The changing outlook on retirement

(R-5/2017)

Does your portfolio have too much **interest rate risk?**

Why are bonds often chosen for a retirement strategy?

Bonds can contribute an element of stability to almost any portfolio.

They can also help provide you with:

- **Diversification** – In an attempt to diversify their retirement savings, people often purchase bonds which tend to be less volatile than stocks. Diversification does not ensure a profit or protect against loss.
- **Stability** – The majority of the returns come from interest payments; fluctuation in the price of the bond has little impact on the interest or income they produce.
- **Tax benefits** – Payments from some bonds are exempt from federal or state taxes.

Bonds are commonly considered to be less volatile than stocks – however, **bond investments are not without risk**.

In recent history, many people changed from investing in the stock market to investing in bonds as a safer alternative, with the intention of once again investing in the stock market when interest rates rise. However, if you're counting on bond investments (also called fixed-income investments) to generate retirement income or accumulate assets for retirement, you could find that their value has fallen when it's time for you to reinvest in another bond.

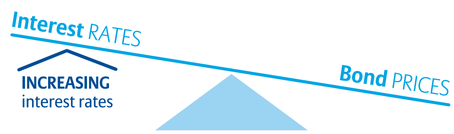
If you're depending on a certain amount of bond investment income, getting a lower yield could result in lowering your standard of living.

What contributes to volatility in bond values?

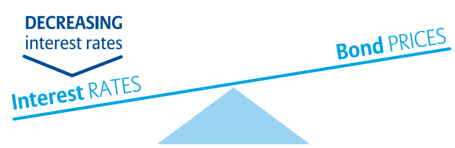
Many factors impact bond prices, one of which is the inverse relationship bond prices have with interest rates. Longer-term bonds tend to be more sensitive to interest rates since there is more time for rates to fluctuate.

Bond funds are subject to credit risk and inflation risk.

GENERALLY, WHEN INTEREST RATES GO UP, BOND PRICES GO DOWN:



ON THE OTHER HAND, WHEN INTEREST RATES DECLINE, BOND PRICES RISE:



The question is, which of these two scenarios is more likely to happen in the future?

Look inside for more on how you could be affected.

For all that's ahead.®

Allianz

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

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

CSI-380

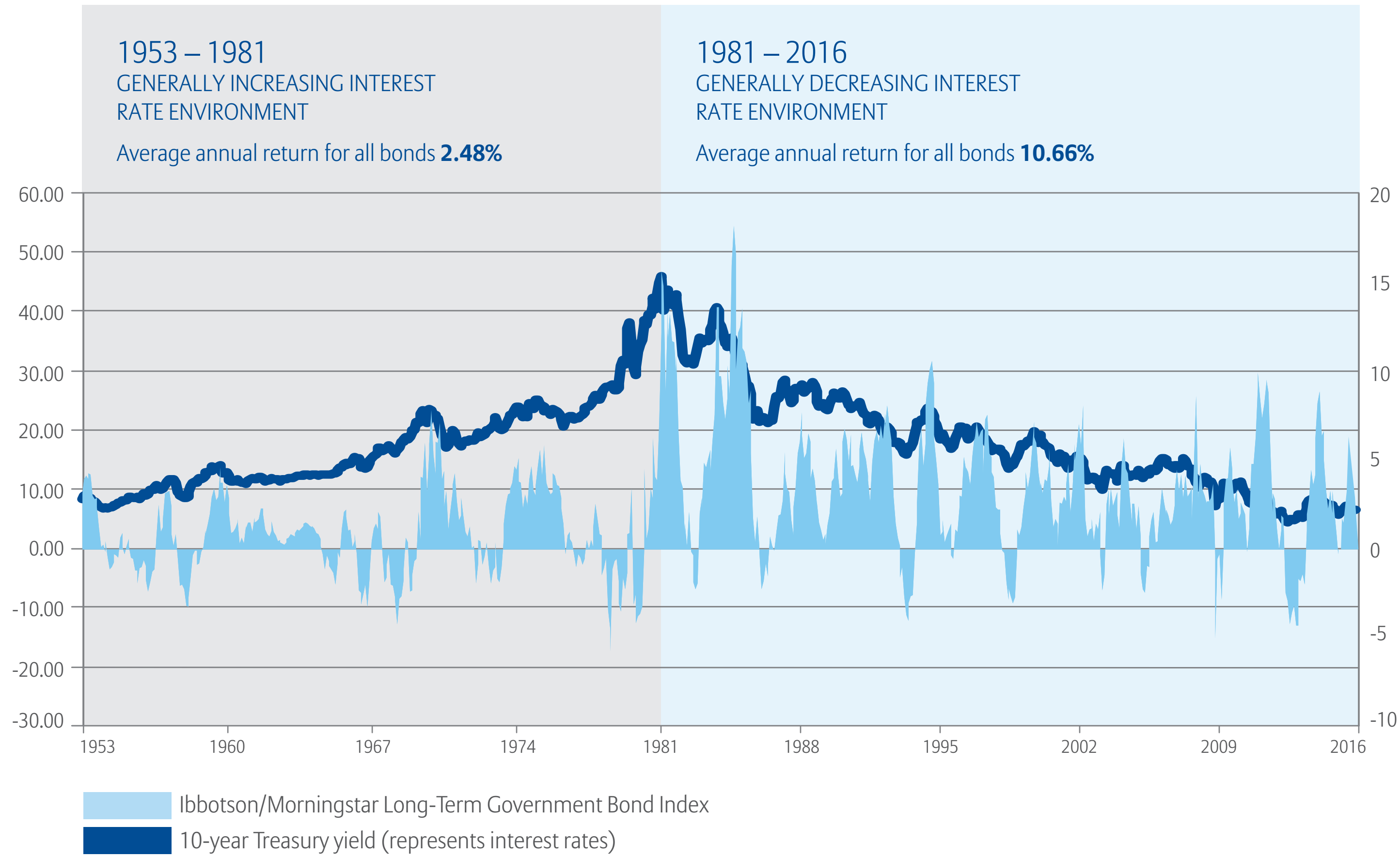
How would a rising interest rate environment affect your portfolio?

As the graph below shows, we've had more than three decades of a general trend in the baseline of declining interest rates – and with it, lower prices for newly issued bonds.

With interest rates at their lowest levels since the 1950s, in 2013 the Financial Industry Regulatory Authority (FINRA) issued this alert to investors: "Many economists believe that interest rates are not likely to get much lower and will eventually rise ... then outstanding bonds, particularly those with a low interest rate, may experience significant price drops as interest rates rise along the way." Recently FINRA updated their alert by saying, "… just as some people's skin is more sensitive to sun than others, some bonds are more sensitive to interest rate changes than others."[1]

The New York Times reported "The Fed raised its benchmark interest rate in March for the third time since the financial crisis, and said it planned two more rate increases this year." Federal Reserve Chairwoman Janet L. Yellen said, "it would be appropriate for the Fed to keep raising interest rates."[2]

BOND MARKET RETURNS



Source: Ibbotson/Morningstar and U.S. Department of the Treasury, 1953-2016.

With the risk of interest rates potentially rising sometime in the future, if you're holding a disproportionate amount of your assets earmarked for retirement in fixed income investments, you may have more risk in your portfolio than you realize.

[1] "Duration: What an Interest Rate Hike Could Do To Your Bond Portfolio," FINRA Investors Alert, Investors Education Series, February 2013, referenced in "Bond Liquidity – Factors to Consider and Questions to Ask," FINRA Investors Alert, updated March 6, 2017.

[2] Binyamin Appelbaum, "Yellen Signals Shift From Stimulating Economy to Sustaining Growth," *The New York Times*, April 11, 2017.

For more complete information about Allianz or Allianz Life of NY variable annuities and variable investment options, call your financial professional or Allianz Life Financial Services, LLC at 800.624.0197 for a prospectus. The prospectuses contain details on investment objectives, risks, fees, and expenses, as well as other information about the variable annuity and variable investment options, which you should carefully consider. Please read the prospectuses thoroughly before sending money.

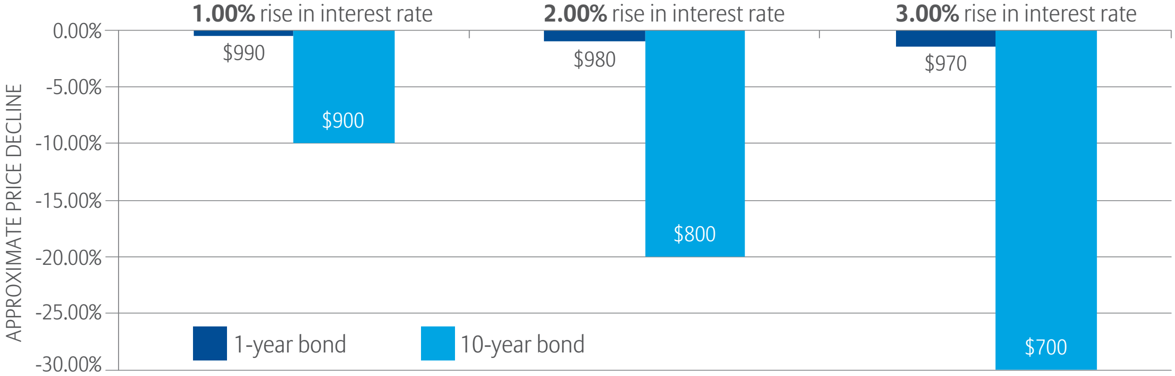
The longer the term of the bond you hold, the greater the interest rate risk you are assuming.

This chart illustrates that bonds with higher durations carry more interest rate risk and have higher price volatility than bonds with lower durations. This is because in an increasing interest rate environment, shorter-duration bonds can be reinvested at new, higher rates at a quicker pace. Longer-maturity bonds tend to have longer durations. In fact, zero-coupon bonds have a duration equal to their time to maturity. Consider the following chart: A rise in interest rates of 1% would result in a decline in price of approximately 1% in a bond with a duration of one year, a rise of 2% would result in a decline of approximately 2%, and a rise of 3% would result in a decline of approximately 3%.

Now look at how a 10-year bond is affected by the same rise in interest rates of 1%, 2%, and 3%. The 10-year bond would see a decline of approximately 10%, 20%, and 30%.

BONDS AND AN INCREASING INTEREST RATE ENVIRONMENT

LONG-TERM BONDS ARE MORE SENSITIVE to movements in interest rates than short-term bonds.



Hypothetical example using a zero-coupon bond and an initial value of $1,000. As a general rule, for every 1% increase in interest rates, a bond's price will decrease approximately 1% for every year of duration.

If you're five to 10 years from retirement, you may not have the time to make up for any losses in your savings. And with the inflation that rising interest rates could bring, the purchasing power of your savings could be reduced as well, possibly putting additional strain on your standard of living.

Annuities may be one solution for some of your retirement assets, though some may need an additional-cost rider to help fill these needs.

Annuities can help you meet your long-term retirement goals by offering tax-deferred growth potential, a death benefit during the accumulation phase, and a guaranteed stream of income at retirement.

You should carefully consider the features, benefits, limitations, risks, and fees that may be associated with an annuity, as well as the expenses, investment risks, and objectives of the underlying investment options in a variable annuity.

Now may be a good time to consider an annuity from Allianz Life Insurance Company of North America (Allianz) or Allianz Life Insurance Company of New York (Allianz Life® of NY).

Contact your financial professional to discuss whether an annuity may be right for you.

This content is general information for educational purposes, and is not intended to constitute fiduciary advice. Different financial products have different purposes and risk levels. Please analyze your own goals and consult your financial professional for a specific recommendation about purchasing any financial product.

This is not intended as legal or tax advice.

Charges for early withdrawals may result in a loss of contract gains or any interest (if applicable) and a loss of principal.

Any distributions from annuities are subject to ordinary income tax and, if taken prior to 59½, a 10% federal additional tax.

Any transaction that involves a recommendation to liquidate a securities product, including those within an IRA, 401(k), or other retirement plan, for the purchase of an annuity or for other similar purposes, can be conducted only by individuals currently affiliated with a properly registered broker/dealer or registered investment advisor. If your financial professional does not hold the appropriate registration, please consult with your own broker/dealer representative or registered investment advisor for guidance on your securities holdings.

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 are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises we believe we make a real difference for our clients. It's why so many people rely on Allianz and Allianz Life of NY today and count on us for tomorrow – when they need us most.

All annuity contract and rider guarantees, or annuity payout rates, are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased, or any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York. 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, 28 Liberty Street, 38th Floor, New York, NY 10005-1422. 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

• 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