



Allianz Life Insurance Company of North America

Understanding the impact of **sequence of interest rates**

How it can affect your life
insurance policy, and
why it matters.

For all that's ahead.®

Allianz 



The most important reason to buy life insurance is to protect the people you love.

The income-tax-free death benefit from a life insurance policy can help your loved ones cover unexpected costs such as paying down a mortgage or other debts, college funding, estate taxes, final expenses, and more.

Some types of policies – such as fixed index universal life (FIUL) insurance – offer the additional benefit of cash value **accumulation potential**. This means your policy's cash value has the potential to accumulate, tax-deferred, based on positive changes in an external market index or a fixed interest allocation. At each policy anniversary, the cash value accumulation and interest are locked in and protected from negative index performance (although fees and expenses, including any applicable surrender charges, may reduce the cash value).

You can **access any available cash value** through income-tax-free loans and withdrawals¹ for a variety of financial needs (for example, supplemental retirement income, a way to complement a college funding strategy, weddings, emergencies, and more).

It's important to note, however, that **your policy is much more vulnerable to market volatility, especially once you start accessing your cash value by taking loans or withdrawals**. That's because varying interest rates and the timing of these variations can have a significant impact on your policy's cash 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 the timing at which the interest is credited. It also includes the risk of receiving lower or, in some cases, negative returns early in a period when withdrawals are made from an individual's investments or cash value accumulation vehicles such as a life insurance policy.

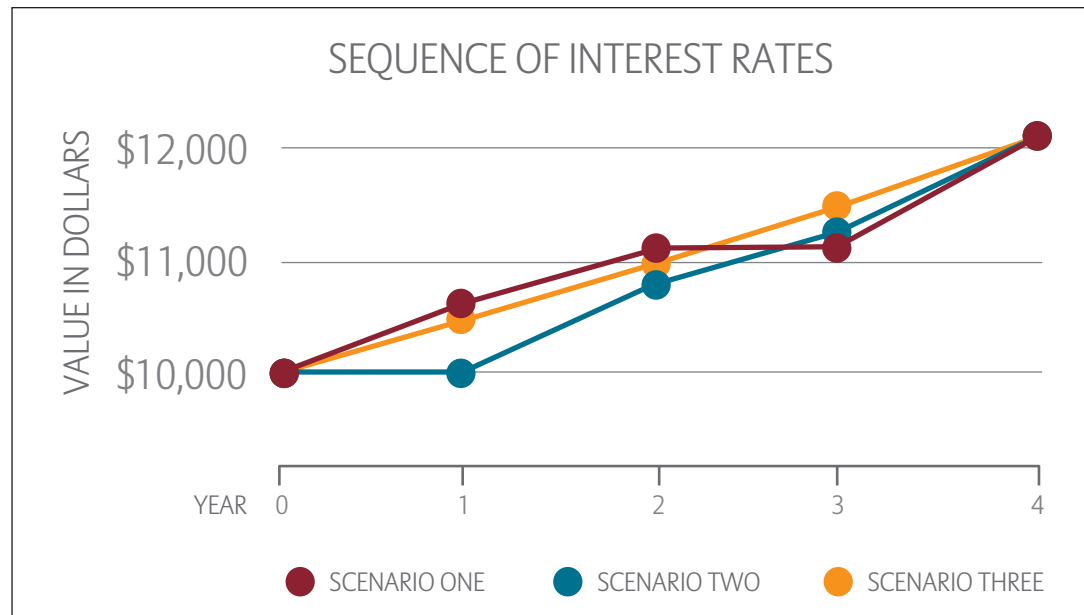
¹ Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in 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.

First, let's look at **three hypothetical scenarios** in which an average interest rate of 6% is credited over four years and how the sequence of interest rates can impact values.

Scenario one: The starting value is \$10,000. In year 1, 8% interest is credited; in year 2 the interest is only 4%; it's 0% in year 3; and in year 4 the interest is 12%. The average annual credited interest rate over the four years is 6%, and the value would have grown to \$12,580 over those four years.

Scenario two: The starting value is the same \$10,000. In this scenario year 1 yields 0% interest; year 2 earns 9%; in year 3 it's only 3%; and in year 4 the interest is 12%. Over the four years the average annual credited interest is also 6%, and the value would have grown to \$12,574 over those four years.

Scenario three: The starting value is the same \$10,000 but it earns a steady 6% credited interest every year. The value would have grown to \$12,625 over the four-year period.



While the account experiences 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, such as FIUL policies – especially when taking policy loans.



How sequence of interest rates can affect your FIUL policy

Now let's look at a hypothetical of how a varying sequence of interest rates can affect your FIUL policy when taking policy loans.

Meet James, a 45-year-old male, who is healthy.¹ James is married and has children at home. He needs \$1 million of life insurance coverage in addition to what he has through his employer. The death benefit could be used for income replacement for his beneficiaries as he is the primary wage-earner, but could also be used to pay down the mortgage and help fund his children's college education if he dies prematurely.

He only wants to fund the policy for 10 years. He plans on retiring at age 65 and accessing loans² from his policy to help supplement his retirement income needs.

Meet James.

In our hypothetical example, James is a 45-year-old male who is married with children at home. He has some life insurance through his employer, but needs an additional \$1 million in coverage to replace his income and pay down his mortgage.

¹ This hypothetical example is for illustrative purposes only.

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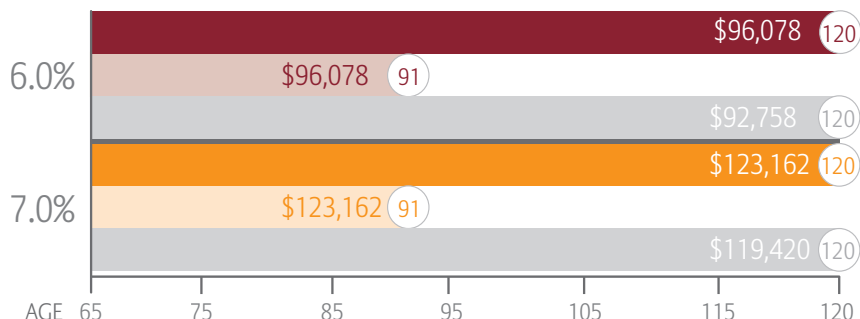
How sequence of interest rates can impact James' policy loan amounts and duration

The example below depicts several potential scenarios for James. The dark red bar shows a level interest rate of 6.0% for all years of the policy. Under this assumption, the potential amount that James could access each year in indexed loans¹ and still keep the policy in force to age 120 is \$96,078.

The light red bar shows an average annual interest rate of 6.0% for all years of the policy – but changing the sequence of interest rates so that once during every four-year period, the index credit is 0%.

Taking the same loan amount of \$96,078 each year would result in the policy lapsing at age 91.

The gray bar shows how reducing the loan amount to \$92,758 would help keep the policy in force to age 120. 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.



As you can see from the gray bar, James would need to make adjustments to keep his policy in force. Reducing the loan amount may meet James' desire for supplemental retirement income as well as potentially keeping the policy from lapsing.

Assumptions: Allianz Life Pro+® 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 \$47,435 for 10 years, indexed loans beginning at age 65.

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The higher the illustrated rate, the **bigger the impact**

The dark orange bar shows that at a 7.0% interest rate, the indexed loan amount starting at age 65 to age 120 would be \$123,162. The light orange bar shows the same annual interest rate of 7.0% with a 0% return every four years, and shows that the same loan amount would cause the policy to lapse at age 91. But if the loan amount is reduced to \$119,420, it would help keep the policy in force to age 120.

If adjustments were made to the policy, it could help keep the policy in force longer while still allowing James to supplement his retirement income.

Note: The minimum guaranteed interest rate for Allianz Life Pro+® Fixed Index Universal Life Insurance Policy is 0.1%. Assuming no loans are taken, the policy – at its guaranteed minimum accumulation value – would lapse at age 75 because of policy fees and charges.

It is important to understand the effect of loans on the policy and the income tax consequences if the loans cause the policy to lapse. If the policy lapses, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. In addition, even if the policy does not lapse, the death benefit will be reduced by the amount of any loans.





The importance of annual reviews

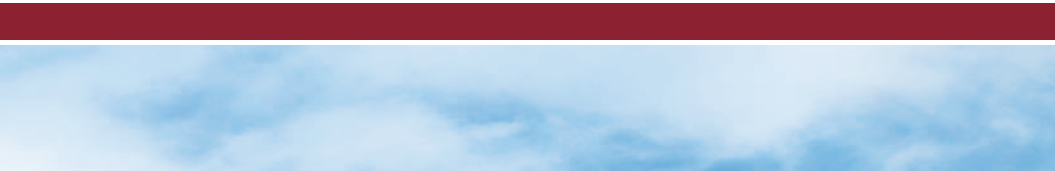
It is important to understand the risks associated with taking policy loans and how the sequence of interest rates can impact your policy over time.

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. During a policy review, your financial professional will also be able to review an in-force illustration of your policy with you. The in-force illustration shows interest credited to the policy to date, and any available policy loans. Reviewing an in-force illustration – especially when taking policy loans – may reveal additional adjustments that are needed, such as needing to pay additional premium payments to keep the policy in line with your goals and objectives, and can help avoid a policy lapse.

For more information on how the sequence of interest rates can impact your FIUL policy – or to schedule an annual review – **contact your financial professional.**







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 an important part of a leading global financial organization. **True to our passion** for making wise investment decisions. 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 over 3.5 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.

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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