



Statement of
Gary Bhojwani
President & CEO

Allianz Life Insurance Company of North America

Before the
Senate Special Committee on Aging
Regarding:

Advising Seniors About Their Money:
Who Is Qualified – and Who Is Not?

September 5, 2007

Introduction

Thank you for inviting me to participate in today's hearing. My name is Gary C. Bhojwani and since February of this year, I have been the president and CEO of Allianz Life Insurance Company of North America.

Founded in 1896 and based in Minneapolis, Allianz Life provides fixed and variable annuities, life insurance policies, and long term care insurance products in the United States. Allianz products are offered through a network of independent financial professionals. The company is part of Allianz SE, a global financial services group that is the 16th largest corporation in the world based on revenue (Fortune, August 2006).

The testimony that follows provides information about the changing retirement landscape* and the important role that Allianz and our deferred annuity products can play in meeting the financial needs of consumers, including seniors.

In addition, we will present a description of the steps we take to help ensure that every customer fully understands the product he or she purchases from Allianz, and that every sale is appropriate for that customer.

Annuities Serve a Real Market Need

Annuities serve a real need in the market. As life expectancies continue to rise, individuals have legitimate concerns about Social Security, the decline of traditional corporate pensions, and outliving their retirement savings. Individuals need to take action to adequately prepare themselves for their retirement years.

The concern about outliving one's assets is becoming more acute. For example, for a healthy couple age 65, there is a 50% chance that one of them will live to age 92. Equally significant, there is a 25% chance that one of the partners will live to be 97. This means that retirements could last more than 30 years. Preparing for a longer retirement than historically was the case is a reality.

We at Allianz are committed to ensuring that our products meet the needs of the people who entrust their hard-earned savings to us. Our products provide financial peace of mind for thousands of consumers. In addition, our processes – including the steps we take to protect seniors – have earned Allianz high customer satisfaction ratings in the marketplace.

Allianz is Committed to Offering Valuable Products to Seniors

As the nation's Baby Boomers enter retirement, senior citizens are becoming a growing segment of our population. Our products – including deferred annuities – can offer significant benefits to seniors.

The average age of the purchasers of our deferred annuity products is 59. These consumers are often in the final years of their working lives, and they want to ensure that they will have enough income to see them through their retirement years.

Each consumer has unique financial objectives and circumstances. Annuities are just one of the financial products that can help a consumer meet their needs. Allianz has strong processes in place to ensure that we understand the needs of our customers, and that our customers have the information they need to make informed and appropriate decisions.

Annuities Meet Consumer Needs

Although Allianz also issues variable annuities, traditional deferred annuities, and immediate annuities, we are the market leader in the fixed index annuity segment.

The fixed index annuity marketplace emerged in the aftermath of the major stock market declines that occurred during the dot.com bust of 2001. Many individuals lost a substantial portion of their savings, and were looking for a more secure financial product that also provided a guarantee against loss of principal with an opportunity to earn interest linked to stock market performance. Regardless of stock market performance, if held to maturity, our fixed index annuities provide safety and protection of principal. Fixed index annuities also provide higher potential returns than fixed rate annuities. And, like other deferred annuities, they provide tax-deferred growth during the period of time the funds are held by the insurer.

For millions of consumers, annuities are one component of a well-diversified portfolio. Annuities are the **only product** that can offer guaranteed income for the entire life of the annuitant. Individuals who purchase our products know that at least one portion of their financial portfolio comes with this guarantee.

Deferred annuities are not only a valuable product for retirement income; they are well-suited for consumers – including seniors – who wish to safely accumulate assets for the purpose of transferring wealth to their heirs and beneficiaries.

How Deferred Annuities Compare to Other Financial Products

Every financial product has different attributes and is designed to achieve different financial objectives.

There are three key attributes to consider when determining whether or not a particular product is right for an individual and his or her situation:

1. Volatility
2. Liquidity
3. Risk of loss of principal/return on investment

A product purchase decision involves balancing these attributes and assessing a consumer's priorities, including their risk tolerance.

For example:

- A traditional savings account is completely liquid and has very low volatility—but the return is relatively low.
- A Certificate of Deposit (CD) is even less volatile due to the guaranteed interest rate, and provides a somewhat higher return than the savings account. It also has less liquidity because the funds must remain in the CD for a specified period of time. The longer the purchaser is willing to hold his or her money in a CD, the higher return he or she will typically earn.
- In contrast, a mutual fund is liquid, and has the potential for a very high return. It is also extremely volatile and is exposed to the risk of loss of principal and/or gains obtained in the account.
- Real estate, particularly the home, is for many people the single most valuable asset they own. It is fairly liquid, though not as liquid as a savings account or mutual fund. As we have seen recently it can also be fairly volatile. In typical times it has the potential for a good, though not spectacular, return.

Deferred annuities

Deferred annuities are not as liquid as some other financial products, for example a CD or savings account. To obtain the full benefits, the annuity must be held for a defined period, generally five to ten years. Depending on the features of the particular product, it is possible to withdraw funds without penalty after a specified period of time, or to withdraw funds if certain significant events or hardships occur.

A deferred annuity also has relatively low volatility. It is an insurance product that includes important guaranteed features including a specified minimum return and a guarantee of no loss of principal if held to maturity. It provides returns that historically have been higher than a savings account or a CD, and at times higher and at times lower than a mutual fund.

An insurance company can provide this unique combination of features precisely because it knows that it will have the funds for a specified period of time. This allows the insurance company to hedge against interest rate risk and “lock in” a guaranteed rate of return for the purchaser. No other financial product provides this particular combination of lack of volatility and rate of return.

Two professors from The Wharton School of Business recently conducted a research project on the value of immediate annuities versus other retirement investment options. The results of this research highlight how the long-term horizon of the annuity is well suited for the longer-time horizon of the retiring population. Many of the value concepts for immediate annuities articulated in this paper also have important implications for deferred annuities. (See http://www.crai.com/pubs/pub_7593.pdf).

Product performance

To illustrate the performance our fixed index annuities provide to consumers, which is of course one of the key features of our products, we have calculated the returns received by Allianz Life policyholders over the past three years for our most popular fixed index annuity product. The chart below illustrates the average annualized returns for policies that have reached their first, second, and third policy anniversary during the period of August 1, 2006, to July 31, 2007. It also shows the highest and lowest annualized return an individual could have received. The figures only account for the index credits (e.g., the credits linked to market performance) credited to the policy. These figures assume that the consumer elected to have 75% of the index credits linked to the performance of the S&P 500 and 25% linked to the performance of the Nasdaq-100.

Credits	Average Return	Highest Return	Lowest Return
One anniversary credit	8.7%	19.4%	0.3%
Two anniversary credit	6.1%	9.8%	2.8%
Three anniversary credits	6.6%	8.8%	4.7%

The return realized by a consumer varies depending on the date the policy is issued and the index allocations elected by the consumer. The average return in future years will depend on the future performance of the markets and is not guaranteed. Any interest already credited, however, is guaranteed to never be lost due to any future declines in market. In addition, the principal is protected when the annuity is held to maturity.

Allianz Processes Ensure Proper Sales of Products

Allianz has been an industry leader in developing processes, controls, and safeguards to ensure that the benefits and risks of our products are clearly and accurately disclosed, and that our products are sold only if they are appropriate for an individual purchaser and his or her financial situation. We develop and continually improve our practices not simply to comply with the minimum standard set by statute or regulation, but to do what is right for consumers and our policyholders.

Point-of-Sale Disclosure

Allianz requires that the benefits and risks of our products are fully and accurately disclosed to all consumers during the sales process. Each purchaser receives a plain-English disclosure at the point of sale called a “Statement of Understanding” – the first of its kind in the industry – which describes how the product works, how its value is determined, and under what circumstances funds can be withdrawn, either with or without penalty. It provides examples of what the value of the annuity will be over time, and answers the questions anyone considering the purchase of an annuity should ask. Before Allianz accepts an annuity application, the agent must review the Statement of Understanding with the consumer, and the consumer must sign it.

While this document and process are not required by any statute or regulation, we believe that it is important that consumers receive and acknowledge understandable disclosures before they purchase an Allianz product. A copy of an Allianz Statement of Understanding is attached as Exhibit 1.

Product suitability form

While only required in 36 states, Allianz conducts a suitability review for every new deferred annuity product purchase. Prior to making a recommendation for the purchase of an annuity product, Allianz requires the agent to have reasonable grounds for believing the recommendation is suitable. We require the agent to obtain relevant information regarding the consumer's needs and financial objectives. In addition, we require that this information be documented on a product suitability form prior to submitting an application. Every applicant must complete and sign a suitability form.

This form requires the agent to obtain information from the consumer on:

- Household income;
- Net worth exclusive of homes and autos;
- Financial objectives;
- Liquidity (how much money the consumer has available for emergencies);
- The source of funds is for the annuity (and whether it is replacing another annuity);
- How the consumer anticipates taking money out of the annuity;
- When the consumer anticipates taking money out of the annuity; and
- How the amount that is in the annuity at the time of the consumer's death will be paid out to his or her beneficiaries (in a lump sum or over a period of years)

This form is then reviewed by our suitability rules engine, which analyzes the data and triggers further review in the event that the data indicates a potential problem or question about whether the product sold is suitable for the consumer. We do not accept cases that do not pass our rigorous suitability screening. A copy of an Allianz Life Product Suitability Form is attached as Exhibit 2.

Customer survey

Allianz is committed to ensuring that our customers understand their purchases and that the product is appropriate. This commitment extends beyond the completion of the sale. Within a few months of a sale, we partner with LIMRA, an independent organization that partners with many insurance companies, to survey every consumer to verify their understanding of the product and to ask about their overall satisfaction with the sales process. If the survey results raise concerns, we contact the consumer to address the issue raised by the response. Also, as described below we will begin calling every customer over the age of 75 who purchases one of our products.

A step-by-step explanation of our process for managing new annuity policies can be found in Exhibit 3.

Our agents

All of the agents who sell our products are licensed in the state(s) in which they do business. We provide training to our agents to ensure that they understand our products, our practices, and their obligations to their customers. We monitor complaints and provide additional counseling and training when needed. Whenever we determine that an agent has engaged in improper sales practices, that agent is terminated.

Summary

These policies and procedures help explain why the number of complaints Allianz Life receives in connection with annuity sales is low. Our complaint ratio of less than one half of one percent is a record we are proud to share.

When we receive a complaint, we take it seriously, and we take action. All complaints undergo a review. If our review determines that the complaint is justified, we provide a full refund, plus interest.

Illustration of Suitability Analysis

Allianz Life recognizes that our products are not appropriate for every consumer or every senior. Below is an example of how our suitability analysis works to prevent purchases that would not be appropriate for a particular consumer. This example is taken from a real case, although the name of the consumer has been changed to protect his privacy.

Mr. Pederson was 77 years old when he sought to purchase one of our annuities. He attempted to purchase an annuity for \$33,500. Mr. Pederson indicated that his income was approximately \$25,500 per year and that he had approximately \$500,000 of assets (excluding his home). Mr. Pederson indicated that the funds he intended to use to purchase the annuity were the proceeds of another annuity he intended to liquidate. Although Mr. Pederson's income and assets would support the purchase of the product, our suitability process identified that he would incur an 11% surrender charge on the annuity he intended to liquidate. Given this, we determined that the source of funds for this product made the purchase unsuitable and we declined to issue the policy.

We can point to many other examples of business that we have declined a result of our suitability process.

Allianz Commitment to Continuous Improvement

We are pursuing several enhancements to our already strong internal consumer safeguards.

We are instituting a process whereby we will call every purchaser of an annuity over age 75 to review the features of the product her or she has purchased to verify he or she understands them. If we determine that the customer did not understand his or her purchase, we will offer a refund, with interest.

We have also announced that we will appoint a Chief Suitability Officer. We are in the process of interviewing several well-qualified candidates now and expect to appoint someone to this role in the fourth quarter of 2007.

We are developing a list of approved certifications that we will allow our agents to use and will prohibit the use of any non-approved certification when marketing our products.

Conclusion

In closing, I want to again thank you for providing me with the opportunity to testify today. Forums such as the Senate Aging Committee's public hearing provide an important venue to address the isolated, anecdotal stories about the sale of deferred annuities that have recently been in the press.

Allianz is proud of our industry leadership position and the responsibilities that come along with it – including our focus on continual improvement of our products, policies, and processes to meet the needs of today's consumers.

We applaud the work being performed by the Securities and Exchange Commission, the National Association of Insurance Commissioners as well as the North American Securities Administrators Associations, all of whom are testifying today, to protect consumers – particularly seniors.

SEC Chairman Cox has said that there needs to be greater coordination between federal and state officials. We strongly agree. We believe there is a strong role for industry groups to play in this dialogue as well.

Allianz as an organization is dependent upon our strong track record of integrity, performance, and service. Simply put, satisfied customers are the key to our financial success and sustainability.

* An excellent overview of some of the emerging challenges and implications of an aging population for social, financial, health care and retirement systems is provided in a presentation by Anna Rappaport at the inaugural conference on **The Future of Life-Cycle Saving & Investing** sponsored by the Federal Reserve Bank of Boston, Boston University and the Research Foundation of the CFA Institute.
<http://smg.bu.edu/exec/elc/lifecycle/pdf/RappaportFedPaperPostConfFinal.pdf>

The entire conference can be reached at
<http://smg.bu.edu/exec/elc/lifecycle/>

Allianz Life Insurance Company
of North America
PO Box 59060
Minneapolis, MN 55459-0060
800.950.7372



MasterDex 10[®] Annuity

Statement of Understanding

Thank you for considering the MasterDex 10 Annuity from Allianz. We want to be sure that you are aware of the benefits, features, costs, and risks associated with the purchase of your contract.

Please read the following summary. If you need additional clarification on any of the items listed below, please refer to the MasterDex 10 Annuity contract.

Once you have read this summary, please sign the last page to confirm you understand the contract you are considering.

How does the MasterDex 10 Annuity work?

The MasterDex 10 Annuity is a fixed index insurance product. That means indexed interest is credited to your annuity's value based on one or more nationally recognized indexes that track the ups and downs of the stock market.

You can choose between the S&P 500 and Nasdaq-100[®] index options, or you can designate your premium to earn fixed interest. You can allocate all of your money to any of these three alternatives, or allocate your money (in 25% increments) to any combination of these three options.

Does the MasterDex 10 Annuity have a bonus?

Yes, the MasterDex 10 Annuity offers a premium bonus. This means that each time you make a premium payment during the first five contract years, we will add a premium bonus to your annuitization value. This bonus will equal 10% of each premium payment. Keep in mind that bonus annuities may have a higher contract penalty upon surrender than you would get from similar annuities without the bonus feature.

How do I choose – and change – the way my annuity's value is allocated?

Shortly after each contract anniversary you will receive an annual report. It will include a form that allows you to change your current allocations. If that is your intention, you must complete the allocation change form and return it to the Home Office within 21 days of your contract's anniversary. This will lock in your request and determine how your contract values are allocated over that contract year. If the form is not received within 21 days of your contract's anniversary, your changes will not take effect until the next contract anniversary.

Assuming I choose fixed interest, how is the fixed interest calculated and credited to my contract?

If you don't want 100% of your contract value to be based on changes in an index, the MasterDex 10 Annuity allows you to allocate, or designate, some of your annuity's value to a fixed interest option. This fixed interest option credits your contract with predictable interest based on established rates that are independent of the markets. Your initial interest rate is

guaranteed for the first contract year and will be no less than 2% in all contract years. Your interest is calculated and credited daily.

Assuming I allocate my money to one index or both, how is my indexed interest calculated and credited to my contract?

We capture the current value of the market index on the date you purchased your contract, as well as on each contract's "monthiversary." So if your contract is dated the seventh of the month, for example, your monthiversary will be the seventh day of every succeeding month throughout the life of the contract.

Monthly returns are calculated in two steps. First, the change from the previous month's index value to the current month's index value is divided by the previous month's index value. This amount is then multiplied by the participation rate.

The calculation looks like this:

$$\frac{(\text{current month's index value} - \text{previous month's index value})}{\text{previous month's index value}} \times \text{participation rate} = \text{monthly return}$$

Monthly returns may be positive or negative. In any given month, a positive monthly return may exceed your annuity's stated monthly cap, or maximum. In that case, the capped return will be used in the indexed interest calculation. The monthly cap is established on every contract anniversary, and is guaranteed for the next contract year.

At the end of each contract year, the capped monthly returns are added together to calculate your indexed interest for that year. If this sum is negative, the indexed interest for that year will be zero.

Although there is a monthly cap on positive monthly returns, there is no established limit on negative monthly returns.

This means that a large decrease in one month could negate several monthly increases. Actual annual indexed interest may be lower (or zero) if the market index declines from one monthiversary to the next, even if the market index experienced an overall gain for the year.

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 shares of stock or shares of an index. The market index value does not include the dividends paid on the stocks underlying the market index. These dividends are also not reflected in the interest credited to your contract.

Can the monthly cap be changed?

Yes. Each contract year we have the option to change the monthly cap – either up or down – for the following year and the monthly cap is guaranteed not to change for that contract year. You will be informed of any changes in the monthly cap on your contract’s annual report. We guarantee that your monthly cap will never be lower than 1%.

What is a participation rate?

The participation rate decides how much of the increases in your selected market index(es) will be used to calculate indexed interest. The participation rate on the MasterDex 10® Annuity is 100%, and is guaranteed for the life of the contract. Keep in mind the amount of any monthly gains allowed by your contract’s participation rate will still be subject to a monthly cap.

Can you show me how all of this works?

This chart shows monthly positive and negative changes in a hypothetical index, how they are affected by the monthly cap, and how they add up to the annual indexed interest.

Month	1	2	3	4	5	6	7	8	9	10	11	12
Index growth (%)	5.0	-5.0	2.0	-1.0	2.0	2.0	4.0	2.0	0.0	-2.0	5.0	0.0
Monthly cap (%)	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Monthly index rate (%)	+2.6	-5.0	+2.0	-1.0	+2.0	+2.0	+2.6	+2.0	+0.0	-2.0	+2.6	+0.0

At the end of the contract year, the 12 individual monthly index rates are added up to determine that year’s annual indexed interest:
 $+2.6 + (-5.0) + 2.0 + (-1.0) + 2.0 + 2.0 + 2.6 + 2.0 + 0.0 + (-2.0) + 2.6 + 0.0 = 7.8\%$

Please note that if the monthly cap is 1.0%, your indexed interest would be 0% under the assumptions outlined in the chart above.

Can my annuity’s value go down due to losses in the index(es) I choose?

No. If the index(es) suffer a loss in any given year, your principal (the money you put into the annuity) and bonus are protected. Any interest credited (either as the result of increases in your selected market index(es), or as the result of earning interest in the fixed interest allocation) that has been locked in previously is also safe from index losses. However, your annuity’s value will be affected by when – and how – you decide to take money out of the contract.

Besides this, what other factors impact the value of my annuity contract?

The first thing you should know is that, throughout the life of your annuity contract, your MasterDex 10 Annuity will actually have **three separate values**. Which one you receive will depend on when – and how – you take money out of the annuity. Those values are the contract’s:

- Annuitization value
- Cash surrender value
- Guaranteed minimum value

Annuitization value. The annuitization value equals the premium you pay into the contract, plus a 10% premium bonus and any annual indexed increases (which we call indexed interest) and/or fixed interest earned. This will usually be your contract’s highest value. Withdrawals will decrease your contract’s annuitization value.

Cash surrender value. The cash surrender value is equal to 87.5% of premium paid (minus any withdrawals) accumulated at 1.5% interest compounded annually. The cash surrender value does not receive premium bonuses or indexed interest. **The cash surrender value will never be less than the guaranteed minimum value (which we define below).**

Guaranteed minimum value. The guaranteed minimum value will generally be your lowest contract value. The guaranteed minimum value equals 87.5% of premium submitted, minus any withdrawals. The guaranteed minimum value grows at an annual interest rate that will be no less than 1% and no greater than 3%, depending upon your selection of index and/or interest allocations.

How do I avoid contract penalties and get my contract’s full annuitization value?

To receive your contract’s annuitization value, let your money accumulate for a minimum of five contract years, then take (A) 10 years of interest-only payments or (B) equal payments of both principal and interest over a 10-year period (or longer). **This is what is meant by “annuitization.” Once you begin taking your annuitization value as annuity payments, it will no longer receive interest based on any potential index growth.** The various annuitization options available on the MasterDex 10 Annuity are described directly below.

Please note, regardless of which value you receive from your MasterDex 10 Annuity, there may still be tax consequences when money is withdrawn from your annuity. See “Are there any tax consequences if I withdraw money?” later in this document.

What are my options for receiving annuity payments?

After you keep your contract in deferral for at least five contract years, you can choose to receive annuity payments in any of the following ways:

- **Interest only** – You have the option to receive interest-only annuity payments for 10 years. Interest will be paid as earned based on your then-current annuitization value. After 10 years of taking interest-only payments, you may then take your annuitization value as a lump-sum payment.
- **Installments for a guaranteed period** – You can choose to receive annuity payments in equal installments for a period from 10 to 30 years. Each installment would consist of part principal and part interest.
- **Installments for life** – You have the option to receive annuity payments in equal installments for the rest of your life. Payments end upon your death.
- **Installments for life with a guaranteed period** – You can choose to receive annuity payments in equal installments for the rest of your life. Upon your death, the balance of the guaranteed period, if any, will be paid the same way as previously selected for your beneficiary.

- **Installments for a selected amount** – You may select to receive annuity payments in equal installments of an amount that you choose, as long as the payments last for at least 10 years. Payments continue until your annuitization value and interest are gone.
- **Joint and survivor** – You can select to have equal installments paid until your death with additional payments to your named survivor. In this case, payments to your named survivor would continue until his or her death as 100%, 2/3, or 1/2 of your original installments, based on your selection.

Are there any options for receiving annuity payments without waiting for five contract years? ¹

Yes, our Flexible Annuity Option Rider allows you to receive your annuitization value (**less the 10% bonus and/or interest earned on that bonus**) anytime after the first contract year but before the sixth contract year over a specific period of 10 to 30 years. Or, at the higher ages shown in the table included in the Flexible Annuity Option Rider, you may request this value in equal installments for a specific period of less than 10 years. Each installment will consist of part benefit and part interest. There is no charge for this rider.

Can I take money out of my annuity without incurring a penalty while the contract is in deferral?

It's quite possible you will want money from your annuity contract somewhere down the road. But you may not need it all. We have a variety of ways you can get money out of your annuity without contract penalties, including:

- Free withdrawals
- Systematic Withdrawal of Credits
- Contract loans
- Required minimum distributions
- Our Nursing Home Benefit
- Our Systematic Withdrawal Benefit

How can I take a free withdrawal from my contract?

Our free withdrawal option lets you access a portion of your contract's value without incurring a contract penalty. Under this option, as long as 12 months have passed since your last premium contribution, you can withdraw up to 10% of your premium each year—until you have withdrawn a maximum of 50% of the premium you've paid into the contract.

Free withdrawals will avoid contract penalties provided that:

- No more than one withdrawal is taken within a 12-month period.
- You don't add any additional premium to the contract within the 12 months prior to or following the taking of a free withdrawal.
- You don't request a full (or partial) surrender or begin to receive annuity payments within 12 months after taking a free withdrawal.

A free withdrawal is eligible to receive partial indexed interest at the end of the contract year. Partial indexed interest is based on the annual indexed interest and the amount of time during that year before the free withdrawal was taken.

If, within 12 months of a free withdrawal, the contract is surrendered or annuitized, another withdrawal is taken, or additional premium is added, we will retroactively apply contract penalties to that free withdrawal. Withdrawals will decrease the annuitization value, cash surrender value, and guaranteed minimum value of the contract and its death benefit.

What is Systematic Withdrawal of Credits?

Systematic Withdrawal of Credits allows you to keep your contract in deferral and receive payments of indexed interest. You can select to receive payments after your fifth contract year. Payments will be based on indexed interest applied to your contract after the request is received. You may take this Systematic Withdrawal of Credits without contract penalties, and your contract continues to benefit from potential indexed interest. To qualify for this option, your contract must be held at least five contract years and still be in deferral. Taking Systematic Withdrawal of Credits will lower the annuitization value and value of death benefits.

What if I need to take a contract loan?

Loans are available on nonqualified annuities and some tax-qualified annuities (TSAs). You can borrow up to 50% of your contract's cash surrender value (up to a \$50,000 maximum). Like any loan, contract loans are subject to an annual interest charge, but they are contract-penalty-free as long as they are repaid with interest. Please note: Loans on nonqualified annuities may be taxable as ordinary income at distribution.

I understand I may have to take required minimum distributions someday. Does my annuity allow these?

Based on your age (usually 70½ or older) and the tax designation of your contract (IRA, SEP, etc.) you may have to take required minimum distribution payments. If they are taken annually in December or monthly throughout the year, required minimum distributions (RMDs) are contract-penalty-free, although they will reduce the amount available for free withdrawals. You may not exceed the annual RMD amount specified by the IRS, which will be based on your age and the value of your contract. Allianz will only send a required minimum distribution for the contracts you have with us.

How can your Nursing Home Benefit help me access my money without contract penalties?

After the first contract anniversary, if you are the contract owner and become confined to a nursing home for 30 out of 35 consecutive days, your full annuitization value can be paid to you in annuitization payments over as little as five years.

¹Not available in all states.

What is the Systematic Withdrawal Benefit?

Beginning on your sixth contract anniversary, you can take a portion of your annuitization value each year, while the balance continues to earn indexed interest (or fixed interest).

Based on how long the contract has been in deferral, these systematic withdrawals can range from 5% of your annuitization value (taken over 20 years) to 10% of your annuitization value (taken over 10 years). While you are receiving your payments, your contract's indexed interest (or fixed interest) is distributed as it is earned. This means your contract's complete annuitization value will be liquidated to zero over the life of your scheduled payments.

You can stop your Systematic Withdrawal Benefit payments at any time. If you wish, you can then resume Systematic Withdrawal Benefit payments once two years have passed since your last payment. The allowed percentage will then be based on the contract year and annuitization value at that point.

Are there any other ways to make free withdrawals?

We've just outlined six ways you can receive a portion of your annuitization value without a contract penalty. **If you take a partial surrender any other way**, the amount of your partial surrender will be deducted from your contract's cash surrender value. A proportionately larger deduction, equal to the amount of the partial surrender multiplied by the ratio of annuitization value divided by cash surrender value, will also be made from your contract's annuitization value. As a result, **you will lose a portion of the indexed interest and/or fixed interest your contract has earned, and you may lose some of your initial principal and bonus.**

What happens if I cancel my contract?

That depends on when you cancel it. This contract is designed for people who are willing to allow their assets to build for at least five years, and then take annuitization payments over 10 years (or longer). As we've discussed, if you fully (or partially) surrender your contract at any point, you will receive its cash surrender value rather than its annuitization value. This could result in the loss of some or all of your premium bonus, indexed interest, fixed interest, and a partial loss of principal. For information about possible tax consequences see "Are there any tax consequences if I withdraw money?"

Are there any tax consequences if I withdraw money?

Regardless of whether the distribution is contract-penalty-free or subject to a contract penalty, when you take money out of your annuity it may be taxed as ordinary income. In addition, any distribution you receive from an annuity prior to age 59½ may be subject to a 10% IRS penalty. These taxes and IRS penalties may result in a partial loss of principal. They may also reduce any indexed or fixed interest earned previously. Allianz does not provide legal counsel or tax advice, so please consult a tax or legal advisor.

Can I add money to my MasterDex 10® Annuity down the road?

Yes. Additional money (or premium) may be added to your annuity at any time within the first five contract years. The additional premium you pay during a contract year will automatically be credited with a 10% bonus and then placed in an interim interest account where it will earn fixed interest – guaranteed to be at least 2.0% – until your next contract anniversary. It will then be distributed according to your premium allocation choices.

How will I know how my contract is doing?

You will receive an annual report following each contract anniversary. This report will show your contract's current annuitization value (including any bonus, indexed interest and/or fixed interest earnings applied to it), along with its cash surrender value, premium payments, and withdrawals.

What happens if I die while my MasterDex 10 Annuity is still in deferral?²

Regardless of whether your beneficiary(ies) select to receive a lump-sum payment, or choose to receive payments over the course of five years (or longer), they will receive the greater of the contract's annuitization value or guaranteed minimum value.

Are there any other important points I should know about annuities like the MasterDex 10 Annuity?

If you are purchasing our MasterDex 10 Annuity to replace an annuity you currently own, compare the two products carefully. The benefits and guarantees offered by the two products may be different. Keep in mind that you may incur a surrender charge when you cancel your existing annuity to purchase your MasterDex 10 Annuity.

Purchasing the MasterDex 10 Annuity within an IRA or other qualified retirement plan that already provides tax deferral under the Internal Revenue Code results in no additional tax benefit to you. If you are considering the purchase of a MasterDex 10 Annuity in a qualified retirement plan, you should therefore base your decision on its other benefits and features as well as its risks and costs.

Are there tax implications if I purchase or exchange an annuity?

The purchase or exchange of an annuity contract may have tax implications. We recommend that you consult your tax advisor prior to purchasing or exchanging an annuity contract.

²In some states, the death benefit will be equal to the annuitization value only if it is paid to your beneficiaries over at least five years. Otherwise, your beneficiaries will receive the greater of your total premium paid minus any withdrawals, or the cash surrender value.

Can I see all the various values and factors that impact the value of my MasterDex 10[®] Annuity?

The following chart shows hypothetical values for a MasterDex 10 Annuity that was purchased with an initial premium of \$100,000 with 100% allocated to an index option and an assumed monthly cap of 2.6%. You can track the \$100,000 initial premium and 10% bonus as it is impacted by hypothetical changes in the monthly index.

Assuming a 1% cap, which is the minimum that we guarantee, your annuitization value at the end of contract year 10 will be significantly lower than the annuitization value shown below.

End of contract year	Sum of monthly index rates	Annual index rate (cannot be negative)	Annual index adjustment (cannot be negative)	Annuity value	Cash surrender value	Guaranteed minimum value
Issue				\$110,000	\$87,500	\$87,500
1	-8%	0%	-	=> \$110,000	\$88,813	\$88,375
2	16%	16%	+\$17,600	=> \$127,600	\$90,145	\$89,259
3	12%	12%	+\$15,312	=> \$142,912	\$91,497	\$90,151
4	4%	4%	+\$5,716	=> \$148,628	\$92,869	\$91,053
5	-12%	0%	-	=> \$148,628	\$94,262	\$91,963
6	11%	11%	+\$16,349	=> \$164,978	\$95,676	\$92,883
7	12%	12%	+\$19,797	=> \$184,775	\$97,111	\$93,812
8	4%	4%	+\$7,391	=> \$192,166	\$98,568	\$94,750
9	-10%	0%	-	=> \$192,166	\$100,047	\$95,697
10	13%	13%	+\$24,982	=> \$217,147	\$101,547	\$96,654

I have read the information above. It has been explained to me by the agent. I have also received and read the MasterDex 10 Annuity consumer brochure. I understand that any values shown, other than guaranteed minimum values, are not guarantees, promises, or warranties. I understand that I may return my contract within the free look period (shown on the first page of my contract) if I am dissatisfied for any reason.

Owner _____ Date _____

I have presented and provided a signed copy of this disclosure to the owner. I have not made statements that differ from the disclosure form and no promises or assurances have been made about the future values of the contract.

Agent _____ Date _____

"Standard & Poor's", "S&P", "S&P 500", "Standard & Poor's 500," and "500" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by Allianz Life Insurance Company of North America. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of purchasing the product.

The Nasdaq-100[®], Nasdaq-100 Index[®], and Nasdaq[®] are trade or service marks of The Nasdaq Stock Market, Inc. (which with its affiliates are the Corporations) and are licensed for use by Allianz Life Insurance Company of North America. The product(s) have not been passed on by the Corporations as to their legality or suitability. The product(s) are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE PRODUCT(S).

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

Allianz Life Insurance Company
of North America
PO Box 59060
Minneapolis, MN 55459-0060



Product Suitability Form

Thank you for your interest in an Allianz annuity. Before we can process your application and issue your policy, we need to confirm that your annuity purchase suits your current financial situation and long-term goals. **Please complete this form in its entirety and submit with your application.**

Owner's name	Age	Product name
Joint owner's name	Age	Estimated premium amount

Annuity type Qualified Nonqualified

Your privacy is a high priority to us. The information you provide will be treated with the highest degree of confidentiality.

Financial status 1. Approximate annual **household income** \$ _____
2. **Net worth** - equal to total assets (including premium for this contract, not including home or automobile) minus total debt (not including mortgages or primary residence) \$ _____

Marginal federal tax rate 0% 10% 15% 25% 28% 33% 35%

Financial objectives

- What are your **financial objective(s)** in purchasing this product? (**check all that apply**)
 Tax-deferred growth Income now Growth followed by income Growth, possible income
 Pass on to beneficiaries Guarantees provided Other _____
- After purchase of this annuity, how much **money** (or liquid assets) do you have available without penalty for emergencies?
Please specify amount \$ _____
- What other **financial products** do you own or have you previously owned? (**check all that apply**)
 None Certificates of deposit Fixed annuities Variable annuities Stocks/bonds/mutual funds
- What is your **source** for this annuity's premium? (**check all that apply**)
 Annuity Life insurance Certificates of deposit Other investments
 Reverse mortgage/home equity loan Savings/checking
- Is this a **replacement** of an annuity or life contract? Yes No **If yes**, what type(s)? Fixed Fixed index Variable
Is there a **surrender charge**? Yes No **If there is a charge**, what is it on each contract being replaced? ___% ___% ___% ___%

Accessing your money

- How** do you anticipate taking **distributions** from this annuity? (**check all that apply**)
 Annuitize Required minimum distribution Instant cash bonus Free/systematic withdrawals
 Loans Partial surrenders Lump sum Leave to beneficiary
- When** do you anticipate taking your **first distribution** from this annuity? (**choose one**)
 Less than one year Between one and five years Between six and nine years 10 or more years None anticipated
- How** will contract **values**, if any, be **paid at death**?
 Payment to beneficiary in lump sum Payment to beneficiary over a period of five or more years

NOTE: If this form is not completed, signed, and dated, we cannot consider your application.

I acknowledge that I have read the Statement of Understanding for the product listed and believe it meets my needs at this time. To the best of my knowledge and belief, the information above is true and complete.

Owner signature	Date	
Joint owner signature	Date	
Agent signature	Agent number	Date

EXHIBIT 3

