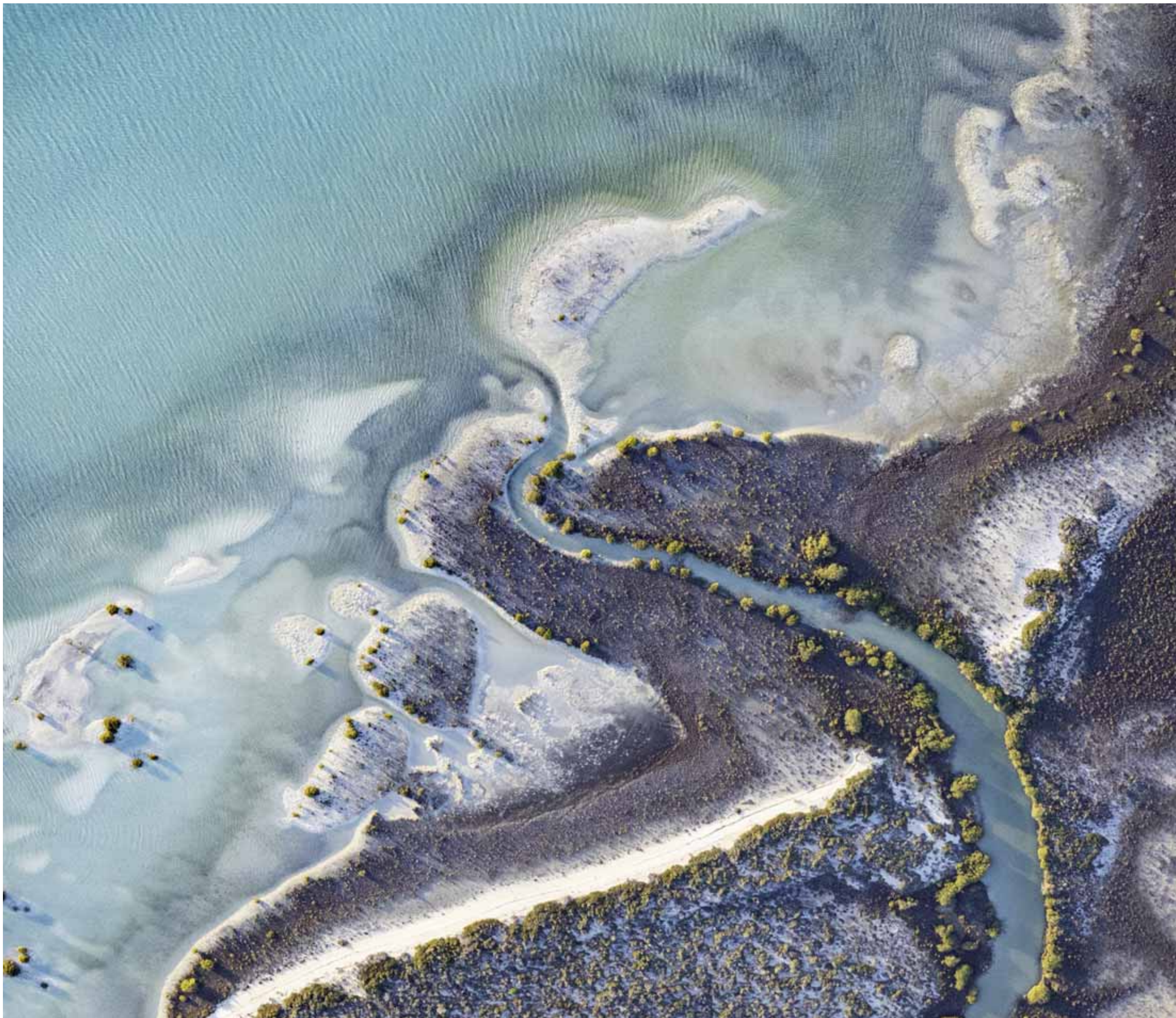
Allianz Life Insurance Company of North America

WHITE PAPER

Risks reframed

Explore how to build a resilient income strategy for a shifting world

By Matt Gray, Mark Paulson, Meghan Farrell



LIA-203 (5/2024)

Retirement
Reframed

Contents

ABOUT THE AUTHORS	PAGE 1
THE EVOLVING RISKS LANDSCAPE	PAGE 2
RETIREMENT RISKS IN FOCUS	PAGE 3
ASSESSING FINANCIAL RISKS	PAGE 5
ADDRESSING FINANCIAL RISKS	PAGE 9
ASSESSING EXTERNAL RISKS	PAGE 15
ADDRESSING EXTERNAL RISKS	PAGE 18
ASSESSING PERSONAL RISKS	PAGE 19
ADDRESSING PERSONAL RISKS	PAGE 23
RETIREMENT REFRAMED	PAGE 24
RETIREMENT RISKS ARE CHANGING – ARE YOU READY?	PAGE 25
ABOUT ALLIANZ	BACK COVER

About the authors

Matt Gray
AVP Worksite & Middle Markets, Allianz Life Insurance Company of North America

With more than 20 years in the financial services industry, Matt has broad experience in guaranteed solutions that can help consumers protect and improve their retirement outcomes. Since 2019, he has led the entry of Allianz Life into employer markets through partnerships with industry leaders and organizations focused on helping in-plan customers achieve improved retirement outcomes.

Mark Paulson
VP Hedging Business Development, Allianz Investment Management LLC

With over 15 years of risk management experience, Mark helps integrate the hedging team's capabilities into Allianz Group initiatives, helps educate distribution partners on the benefits of dynamic hedging, and is passionate about quantifying the value of guaranteed lifetime income in a retirement plan.

Meghan Farrell
Marketing Manager, Employer Markets, Allianz Life Insurance Company of North America

With a diverse range of experience developing impactful communications, Meghan now leads thought leadership efforts for the Employer Markets channel at Allianz Life. Her passion lies in helping more Americans enjoy a dignified retirement through actionable research and accessible communications.

The evolving risks landscape

The landscape of retirement planning is undergoing a significant transformation. New challenges have emerged, demanding a more holistic approach than traditional models, which focused solely on wealth accumulation. This white paper delves into the limitations of accumulation-centric strategies in tackling the multifaceted challenges faced by today's retirees, including financial, external, and personal risks.

The paper explores vulnerabilities in the current system that can trigger unexpected financial hardships in retirement and potentially lower retirees' standard of living. It also considers the converse, where retirees with sufficient assets may underspend due to fear, discomfort, or a lack of knowledge about efficient spending strategies.

To address these issues, a closer examination of the risk landscape is necessary. This will pave the way for more holistic approaches to retirement income planning that prioritize proactive risk management and sustainable income streams, rather than simply accumulating assets.

Retirement risks in focus

FINANCIAL RISKS

These are risks that threaten the financial foundation of one's retirement by impacting savings, investments, and income streams.

Equity returns risk

Insufficient growth may lead to a premature depletion of savings during retirement. A too conservative portfolio can hinder returns and income generation.

Market shock risk

The stock market's volatility and unpredictability can complicate retirement planning, as downturns may reduce the value of one's hard-earned savings.

Longevity risk

Longer-than-expected lifespans could result in unsustainable withdrawals early in retirement, leaving individuals vulnerable to financial insecurity later in life.

Inflation risk

As the cost of living increases over time, the purchasing power of one's retirement income may decrease. This could make it harder to cover basic needs and expenses.

EXTERNAL RISKS

These risks are external factors beyond one's control that have potential to disrupt plans and introduce unforeseen challenges during retirement.

Natural catastrophes and extreme weather

Natural disasters and weather-related events can damage property, impact health, and impose unexpected financial burdens in retirement.

Legislative and regulatory shifts

Unexpected changes to Social Security benefits or Medicare coverage may alter anticipated retirement income and health care costs.

PERSONAL RISKS

Stemming from personal knowledge, decision-making, and life circumstances, these risks can affect an individual's ability to plan effectively for and manage finances throughout retirement.

Career disruptions and job loss
Career disruptions during saving years can influence saving habits. Additionally, an unexpected job loss close to retirement may potentially disrupt or delay retirement plans.

Cognitive and behavioral risks
Age-related cognitive decline or emotional biases can cloud judgment and lead to poor or risky financial decisions that impact retirement security.

Debt
Carrying debt into retirement limits financial flexibility. High monthly payments can strain a budget and leave less money for essential expenses.

Familial changes
Unexpected events like divorce or caring for aging parents may compel individuals to dip into retirement savings or delay retirement to continue working.

Financial literacy challenges
A lack of understanding about financial products, investing, and retirement planning can hinder one's ability to make well-informed investment decisions or create a sustainable retirement income strategy.

Health and long term care costs
Rising health care costs and the potential need for long term care, whether for oneself or a loved one, can put strain on a retirement budget and deplete savings.

Assessing financial risks

Today's retirees and pre-retirees face a number of financial risks that can erode their hard-earned savings. This section examines four key financial risks and their potential implications on retirement savings.

EQUITY RETURNS RISK

Equity returns risk refers to the possibility of investment returns falling short of expected levels. This can occur due to various factors, such as a decline in economic growth, an increase in interest rates, or the collapse of asset bubbles. As reliance on conventional growth drivers like stock market returns becomes less reliable, individuals may need to explore alternative income sources like annuities to ensure consistent income throughout their retirement.

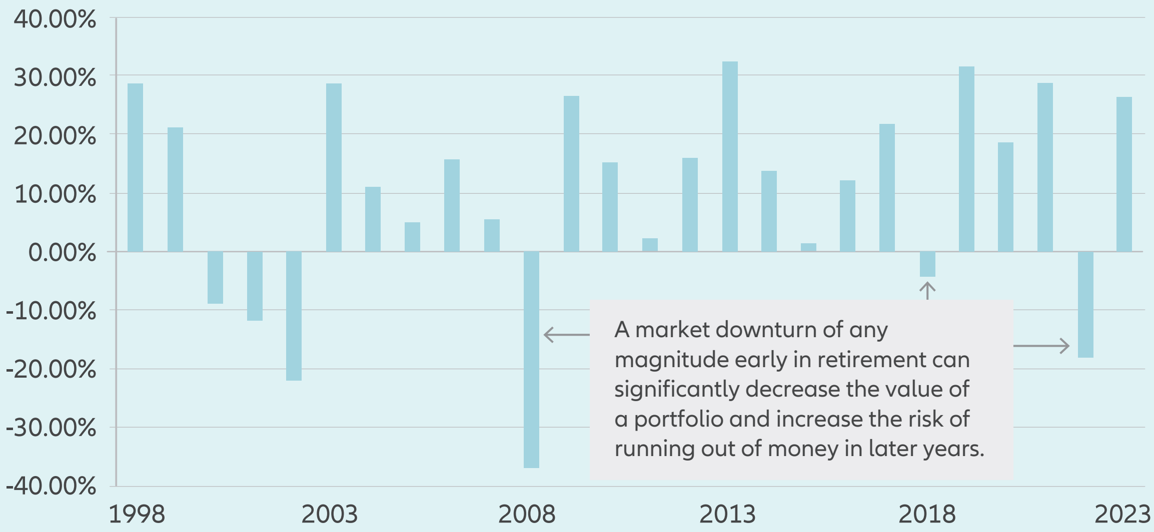
MARKET SHOCK RISK

Retirement savings plans invested in the stock market are vulnerable to market fluctuations, leaving retirees concerned about potential losses. Many Americans are wary of investing, with a significant percentage anticipating market volatility in 2024 and valuing protection from market loss.

- 76% are worried that the upcoming elections will cause more market volatility.[1]
- 67% say it's important to have some of their retirement savings in a product that protects it from market loss.[1]

Although the stock market has historically shown long-term growth, major downturns like the 2008 financial crisis, which saw the S&P 500 drop 37% in a single year, can severely affect retirement savings, particularly for those nearing retirement with less time for recovery.

S&P 500 Index Total Yearly Returns (including dividends), %[2]



[1] Allianz Life conducted an online survey, the 2024 1Q Quarterly Market Perceptions Study, in February 2024 with a nationally representative sample of 1,005 individuals age 18+.

[2] S&P 500 Index, Historical Annual Data, as of December 31, 2023. The interest credited to an FIA is not likely to equal the index returns. Past performance does not guarantee future results.

LONGEVITY RISK

As life expectancies continue to rise, one of the most significant financial risks in retirement is the possibility of running out of savings, also known as longevity risk.

While this is good news for overall health, it also means retirement savings must last for a longer period of time. Retirees may find themselves compelled to stretch their savings, heightening the risk of depletion later in retirement. Estimating one's lifespan is also a challenge. Half of women (50%) and a third of men (33%) admit to having no idea how long they will live.[1]

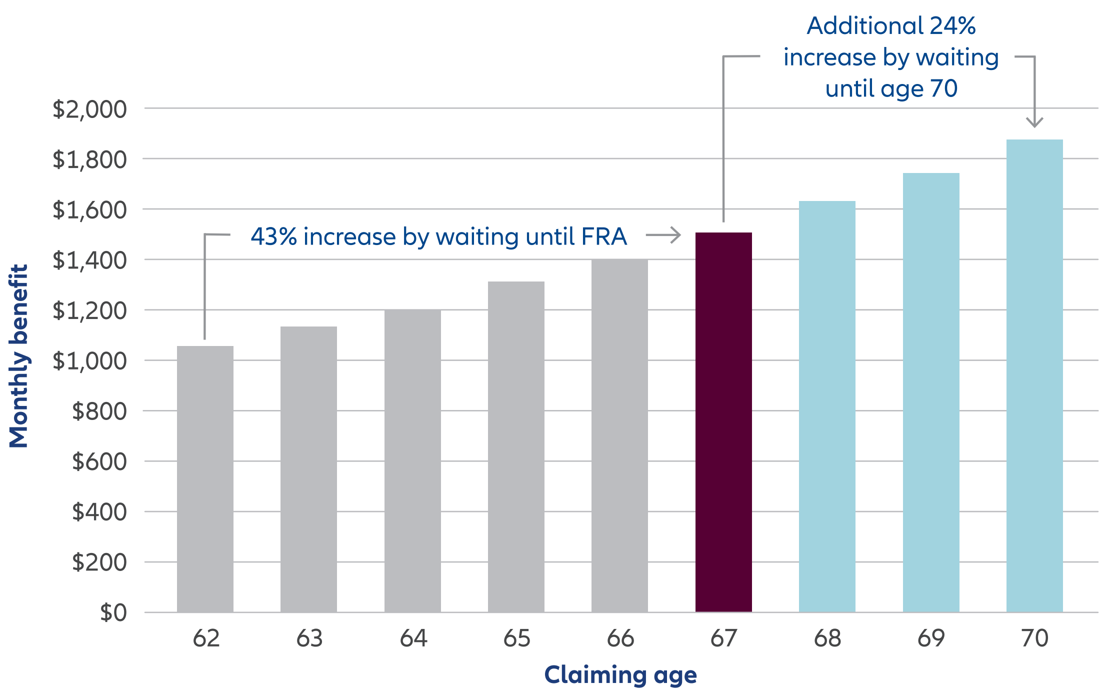
Women and healthier Americans are more exposed to this risk due to longer life expectancies

71% of 65-year-old women today can expect to surpass age 80, with nearly 30% living past age 90, and 11% reaching age 95.[2]

Early Social Security claiming can complicate longevity risk

Factors like early claiming of Social Security benefits can further exacerbate longevity risk by reducing monthly benefits. The graph below shows how claiming age influences monthly benefits for a hypothetical worker eligible to receive $1,500 per month at the full retirement age (FRA) of 67.

Example of claiming age on monthly benefit[3]



Despite clear financial incentives to delay Social Security, many still claim early. In 2022, 49.3% of men and 51.8% of women claimed benefits before reaching the Federal Retirement Age (FRA), with almost one-quarter of both men and women claiming at age 62.[4] Doing so may require them to rely more on other assets, like their 401(k) plan, to make up for the lower monthly benefit. If they outlive those assets, they could be left with a reduced benefit for life.

[1] The Allianz 2024 Annual Retirement Study, conducted online in February and March 2024 with a nationally representative sample of 1,000 individuals age 25+ in the contiguous U.S. with an annual household income of $50k+ (single) / $75k+ (married/partnered) OR investable assets of $150k+.

[2] U.S. Social Security Administration, Period Life Table, 2020, as used in the 2023 Trustees Report

[3] Authors' calculation based on SSA data

[4] Social Security Administration, Annual Statistical Supplement, 2023

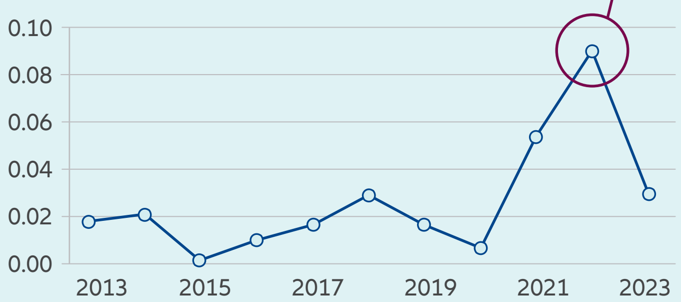
INFLATION RISK

Inflation poses a silent threat to retirement savings, gradually eroding their purchasing power over time. Even modest inflation rates may require higher withdrawals from retirement savings each year to maintain the same standard of living. According to data from the Bureau of Labor Statistics, an individual who retired 20 years ago with $1,000,000 in retirement assets would see their assets' real value decrease by a staggering 40% due to inflation.[1]

From silent thief to sudden shock
Inflation isn't always slow and steady. It can also come in sudden bursts. A prime example is the pandemic-era inflation shock the U.S. experienced from 2021 through mid-2022.

Supply chain disruptions and surging demand for goods caused prices to jump rapidly, placing significant pressure on household budgets.

U.S. Consumer Price Index
Year-over-year percent change, June 2013 - 2023[2]



In June 2022, inflation peaked at 9.1%. Here is what that looked like across several core categories:[2]

Food overall ↑10.4%
- Food at home ↑12.2%
- Food away from home ↑7%

Energy overall ↑41.6%
- Fuel oils and other fuels ↑70.4%
- Motor fuel ↑60.2%

All items less food and energy ↑5.9
- Household furnishings and supplies ↑10.2%
- Apparel ↑5.2%
- New vehicles ↑11.4%
- Motor vehicle parts and equipment ↑14.9%

Services (less energy services) ↑5.5%
- Shelter ↑5.6%
- Medical care ↑4.8%,
- Transportation ↑8.8%
- Recreation ↑4.7%

While fewer people today (68% - Q1 2024) are worried about inflation worsening in the next 12 months vs. just before the peak (82% - Q2 2022), 68% say that prices are still too high and that they've struggled to make ends meet during the past three months. Many also worry about the future impacts of inflation:
- 76% are concerned that the rising cost of living will affect their retirement plans[3]
- 50% have said that they've had to stop or reduce their retirement savings due to inflation[3]

Rising costs are a constant worry, even outside record-breaking inflation periods. Many Americans have experienced sticker shock at the grocery store and the gas pump, underscoring worries about the potential impact of inflation in the future.

[1] Authors' calculation based on data from U.S. Bureau of Labor Statistics

[2] U.S. Bureau of Labor Statistics

[3] Allianz Life conducted an online survey, the 2024 1Q Quarterly Market Perceptions Study, in February 2024 with a nationally representative sample of 1,005 individuals age 18+.

Addressing financial risks

Financial risks have long been a key consideration in retirement income planning, and there are several approaches to analyzing these risks and identifying potential solutions.

One such solution is the Allianz Lifetime Income+® Annuity, which this paper will focus on.

Results presented in this paper are based on the Portfolio Impact Report, a calibrated Monte Carlo engine developed by Allianz Investment Management U.S. LLC (AIM US) that uses model hypothetical portfolios and over 20,000 simulations to assess the likelihood of achieving retirement goals.

About the Allianz Lifetime Income+® Annuity
Designed to be seamlessly added to any defined contribution plan, Allianz Lifetime Income+® is a modern fixed index annuity that provides a guaranteed stream of income in retirement, and has innovative features that help address common retirement risks.

Fixed index annuities are designed to meet long-term needs for retirement income. They provide guarantees against the loss of principal and credited interest, tax-deferred accumulation potential, and the reassurance of a death benefit for beneficiaries.

Assumptions used for analysis

Product Assumptions	Capital Market Assumptions	Participant Assumptions	Asset Allocation Assumptions
Product: Allianz Lifetime Income+® Annuity	**Equity** Total returns: 7.00% Volatility: 16.00%	**Current age:** 55	**No Annuity:** 60% Equity and 40% Bond
Fees: 0.50%		**Retirement age:** 67	
Income begins at retirement age	**Bond** Yield: 3.00% Volatility: 5.00%	**Planning age:** 95	
Annual cap: 5.00%		**Retirement Assets:** $250,000	**Annuity:** 40% Equity, 30% Bond and 30% Annuity
Protection of principal: 100%	**Correlation** -15.00%	**Contributions:** $12,000/year	
Personal lifetime withdrawal rate: 5.50%		**Income Inflation:** 2.0%/year	

Methodology and assumptions used in simulations

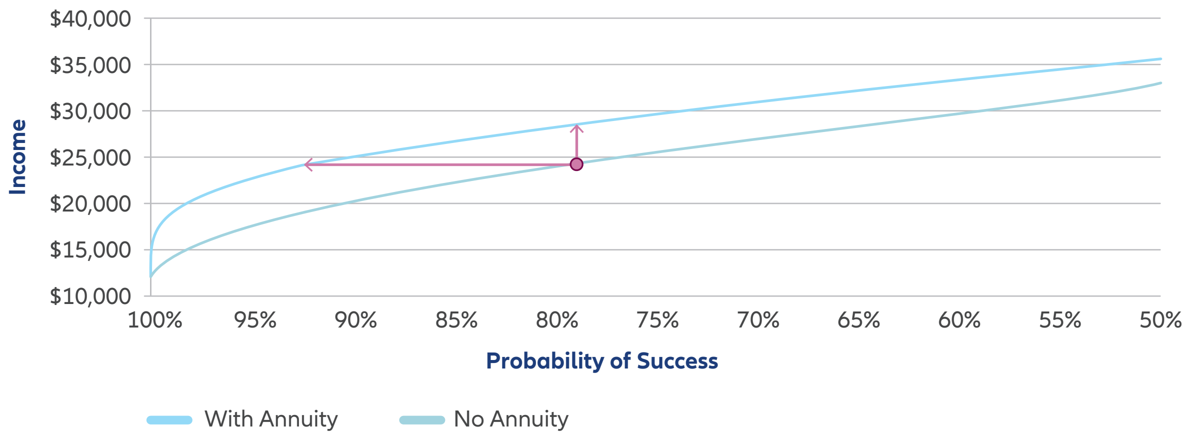
1. S&P 500® Index used as a proxy for U.S. large-cap, BBgBarc US Agg Bond Index used for U.S. bonds.
2. Success is measured as having the desired legacy wealth at the end of the stated investment horizon. This goal increases annually with inflation.
3. Hypothetical outcomes were derived from 20,000 Monte Carlo simulations.
   - No advisory fees or taxes are reflected.
   - Bond yields are mean reverting.
   - Equity dividends are reinvested continuously.
   - Bonds are zero-coupon with a constant 7-year maturity.
   - Monthly income goal is not changed as account balances decrease.
   - Annuities are given first priority as an income source, followed by the sale of securities.
   - Securities are sold in proportion to asset class account values.

This example is hypothetical and does not represent an actual client.

ESTABLISHING A BASELINE

To better understand the potential advantages of integrating an annuity into a portfolio to address various financial risks, begin by examining the example outlined below. This chart illustrates the impact of adding the annuity assuming everything goes according to plan, based on the assumptions provided on the previous page.

Efficient Income Frontier



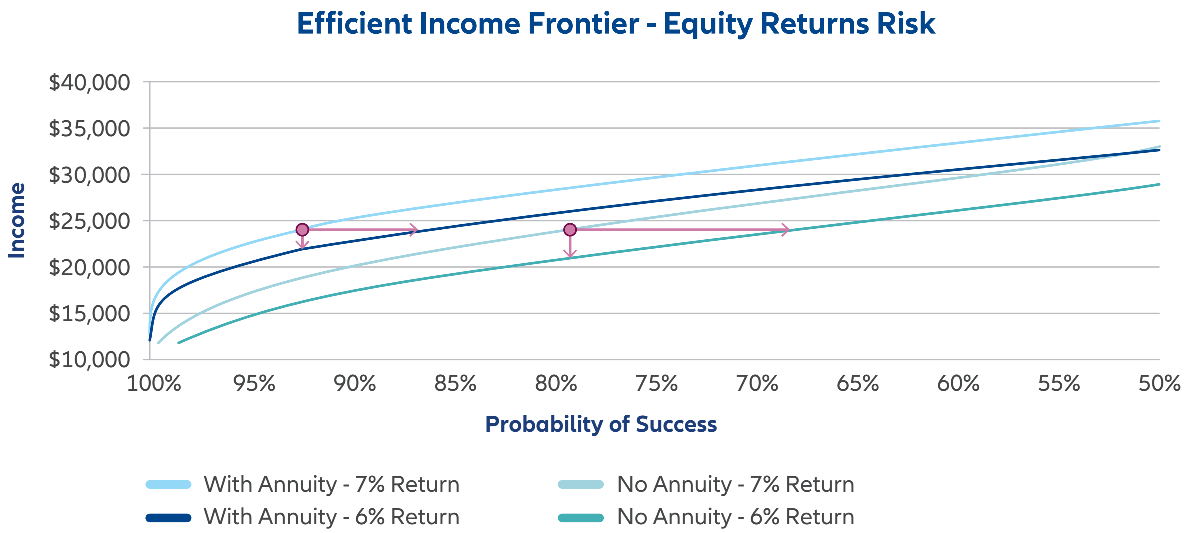
This example is hypothetical and does not represent an actual client.

By including an allocation to the annuity, the "efficient income frontier" is shifted upward and to the left. This means that it is possible to achieve a higher income level with the same amount of risk, or alternatively, the probability of achieving the same income level is increased. To illustrate, if the income goal is $24,000, a portfolio that includes the annuity has a 92% probability of success, while a portfolio without the annuity has only a 79% probability of success. This represents a 13% improvement in the likelihood of achieving the desired income level.

Before delving into specific risk scenarios, it's important to recognize the positive impact of an allocation to the annuity. It's not just a safeguard against unforeseen risks, but it can also enhance outcomes for plan participants under normal assumptions. Of course, as has been displayed in this white paper, life rarely goes according to plan, and retirees are faced with a wide range of potential risks.

EQUITY RETURNS RISK

While equity markets offer high growth potential, they also harbor the risk of loss. Should equity markets underperform, this can have a sizable impact on one's retirement savings. Consider a scenario where equity markets return 6% during a participant's lifetime instead of the originally assumed 7%.



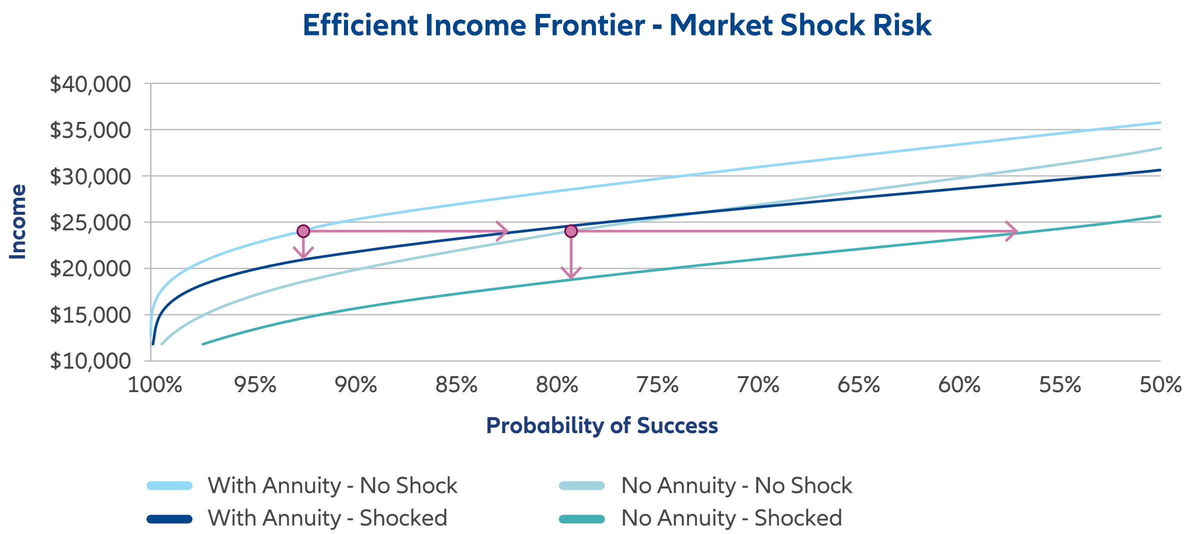
This example is hypothetical and does not represent an actual client.

In such a scenario, the annual income for a given level of risk decreases in both portfolios when equity returns are lower. At an income goal of $24,000, the portfolio with the annuity and 6% equity returns has an 87% probability of success. This is 19% higher than the portfolio without an annuity and 6% equity returns, which has a 68% probability of success. It is also 8% higher than the baseline portfolio without the annuity and 7% equity returns, which has a probability of success of 79% for the same income goal.

By offering a guaranteed level of income in retirement, an annuity reduces reliance on unpredictable market performance. This lowers the overall sensitivity of a portfolio to stock market swings, providing a layer of security for participants nearing or in retirement. It also helps participants maintain a more balanced portfolio with a healthy allocation to equities for long-term growth.

MARKET SHOCK RISK

Experiencing a market downturn early in retirement can have a significant impact on one's retirement plan. For example, suppose the equity market drops 25% and the bond market drops 10% during the first year of retirement (age 67).



This example is hypothetical and does not represent an actual client.

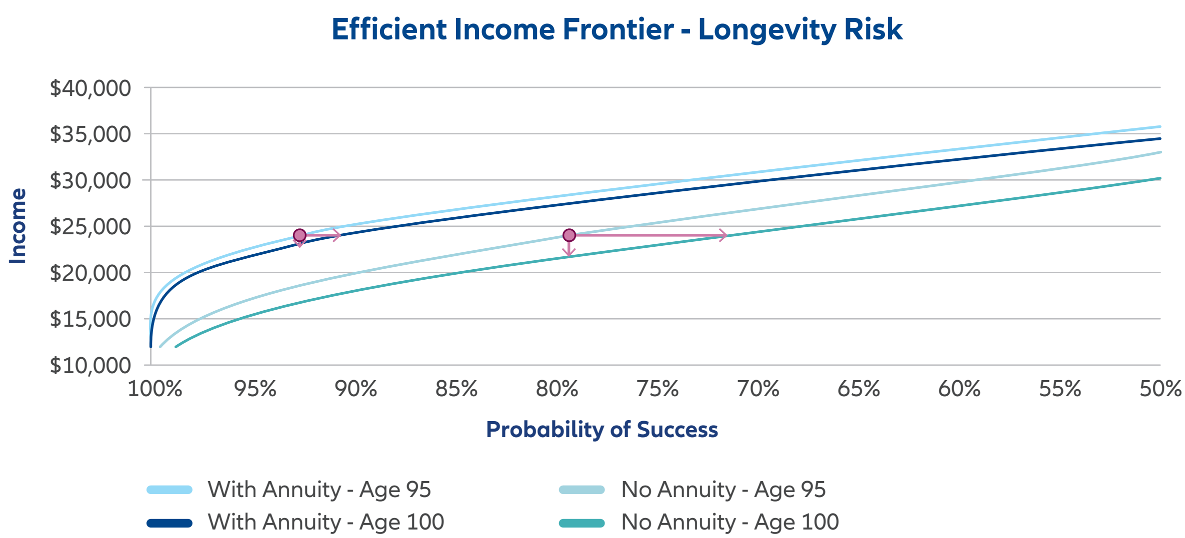
As anticipated, both portfolios display a decline in comparison to their respective baselines, as depicted in the chart above. However, the portfolio that includes the annuity provides an additional layer of protection. Consider the retirement income goal of $24,000 from the baseline example. Without the annuity, the probability of achieving this goal falls from 79% to 57% during a market downturn – a significant 22% decrease. In contrast, the portfolio with the annuity sees a smaller decline in probability of success, dropping from 92% to 82% during a market downturn – a 10% decrease. Importantly, even in the shocked scenario, the annuity portfolio's probability of success (82%) is higher than the non-annuity portfolio's probability of success without a downturn (79%).

Furthermore, suppose the hypothetical participant decides to decrease their income goal to $21,000 due to the market downturn. In that case, the annuity portfolio still has a 92% probability of success, which is the same as the probability of success for achieving the original income goal of $24,000 without the market shock. In contrast, the non-annuity portfolio would only have a 70% probability of success in achieving this lower goal.

This example highlights the benefits of using Allianz Lifetime Income+® as a hedge against market losses. Unlike traditional investments that rise and fall with the market, fixed index annuities can never lose value due to a market downturn. This provides a safeguard for a portion of the portfolio against market volatility, ensuring that participants receive a reliable income stream during their retirement years, even in times of economic uncertainty.

LONGEVITY RISK

To better understand the impact of living longer than anticipated in retirement, consider the following example. In the original plan, the client was assumed to receive income until age 95. However, if they end up living until age 100, their retirement plans could be disrupted.



This example is hypothetical and does not represent an actual client.

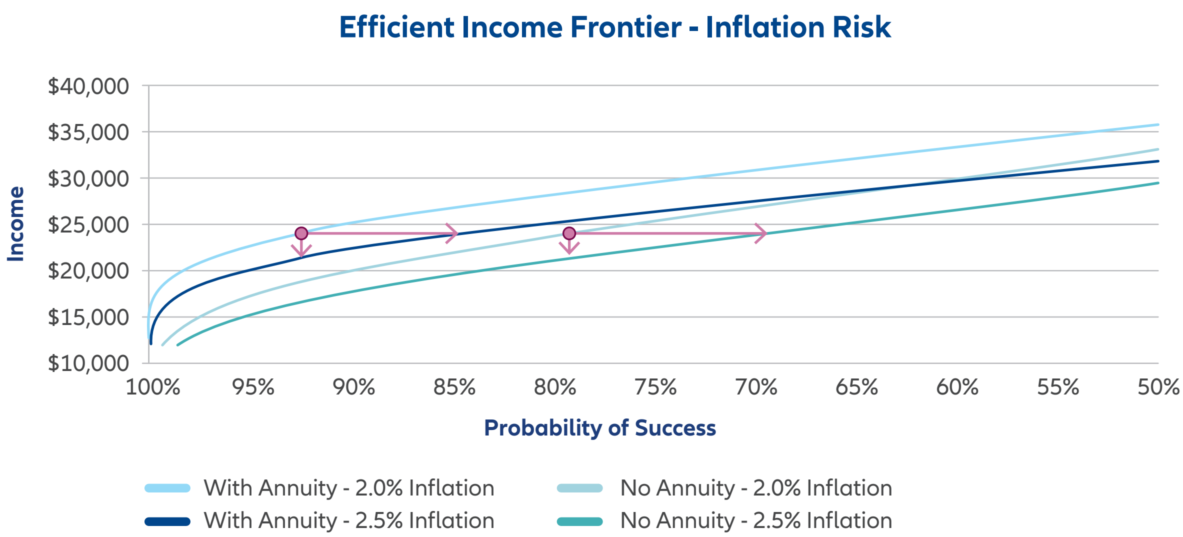
In this situation, having an annuity in the portfolio can yield significant benefits. For someone targeting an annual income of $24,000 in retirement, the probability of successfully achieving that goal is 92% with the annuity included. Even when planning for a longer lifespan up to age 100, the probability of success only decreases by 2% to 90%.

However, if the portfolio does not include an annuity, the impact of outliving one's savings is much higher. In the non-annuity portfolio, the probability of success drops 8% from 79% when planning to age 95 to 71% when planning to age 100 in the longevity risk scenario. This is a substantial 19% lower than the portfolio with the annuity in the same scenario.

Annuities offer clear benefits for individuals concerned about outliving their retirement savings. With a guaranteed income stream for life, annuities provide a reliable source of income, no matter how long one lives. This is especially important for ensuring that basic needs are met throughout retirement, even if one lives beyond their expected lifespan. Additionally, predictable and consistent income payments can alleviate anxiety around managing a dwindling nest egg, allowing retirees to focus on enjoying retirement with greater financial security.

INFLATION RISK

As retirement approaches and portfolios become more conservative, traditional fixed-income options like bonds become vulnerable to inflation risk, as rising inflation often corresponds with higher interest rates, which can lower the value of fixed-income investments. Consider a scenario where a participant needs to increase their withdrawals by 2.5% instead of 2.0% due to inflation.



This example is hypothetical and does not represent an actual client.

In this example, both portfolios experienced a decline compared to their respective baselines. However, when considering a scenario where hypothetical participants need to increase withdrawals by 2.5% due to inflation, the portfolio with the annuity provides a greater probability of success in achieving the income goal of $24,000. Specifically, the portfolio with the annuity has an 85% probability of success, 16% higher than the portfolio without the annuity, which has only a 69% probability of success for the same income goal.

While all annuities provide a guaranteed stream of income, not all offer the potential for income growth to combat inflation. As a fixed index annuity, Allianz Lifetime Income+® offers a compelling solution. It provides a guaranteed income stream shielded from market downturns, while also offering the potential for growth based on positive market performance. This combination helps retirees maintain purchasing power while reducing the pressure on their overall portfolio.

Compounding complexity of financial risks

These financial risks don't act in isolation; they often interact. Longevity risk becomes even more pressing if a retiree continues to take more income due to inflation. Similarly, while portfolios that deliver high equity returns often correlate to a higher likelihood of income lasting throughout retirement, they also elevate market shock risk. Balancing all of these risks can be challenging. Fortunately, a guaranteed lifetime income solution with the opportunity for increasing income can help hedge against each of these financial risks and improve participant outcomes amid economic uncertainty.

Assessing external risks

The external environment is constantly shifting, introducing unforeseen challenges that can erode retirement plans. This section will explore how two prominent external risks – natural disasters and extreme weather events along with legislative and regulatory shifts – pose a threat to the financial security of retirees and pre-retirees.

NATURAL CATASTROPHES AND EXTREME WEATHER

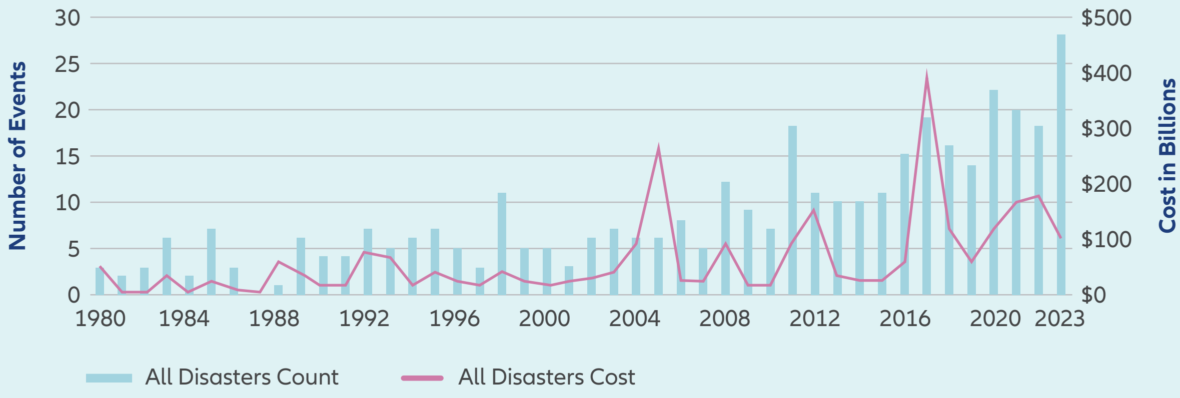
With natural disasters and extreme weather events on the rise, more retirees are vulnerable to property damage, displacement, and essential service disruptions. These challenges can deplete retirement savings and strain budgets – making this a growing concern for many.

Over half of Americans have anxiety about rising costs, financial losses, or even health effects from extreme weather events, and a quarter see it as a top risk to their retirement income.[1] This isn't just a future worry; currently, over a third (35%) of those relying on financial support from a family member other than a spouse/partner do so due to a recent natural disaster or extreme weather event.[1]

Extreme weather events are becoming increasingly common, intense, and expensive
In 2023, the U.S. experienced a record-breaking 28 billion-dollar disasters, including heat waves, droughts, severe storms, and flooding. This surpasses the previous record of 22 set in 2020, a year marked by a particularly challenging hurricane season. Hurricanes Laura, Delta, and Sally inflicted widespread damage across Louisiana and the Gulf Coast, leaving many retirees grappling with expensive repairs and displacement.

While insurance can help cover many of the losses caused by such disasters, there are still deductibles, increased insurance premiums, and other expenses that can impose significant financial strain. Additionally, these are not isolated incidents. In fact, extreme weather events are becoming more frequent, intense, and costly, as evidenced in the chart below.

U.S. Billion-Dollar Disaster Events 1980-2023 (CPI-Adjusted)[2]



As the frequency of weather-related disasters rises, it becomes increasingly important for financial planning strategies to factor in such risks. Providing solutions that anticipate rising costs can help participants financially prepare for the possibility of such events, even if climate change may not be top of mind for all participants.

[1] Allianz Life conducted the 2024 Annual Retirement Study online survey in February and March 2024 with a nationally representative sample of 1,000 individuals age 25+ in the contiguous U.S. with an annual household income of $50k+ (single) / $75k+ (married/partnered) OR investable assets of $150k+.

[2] U.S. Billion Dollar Weather and Climate Disasters, National Centers for Environmental Information, March 2024

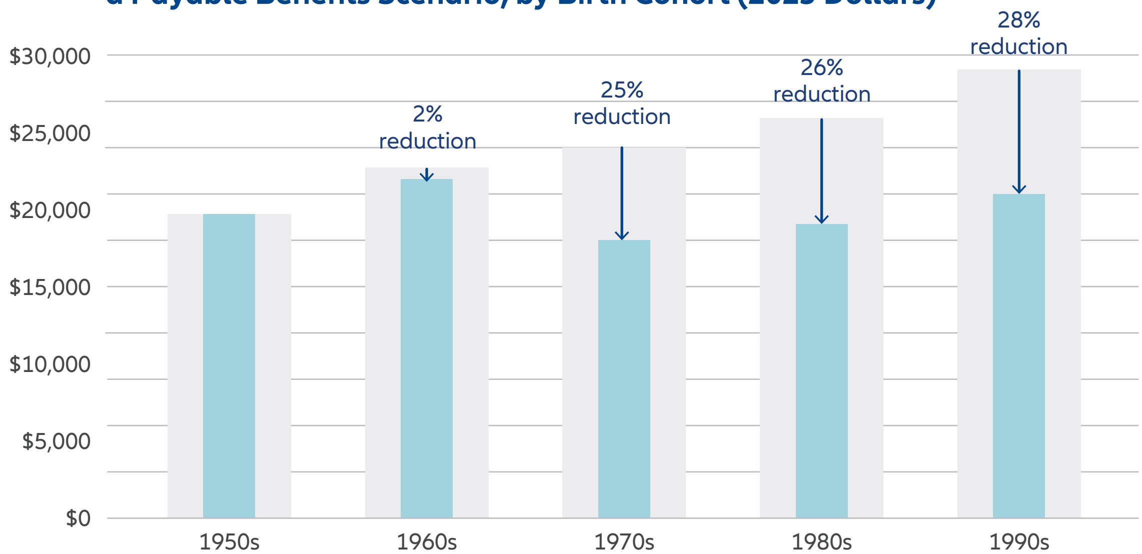
LEGISLATIVE AND REGULATORY SHIFTS

Social Security is an important source of income for the majority of retirees. A staggering 92% of Americans age 65 or older receive Social Security benefits,[1] and for many, it's a significant portion of their retirement income. Women in particular rely heavily on Social Security. Over four in ten (42%) women age 65 and older depend on Social Security for at least half their income, and 15% rely on it for 90% or more.[2] Men rely on it slightly less, with 37% needing Social Security for at least half their income and 12% relying on it for 90% or more.[2]

However, Social Security faces financial challenges due to shifts in workforce demographics and an aging population. Currently, there are fewer workers supporting each Social Security beneficiary. As a result of this trend, the Congressional Budget Office (CBO) projects that Social Security trust funds will be depleted by 2034.[3]

In this scenario, those who begin collecting benefits after depletion receive lower initial benefits – ranging from a 25% reduction for those in the 1970s birth cohort to a 28% reduction for those in the 1990s birth cohort.[3] Beneficiaries in earlier cohorts experience no change to initial benefits, but receive smaller benefits after depletion, resulting in lower lifetime benefits.

Reductions in Average Initial Benefits for Retired Workers Under a Payable Benefits Scenario, by Birth Cohort (2023 Dollars)[3]



Planning for additional sources of guaranteed income is important for maintaining an individual's standard of living in retirement if changes are made to Social Security benefits. This is particularly relevant as the majority of participants are uncertain about the future of the program:

- 79% of Americans are worried about the future of Medicare and Social Security[4]
- 72% say they can't count on Social Security benefits when planning their retirement income[4]

Moreover, the vast majority (90%) believe that an additional source of guaranteed lifetime income is critical in order to have a comfortable retirement.[4] Regardless of future changes to Social Security, a diverse portfolio with guaranteed lifetime income sources can provide a heightened sense of security.

[1] 2023 Economic well-being of U.S. households in 2022, Board of Governors of the Federal Reserve System, May 2023

[2] Social Security Basic Facts, U.S. Social Security Administration, December 2023

[3] CBO's 2023 Long-Term Projections for Social Security, Congressional Budget Office, June 2023

[4] Allianz Life conducted an online survey, the 2024 1Q Quarterly Market Perceptions Study, in February 2024 with a nationally representative sample of 1,005 individuals age 18+.

Addressing external risks

As the world evolves, so too will the nature and severity of external risks faced by retirees. Ultimately, a detailed approach to retirement income that acknowledges and builds in buffers for external risks is essential for navigating an increasingly complex and unpredictable world. Allianz Lifetime Income+® offers one potential solution.

Natural catastrophes and extreme weather

By providing a reliable source of income that is insulated from market fluctuations, Allianz Lifetime Income+® can help alleviate the financial impact of natural disasters and extreme weather.

Additionally, the potential for income growth ensures that retirees have a guaranteed stream that keeps pace with rising costs, including insurance premiums.

The flexibility to withdraw funds after income has started without having to worry about withdrawal fees can be particularly useful for unexpected expenses like costly home repairs, increased health care costs, or relocation expenses.

This is a significant advantage over products that require annuitization, wherein participants must give up control over the annuity in order to receive payments. It is important to note that a Market Value Adjustment (MVA) and taxes may apply to either a full or a partial withdrawal.

Legislative and regulatory shifts

In-plan annuities are well suited to supplement Social Security benefits, as they provide a guaranteed stream of income for life and full protection from market downturns. In fact, annuities are the only financial products that offer such a guarantee, making them a strong option for any retirement income strategy.

Additionally, some annuities, like Allianz Lifetime Income+®, provide the potential for increases to help offset inflation, similar to the Cost-of-Living-Adjustment (COLA) of Social Security. If Social Security benefits are reduced in the future, a guaranteed lifetime income product such as Allianz Lifetime Income+® can help retirees maintain their standard of living and cover essential expenses.

Key Features

Guaranteed lifetime income
Provide an added layer of security against external risks

Protection from market downturns
Help participants weather any market conditions

Growth potential
Address rising costs in retirement stemming from a number of external risks

Flexibility
Help participants deploy wealth strategically in an evolving world

Accessibility
For unforeseen expenses in an unpredictable world

Assessing personal risks

Retirement planning is often envisioned as a linear path – accumulate wealth, reach a certain age, and sail off into the sunset. However, the reality is far more intricate. Personal risks weave a complex web that can significantly alter an individual's ability to achieve a secure retirement. These risks are as unique as the people they affect, highlighting the need for flexible and tailored retirement strategies.

CAREER DISRUPTIONS AND JOB LOSS

The American work landscape is shifting. Bureau of Labor Statistics data shows the average adult has held 12 jobs by age 55, with many concentrated in their early 20s.[1]

However the future points toward even more frequent job changes and potential career pivots throughout life, as advancements in AI and automation could disrupt traditional job markets.

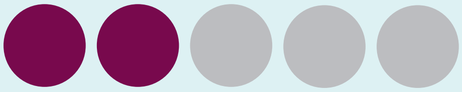
Career disruptions aren't always negative, either. Many people are choosing to take less linear paths for personal fulfillment or flexibility.

COGNITIVE AND BEHAVIORAL RISKS

Retirement planning is a complex process that requires individuals to think critically about their financial needs in the long term. However, as people age, cognitive decline can cause difficulties with memory, attention, and decision-making, which can significantly undermine retirement planning efforts.

In addition to age-related cognitive decline, behavioral choices throughout life can also impact an individual's ability to plan for their retirement. For instance, individuals who engage in impulsive spending or who fail to save enough for retirement may find themselves struggling to make ends meet later in life. Similarly, people who underestimate their future expenses or overlook potential financial risks may find themselves facing unexpected financial burdens during retirement.

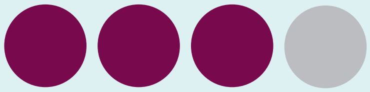
Automation and globalization are **disrupting entire industries,** leading to job losses and forcing individuals to **reskill or retrain mid-career**



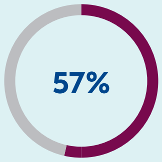
By 2027, **two-fifths of the core skills** workers have today will be **disrupted by technological change.**[2]

Half of all workers' core skills will need to be updated **every five years.**[2]

Majority of older adults with cognitive impairment struggle to manage finances



Nearly 3 in 4 older adults living with dementia report managing their own finances.[3]



Among those managing their own finances, **57% reported having difficulty doing so** compared with 3.8% of those without cognitive impairment.[3]

[1] U.S. Bureau of Labor Statistics, August 2023

[2] Future of Jobs Report 2023, World Economic Forum, May 2023

[3] Li, J., Wang, S., & Nicholas, L. H. (2022). Management of financial assets by older adults with and without dementia or other cognitive impairments. JAMA Network Open, July 2022

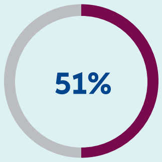
DEBT

With the surge of student loan debt in the United States, many graduates are burdened with debt well into their working lives. A study by the Employee Benefit Research Institute (EBRI) found that plan participants with an annual income over $50,000 and less than five years of tenure, who have student loan debt, have a 401(k) balance that is, on average, 36% lower than those without student loan debt in the same income and tenure brackets.[1]

Another recent EBRI study linked credit card debt to lower contribution rates and smaller nest eggs, even when controlling for tenure and income. For participants earning $75,000-$99,999 annually with tenures exceeding 15 years, those with credit card utilization rates between 80-100% had median account balances less than half that of those with 0% utilization.[2] Utilization ratios are commonly used to analyze debt because they compare the amount of debt owed to the amount of credit available.

Debt, whether it stems from student loans, credit cards, or other sources, can erode disposable income, posing challenges for retirement income.

Debt's adverse affects may worsen when combined with other financial risks like inflation



51% of Americans say they have **taken on more debt** because of inflation.[3]

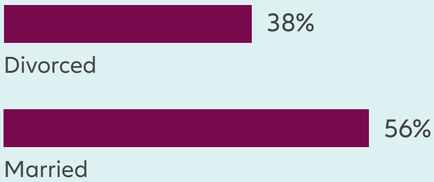
FAMILIAL CHANGES

Life throws curveballs, and familial changes can have a profound impact on retirement planning. Events like divorce can lead to a sudden drop in household income or a division in retirement savings, shaking retiree confidence.

Similarly, caring for aging parents or disabled children can come with unexpected expenses, forcing individuals to dip into their retirement savings prematurely to cover medical bills or living costs. In some cases, delaying retirement altogether may be necessary to continue financing care.

Additionally, many caregivers may need to step away from work to take care of their loved ones. Lost wages during this time could mean fewer contributions to retirement accounts, while additional caregiving expenses may also eat into savings.

Life events like divorce can erode retirees' confidence in their retirement plans



Only 38% of divorced women said they felt confident about their current retirement financial plans compared to **over half (56%) of married women.[4]**

[1] Student Loans and Retirement Preparedness, Employee Benefit Research Institute (EBRI), February 2024

[2] How Financial Factors Outside a 401(k) Plan Can Impact Retirement Readiness, Employee Benefit Research Institute (EBRI), September 2023

[3] Allianz Life conducted an online survey, the 2024 1Q Quarterly Market Perceptions Study, in February 2024 with a nationally representative sample of 1,005 individuals age 18+.

[4] Allianz Life conducted the 2023 Women Money Power Study online in October 2023 with a nationally representative sample of 900 women age 25-75 with an annual household income of $30k+.

FINANCIAL LITERACY CHALLENGES

Navigating the complexities of retirement planning requires a strong foundation in financial literacy. However, a significant portion of the population lacks the knowledge and skills necessary to make informed financial decisions, often resulting in suboptimal investment choices, inadequate savings, and ultimately, insufficient retirement income.

One such hurdle stems from a lack of understanding surrounding how much retirement income can be generated from one's retirement savings.

According to a recent survey conducted by the National Institute of Retirement Security, only 8% of working-age Americans were able to accurately estimate how much annual retirement income $100,000 in savings could provide (using a benchmark of $3,000-$4,999 per year starting at age 67).[1]

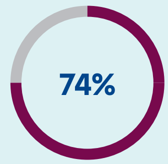
Many respondents overestimated, with 21% believing it would generate between $10,000-$14,999 annually throughout retirement.[1] Even more concerning, nearly 1 in 5 (19%) believed that $25,000 or more could be produced, which is over five times the study's benchmark for a reasonable estimate.[1]

HEALTH AND LONG TERM CARE COSTS

Health care and long term care expenses pose substantial challenges in retirement planning, particularly for individuals with chronic conditions or complications.

Failing to account for these expenses may leave retirees struggling to cover basic needs and could potentially deplete their savings. Therefore, it is important to factor in health care and long term care costs when planning for retirement to ensure retirees can afford the care they need without exhausting their savings.

Majority of Americans lack knowledge of basic retirement planning



Nearly three-quarters of consumers age 50 to 75 **failed a test of basic retirement knowledge.**[2]

Health care presents significant costs in retirement

To cover health care expenses in retirement:

$315,000

is the amount that the **average married couple** age 65 would need to have saved.[3]

$157,000

is the amount that the **average single person** age 65 would need to have saved.[3]

[1] Retirement Insecurity 2024: Americans' Views of Retirement, National Institute on Retirement Security, February 2024

[2] 2023 Retirement Income Literacy Study, The American College of Financial Services, April 2024

[3] How to plan for rising health care costs, Fidelity, June 2023

Addressing personal risks

While external and economic factors certainly pose challenges, personal risks can present a significant and often overlooked threat to retirement security. This is because these risks are unique to each individual. A job loss, for example, may be a temporary setback for one person but career-ending for another. Similarly, health care costs can vary widely depending on individual needs.

Since these risks are individualized, they are unlikely to impact an entire participant population or age group in the same way. This highlights the importance of flexible and personalized retirement strategies, as a one-size-fits-all approach may not adequately address the diverse range of personal challenges individuals face.

One potential solution is to combine a flexible guaranteed lifetime income solution with a personalized advice program. See how this could work using the Allianz Lifetime Income+® Annuity delivered through a managed account solution:

Allianz Lifetime Income+® A flexible solution for what lies ahead	+	Managed Account Amplify impact with an individualized approach

Allianz Lifetime Income+®
A flexible solution for what lies ahead

Allianz Lifetime Income+® recognizes that retirement is one of the most dynamic stages of life, and that circumstances may change even after someone has retired and started taking income.

Helps address personal risks by:

- Giving participants the ability to choose when to start their income after age 60
- Allowing participants to save unneeded income in any given year and add it to their annual maximum in future years
- Letting participants retain access to their annuity's cash value with no withdrawal fees,* even after income payments have begun
- Providing multiple portability options for participants who leave the plan, including options to roll over to an IRA, leave assets in-plan, or if their new employer's plan allows, roll the product into their new employer-sponsored plan – always with all the same benefits, guarantees, and pricing

* Market Value Adjustment (MVA) and taxes may apply to a full or partial withdrawal

Managed Account
Amplify impact with an individualized approach

Unlike traditional one-size-fits-all strategies, managed accounts optimize the full array of investment options in a plan, tailoring options based on individual participant needs and objectives.

Helps address personal risks by:

- Optimizing portfolios for individual needs based on a wide range of known data points and participant inputs
- Carefully evaluating all the options available in the core fund lineup to ensure a suitable fit for each participant based on their unique situation and risk tolerance
- Enhancing growth and security objectives by using established methodologies for asset class exposure
- Streamlining adoption through automation, simplifying enrollment and reducing decision fatigue
- Democratizing access to professional, fiduciary advice at an institutional price

When paired with a flexible guaranteed lifetime income solution, managed accounts offer a highly scalable approach to address the financial and external risks affecting numerous plan participants, as well as the unique personal risks impacting each individual.

Retirement reframed

At Allianz, we believe in an extensive risk management strategy that addresses numerous retirement risks and helps individuals build a flexible income strategy for an uncertain world.

The journey to a secure retirement is no longer linear, with various unpredictable risks threatening even the most well-laid plans. While financial risks have received significant attention in the past, building a resilient strategy requires a broader perspective – one that considers both the quantitative (measurable) and qualitative (emotional) dimensions of risk.

At Allianz, we take a thorough approach to risk management, and have resources available to help you integrate risk management strategies, such as annuities, into your plan sponsor clients' retirement plans. The Allianz Lifetime Income+® annuity is a solution tailored for defined contribution plans, helping to address retirement risks with features that:

- **Quantitatively improve outcomes:** As shown, this annuity provides features that can demonstrably improve outcomes for a host of financial risks.
- **Offer flexibility and personalization:** We understand the emotional aspects of retirement planning. This annuity provides flexibility and personalization to meet a diverse range of participant goals and accommodate future changes.

By taking a holistic approach to risk management, Allianz empowers plan sponsors, consultants, and advisors to secure a more stable retirement future for plan participants. This aligns with our mission to reframe retirement – moving beyond traditional models focused on accumulation and highlighting the value of a guaranteed lifetime income stream in addressing the complex risks faced by participants.

Retirement risks are changing – are you ready?

Discover tools to reframe the conversation around retirement risks

Our deep experience in retirement risk management makes Allianz a trusted source for relevant, actionable information you can use to better understand plan and participant needs and concerns. Browse our library of white papers, blogs, and practice management resources today.

VISIT www.allianzlife.com/dcplanresearch

Your partner in risk management

Contact the dedicated Employer Markets team at Allianz to learn more about the evolving landscape of retirement risks and our innovative solutions designed to improve outcomes.

EMAIL retirement-income@allianzlife.com CALL 866.604.7516, OPTION 2

True to our promises so you can be true to yours®

A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as a key part of a leading global financial organization. **True to our passion** for making wise investment decisions. **True to building a culture** where everyone feels welcomed, included, and valued. And **true to the people we serve,** each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.9 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

Products are issued by:

Allianz Life Insurance Company of North America

5701 Golden Hills Drive
Minneapolis, MN 55416-1297

www.allianzlife.com | 800.950.1962

Allianz Life Insurance Company of North America does not provide financial planning services.

Fixed index annuities are designed to meet long-term needs for retirement income. They provide guarantees against the loss of principal and credited interest, tax deferred accumulation potential, and the reassurance of a death benefit for beneficiaries.

Increasing income potential is provided through a built-in rider at no additional cost. Withdrawals from the annuity may be subject to ordinary federal and state income taxes. You may also be subject to a 10% federal additional tax if you take withdrawals prior to age 59½.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Product and feature availability may vary by state and broker/dealer.

This content does not apply in the state of New York.

• Not FDIC insured • May lose value • No bank or credit union guarantee
• Not a deposit • Not insured by any federal government agency or NCUA/NCUSIF

For institutional use only – not for use with the public.