ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA

RISKS TO RETIREMENT INCOME

How fixed index annuities can help

Allianz

CB1051

SAVING FOR RETIREMENT IS JUST THE BEGINNING

If you're like many Americans, you're concerned about saving enough for retirement. But that's only half the story.

Health insurance premiums rose by **55%** between 2010 and 2020, compared to a 19% increase in the cost of consumer goods.[1]

While it's vital to have a solid savings strategy, you need an income strategy for your retirement, too. That's because retirement consists of two phases: accumulation – saving money for retirement – and distribution, or receiving retirement income.

And in the same way you work to protect some of your savings from risk, it's also important to protect your income from several risks you could face in retirement.

[1] "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.

RISKS IN RETIREMENT

To develop an effective income strategy for your retirement, it's helpful to understand the four main risks you could face after you retire:

1 "Consumption assumption"

You may have heard that you'll need 80% of your current income to sustain your lifestyle in retirement. But many people actually spend more. (It makes sense: When we're working, most of us spend more money on the weekends – and in retirement, every day is a weekend.)

If your income strategy is based on too conservative an assumption, you could find that your standard of living in retirement isn't what you'd hoped.

2 Inflation

The cost of consumer goods and services will likely increase over the next 20 to 30 years. And unfortunately, the cost of health insurance may rise even faster. In fact, health insurance premiums rose by 55% between 2010 and 2020, compared to a 19% increase in the cost of consumer goods. This disproportionate increase – combined with the fact that you may need more health care in retirement – could erode your savings faster than you expect.

If you're planning on taking a level income in retirement, you could find that inflation erodes your standard of living over time. That's why you may need a strategy that gives you an opportunity for increasing income.

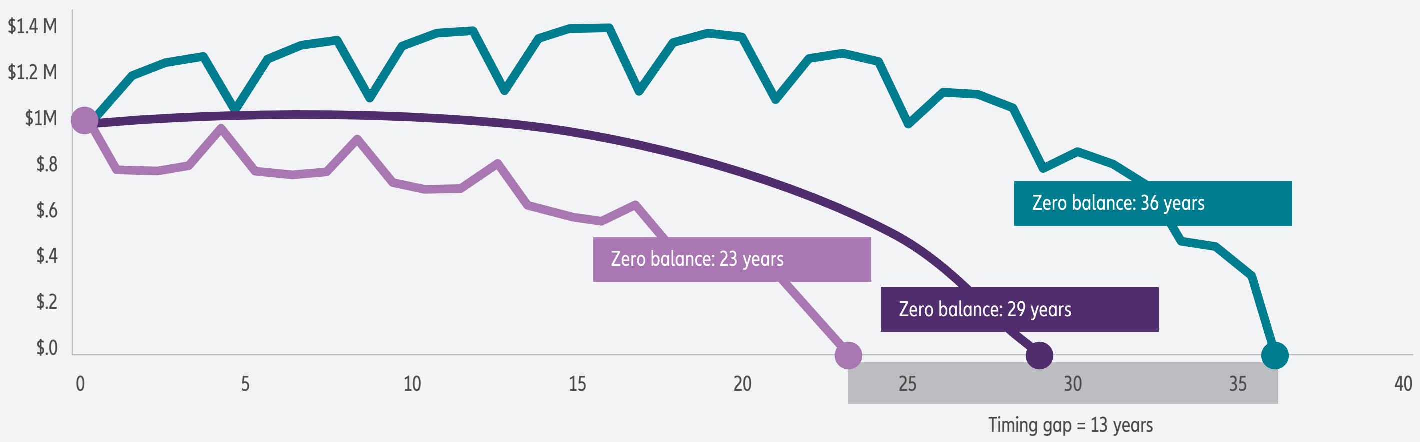
3 Longevity

When Social Security was established in 1935, life expectancy was just over slightly above 63 years for women and 59 years for men. In 2021, those figures are expected to rise to 89 and 87 respectively.[1] As medical advances continue, it's possible that our lifespans will grow even longer. That's why it's important to make sure that you'll have at least some income you can't outlive.

4 Effect of market volatility on retirement assets

When you're saving for retirement – and you're still several years from your retirement date – volatility isn't a big factor, because you still have time to recover. But when you start taking income in retirement, volatility can have a big impact on how long your retirement savings last. That's why it's so important to protect a portion of your income from market downturns.

Your sequence of returns impacts how long your money lasts



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

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.

[1] HealthView Services: 2021 Retirement Healthcare Costs Data Report.

YOU HAVE OPTIONS

Fortunately, there are solutions that may help you manage these risks to your retirement income.

One way to help could be to use a portion of your retirement savings to purchase a fixed index annuity (FIA) that offers accumulation potential, guarantees, and principal protection. FIAs can help meet your long-term financial goals by providing tax deferral, a death benefit, and a guaranteed stream of income in retirement. You also have the opportunity for increasing income, which can help reduce inflation risk, by purchasing optional riders that may be available for an additional charge.

Start by working with your financial professional to determine a realistic income for your retirement.

Then, ask your financial professional whether or not an FIA may be able to help you:

- create guaranteed retirement income you can't outlive,
- protect a portion of your income from market downturns, and
- provide an opportunity for income increases – even after you retire – through income benefits or riders, which may be offered at an additional cost.

Once you determine that an FIA may be a good choice for you, then your financial professional can help find a suitable option from our product portfolio to help meet your long-term financial goals.

Retirement: then and now

Just a generation ago, many Americans retired with at least two sources of income: employer pensions and Social Security. Most retirees received income for as long as they lived, and their Social Security benefits increased periodically to adjust for inflation. But that was then.

Today, most Americans no longer have employer-sponsored pensions. And because the future of Social Security is uncertain, Americans are increasingly responsible for funding their own retirement. That's why it's so important to have an income strategy for your retirement.

When it comes to your retirement strategy, just saving isn't enough. Ask your financial professional what you can do to help reduce the risks you may face to your retirement income.

Annuities are subject to surrender charge periods that can vary, but are generally between five and 10 years in duration. If you partially or fully surrender your contract within the surrender charge period, it may be subject to a surrender charge and market value adjustment (MVA). Distributions are also subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax may apply.

With the purchase of any additional-cost riders, the contract's values will be reduced by the cost of the rider. This may result in a loss of principal and interest in any year in which the contract does not earn interest or earns interest in an amount less than the rider charge.

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

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

Products are issued by Allianz Life Insurance Company of North America, PO Box 59060, Minneapolis, MN 55459-0060. 800.950.1962.
www.allianzlife.com (R-3/2021)