More specific definitions result in more expensive policies.

Disability benefits are not only calculated based on health and age qualifications, but also on other factors such as your occupation and income.

Types of Disability Insurance

Individual Disability Insurance

Individual disability insurance replaces a portion of your income if you are unable to work due to an accident or prolonged illness. Coverage can range anywhere from a month to decades and generally involves an elimination period between the commencement of a disability and the time that you begin receiving benefits.

Individual policies can supplement employer-provided coverage, or work as a stand-alone policy if you lack coverage from your employer. The cost of disability insurance is based on the age at which you purchase the policy, the amount of coverage you select, how long the policy will last, health, life expectancy, and other factors.

1. Morgan Stanley Smith Barney LLC is referred to as "Morgan Stanley" throughout this document.

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Disability Overhead Expense Insurance
When creating a business plan, the owner of a company usually accounts for the risks associated with the business—one of which is disability risk.

Business owners can purchase disability overhead expense insurance in order to protect their business in case of employee disablement.

Disability overhead expense coverage differs from individual disability coverage in that it is not meant to provide personal coverage—it generally only covers business expenses related to an employee's disablement (i.e. salary and litigation expenses). Unlike individual disability policies, most disability overhead expense policies have durations of one to two years and tend to have shorter elimination periods.

Features, Benefits, Drawbacks, and Considerations for Disability Insurance

There are many features, benefits, and considerations involved in assessing whether or not disability insurance is right for you. These include:

Definition of Disability
Any occupation generally defines disablement as being unable to perform the fundamental duties of your occupation or any job fit for your level of education, preparation, and skillset. Partial disablement generally means your disability prevents you from performing key occupational tasks, diminishes the amount of time that you work, or decreases compensation.

Unlike "any occupation", "own occupation" changes the restrictions of the policy so that it is specific to your own profession, not any job. A policy using an own occupation definition covers those that are unable to perform a majority of the occupational duties that they have been trained to do. This is generally conditional on the insured's employment at the time of disablement.

Waiting Period
Disability insurance typically has an elimination period anywhere from a few days to a few months before payouts commence. During this period, you will have to pay for all of your own expenses.

Coordination of Benefits
The amount of benefits that you receive from your insurance policy depends on what other benefits you are receiving. Your policy's stated benefit amount will be reduced by any amounts paid elsewhere.

Tax Considerations
Disability insurance benefit payouts are not subject to taxation.

Private and Public Disability Insurance You can have both private disability insurance and disability insurance from Social Security. However, any benefits received from Social Security will be factored into what you may receive from your private policy.

Common Riders

Non-Cancellability and Guaranteed Renewability
Non-cancellability and guaranteed renewability are features which guarantee that the insurance company cannot change your

premium or payout schedule once the policy is inforce.

Partial or Residual Disability Benefit
The partial or residual disability benefit gives a payout if you lose income due to a decrease in hours or productivity.

Cost of Living Adjustment
The cost of living adjustment increases your disability benefits over time based on the cost of living.

Return of Premium
This rider requires the insurance company to refund part of your premium if no claims are made for a predetermined time period stated in the contract.

Future Purchase Option
This feature lets you increase coverage in the future without evidence of insurability. This means that no matter what happens to your health, you can purchase more coverage.

Protection for Business Owners
Disability insurance can be crucial if you own a small business. For jointly owned businesses, you may want to purchase disability insurance in order to provide funding for one partner to buy a disabled partner's portion of the business, if needed. You may also want to purchase disability insurance in order to protect your business against foregoing income due to an important employee's disability.

Learning about Disability Insurance

Disability insurance companies, who offer products in conjunction with Morgan Stanley's licensed insurance agency affiliates, provide informational documents and disclosures. In order to be an informed purchaser, you should read these documents carefully.

Moreover, since any guarantees in your insurance contract will depend on the financial strength and claims-paying ability of the insurance company, you should also evaluate the insurance company's financial condition.

After you apply, the insurance company approves your application for coverage, and your initial premium is paid, you will receive your policy contract. There are usually five basic parts to these insurance policy contracts, which should be read and understood:

- Declaration Page
- Insuring Agreement
- Exclusions
- Conditions
- Endorsements and Riders

Disability insurance policies come with forms and disclosure documents outlining the objectives, risks, fees, expenses, and other information regarding the insurance policy. This information should be considered carefully before purchasing.

Your financial status and any policies held should be routinely reviewed by your financial advisor to ensure that they remain appropriate. Assumptions shown by insurance companies in illustrations, or rates shown in your policy that are subject to change, may vary over time.

General information on disability insurance and offerings can be provided by your Morgan Stanley Financial Advisor.

Costs Associated With Purchasing Disability Insurance

Disability insurance provides tax-free benefits, but there are costs to be aware of before purchasing disability insurance. Generally, premiums must continue to be paid by the policyholder to cover the policy and any added riders. Insurance is medically underwritten, with premiums generally based on age, gender, health, and other factors. As long as each premium is paid on time, disability coverage will continue until the specified contract coverage period ends.

How Morgan Stanley and Your Financial Advisor Are Compensated When You Buy Disability Insurance

Commissions and Compensation

Each time disability insurance is purchased through a Morgan Stanley Financial Advisor, the insurance company pays Morgan Stanley compensation, based upon a standard schedule for each insurance company, in the form of a commission, based upon the product selected and the amount of the client investment. Other fees are received for providing traditional brokerage services, including related research and advisory support, and for purchase and sale of securities.

There may be split compensation with a third party consultant or specialist in coordination with point of sales support and platform access. Utilization of a third party in no way impacts contract fees paid by you as a client.

The commissions payable to Morgan Stanley are generally consistent for each insurance company, regardless of the volume of business Morgan Stanley submits to the insurance company or the profitability of the policy to the insurance company.

Further, no insurance company or the parent or affiliated company of any insurance company has any material interest in Morgan Stanley or its insurance licensed subsidiaries, Morgan Stanley Insurance Services, Inc. and SBHU Life Agency, Inc.

Morgan Stanley prohibits linking the determination of the amount of brokerage commissions and service fees charged to an approved insurance company or its parent or affiliated company to the aggregate values of our overall client holdings of the insurance company's products or to offset the marketing allowance or expense reimbursements.

For additional information on a particular provider's payment and compensation practices, please refer to the insurance company's disclosure documents.

Expense Reimbursements & Data Analytics Fees

Morgan Stanley may seek prepayment or reimbursement by approved insurance companies, their parent or affiliated companies, or other service providers for the expenses incurred for various sales meetings, seminars and conferences held in the normal course of business and other administrative and compliance services.

Morgan Stanley may provide insurance companies and other service providers with the opportunity to purchase supplemental sales data analytics. The amount of the fees depends on the level of data provided. Should an insurance company offer other financial products, insurance companies may purchase sales data analytics from Morgan Stanley on those products as well.

Before You Decide to Buy Disability Insurance

You should consider the following before you decide to buy disability insurance:

Investment Goals
There are a number of points regarding investment goals to consider before purchasing disability insurance. These include:

- Will you use disability insurance to help keep yourself financially stable if you are unable work?
- Are you aware that you will not have to pay income tax on the disability insurance benefits received?
- Do you intend to continue paying premiums to avoid a lapse in coverage?
- Have you consulted with a financial advisor to decide whether disability insurance is appropriate for you?

Cost and Benefits
There are a number of points regarding policy costs and benefits to consider before purchasing disability insurance. These include:

- Do you understand the features of disability insurance?
- Do you understand all of the fees and expenses that the insurance company charges for the disability insurance?
- Do you understand the various ways in which Morgan Stanley and your Financial Advisor/Private Wealth Advisor are compensated when you purchase disability insurance?

Appropriateness
There are a number of appropriateness points to consider before purchasing disability insurance. These include:

- Your liquidity which could be difficult to manage with costly disability insurance premiums.
- Your ability to return to work in contrast with the length of your disability insurance's predetermined coverage period.
- The disability insurance's fees and charges.
- Your ability to understand all of the features, benefits and costs associated with the disability insurance.

Disclosures

- Insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates.
- Since disability insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam.
- Tax laws are complex and subject to change. Morgan Stanley, its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Individuals are urged to consult their personal tax or legal advisors to understand the tax and legal consequences of any actions, including any implementation of strategies or investments described herein.

Distribution of Insurance

Use of General Agents

To assist with the sale of the 400+ insurance products on our platform, Morgan Stanley engages third party General Agents (GAs) to provide expertise, case design and application support. The GAs act as a central agent between the multiple insurance companies Morgan Stanley uses, the Financial Advisor (FA), and you as a client to provide specialized knowledge on insurance products that align with the financial goals you've set.

General Agent Activities

The GAs direct insurance policy proposals and provide recommendations for appropriate policies based on your criteria. Further, the GAs liaise with insurance companies for product selection and oversee the application progress and collection of documents throughout the application lifecycle. Services include:

- Policy Reviews
- Development of planning strategies
- Product illustrations from multiple highly rated insurance companies
- Management of the insurance application and underwriting process
- Coordination of policy delivery

General Agent Partnership Process

- **Partnership Search & Selection:** Financial Advisors meet with local GAs to determine the best fit for your needs and select a partner to work with to build a case for you
- **Schedule Client Meetings:** Introductory meeting with you, the GA and your Financial Advisor to discuss your objectives and insurance needs
- **Client Presentation:** A meeting for the GA to present product options best aligned with your goals to you and your Financial Advisor.
- **Application Completion:** After the product has been selected, the GA will help complete the required paperwork and submit the application to the insurance company.
- **Underwriting Review:** Once the application is submitted, the GA manages the underwriting review, provides routine updates, and helps obtain any additional requirements if requested from the insurance company. The GA provides the insurance company's final decision to the FA who communicates it to you.
- **Policy Delivery:** Once communicated and accepted, the GA will prepare the policy for delivery by the FA to you and return any required documentation to the insurance company in order to place the policy in force.

Ongoing Support

Insurance applications are submitted through the GAs and insurance companies for processing and underwriting, so they may also be an important asset should you have additional questions or inquiries on existing or in progress contracts.

Morgan Stanley FAs support conversations and facilitation of services with the GAs and insurance companies, but do not actively manage insurance policies.

Policyholder Responsibilities

Party	Who they are	Primary responsibility(ies)
Insured	Individual(s) which the insurance policy covers	- Understand terms, features and stakeholders of insurance policy
Client / Policy owner	Owner of the insurance policy; must have an active account at Morgan Stanley	- Ensure premium payments are made timely - Understand features and coverage of policy - Update the policy as life events happen
Beneficiary(ies)	Payee(s) of any proceeds of the insurance policy when the insured(s) passes	- Understand who the insurance company is, the terms and features of the policy and how to access/contact the insurance company
Servicing Agent	Morgan Stanley Financial Advisor/Private Wealth Advisor	- Help policy owner understand how much coverage they need, and whether current policies are sufficient - Ensure policy is appropriate as life events happen or needs change

Client's Role

Understanding Features and Benefits

- Review policy to confirm accuracy of Insured/Beneficiary details, insurance coverage amounts, rider benefits and premium payment schedule
- Keep a copy of your issued policy with important family records and/or in MS Digital Vault

Ongoing Responsibilities

You are solely responsible for:

- Paying ongoing premiums and understanding the terms, features and expiration of the insurance policies
- Requesting additional support from Morgan Stanley on previously purchased contracts
- Bringing disputes or concerns to the FA
- Promptly notify the insurance company of any change in address for the insured, policy owner, or payer. Including changes in e-mail address.

Best Practices

- Consider setting up a policy review schedule with your Financial Advisor at least every 3 years, and after every major life event (i.e. change in marital status, having a child, changing jobs or being promoted)
- Set up payment reminders or automatic payments for yourself or with the trustee managing the premium payments on behalf of the trust that owns the policy
- Sign up for access to the insurance company's portal for on demand insurance values and support
- Enable email and push notifications from the insurance company for payment reminders
- Ensure family members and named beneficiaries know how to access your insurance policy, including which insurance company it's held with, and where the policy itself is stored

This reference document is provided by Morgan Stanley[1] solely to provide a general overview of the various forms of disability insurance. It is designed to provide you with a better understanding of disability insurance, including the benefits that policies can provide in helping you plan and protect, as well as potential limitations/restrictions and associated costs. It is not meant to describe a single product or pertain to a particular insurance company. Not all products and/or features discussed herein may be available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. The views expressed in this document are those of Morgan Stanley, are subject to change, and do not necessarily reflect the views of any other company. Please contact your Morgan Stanley Financial Advisor/Private Wealth Advisor or your local branch if you have any questions regarding this document.

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1. Morgan Stanley Smith Barney LLC is referred to as "Morgan Stanley" throughout this document.

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