Understanding the impact of different market environments

How the **sequence of interest rates** can affect your life insurance policy

Allianz

Must be accompanied by the Life Pro+ Advantage consumer brochure (M-7183).

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[1] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

A powerful asset for your financial strategy.

As you plan for the future, it's likely your concerns are similar to those of many other Americans, including:

- PROTECTING YOUR FAMILY FROM THE UNEXPECTED
- SAFEGUARDING YOUR ASSETS FROM MARKET LOSSES
- FINDING ADDITIONAL WAYS TO SUPPLEMENT YOUR RETIREMENT SAVINGS
- AVOIDING EMERGENCIES DEPLETING YOUR SAVINGS

Did you know that a fixed index universal life insurance policy can help address all of these concerns? It could be a powerful asset in your financial strategy if you need life insurance coverage.

An FIUL policy could play an integral role in your overall financial strategy – with a way to protect your family and **potentially provide an additional resource to supplement your retirement income or various other financial needs.** It provides the life insurance coverage you need for your beneficiaries and also offers the opportunity to build accumulation value that can be accessed in the future through policy loans or withdrawals.[1]

Your policy is much more vulnerable to market volatility, especially once you start accessing your cash value. That's because varying interest rates and the timing of these variations can have a significant impact on your policy's accumulation value. And that's why it's important to understand how interest rate variations can affect your policy.

What does "sequence of interest rates" mean?

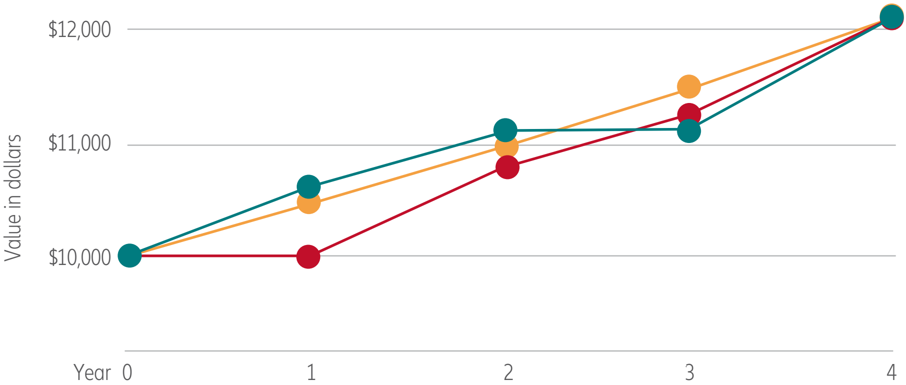
The sequence of interest rates refers to the amount of interest earned and when the interest is credited. It impacts any type of financial vehicle that is building accumulation value based on the market.

When accumulation value is building, and assuming fees and charges are not applied, the timing and order of the variations in interest rates don't have a significant impact. As you can see in the hypothetical example below, while the annual interest in each scenario varies, **the ending values all show an average interest rate of 6% credited over four years.**

	Scenario 1	Scenario 2	Scenario 3
Year 1	8%	0%	6%
Year 2	4%	9%	6%
Year 3	0%	3%	6%
Year 4	12%	12%	6%
Average annual nonguaranteed interest credited	**6%**	**6%**	**6%**

These hypothetical examples are provided for illustrative purposes only and reflect nonguaranteed interest rates. They are not intended to represent or predict the performance of a specific product.

While the account experienced varying interest every year in each scenario, the ending values are very close.



Scenario 1
ending value = $12,580

Scenario 2
ending value = $12,574

Scenario 3
ending value = $12,625

The same is not true with financial vehicles that carry fees and charges. With a fixed index universal life (FIUL) insurance policy, your policy is vulnerable to market volatility to a certain extent – especially once you start accessing your cash value by taking loans or withdrawals. Varying interest rates and the timing of these variations can have a significant impact on your policy's accumulation value. That's why it's important to understand how interest rate variations – the **sequence of interest rates** – can affect your policy.

THE SEQUENCE OF INTEREST RATES CAN IMPACT YOUR POLICY LOAN AMOUNTS AND HOW LONG THE POLICY LASTS.

Once you start taking policy loans or withdrawals, your FIUL policy becomes much more vulnerable to market volatility and the sequence of interest rates. Understanding how variations in credited interest can affect your policy is important, as **it can impact how much can be accessed from the policy and how long the policy may remain in force.**

The following hypothetical scenarios show how the sequence of interest rates can impact the potential policy loans and duration while using the Standard, Bonused, and Select Index allocations.[1] **Keep in mind, Select index allocations include a 40% interest rate bonus and 1% annual asset charge, Bonused index allocations include a 15% interest rate bonus, and Standard index allocations do not include an interest bonus.**

6% nonguaranteed interest rate every year

Here you can see the potential indexed loan amounts that could be accessed each year while keeping the policy in force to age 120 with the three different allocation options.[2] This example assumes a consistent 6% nonguaranteed interest rate each year.

STANDARD ALLOCATION	**$53,637**	AGE 120
BONUSED ALLOCATION	**$80,986**	AGE 120
SELECT ALLOCATION	**$96,905**	AGE 120

[1] Assumptions: Allianz Life Pro+ Advantage℠ Fixed Index Universal Life Insurance Policy, 45-year-old male, Preferred Nontobacco risk class, $1 million death benefit (option B switching to option A at age 65), annual premium of $42,539 for 10 years, indexed loans beginning at age 65. 5% annual indexed loan rate, appropriate fees and charges applied each policy year.

[2] Policy loans and withdrawals will reduce the available cash value and death benefit and may cause unintended consequences, including lapse or taxable events. Please see the full loan and withdrawal disclosure within this material for details.

Assuming the minimum guaranteed rate of 0.1% and maximum charges, the policy would lapse at age 76 after 10 years of loans taken and would not be able to support the remaining loan strategy. This could result in adverse tax consequences which could be significant.

The higher the bonus, the greater the potential impact on policy loan amounts and durations

In this scenario, we show varying interest rates (including 0% every fourth year) that average out to a 6% nonguaranteed rate. By introducing this change to the sequence of interest rates, taking the same annual loan amount would result in the policy potentially lapsing much sooner.

STANDARD ALLOCATION	**$53,637**	**AGE 95**	AGE 120
BONUSED ALLOCATION	**$80,986**	**AGE 87**	AGE 120
SELECT ALLOCATION	**$96,905**	**AGE 83**	AGE 120

Reducing the loan amount can help keep the policy in force longer.

By reducing the annual loan amount, the policy would remain in force to age 120, even with a 0% index credit every fourth year.

STANDARD ALLOCATION	**$52,128**	**AGE 120** 2.8% reduction
BONUSED ALLOCATION	**$78,112**	**AGE 120** 3.5% reduction
SELECT ALLOCATION	**$91,849**	**AGE 120** 5.5% reduction

Keep in mind that reducing the loan amount will not remove the sequence of interest rates risk. Adjustments may still need to be made in the future based on index performance.

The importance of annual reviews

It is also important to understand the risks associated with taking policy loans and how the sequence of interest rates can impact your policy over time. That's just one reason to meet with your financial professional each year to review your FIUL policy. An annual review can help you identify policy adjustments needed to react to your changing needs or market conditions.

Additional considerations

- FIUL requires health and financial underwriting.
- An FIUL policy is subject to market volatility, to a certain extent; negative index performance would result in zero interest earned by the policy. The amount of interest the policy earns impacts the amount of cash value available, and there is no guarantee that there will be sufficient cash value available to keep the policy in force.
- If taking policy loans, you need to be sure you are managing your policy values to ensure that the policy remains in force. Additional premium payments may be required to keep the policy in force.
- The cost of the loan can vary by loan type, and the interest earned by the policy may not be enough to cover the loan cost each year, which reduces policy values.
- Policy loans will reduce your available cash value, which may cause the policy to lapse.
- If the policy lapses, outstanding policy loans in excess of the premium paid will be subject to ordinary income tax, which can be a substantial amount of taxable income.
- FIUL is not a source for guaranteed retirement income.

To learn more about how the sequence of interest rates can impact your policy, ask your financial professional for a personalized illustration.

Life insurance policies have certain fees and charges associated with them that pay for the death benefit, underwriting expenses, and issuing and administering the policy.

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