Allianz Life Insurance Company of North America

Understanding the impact of different market environments

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

CSI-528 (R-5/2023) | Must be accompanied by the Allianz Life Pro+® Advantage Fixed Index Universal Life Insurance Policy consumer brochure (M-7183), Your allocation options guide (M-7391), and Product profile (M-7406).

[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 (FIUL) 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 a generally income-tax-free death benefit 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 available 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?

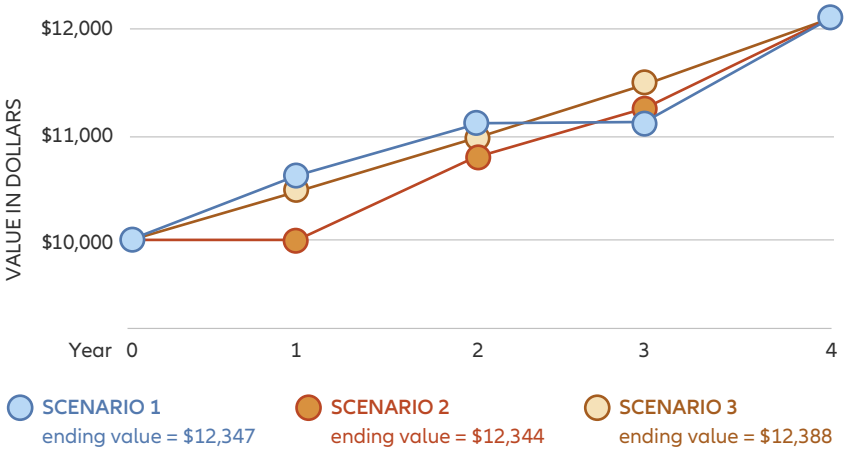
The sequence of interest rates refers to the amount of interest earned and when the interest is credited. It impacts any type of financial vehicle that is building accumulation value based on the returns of the market.

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 5.5% credited over four years.**

	Scenario 1	Scenario 2	Scenario 3
Year 1	6%	0%	5.5%
Year 2	4%	7%	5.5%
Year 3	0%	3%	5.5%
Year 4	12%	12%	5.5%
Average annual nonguaranteed interest credited	5.5%	5.5%	5.5%

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



The same is not true with financial vehicles that carry fees and charges. With an FIUL insurance policy, your policy is vulnerable to market volatility to a certain extent – especially once you start accessing your available 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 also 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, Classic, Bonused, and Select Index allocations.**[1] Keep in mind, Select index allocations include a 40% interest rate bonus opportunity and 1% annual asset charge, Bonused index allocations include a 15% interest rate bonus opportunity, Classic index allocations include a 0.90% interest rate bonus opportunity, and Standard index allocations do not include an interest bonus.

5.5% 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 four different allocation options.[2] This example assumes a consistent 5.5% nonguaranteed interest rate each year.

Standard allocation	**$70,430**	AGE 120
Classic allocation	**$115,135**	AGE 120
Bonused allocation	**$109,815**	AGE 120
Select allocation	**$126,368**	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 $68,681 for 10 years, indexed loans beginning at age 65, 5% annual indexed loan rate, appropriate bonuses, 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 using the select allocation option would lapse at age 74 and would not be able to support the 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 5.5% 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	**$70,430**	AGE 103	AGE 120
Classic allocation	**$115,135**	AGE 95	AGE 120
Bonused allocation	**$109,815**	AGE 91	AGE 120
Select allocation	**$126,368**	AGE 91	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	**$68,533**	AGE 120 2.7% reduction
Classic allocation	**$112,334**	AGE 120 2.4% reduction
Bonused allocation	**$106,107**	AGE 120 3.4% reduction
Select allocation	**$120,235**	AGE 120 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.

Bonused products may include higher surrender charges, longer surrender periods, lower caps, or other restrictions that are not included in similar products that don't offer a bonus. The index allocations that offer the interest bonus will generally have lower caps and participation rates. Not all bonuses guarantee that a policy will be credited with an interest bonus every year as some are based on the growth of an index.

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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