Allianz fixed index annuities

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Allianz Life Insurance Company of North America

Baseball and the **benefits of diversifying** your fixed index annuity

Create a team that can work together to help deliver the results you need.

FIXED INDEX ANNUITIES (FIAs) are long-term insurance products designed for retirement income purposes. Not only do they offer guarantees against the loss of principal and credited interest and a death benefit for beneficiaries, they also have the potential to earn interest based on positive changes in selected market indexes.

A baseball team is usually comprised of a variety of hitters. The typical player is expected to hit singles and doubles, but may rarely get a home run. And although the home run hitters are more likely to hit the ball out of the park, they may also have a higher probability for striking out.

The same can be said about the different crediting strategies within a fixed index annuity (FIA). A crediting strategy is a combination of an external index and a crediting method that determines how much interest you can receive in a given year. Some crediting strategies may offer the potential for more interest – in this case, a home run – but may provide less consistency. Others may have a lower interest potential – the singles and doubles hitters – but may provide more stability.

So which one should you choose? Will you swing for the fences – or aim for average? The answer depends on your financial goals and, as you will learn, your risk tolerance.

The risk and rewards of FIA crediting strategies

True to the basic guarantee of an FIA, you will never get less than zero credit in a year – even if there are market index declines (the purchase of any additional-cost riders will reduce the accumulation value). But even within this conservative context, the risk/reward trade-off can be compared within FIA index crediting strategies. In this context, "risk" refers to the frequency of receiving zero credit in a year, where the reward is the average annual interest credit.

The chart below highlights four of the most common FIA crediting strategies, their average interest credit, and the historical frequency of receiving a positive interest credit. Findings are from a historical backtest via the S&P 500® Index from 1950 – 2017 (issue dates 1/1950 – 12/2016). One-year annual reset was used in the calculation of these index crediting strategies. The results will differ for multi-year options.

	Positive interest credit frequency	Average interest credit
Annual point-to-point with a spread	35.29%	3.60%
Monthly sum	49.40%	3.49%
Annual point-to-point with a cap	73.23%	2.78%
Annual point-to-point with a participation rate	73.23%	3.21%

As you can see, annual point-to-point with a spread would have credited the highest average interest credit but also would have had the highest frequency for zero interest credit.

On the other hand, the annual point-to-point with a cap and annual point-to-point with a participation rate would have credited interest more frequently – about 73% of the time – except the average interest credit received would have been lower.

For all that's ahead.®

Must be accompanied by an appropriate FIA consumer brochure and "Understanding crediting methods" (M-5273).
Product and feature availability may vary by state and broker/dealer.

All findings presented resulted from a historical backtest of strategies using the S&P 500® Index from 1950-2017 and assume an annual point-to-point cap of 4.00%, an annual point-to-point spread of 14.75%, an annual point-to-point with a participation rate of 27% and a monthly sum cap of 2.10%. The annual point-to-point spread of 14.75% is greater than most spreads offered in the market today due to the fact that it costs substantially more to offer a spread on a pure equity index than it does on a blended or hybrid index with lower volatility. To produce the hypothetical results, all rates were held constant, although they would have varied throughout history, perhaps significantly. Because only one index is considered, the index history is common to all strategies considered. The S&P 500® Index did not exist over the entirety of the period tested. FIAs and the index crediting strategies considered were not available for much of the backtest period. The caps and spreads considered in this analysis were not necessarily the actual caps and spreads that could have been available during this time period, and will differ from FIAs that are sold in the market at any given time.

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So, which strategy is most effective? The answer can vary based on the risk tolerance of each individual. Those with lower tolerance for receiving zeroes can choose strategies designed to provide steadier interest credits.

Those with higher tolerance may choose strategies that would have historically provided a higher average annual credit while receiving zero interest credit more often.

It's important to note that these results assume 100% allocation into any one of those four strategies – but what if you decided to divide your allocations equally among all four strategies? In other words, what if you diversified them?

The power of a balanced team

Let's see how things change in this example of a diversified index crediting team, when a mixed allocation of 25% is given to each of the four index crediting strategies.

For help in creating a diversified strategy within your FIA, **contact your Allianz representative.**

As you can see in the chart below, the mixed allocation would have had the highest frequency of a positive interest credit, and a higher average annual interest credit than annual point-to-point with a cap or monthly average (although other crediting strategies had higher average interest credits, but also a higher frequency of receiving zero interest). This could appeal to both those with low tolerance for zeros and those looking for the potential for higher average credits.

Remember when allocating within an FIA, an external index may affect your interest credited, but the contract does not directly participate in any equity or fixed income investments. You are not buying shares in an index. It is not possible to invest directly in an index. No single index allocation option will be most effective in all market environments.

	Low tolerance	High tolerance
	Positive interest credit frequency	Average credit
Annual point-to-point with a spread	35.29%	3.60%
Monthly sum	49.40%	3.49%
Annual point-to-point with a cap	73.23%	2.78%
Annual point-to-point with a participation rate	73.23%	3.21%
Mixed allocation (25% each)	73.24%	3.27%

You can hope for home runs from a single source – or you can create a team that can work together to deliver the results you need. Remember, diversification does not protect against loss or ensure that interest will be credited.

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 any product.

Consumers are responsible for making their own decisions regarding allocation selections. For more information on indexes, see "Indexes used to determine interest" (M-5283).

The S&P 500® Index is comprised of 500 stocks representing major U.S. industrial sectors. The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy.

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