Core Income 7® Annuity

(R-7/2017)

Allianz Life Insurance Company of North America

The 4% rule or **Core Income 7**?

Seeking guarantees and opportunity amid market volatility

When it comes to retirement planning, most of us have a simple goal: We want our money to last while living comfortably.

The general **4% RULE IS NOT THE GUARANTEE** that some believe.

If you're wondering whether you'll have enough assets to make this goal a reality, you're not alone. According to The Allianz ***Reclaiming the Future*** Study, 50% of baby boomers surveyed were *"extremely concerned"* about possibly outliving their income.

Some people try to address this common concern by using the **"4% rule."** A generally accepted rule of thumb in planning for retirement income is to initially withdraw no more than 4% of an asset in retirement, and then increase the withdrawn amount by 3% each year to help offset the effects of inflation.[1]

Even though many believe that the 4% rule provides a strong likelihood for retirement assets to last 30 or more years, this approach doesn't provide any guarantee. While different studies produce varying probabilities of success, some recent analysis has shown the probability of failure within the first 30 years of retirement income[2] to be over 50% – a figure significantly greater than the findings of past research.

Fortunately, there are ways of addressing the effects of market volatility and adding a level of certainty for your retirement assets, income, and retirement.

For all that's ahead.®

Allianz

[1] "New Math for Retirees and the 4% Withdrawal Rule," *The New York Times*, May 8, 2015.

[2] David Blanchett, CFA, CFP®, Michael Finke, Ph.D., CFP®, and Wade D. Pfau, Ph.D., CFA, "Low Bond Yields."

This content is general information for educational purposes, and is not intended to constitute fiduciary advice. Please consult your financial professional for a specific recommendation about purchasing this product.

Must be accompanied by the Core Income 7 Annuity consumer brochure and inserts (CB95374 and CB95374-B) or appropriate variations.

CSI-385

Rethinking the traditional retirement income strategy

Many pre-retirees are experiencing a major shift from accumulation of assets to retirement income planning. For these individuals, the difference between a more secure future and a more uncertain one is the success of their retirement income strategies.

Let's consider John, a hypothetical 60-year-old, who has worked hard to save money for his retirement that begins five years from now (age 65). He and his financial professional have been meeting regularly to plan for his transition to the income phase of retirement. After reviewing his estimated expenses and guaranteed sources of income (i.e., annual Social Security and/or pension income) in retirement, it was determined that John would need an additional $10,000 annually to support his spending.

John's financial professional suggests two potential approaches that he could use to help meet his financial objective of creating a source of income that produces an additional $10,000 annually, starting at age 65.

APPROACH 1: 4% rule

This traditional approach would require $250,000 of his retirement assets to generate the desired income of $10,000 ($250,000 × 4% = $10,000).

Why the 4% rule?

Utilizing the 4% rule, depending on the types of assets John has, may offer more liquidity or access and potentially more opportunity for gains than a fixed index annuity (FIA). It's important to note that different financial products may be taxed at different rates. However, John's assets are not protected from longevity risk – the risk of outliving his income – and are often also not protected from market loss. As we have highlighted, according to some studies, this approach has a 51% probability that the money will run out within the first 30 years of retirement.

APPROACH 2: Core Income 7 and the Core Income Benefit rider

John's financial professional suggested an FIA because it offers principal protection, the potential for tax-deferred growth, and a death benefit for John's beneficiaries. Also, because John is interested in building a strong foundation for retirement income that he would like guaranteed for the rest of his life. Assuming that John purchases the Core Income 7® Annuity and Core Income Benefit rider (included at an additional cost) at age 60 and waits five years before starting income withdrawals, this new approach would require $148,149 in purchase payment (premium) of his retirement assets to generate the desired income at age 65.

The annual rider charge for the Core Income Benefit rider is 1.05% of the contract's accumulation value deducted monthly from the accumulation value and guaranteed minimum value (in most states).

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

APPROACH 2: Core Income 7 and the Core Income Benefit rider (continued)

Why the Core Income 7 and the Core Income Benefit rider?

Less money is needed. As you can see, the Core Income 7® Annuity requires less in assets than the 4% rule to guarantee the same desired income of $10,000. The reason for this is the Core Income Benefit rider's increasing withdrawal percentages, which would have increased from 5.00% at age 60 to 6.75% at age 65 ($148,149 × 6.75% = $10,000).

Protection from market loss. Throughout the life of his contract, John has the reassurance of knowing that his $148,149 premium and potential credited interest is protected from market loss.

Less money needed, protection, and

GUARANTEED LIFETIME INCOME

JOHN'S FINANCIAL OBJECTIVE:
$10,000 annually in retirement

Two potential approaches to generate the desired income …

Traditional approach: **4% rule**	New approach: **Core Income 7 and Core Income Benefit rider**
How much does it take to generate $10,000?	
$250,000 ($250,000 × 4% = $10,000)	**$148,149** ($148,149 × 6.75% = $10,000)
Are the retirement assets protected from market loss?	
May not be protected	**Protected**
Is the income guaranteed to last a lifetime?	
Not guaranteed	**Guaranteed**

Guaranteed lifetime income. Regardless of market conditions, the Core Income 7 Annuity and Core Income Benefit rider offer John guaranteed lifetime income that will never be less than $10,000. This amount is the minimum income for this example. If no interest had been credited during the five years, the accumulation value would have decreased to $140,532 due to the annual rider charge. However, the income withdrawals are based on the greater of the accumulation value and the net premium of $148,149.

John's financial professional reminds him that with this approach there is a surrender charge and market value adjustment (MVA) if the contract is surrendered in the first seven years. Surrender charges may result in the loss of all or part of any interest earned, and a partial loss of principal. In addition, because it's an FIA, and John's principal and credited interest are protected, there are caps or spreads that may be applied to the credited interest he earns.

Any distributions from annuities are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

Actual withdrawal percentages in the Core Income 7 Annuity and Core Income Benefit rider will vary based on age at issue and length of time the contract is held prior to beginning lifetime income withdrawals under the rider.

This hypothetical example is for illustrative purposes only, and is not intended to predict or project future results. The Core Income 7 Annuity and Core Income Benefit rider were chosen in this example; however, any fixed annuity could be used to illustrate this approach. Individual results will vary by product.

In addition, always keep in mind that your needs may change. It's important to understand the balance between all the features available with any annuity. Always consider each of these and how they work when considering if a product is appropriate for your needs.

An opportunity for more income with the Core Income 7 Annuity and Core Income Benefit rider

Besides protecting a portion of your retirement savings from market loss and offering guaranteed lifetime income, another benefit of an annuity is the opportunity to earn credited interest. Regardless of whether you prefer fixed interest or the potential for indexed interest, the Core Income 7® Annuity and Core Income Benefit rider offer you the opportunity for retirement savings accumulation.

The previous example assumes no interest was credited during the five years that the contract was in deferral, resulting in a minimum income amount of $10,000 annually. But what if John's annuity would have earned interest while he waited to start income under this rider?

The table below shows how much annual income the annuity could provide if it earned interest during the five years in deferral. For instance, John's annual income at age 65 could be $10,500. This amount of income would require the accumulation value to increase from $148,149 (initial premium) to $155,556, assuming an income withdrawal percentage at age 65 of 6.75% ($155,556 × 6.75% = $10,500). In order to build the accumulation value to $155,556, John's annuity would need to earn an annual interest rate from the chosen allocations of 2.05% every year during the five years in deferral.

How much interest would it take to achieve higher levels of income?

Annual income	$10,000	$10,500	$11,000	$11,500	$12,000
	↓	↓	↓	↓	↓
Accumulation value needed[1]	$148,149	$155,556	$162,963	$170,371	$177,778
Annual interest rate needed for 5 years	0.00%	2.05%	3.01%	3.93%	4.81%

The annual interest rates above do not include the charge for the included Core Income Benefit rider. For reference, at the current caps and spreads, **3.48% WAS THE MEDIAN** annual interest earned over every possible five-year period during the past 12.5 years.[2] Half the interest credits were greater and half the interest credits were less over this period.

[1] Assuming an income withdrawal percentage of 6.75% at age 65.

[2] Assuming the contract had been available on 6/1/2004, and using actual historical index data for an allocation choice comprised of the following:
- 25% S&P 500® Index with the current annual point-to-point cap of 4.25%
- 25% Nasdaq-100® Index with the current annual point-to-point cap of 4.25%
- 25% Russell 2000® Index with the current annual point-to-point cap of 4.25%
- 25% Bloomberg US Dynamic Balance Index II with the current annual point-to-point spread of 1.25%

It assumes a contract is issued on every day from 6/2/2004 through 12/31/2011 (an interest credit over all possible 5-year periods was calculated), assuming allocations are rebalanced at the end of each contract year. The median is the 50th percentile annualized interest credit for these periods (half of the interest credits were higher and half the interest credits were lower). For additional information about these indexes, refer to CB95374 and CB95374-B.

During the first seven years, a surrender charge and MVA will apply if the contract is partially or fully surrendered. These charges may result in a loss of indexed interest and fixed interest, and a partial loss of principal (premium).

The hypothetical examples in the table assume that no withdrawals or additional premium payments are made. The $10,000 annual income example is the minimum income for this example, and assumes no interest was credited. If no interest was credited, the accumulation value would have decreased to $140,532 due to the annual rider charge. However, the income withdrawals are based on the greater of the accumulation value and the net premium of $148,149.

These hypothetical examples are for illustrative purposes only, and are not intended to predict or project future results. Keep in mind that in some years a fixed index annuity may not credit any interest. In addition, hypothetical past interest credits may not be used to predict or project future results. Your actual results will vary by a number of factors, including the crediting method, cap, spread, and/or interest rates in effect.

The Core Income Benefit offers two income withdrawal options

There are many concerns you may have when it comes to retirement income, such as the rising costs of living and health care. The Core Income 7® Annuity and Core Income Benefit rider can help address some of these concerns by offering two income withdrawal options.

The examples we highlighted show income withdrawal single option 1 (predictable payments), which is most similar to typical income options available in the industry. This option is not likely to increase once income begins, whereas the 4% rule is adjusted for inflation.

PROTECTION, GUARANTEES, and the **OPPORTUNITY** FOR MORE

The other choice – income withdrawal option 2 – offers the same predictability of payments, but with the added potential for payment increases following any year in which the chosen allocations earn interest. For example, if your annual income payment is $10,000 and the interest credit for the year is 5%, then the income payment would increase to $10,500 ($10,000 × 5% = $500). The trade-off John will have to consider if he chooses the increasing income opportunity option is a starting income withdrawal that is lower than the predictable payment option. Fortunately John will not need to choose which option best fits his needs until he is ready to begin income withdrawals, although to reach his desired income level he would need a higher premium payment.

To help put this in perspective, let's look at how option 2 would work in John's scenario. As we showed, single option 1 provided him with a 6.75% income withdrawal percentage at age 65, while option 2 would start at 5.75%. If John wanted to choose option 2, then he would need to increase the initial premium amount from $148,149 (single option 1) to $173,914 to generate the same desired income of $10,000 ($173,914 × 5.75% = $10,000). Also, let's look at the income generated by option 2, assuming John purchased the Core Income 7 Annuity with $148,149 and assuming there was credited interest during the five years.

Annual income	$8,519	$9,000	$9,500	$10,000	$10,500
	↓	↓	↓	↓	↓
Accumulation value needed	$148,149	$156,522	$165,218	$173,914	$182,609
Annual interest rate needed for 5 years	0.00%	2.18%	3.29%	4.35%	5.38%

The hypothetical examples in the table assume that no withdrawals or additional premium payments are made. The $8,519 annual income example is the minimum income for this example, and assumes no interest was credited. If no interest was credited, the accumulation value would have decreased to $140,532 due to the annual rider charge. However, the income withdrawals are based on the greater of the accumulation value and the net premium of $148,149.

These hypothetical examples are for illustrative purposes only, and are not intended to predict or project future results. Keep in mind that in some years a fixed index annuity may not credit any interest. In addition, hypothetical past interest credits may not be used to predict or project future results. Your actual results will vary by a number of factors, including the crediting method, cap, spread, and/or interest rates in effect.

Is Core Income 7 Annuity with the Core Income Benefit right for you?

If you're concerned about saving enough for retirement – and if you want to have lifetime income withdrawals with an opportunity for payment increases – Core Income 7® Annuity with the Core Income Benefit may be right for you.

Ask your financial professional if Core Income 7 Annuity and Core Income Benefit rider may be a good fit for your retirement income strategy.

Although external indexes may affect your contract values, the contract does not directly participate in any stock or other investments. You are not buying bonds, shares of stocks, or shares of an index. The indexes do not include the dividends paid on the stocks underlying a stock index or interest. Stock dividends are not reflected in the interest we credit to your contract.

All annuity contract and rider guarantees, or annuity payout rates, are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased, or any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of Allianz Life Insurance Company of North America.

Distributions are subject to ordinary income tax and, if taken prior to 59½, a 10% federal additional tax.

• 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

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

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962

C54370-MVA
R95374-MVA