

Protecting your retirement income from market volatility

Understanding the impact of your **sequence of returns**

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

For all that's ahead.®

Allianz 

ENT-1363-N

How would another drop in the market affect your retirement assets?

With today's longer life expectancies for women and men, you should plan on more years in retirement.

Once you begin retirement income, **SEQUENCE OF RETURNS MATTERS.**

And while that's a good thing, it does increase your risk of losing assets due to market volatility.

The good news is that, during the accumulation phase of retirement saving – the period before you start withdrawing money – you often have more time to weather volatile markets. Despite the ups and downs, over time, your assets can still grow appreciably.

The bad news ... ?

Once you start withdrawing income, you're much more vulnerable to market volatility.

During the distribution phase of retirement saving, when you begin drawing on your assets for income, market volatility – the year-by-year **sequence of returns** that your assets earn – can have a huge impact.

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 to increase if the market rises.

That loss will diminish the total value of your remaining assets. Over time, this chipping away of your assets will cause your money to run out more quickly than anticipated.





How much can your **sequence of returns** affect how long your money lasts?

To demonstrate, let's create a hypothetical example: Let's say you're retiring with a \$1,000,000 nest egg, and plan to withdraw 5% per year (\$50,000), assuming a 3.5% annual adjustment for inflation.

Assuming that today's volatile market will continue (i.e., you'll get positive returns as well as negative ones), let's find out how long your nest egg could last under two market scenarios – when the market is up as you start withdrawing income, and when the market is down when you begin.

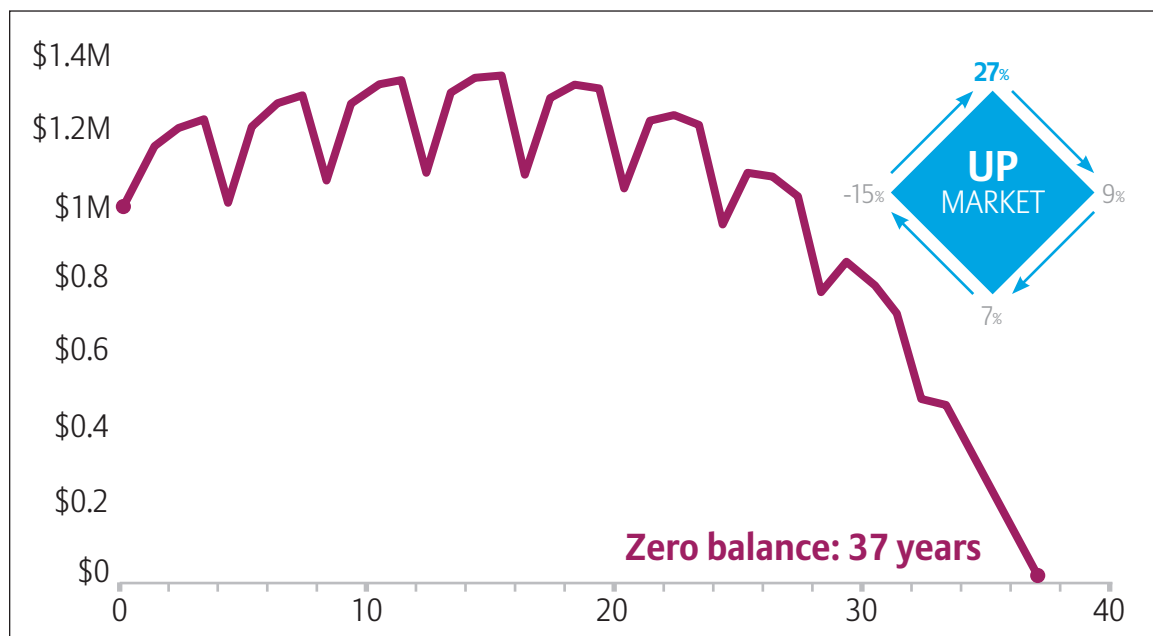
Could the difference be a few months – a few years – or even longer?

Turn the page and see.

Scenario one: You start withdrawing your retirement income in an **up market**.

We'll start with four years of varying annual returns. These include very good, good, and not so good returns, but with compounding they'll average a respectable 6% increase over time. And then we'll keep repeating that same sequence of annual returns – in the exact same order – until your annual withdrawals have completely used up the asset. (See chart at right.)

Starting retirement in an up market¹ (high early returns)



¹ Chart assumes a \$1,000,000 starting balance with an annual \$50,000 withdrawal (inflation-adjusted by 3.5% per year). This is a hypothetical example and is not intended to project the performance of any specific investment or index. It is not possible to invest directly in an index. If this were an actual product, the returns may be reduced by certain fees and charges. Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

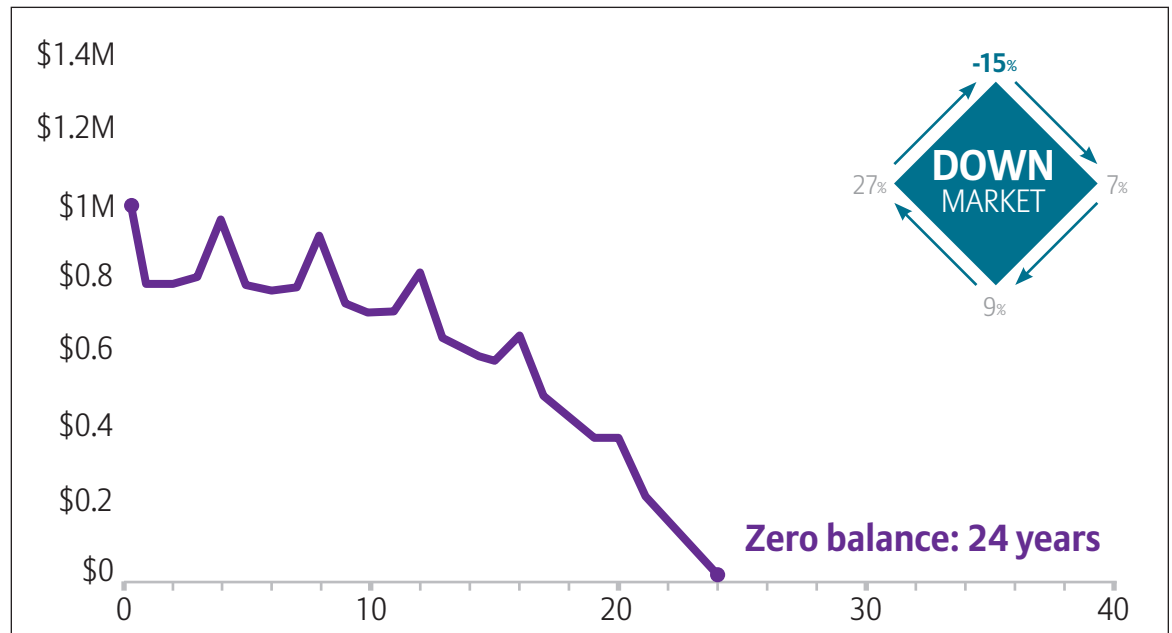
Year	Market return	Withdrawal amount	Investment balance
			\$1,000,000
1	27%	\$50,000.00	\$1,220,000
2	9%	\$51,750.00	\$1,278,050
3	7%	\$53,561.25	\$1,313,952
4	-15%	\$55,435.89	\$1,061,424
5	27%	\$57,376.15	\$1,290,632
6	9%	\$59,384.32	\$1,347,404
7	7%	\$61,462.77	\$1,380,260
8	-15%	\$63,613.96	\$1,109,607
9	27%	\$65,840.45	\$1,343,360
10	9%	\$68,144.87	\$1,396,118
11	7%	\$70,529.94	\$1,423,316
12	-15%	\$72,998.49	\$1,136,820
13	27%	\$75,553.43	\$1,368,208
14	9%	\$78,197.80	\$1,413,149
15	7%	\$80,934.73	\$1,431,135
16	-15%	\$83,767.44	\$1,132,697
17	27%	\$86,699.30	\$1,351,826
18	9%	\$89,733.78	\$1,383,757
19	7%	\$92,874.46	\$1,387,745
20	-15%	\$96,125.07	\$1,083,458
21	27%	\$99,489.44	\$1,276,503
22	9%	\$102,971.57	\$1,288,416
23	7%	\$106,575.58	\$1,272,030
24	-15%	\$110,305.72	\$970,920
25	27%	\$114,166.42	\$1,118,902
26	9%	\$118,162.25	\$1,101,441
27	7%	\$122,297.93	\$1,056,243
28	-15%	\$126,578.36	\$771,229
29	27%	\$131,008.60	\$848,452
30	9%	\$135,593.90	\$789,218
31	7%	\$140,339.69	\$704,124
32	-15%	\$145,251.57	\$453,254
33	27%	\$150,335.38	\$425,297
34	9%	\$155,597.12	\$307,977
35	7%	\$161,043.02	\$168,492
36	-15%	\$143,218.24	\$0
37	27%	\$0	\$0
38	9%	\$0	\$0
39	7%	\$0	\$0
Average return	6%		

Year	Market return	Withdrawal amount	Investment balance
			\$1,000,000
1	-15%	\$50,000.00	\$800,000
2	7%	\$51,750.00	\$804,250
3	9%	\$53,561.25	\$823,071
4	27%	\$55,435.89	\$989,865
5	-15%	\$57,376.15	\$784,009
6	7%	\$59,384.32	\$779,505
7	9%	\$61,462.77	\$788,198
8	27%	\$63,613.96	\$937,397
9	-15%	\$65,840.45	\$730,947
10	7%	\$68,144.87	\$713,969
11	9%	\$70,529.94	\$707,696
12	27%	\$72,998.49	\$825,775
13	-15%	\$75,553.43	\$626,355
14	7%	\$78,197.80	\$592,003
15	9%	\$80,934.73	\$564,348
16	27%	\$83,767.44	\$632,955
17	-15%	\$86,699.30	\$451,312
18	7%	\$89,733.78	\$393,170
19	9%	\$92,874.46	\$335,681
20	27%	\$96,125.07	\$330,189
21	-15%	\$99,489.44	\$181,172
22	7%	\$102,971.57	\$90,882
23	9%	\$99,061.80	\$0
24	27%	\$0	\$0
25	-15%	\$0	\$0
26	7%	\$0	\$0
27	9%	\$0	\$0
28	27%	\$0	\$0
29	-15%	\$0	\$0
30	7%	\$0	\$0
31	9%	\$0	\$0
32	27%	\$0	\$0
33	-15%	\$0	\$0
34	7%	\$0	\$0
35	9%	\$0	\$0
36	27%	\$0	\$0
37	-15%	\$0	\$0
38	7%	\$0	\$0
39	9%	\$0	\$0
Average return	6%		

Scenario two: You start withdrawing your retirement income in a **down market**.

We'll use the same annual returns as before, and keep repeating the returns as before, with only the sequence of those numbers changing – so even though the compounded returns still average +6% overall, this time, the worse annual returns began first. (See chart at left.)

Starting retirement in a down market¹ (low early returns)



What just happened? Keep reading.

¹ Chart assumes a \$1,000,000 starting balance with an annual \$50,000 withdrawal (inflation-adjusted by 3.5% per year). This is a hypothetical example and is not intended to project the performance of any specific investment or index. It is not possible to invest directly in an index. If this were an actual product, the returns may be reduced by certain fees and charges. Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

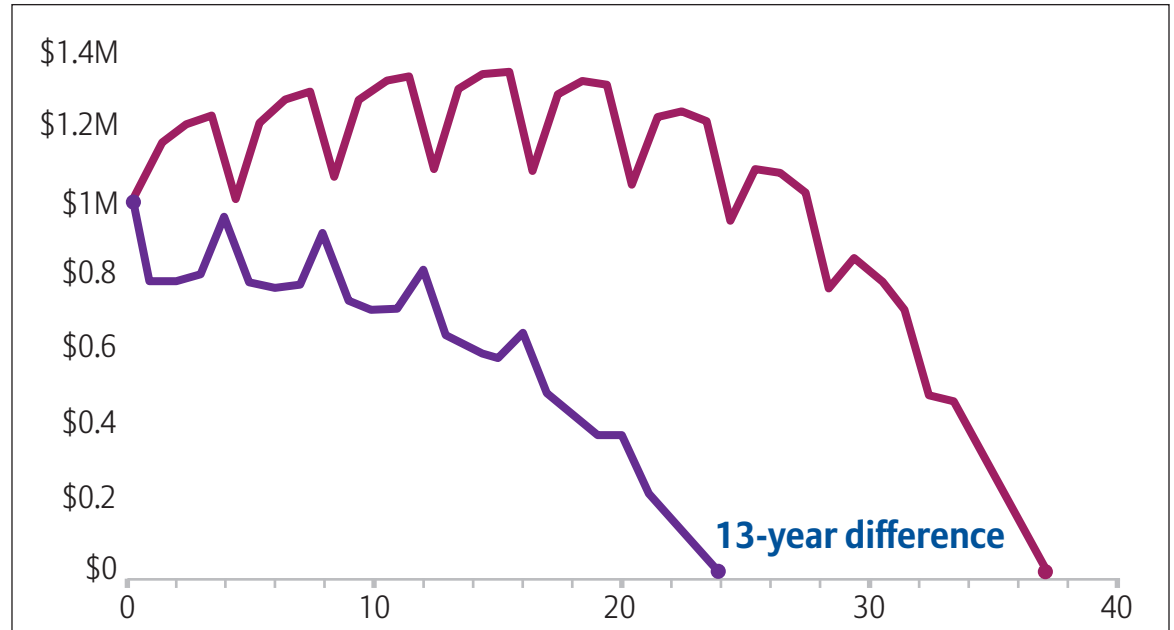


Your retirement income could have run out **13 years** sooner.

By starting retirement in a down market, you could have lost over 10 years of income – and only because you could have the same returns in a different order.

That, in a nutshell, is the risk that comes with your sequence of returns. And unfortunately, there's no way to predict how much the market will be up or down when you start your retirement. But there are strategies that can help address that risk.

Starting in an **up market** versus starting in a **down market**



This is a hypothetical example and is not intended to project the performance of any specific investment or index. It is not possible to invest directly in an index. If this were an actual product, the returns may be reduced by certain fees and charges. Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

An annuity can help address **sequence-of-returns** risk.

During your transition years – generally 5-10 years before retirement – some of your assets could be repositioned, as you and your financial professional deem appropriate, to help smooth out the impact of potential market volatility and to reduce the risk in sequence of returns.

One option is to convert a portion of your volatility-prone assets to a guaranteed product such as an annuity.¹

The guaranteed lifetime income that annuities can provide can help in leveling the impact of an unfavorable sequence in market volatility.

Remember, every additional year your assets last can mean fewer financial worries and more comfort, and potentially more to pass on to loved ones.

Annuities, as part of your overall portfolio, can also help with your living expenses, as well as uncontrollable expenses such as medicine, insurance premiums, food, real estate taxes, and more.

Annuities can help you meet your long-term retirement goals by offering tax-deferred growth potential, a death benefit for beneficiaries during the accumulation phase, a guaranteed stream of income during retirement, and income benefits that are either built-in or available as optional income riders that may have an additional cost.



Annuity guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company. You should carefully consider the features, benefits, limitations, risks, and fees that may be associated with an annuity. Ask your financial professional if an annuity is appropriate for you based on your financial situation and objectives.

Talk to your financial professional about strategies to help you manage sequence-of-returns risks for your retirement income.

AN UNFAVORABLE SEQUENCE OF RETURNS DURING RETIREMENT:

- Can reduce the income you receive.
- Can deplete your assets sooner than expected.
- Market losses can't be recovered once income is withdrawn.

¹Please keep in mind that producers must be currently registered with a broker/dealer to provide advice about, or recommend the liquidation of funds held in securities products, including those within an IRA or other retirement plan, for the purchase of an annuity.



True to our promises ... so you can be true to yours.®

As leading providers of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) and its subsidiary, Allianz Life Insurance Company of New York (Allianz Life® of NY), base 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, Allianz and Allianz Life of NY together help people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz, together with Allianz Life of NY, 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 pride ourselves on our financial strength, we're made of much more than our balance sheet. We believe in making a difference with our clients by being true to our commitments and keeping our promises. People rely on Allianz and Allianz Life of NY today and count on us for tomorrow – when they need us most.

- 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

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York. Variable annuity guarantees do not apply to the performance of the variable subaccounts, which will fluctuate with market conditions.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. www.allianzlife.com. In New York, products are issued by Allianz Life Insurance Company of New York, One Chase Manhattan Plaza, 38th Floor, New York, NY 10005-1423. www.allianzlife.com/new-york. Only Allianz Life Insurance Company of New York is authorized to offer annuities and life insurance in the state of New York. Variable products are distributed by their affiliate, Allianz Life Financial Services, LLC, member FINRA, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. www.allianzlife.com

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

(R-1/2015)