ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA

THE CHANGING OUTLOOK ON RETIREMENT

Preparing for the known – and unknown in your employer-sponsored plan

Allianz

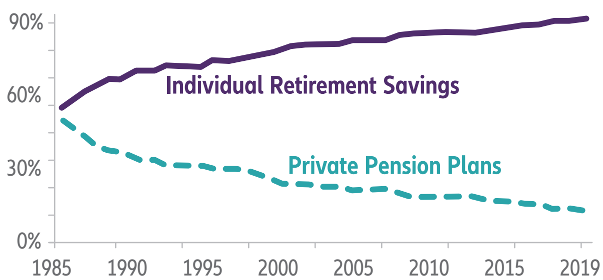
LIA-010

The retirement unknowns

1 Where will our income come from?

We can no longer rely on traditional pension plans. These types of plans paid retirees a steady stream of income (a defined benefit based on salary history or employment duration). The responsibility for ensuring lifetime income was left to the employer.

Instead, we now will have to rely on defined contribution plans (such as 401(k) plans). Defined contribution plans are an alternative to defined benefit plans and are increasing in popularity and primarily funded by employee contributions. But this change shifts the responsibility for ensuring lifetime income to the individual.



IRI Retirement Fact Book 2020.

We don't know the long-term solvency of Social Security. The ratio of covered workers to Social Security beneficiaries has changed significantly, with fewer workers per recipient.

Fewer workers are covering each Social Security beneficiary

- **1975:** 3.2 workers to 1 beneficiary
- **2019:** 2.8 workers to 1 beneficiary
- **2040:** 2.2 projected workers to 1 beneficiary

"The 2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," April 22, 2020.

2 How much will retirement cost?

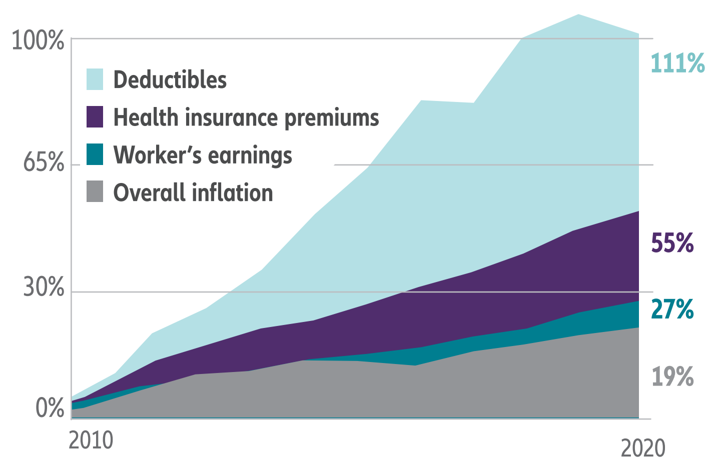
We don't know how much we will spend in retirement. Retirees, age 65 or older, spend a greater share of their money on housing and their medical expenses are much higher.

	Spending (All ages)	Spending (65 years and older)
Food/beverage	13.0%	13.1%
Housing	32.8%	34.8%
Apparel	3.0%	2.6%
Transportation	17.0%	14.9%
Health care	8.2%	13.6%
Entertainment	4.9%	4.7%

U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2019.

We don't know how much health care costs will continue to rise. While wages have increased by 27% since 2010, health care premiums have increased 55% and deductibles 111%. Retirees used to worry about passing away too soon; now, they're worried about living too long.

Health care costs have a dramatic effect in retirement



"Cumulative Increases in Health Insurance Premiums, Workers' Contributions to Premiums, Inflation, and Workers' Earnings, 2010-2020," Kaiser Family Foundation/HRET Survey of Employer-Health Benefits, October 8, 2020.

Medicare doesn't cover all health care costs. We will have out-of-pocket expenses to consider – such as deductibles, co-pays, hearing, vision, and dental. What is the potential Medicare premium for a healthy 55-year-old couple retiring in 10 years, at age 65? **$662,156** lifetime average in future dollars.

2021 Retirement Health Care Costs Data Report, HealthView Services. Calculation is based on assumptions that the male has a life expectancy of age 87 and the female of age 89, and have no chronic conditions. The cost of Medicare premiums can be higher or lower depending on varying factors, including the plan type, the state of residence, and assumptions used.

It's also important to consider whether Social Security can keep up with the rising costs of health care. The average Social Security cost of living adjustment (COLA) over the last 30 years was 2.3%.[1]

However, the average annual Medicare Part B premium increase over the last 30 years was 5.0%.[2] That's more than double the Social Security COLA.

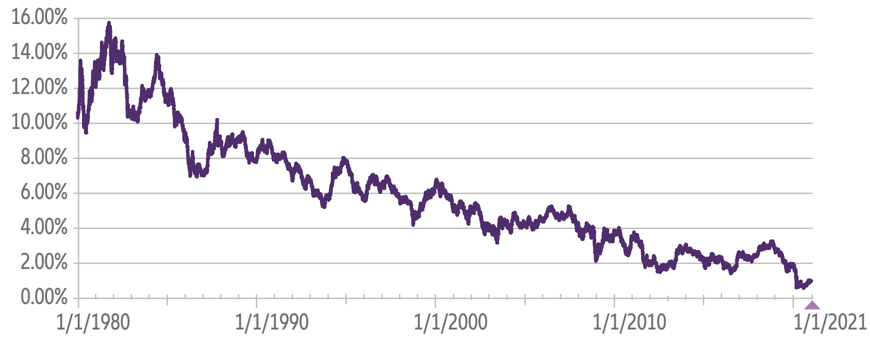
Does our retirement income strategy cover our basic needs along with a cost-of-living adjustment?

[1] Social Security Administration, Cost-of-living Adjustments, January 1992 – January 2021.

[2] Centers for Medicare and Medicaid Services, Part B Premium, January 1992 – January 2021.

3 How much risk do we need to take on?

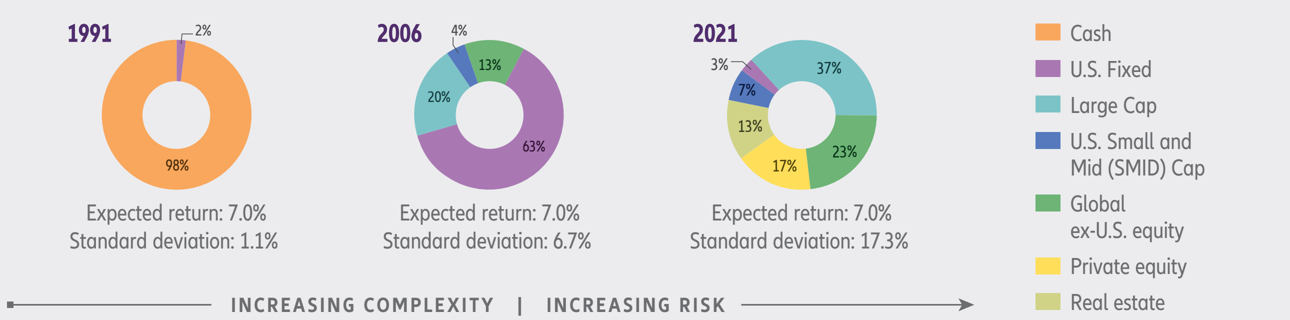
In the past, interest rates have historically allowed conservative investors a modest return, while preserving their principal. However, returns have decreased as interest rates have fallen. Consider the historical yields from the 10-year U.S. Constant Maturity Treasury Rate (01/01/1980 – 01/01/2021).



With these low returns, an over-allocation in conservative investments carries a different risk and may not help you achieve your long-term goals. So, if a higher return is desired, the alternative is to take on more risk. And taking on additional risk may create additional challenges to consider as you address your financial future.

In recent years, we know how volatile the market can be. Do we know how much risk we are comfortable taking in order to achieve a reasonable performance? Today's low interest rate environment means investors may have to take on more risk and volatility than they did in decades past to generate the same return. To potentially achieve a modest return today, compare what it would have taken to achieve the same expected return years ago in the chart below.

The evolution of the mix of assets in a portfolio and the associated risk in relation to expected returns



STANDARD DEVIATION: a statistical measure that is used to quantify the amount of variance within a select data set. Generally, higher standard deviation indicates increased portfolio volatility.

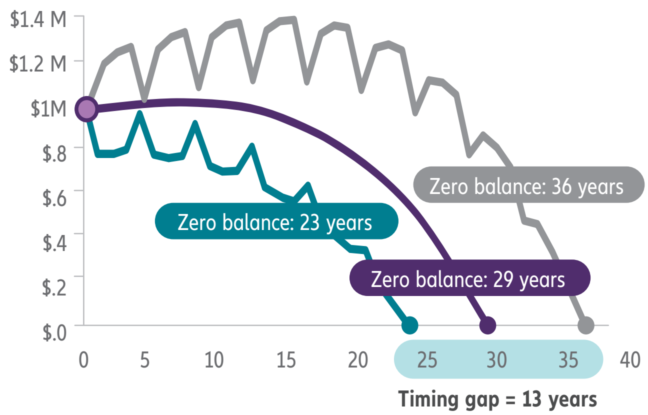
Source: Callan Associates Inc.

4 How long will my money last?

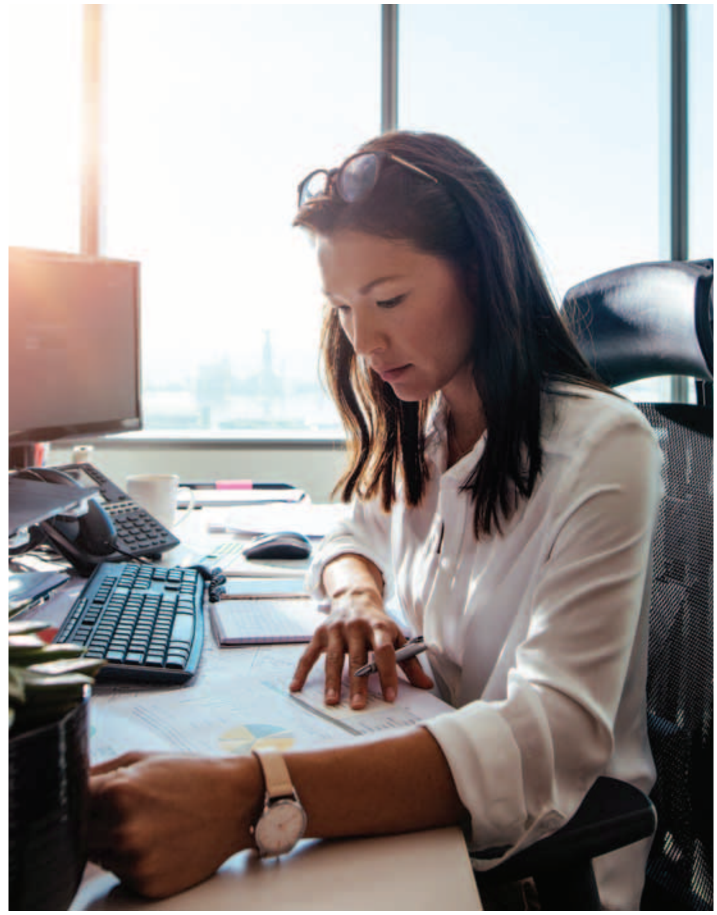
We know that the sequence of market returns has a big impact on how long our money lasts. In the accumulation phase of retirement saving, the sequence of market returns is not as important as long as the money is not withdrawn. But it has a big impact once we begin taking distributions in retirement.

That's because, when you withdraw assets while the market is down, your losses on those assets are "locked in" – unlike during the accumulation phase, that money no longer has the potential if the market rises.

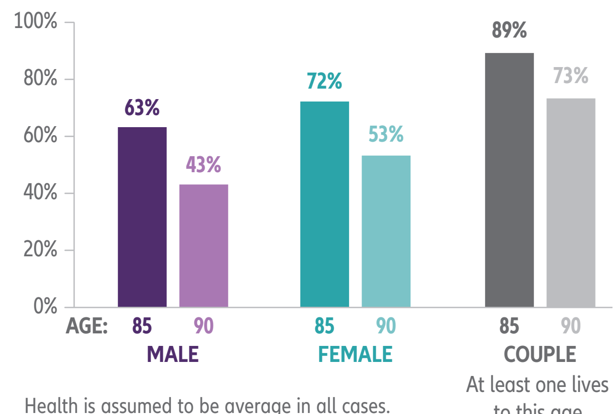
Your sequence of returns impacts how long your money lasts.



- **Scenario 1** has a constant (but unrealistic) 6% compounded return every year.
- **Scenario 2** has higher returns early on, with a repeating annual sequence of 27%, 9%, 7%, -15% (6% average annual compounded return).
- **Scenario 3** has lower returns early on, using the same returns but in a reverse sequence of -15%, 7%, 9%, 27% (6% average annual compounded return).
- **Timing gap** – The difference between scenario 2 and 3 in how long money could last depending on the sequence of returns.



We don't know how long we will live. With health care advancements and healthier lifestyles, we're now living longer than past generations. Retirements could potentially last 25 or 30 years, and even longer if you're part of a couple.



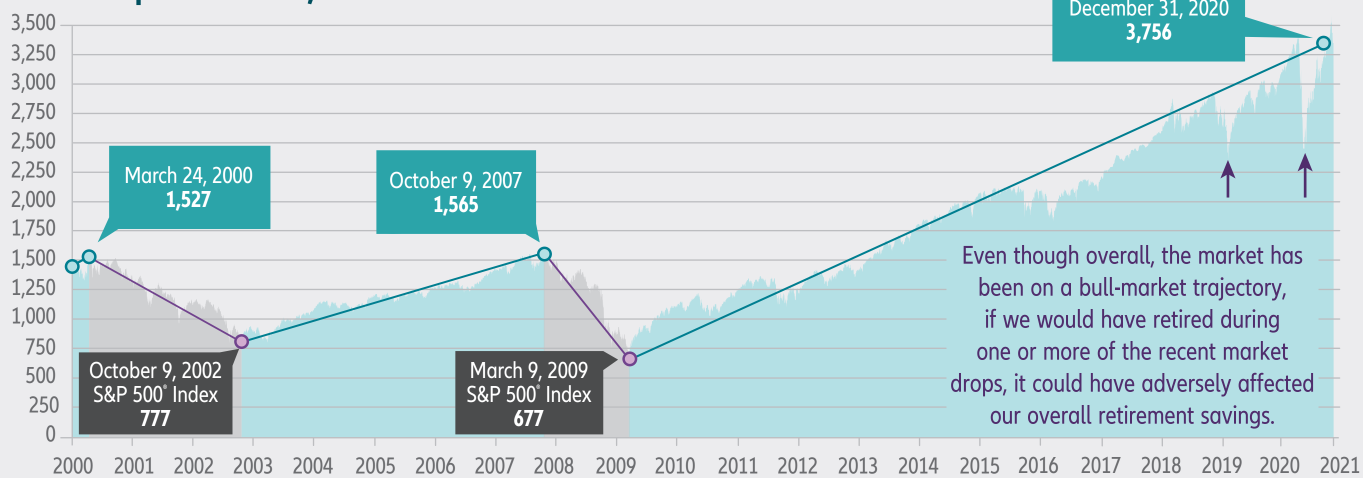
Health is assumed to be average in all cases.
Insured Retirement Institute, Fact Book, 2020.

This is a hypothetical example of how the sequence of returns can impact your portfolio in retirement when taking annual withdrawals of $50,000, adjusted at an assumed 3.5% each year for inflation. It is not intended to project the performance of any specific product or index. If this were an actual product, the returns may be reduced by certain fees and expenses. Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal additional tax. Past performance is not a guarantee of future results.

We don't know how market volatility will affect retirement savings in the future. Our IRAs, 401(k)s, and 403(b) retirement savings plans that are invested in the stock market are all subject to the ups and downs of the market – and in recent years, we've seen how volatile the market can be.

We may not know how to plan for an uncertain lifespan, and we don't know what market volatility will be like in the future. The combination of life expectancy and market returns can impact how long our assets last. If we live a long life with low returns, are we going to run out of money in retirement? Or if we live a shorter life with high returns, could we potentially be living more frugally than necessary and not maximize our retirement?

S&P 500® performance, 2000 – 2020



The retirement knowns

We know we need a more balanced solution that helps reduce uncertainty.

1 Protect income

We know we need to protect our retirement savings from market downturns.
Almost 6 in 10 (59%) are worried that money in their employer-sponsored plan will run out during retirement.[1]

With a low-interest-rate environment, we may need to take on more risk to receive the same returns as years ago, opening us up to more volatility and uncertainty.

Few strategies for risk management allow investors to participate in the growth potential of equities, while also managing downside exposure and volatility.

[1] Allianz Retirement Risk Readiness Study 2021

2 More income

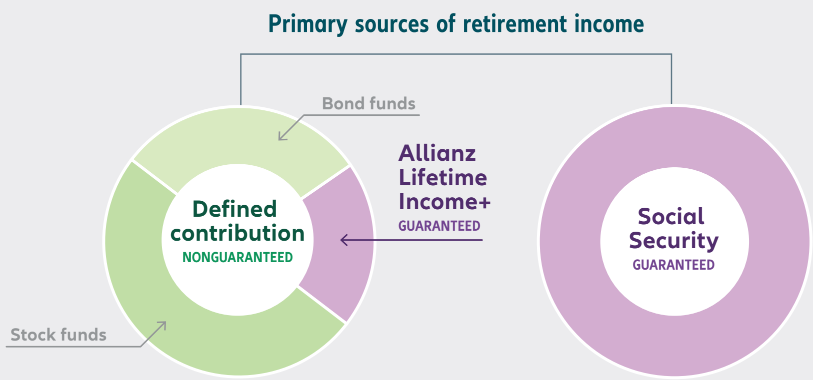
We know we need more lifetime income to replace what we lost when traditional pensions were replaced by 401(k)s and IRAs. We need new ways to meet the need for lifetime income to help supplement Social Security.

7 in 10 expect that most of their retirement income will come from money they have from employer-sponsored plans.[1]

3 Increasing income

We know we need increasing income to help keep up with inflation and rising health care costs and for addressing the uncertainty of planning for unkown life expectancies.

The solution?



Allianz Lifetime Income+ Fixed Index Annuity with Lifetime Income Benefit

Protect income	✓
More income	✓
Increasing income potential	✓

We need a product like an annuity that can help convert a portion of our portfolio income to lifetime income.
Annuities can help you meet your long-term retirement goals by offering tax-deferred growth potential, a death benefit during the accumulation phase, and a guaranteed stream of income at retirement. Annuity guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. Fees and charges may apply. Product and feature availability may vary by plan and state.

Allianz Lifetime Income+SM Annuity with Lifetime Income Benefit is an insurance product available in your defined contribution plan. In exchange for allocating a portion of your plan to Allianz Lifetime Income+, we give you three key benefits our fixed index annuity can provide.

NEW REALITIES ARE RESHAPING THE AMERICAN RETIREMENT.

That calls for new strategies, and not just in your planning during the years leading up to your retirement. Your investment needs are different during the distribution years, due to factors known – and unknown.

Could Allianz Lifetime Income+℠ Annuity help meet your objectives for retirement income?

Contact your plan administrator about any support offered by your plan to determine how it might fit in your 401(k) plan.

Please note that Allianz Life Insurance Company of North America (Allianz), its affiliated companies, and their representatives and employees do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

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