

Allianz Life Insurance Company of North America

Understanding crediting methods

Fixed index annuities

For all that's ahead.®

Allianz 

Fixed index annuities (FIAs) offer many important benefits. Understanding how they work can help you make better-informed decisions.

One benefit of an FIA is its potential to gain interest based on an external index. But how much indexed interest you receive will vary, depending on several factors.

One factor is the external index you select. Ask your financial professional about the index choices that are available with the FIA you're considering.

Another factor is the interest-crediting method you choose for your FIA. The crediting method defines how changes in the index are measured. The crediting method also has components such as caps, spreads, and participation rates that may limit the amount of indexed interest you receive.

In the following pages, we'll describe two common crediting methods and show how they work.

Components

Most FIAs have certain components that help determine how much indexed interest you can receive in a given year. Some annuities have only one component; other annuities may have several. The most common are:

Caps

Many FIA contracts set a “cap,” or a maximum interest rate the annuity can earn in a given period. If the return of the index you select exceeds the cap, the cap is used to calculate your interest.

For example, if the annual cap in this hypothetical example were 1.00% and the value of the index rose by 7.00%, the cap amount of 1.00% would be credited to your contract. However, if the index change was 0.5%, your contract would be credited 0.5%, since that is lower than our hypothetical cap.

Participation rates

In some annuities, a participation rate determines what percentage of the index increase will be used to calculate your indexed interest. For example, let’s suppose that the index rose by 7%. If a hypothetical FIA had a 50% participation rate and no other reducing component, the contract would receive 3.5% in indexed interest.

Spreads

In other cases, the indexed interest rate credited is determined by subtracting a spread from an index’s gain during a specified period.

For example, if the index increased by 7% and your hypothetical annuity had a 5% spread, your indexed interest would be 2%. If the index only gained 2% for the year, the amount of the gain (2%) is less than the spread (5%), so no indexed interest would be credited.

Keep in mind that these components may change annually (for example, caps may be raised or lowered), but are typically subject to lifetime maximums or minimums.

Certain components help determine how much indexed **INTEREST YOU CAN RECEIVE** in a year.

Now let’s take a look at **three types of crediting methods** that are used to calculate your interest.

Annual point-to-point

This is the simplest of the crediting methods. Annual point-to-point uses the index value from only two points in time, so it may be a good choice if you want to minimize the effects of mid-year market volatility.

Annual point-to-point may **HELP MINIMIZE** THE EFFECTS of midyear market volatility.

How it works:

- On your applicable contract anniversary, the index value from the beginning of the crediting period is compared to the index value from the end of the crediting period.
- The percentage of change in the index is calculated.
- If the ending index value is higher than the beginning index value, a participation rate, a cap, or a spread is applied to determine the amount of indexed interest you will receive.
- If the value is lower, you won't receive indexed interest.

For example, if the participation rate were 50%, the indexed interest for this contract year would be 3.5% (50% of 7%).

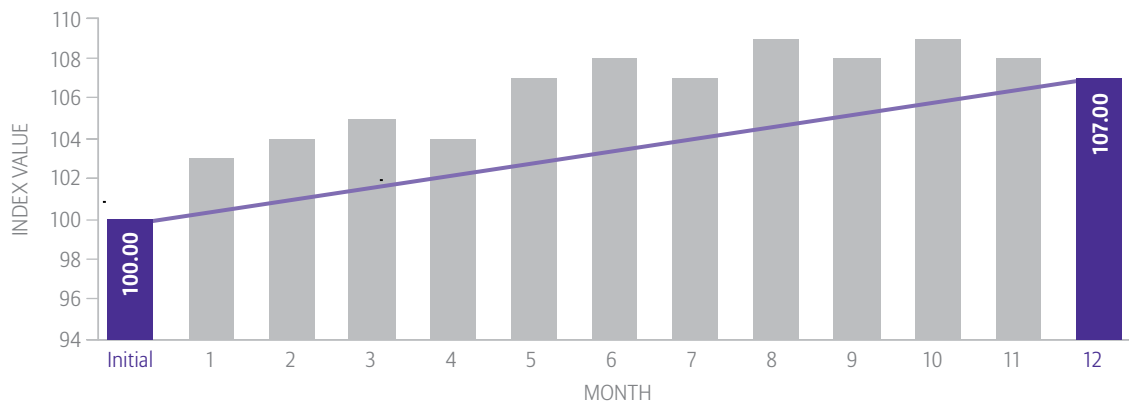
If the cap were less than 7.00%, the indexed interest for that year would equal the cap.

Finally, if this hypothetical example had a 5% spread, the indexed interest would equal 2% (7% change in index value – 5% spread = 2% indexed interest).

Example:

In this hypothetical example, the beginning index value (100) is compared to the ending index value (107), resulting in a change of 7%. The actual amount of indexed interest credited could depend on a participation rate, a cap, or a spread.

If the final result is negative, no indexed interest would be credited and your contract value would remain unchanged.

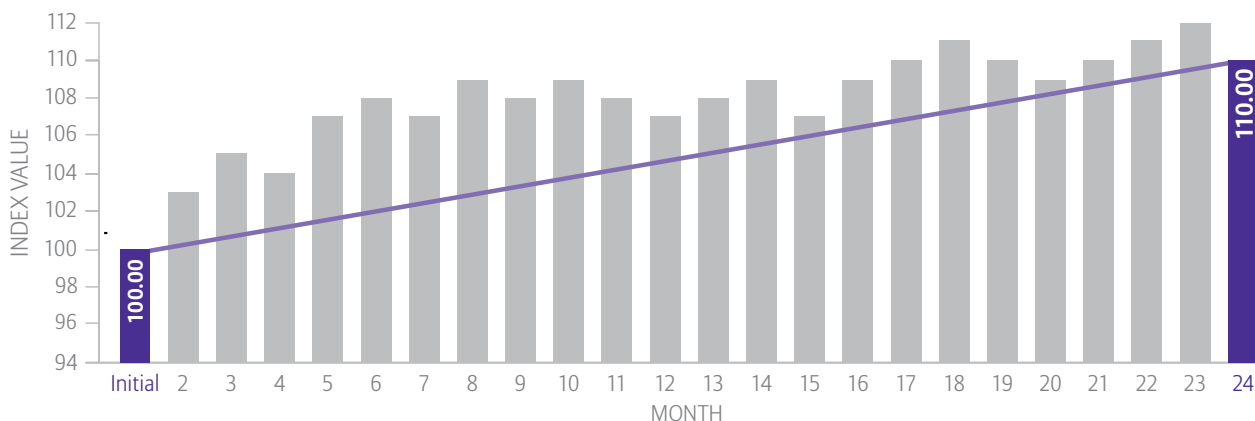


This example represents hypothetical performance, used to show how a crediting method functions, and does not guarantee future results. Although an external index may affect your contract values, the contract does not directly participate in any stock or investments. You are not buying any bonds, shares of stock, or shares of an index fund. It is not possible to invest directly in an index.

These examples represent hypothetical information and caps only, which are not guaranteed. Actual caps and spreads, and participation rates that could have been applied over this time frame, would have been different from the figures shown in this example and in some cases may be significantly higher or lower depending on a number of factors, including market conditions.

2-year point-to-point

2-year point-to-point uses the index value from two points in time two contract years apart, so it may be a good choice if you want to minimize the effects of volatility between those two points.



This hypothetical chart is provided to show how a crediting method affects contract values. It does not predict or project the actual performance of a specific product or its allocation options.

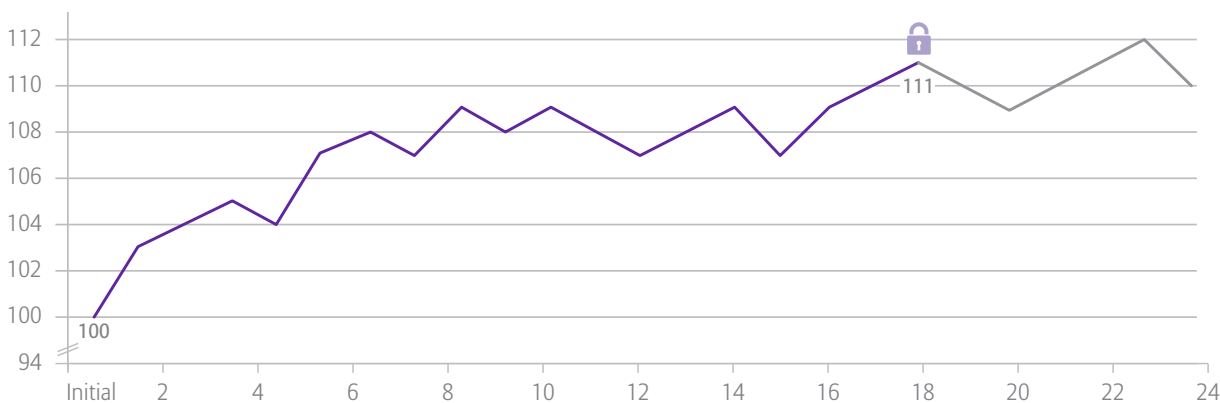
Index lock

How it works:

With both annual point-to-point and 2-year point-to-point, Allianz offers the ability for you to lock in your index value at any point during the crediting period. Your indexed interest credit is applied at the end of the crediting period based on your locked index value. If you choose to lock in an index value, the beginning index value for your next crediting period is the index value at the end of the previous crediting period (not the locked-in index value).

Example:

In this hypothetical example, the index value rose to 111 in month 18, at which time the decision was made to lock in the index value. The beginning index value (100) is compared to the locked index value (111), resulting in a change of 11%. If the participation rate were 80%, the indexed interest for this crediting period would be 8.8% (80% of 11%). By using index lock, you are able to lock in the current index value and be assured a positive index credit for the crediting period – no matter what happens during the remaining months. Please note, the index value used to determine interest credited may be higher or lower than the index value at the time of request. See CSI-504 for full details and business rules.



This hypothetical chart is provided to show how a crediting method affects contract values. It does not predict or project the actual performance of a specific product or its allocation options.

Monthly sum

Monthly sum is the most volatility-sensitive crediting method. It can provide interest in steady “up” markets, but it can be adversely affected by large monthly decreases.

Monthly sum can **PROVIDE INTEREST IN “UP” MARKETS**, as well as be adversely affected by large monthly decreases.

How it works:

- On your contract anniversary each month, the index value is compared to the prior month’s value, and the percentage of change is calculated.
- At the end of the year, the monthly index increases and decreases are added up. The increases may be subject to a cap; however, decreases are not limited by the cap.
- If the final sum is positive, you’ll receive that amount as indexed interest.
- If the sum is negative, you’ll receive no indexed interest.

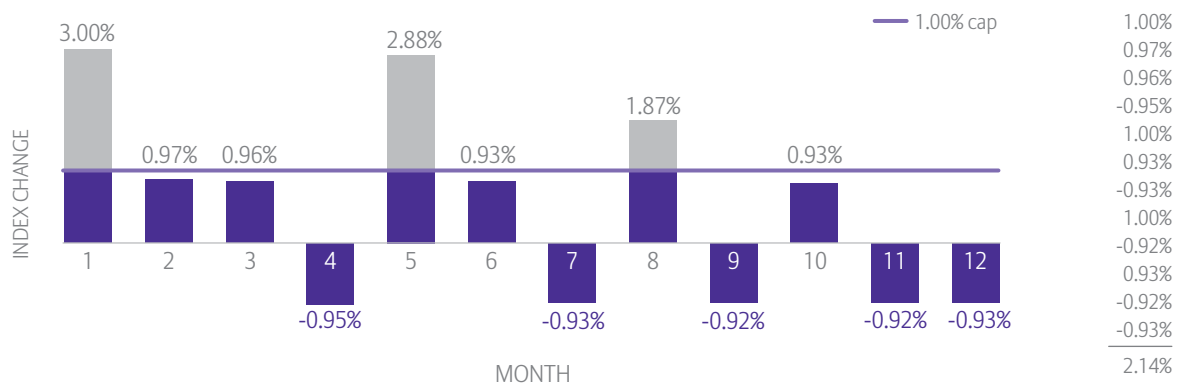
Example:

This hypothetical example shows monthly sum crediting, with a cap of 1.00%.

Every month, the index value is compared to the prior month’s value. The percentages you see below represent the percentage in index change, month-over-month.

At the end of the year, the monthly percentages are added up. In this example, the contract owner would receive 2.14% in indexed interest.

If the final result is negative, no indexed interest would be credited and your contract value would remain unchanged.

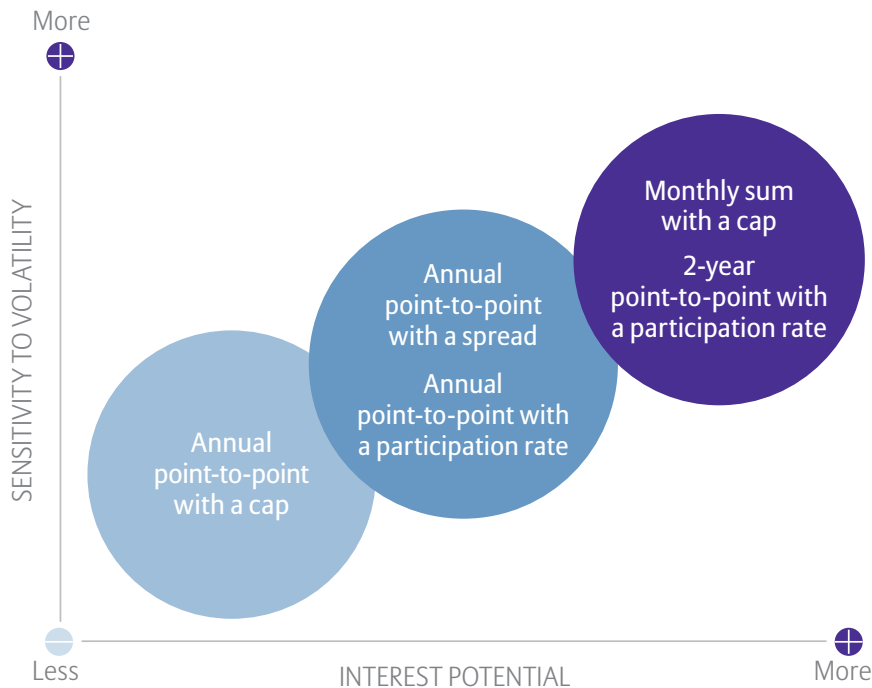


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Allianz FIA crediting methods at a glance

The crediting method you choose can significantly impact how much indexed interest you receive. That's why you should carefully consider your options, based on your overall financial strategy.



This chart depicts the crediting methods' relative sensitivity to index volatility and interest potential. It is intended only as an overview; please read the detailed descriptions of the crediting methods before you make a choice.

Remember that no single crediting method is best in all situations. In some market conditions, one crediting method may result in more interest than others – or zero interest in a given year. Also, keep in mind that you can choose a combination of crediting methods.

Some index crediting methods are more sensitive to volatility or changes in the market index.

And some index crediting methods offer – but do not guarantee – greater interest potential.



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Through a line of innovative products and a network of trusted financial professionals, and with over 3.6 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.

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