



# Success with fixed index annuities

Allianz Life Insurance Company of North America

**Allianz** 

# The Allianz vision

At Allianz, we believe that every American should have the opportunity to live out their life with financial independence. Through our network of financial professionals, our goal is to be the preferred choice for insurance products offering security, stability, and value.

Our primary objective is to help you achieve success as a producer in today's financial world. With our track record of successful product development and attentive service, you'll have everything you need to build your business.



## A leader in customized financial strategies

The development of a sound retirement solution starts with a relationship between us, so you can help your clients build on the three cornerstones of developing a successful financial strategy.

### Accumulation:

Preparing for a solid retirement nest egg

### Protection:

Guarding assets from unforeseen events

### Distribution:

Helping to ensure that clients don't outlive their wealth

Look to Allianz for an effective portfolio of annuities, life insurance, and LTCi to help meet your clients' financial needs before and during retirement.

# Fixed index annuities: a client-focused solution

Allianz is committed to offering you and your clients a diverse portfolio of insurance products backed by solid financial strength. With products like our fixed index annuities (FIAs), your clients can create a financial approach that helps meet their needs.

## Is an FIA different from a traditional fixed annuity?

An FIA, like all fixed annuities, has a guaranteed (“fixed”) minimum interest rate, which does not change over the life of the contract. Besides the minimum interest rate, an FIA also has the potential for additional increases in value by receiving indexed interest based on changes in one or more market indexes. FIAs can be an important financial tool because of their unique benefits and broad appeal. They combine:

- The opportunity to share in potential market index gains
- The guarantees of fixed products

Looking at the steady growth of the FIA product category, it’s clear that more and more Americans desire a combination of guarantees plus upside potential.

Guarantees are based on the claims paying ability of Allianz Life Insurance Company of North America.

## Allianz leads the FIA marketplace.

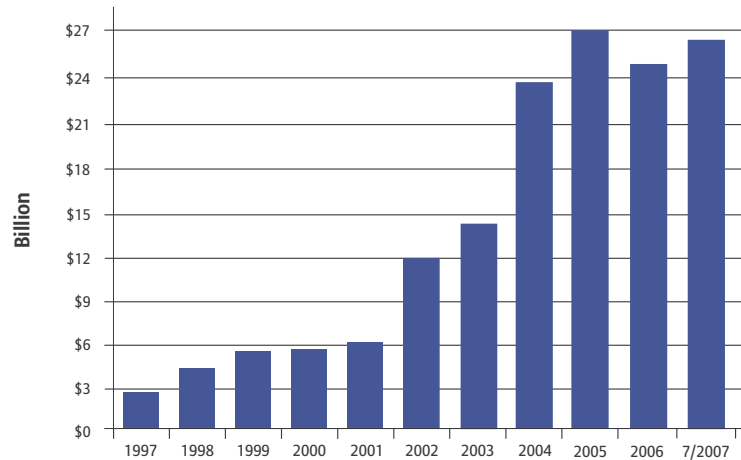
According to research by the Advantage Compendium Ltd, Allianz:

- Has been #1 in annual FIA sales based on premium for the past seven years.<sup>1</sup>
- Is the #1 overall FIA seller in history.<sup>1</sup>
- Had the largest share of the FIA market in 2006 based on premium.<sup>1</sup>

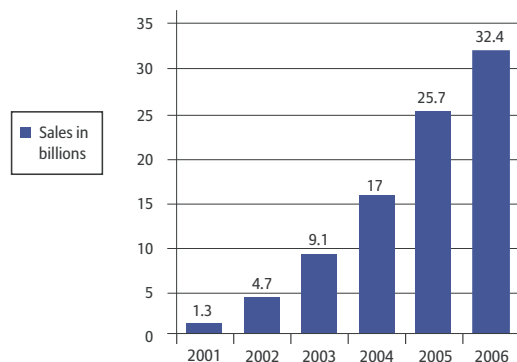
Also, two of the top three products in the FIA marketplace based on premium are Allianz products.<sup>1</sup>

<sup>1</sup> Advantage Index Product 1st Quarter 2007 Sales Report, May 2007.

## FIA sales industry-wide continue to be strong<sup>2</sup>



## Allianz cumulative FIA sales since 2001<sup>2</sup>



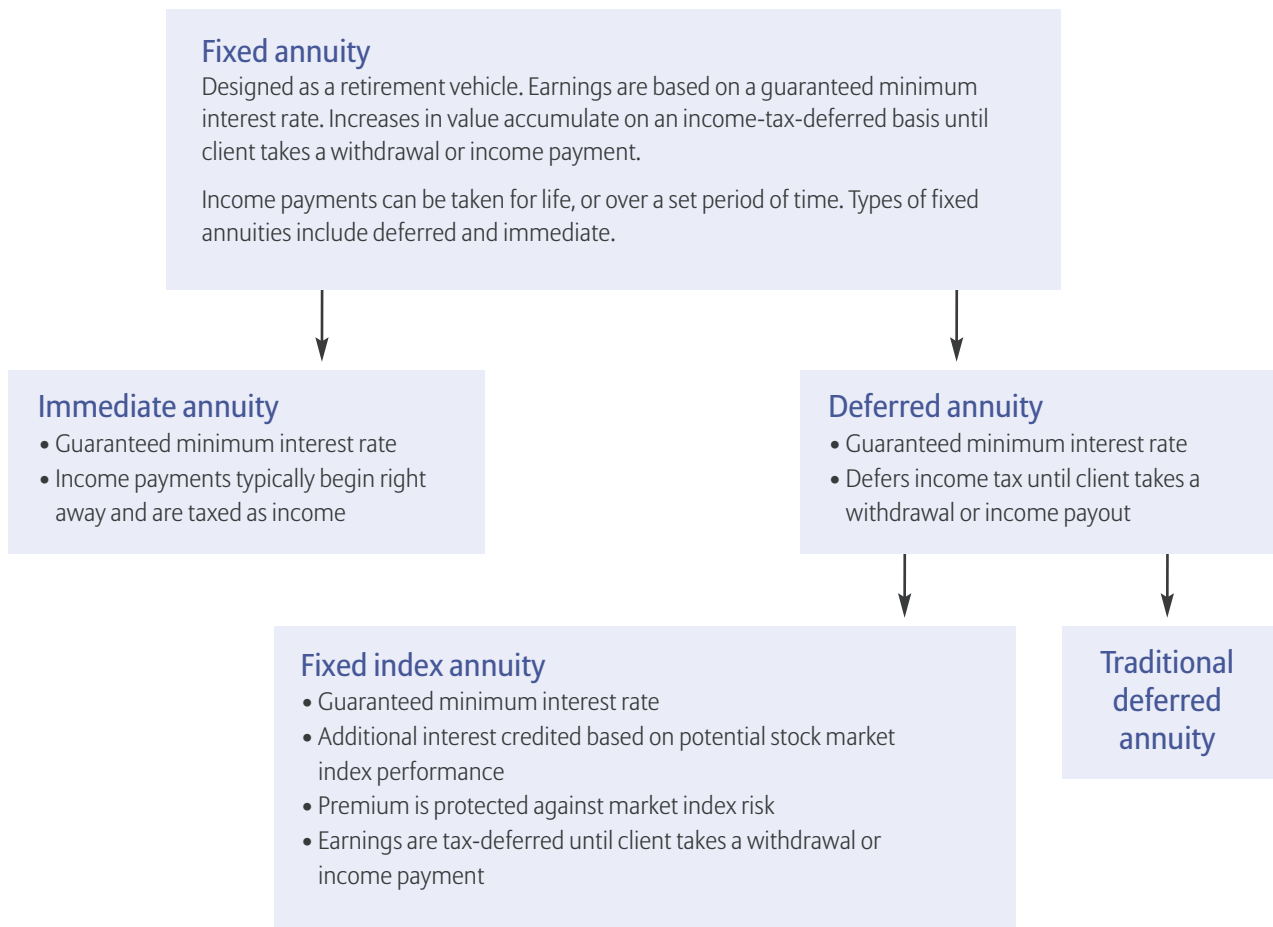
<sup>2</sup> The Advantage Compendium Ltd., St. Louis, MO, January 1997 - July 2007.

# The fixed index annuity difference

FIAs offer clients the opportunity to enhance their retirement income by combining growth potential with principal protection. FIAs share the benefits of traditional annuities, including safety, stability, death benefit protection, and annuitization options. FIAs also offer the potential for indexed interest credits. When the selected market indexes increase, FIAs capture a portion of the market index gains, subject to participation rates, caps, or other product-specific features.

“Index annuities are designed to be competitive with other savings instruments, and they still are, even at today’s rates and in an uncertain stock market.”

[www.indexannuity.org](http://www.indexannuity.org), January 2005.



# The moving parts of FIAs

There are a variety of so-called “moving parts” that can affect an FIA’s performance, depending on how they are applied to individual products. It’s very important that you ask some key questions:

- Is this product suitable for my client’s needs?
- What moving parts are included in this particular FIA?
- What market index conditions could impact the FIA’s performance?

## Here are four common moving parts of FIAs:

- **Participation rate:** When the market indexes are increasing the current value of FIAs increase with them, subject to a percentage known as the participation rate. For example, assuming an annual point-to-point crediting method, a 100% participation rate means that if the market index increases 10%, the FIA value would increase 10%. A product with an 80% participation rate would result in an increase of 8% in this same example. However, the annuity value increase also depends on the crediting method and any cap.
- **Cap:** A cap is a limit (expressed as a percentage) on the product’s earnings as defined by the individual FIA contract. For example, in an annual point-to-point product with 100% participation, if the performance is capped at 10% and the market index increases 12%, the FIA value would increase 10%.
- **Spread:** A spread is a preset deduction from the percentage of indexed growth that is used to calculate the indexed interest rate that is credited to an annuity contract each year. The spread will reduce the percentage of annual growth that an annuity can potentially earn in a given contract year. For example: in a monthly average product with a spread of 2% if the market index increases by 11%, then the FIA value would increase by 9%.
- **Annual asset fee:** Sometimes companies charge a fee, or a percentage amount that is deducted from the index growth calculation. Deducting an asset fee has an effect similar to offering a participation rate lower than 100%.
- **Floor:** A floor on an FIA’s performance may also apply as defined in the contract. The floor is the lowest rate that the FIA is subject to, regardless of how the market index performs.



# Safety with an opportunity for gains

Fixed index annuities offer potential indexed interest based on one or more market indexes, with the added benefit of principal protection.

## Who is buying FIAs? Someone who:

- Understands that annuities are long-term vehicles
- Almost bought an equity index mutual fund, but didn't because of the level of risk
- Would like to benefit from tax deferral
- Wants potential growth from index participation
- Is concerned about the effects of inflation

## Profile: Indexes used to determine growth

Two of the most common indexes used for determining index gains are the S&P 500 and the Nasdaq-100.<sup>®</sup> Annuity companies have added additional indexes in an effort to meet the needs of our clients wanting more diversification within their fixed index annuity. Allianz has added an international index, the FTSE 100, and a blended index that contains the Dow Jones Industrial Average, Lehman Brothers U.S. Aggregate Bond Index, FTSE 100 International Index, and the Russell 2000 Small Cap index. Here is a quick look at these important indexes.

## Standard & Poor's 500

The S&P 500 is considered by many to be the most common benchmark used in measuring the performance of U.S. stock market large caps. The S&P 500 represents a broad cross section of common stocks traded on every major U.S. stock exchange. The Index is a selection of 500 leading companies from 100 distinct industry groups found in 10 leading American industrial market sectors. For more information about the S&P 500, visit [www.spglobal.com](http://www.spglobal.com).

## Nasdaq-100

Launched in January 1985, the Nasdaq-100 includes 100 of the Nasdaq Stock Market's most actively traded issues, representing a cross-section of major industry groups. Its 100 companies are selected from the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market. Company size is based on market capitalization. For more information about the Nasdaq-100, visit [www.nasdaq.com](http://www.nasdaq.com).

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### Dow Jones Industrial Average (DJIA)

The DJIA is the oldest stock price index. Established in 1884 with only 11 stocks, there are now 30 stocks in the DJIA index. The DJIA is one of the most recognized stock indexes in the United States.

### Lehman Brothers U.S. Aggregate Bond Index

The U.S. Aggregate Index is part of the world's leading provider of fixed income benchmarks. The U.S. Aggregate Index is a mix of safe, level-performing bonds and is considered to be among the best in the U.S. For more information on Lehman Brothers, visit <http://www.lehman.com/>

### FTSE 100 index

The FTSE (pronounced "footsie") 100 Index is part of the FTSE UK Index. The FTSE is an acronym for Financial Times Stock Exchange. The FTSE 100 Index is comprised of the 100 most highly capitalized blue chip companies, representing approximately 81% of the UK market. It is used extensively as a basis for investment products, such as derivatives and exchange-traded funds. For more information regarding the FTSE Index visit <http://www.ftse.com/>

### Russell 2000 Index

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not affect the performance and characteristics of the true small-cap index. For more information regarding the Russell 2000 Index visit <http://www.russell.com/indexes/default.asp>

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# A choice of crediting methods for indexing options

The financial results of an FIA are based on the movement of the index(es) that are selected by a client. However, the actual performance experienced by clients will depend on the calculation or crediting method used. The following are examples of crediting methods used today.

## 1. Monthly sum

The monthly index return is calculated as the percentage change from the previous month's index value to the current month's index value. Monthly index returns may be positive or negative; positive returns are limited by a cap. At the end of each contract year, the 12 capped monthly index returns are added together to calculate the annual index rate for that year.

The following is an example showing monthly sum returns using actual index data for 2006-2007. Increases impacted by the 2.80% cap are shown below in bold type. The cap is established on every contract anniversary, and is guaranteed for the next contract year. This example assumes that the FIA is issued on August 1, 2006.

Month	S&P 500 monthly return	Capped monthly return
August 2006	2.13%	2.13%
September 2006	2.46%	2.46%
October 2006	<b>3.15%</b>	<b>2.80%</b>
November 2006	1.65%	1.65%
December 2006	1.26%	1.26%
January 2007	1.41%	1.41%
February 2007	-2.18%	-2.18%
March 2007	1.00%	1.00%
April 2007	<b>4.33%</b>	<b>2.80%</b>
May 2007	<b>3.25%</b>	<b>2.80%</b>
June 2007	-1.78%	-1.78%
July 2007	-3.20%	-3.20%
<b>Annual index rate</b>		<b>11.15%</b>

There is no established limit on negative returns in any individual month. However, clients have a safety net. Fixed index annuities have guarantees that protect against loss of principal when the market index performance lags.

This hypothetical example is provided for illustrative purposes only.

Source: finance.yahoo.com, 10/2007.

## 2. Monthly average with a spread

There is no cap on the amount of indexed interest growth possible with this crediting method. Once again, we begin by capturing the current value of the market index on the last business day before your contract is issued, as well as on the last day before each contract “monthiversary.”

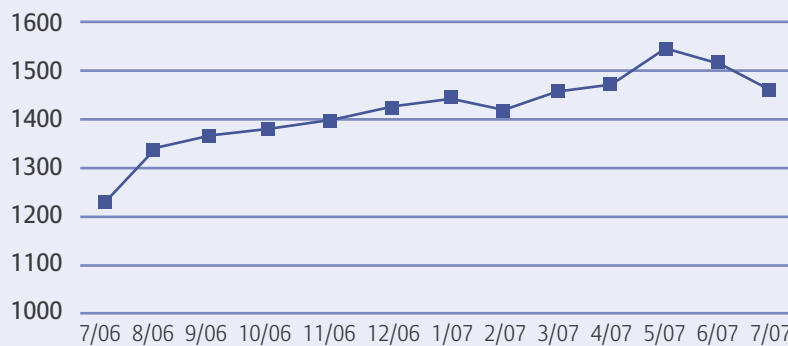
At the end of each contract year, we add up the individual monthly index values and determine an average by dividing the total by 12. We then subtract the result from the starting index value to determine the amount of positive or negative change in the index.

This amount is divided by the starting value to determine the percentage of annual growth.

To determine the spread we calculate the indexed interest rate for the year, and deduct the annual spread amount from the percentage of annual growth. We then credit the indexed interest rate to the contract’s annuitization/accumulation value. If the result is negative, the indexed interest rate for the year will be zero. If it is positive then those gains will be applied to the contract value. We can raise or lower the spread annually.

### Example:

The following example shows the calculation of a monthly average annual index rate using actual S&P 500 data in 2006 and 2007 (2% spread).



Source: finance.yahoo.com, 10/2007.

End of month	S&P 500 index value
July 2006	1276.66
August 2006	1303.82
September 2006	1335.85
October 2006	1377.94
November 2006	1400.63
December 2006	1418.30
January 2007	1438.24
February 2007	1406.82
March 2007	1420.86
April 2007	1482.37
May 2007	1530.62
June 2007	1503.35
July 2007	1455.27
Average index value	1422.84
Initial index rate	1276.66
Percentage of change	11.45%
Spread	-2.00%
Indexed interest rate	9.45%

## 3. Annual point-to-point

The percentage change in the market index is calculated from one contract anniversary to the next. A portion of any increase (the participation rate) is credited to the annuitization/accumulation value at the end of each contract year, up to the annual cap.

The following example uses actual S&P 500 data in 2006 and 2007. Because the annual point-to-point growth exceeds the cap, the annual index rate equals the cap.

### Example:

100% participation rate and a 10% annual cap

End of month	S&P index value
July 2006	1276.66
July 2007	1455.27
Percent of change	13.99%
Indexed interest rate	10.00%

Source: finance.yahoo.com, 10/2007.

## 4. Annual point-to-point with a participation rate

The percentage change in the market index is calculated from one contract anniversary to the next. A portion of any increase (participation rate) is credited to the annuitization/accumulation value at the end of each contract year, up to the annual participation rate.

The following example uses actual S&P 500 data.

### Example:

75% participation rate and no annual cap

End of month	S&P index value
July 2006	1276.66
July 2007	1455.27
Percent of change	13.99% x 75%
Indexed interest rate	10.49%

Source: finance.yahoo.com, 10/2007.

These hypothetical examples are provided for illustrative purposes only.

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### 5. Monthly threshold with 10-year reset

The value (or values) of the selected index(es) is compared to threshold levels that are established when the annuity is purchased. The annuity credits interest when the selected market index passes – or matches – a threshold level on a monthly anniversary.

For example, on the day an annuity contract is issued, the index stands at 1114.58. Using 5% threshold levels, the first threshold level is set at 1170.31 (5% more than 1114.58), the next one at 1228.82 (5% more than 1170.31), the next one at 1290.27 (5% more than the previous level), and so on.

These threshold levels remain in effect for the first 10 years of the contract, then they are reset. The total number of threshold levels is unlimited.

The example below shows how a contract with threshold crediting, issued on July 1, 2006, would have performed using historical S&P 500 data and a 3% threshold credit rate. In this example, because three 3% credits were earned (and immediately credited) during the contract year, the contract value increased by 9.27% over the year.

End of month	S&P 500 index value	Threshold level achieved	Threshold credit earned
July 2006	1276.66	–	–
August 2006	1303.82	–	–
September 2006	1335.85	–	–
October 2006	1377.94	1340.49	3.00%
November 2006	1400.63	–	–
December 2006	1418.30	1407.52	3.00%
January 2007	1438.24	–	–
February 2007	1406.82	–	–
March 2007	1420.86	–	–
April 2007	1482.37	1477.89	3.00%
May 2007	1530.62	–	–
June 2007	1503.35	–	–
July 2007	1455.27	–	–
<b>Indexed interest rate</b>			<b>9.27%</b>

On the contract's third monthiversary, the index hits 1377.94. This breaks through the first threshold level (1340.49). A single 3.00% threshold credit is earned and locked in.

On the contract's fourth monthiversary, the index rises, but not enough to break through the current threshold level (1407.52). No threshold credit is earned.

On the contract's fifth monthiversary, the index retreats to 1418.30. This breaks through the current threshold level (1407.52), earning another 3.00% threshold credit, and establishing the next threshold level (1477.89).

On the contract's ninth monthiversary, the index increases to 1482.37, breaking the current threshold level (1477.89), earning another 3.00% threshold credit, and establishing the next threshold level (1551.78).

On the contract's 11th monthiversary, the index retreats to 1503.35. Because principal and threshold credits are automatically locked in, the contract doesn't lose any value.

Source: finance.yahoo.com, 10/2007.

Past performance is not a guarantee of future results. No representation is made of future performance. An annuity contract owner does not invest directly in any index, including the S&P 500.

This hypothetical example is provided for illustrative purposes only.

# Key features that affect FIA performance

## Annual reset design

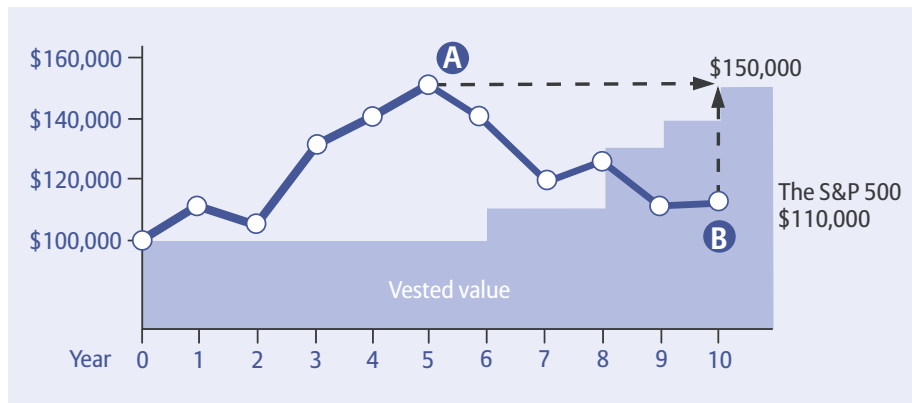
Market index values are reset each contract year, locking in any gains. The ending point of the contract year becomes the starting point for the following year. This means that a negative index return one year will not affect the index return for the following year.



- A** Index gains are locked in every year, never any losses.
- B** Even though the index results may be negative, they do not adversely affect the annuity's value.

## High water design

The highest point of index gains is locked in, eliminating risk due to market index losses. Some products feature an annual lock-in of index gains, while others may have a waiting period (vesting period) before gains are locked in. The following is an example of a high water annuity with a 5-year vesting period.



- A** After the high current value in Year 5, the best year, the market slumps – but it doesn't affect the annuity's value. The Year 5 high water value becomes locked in and vested in Year 10.
- B** At Year 10, the guaranteed value of the annuity is \$40,000 ahead of the S&P 500.

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## Sales ideas

### Gazing into the crystal ball

Clients know that market indexes move up and down. While saving for retirement, they want to improve their results and ensure that their assets are safe. You might say:

*“If you had a crystal ball that could see into the future, you might be tempted to use it to time investments in the stock market. With that crystal ball, you could buy low and sell high with uncanny timing. Unfortunately, experts point out that the public’s tendency is often the opposite of that mythical crystal ball owner; that is, the public tends to buy high and sell low.*

*“Of course, no one has an actual crystal ball. The good news is that I have found a vehicle that can help you share in a portion of the gains of stock market indexes, and protect you when they’re going down. You finally can enjoy fixed index gains without losing sleep worrying about drops in the market indexes. Would you like to know about a way that can take most of the guesswork out of the ups and downs of market indexes?”*

Odds are your clients will welcome a long-term product that can help smooth the road to retirement.

### Get out of harm’s way

Sometimes simplicity is best. You might say:

*“Have you ever heard the saying, ‘What goes up must come down’? When you think about the stock market, it’s important to remember that old saying, and to always be aware of the potential for volatile ups and downs in the market. Do you ever worry about that?”*

If the answer to that question is “yes,” you’re off to an FIA presentation that emphasizes the idea of locking in gains and the importance of guaranteed principal against the downside risk from market participation.



Guarantees are based on the claims paying ability of Allianz Life Insurance Company of North America.

# Allianz: the #1 choice of financial services professionals who have a choice

## Performance

We are focused on you. We are a company that provides strong performance with all of our products. Today's consumer is much more knowledgeable and demanding, and if you don't bring strong performing products to the table, those consumers will look elsewhere.

## Commission

We understand that you are building a business. To be successful, you need insurance products that provide you with a fair and adequate commission, so you can build and grow your business. Our products are all designed to give you that fair and adequate commission.

## Protection

Today's consumer is extremely interested in the safety of their wealth. With the size and strength of Allianz, our goal is to protect the money your clients entrust to us.

## Strength from an industry leader

Allianz Life Insurance Company of North America (Allianz) is a member of Allianz SE. With over 700 subsidiaries in more than 70 countries, Allianz SE is one of the world's leading providers of integrated financial services. Allianz has consistently been assigned financial strength ratings by Standard & Poor's and A.M. Best that are among the highest available. It is one of a select group of major insurance companies to receive such high ratings.

These independent agency ratings are based on an analysis of financial results and evaluation of management objectives and strategies. The ratings do not indicate approval by the analysts and are subject to change.

We believe that the value proposition we provide you, the producer, is one that gives you the entire package of strong performance, fair and equitable commission, and the utmost in safety.

**Enhance your business by working with Allianz – the future of annuities, life insurance, and long term care insurance.**

**Call the FASTeam at 800.950.7372 (press 1 for Sales Support, then 1 for Annuities) for detailed information, quotes, sales materials, and illustrations. Or visit [www.allianzlife.com](http://www.allianzlife.com)**



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