

# MasterDex 5<sup>®</sup> Annuity

## Statement of Understanding

Thank you for considering the MasterDex 5 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 5 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 5 Annuity work?

The MasterDex 5 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<sup>®</sup> 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 5 Annuity have a bonus?

Yes, the MasterDex 5 offers a premium bonus. This means that each time you make a premium payment during the first five contract years, we will add a bonus to your accumulation value. This bonus will equal 3% of each premium payment. Keep in mind that bonus annuities may have a higher surrender charge and a longer surrender charge schedule 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 5 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 1.5% 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 1.25%.

**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 5<sup>®</sup> 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 (%)        | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  | 2.3  |
| Monthly index rate (%) | +2.3 | -5.0 | +2.0 | -1.0 | +2.0 | +2.0 | +2.3 | +2.0 | +0.0 | -2.0 | +2.3 | +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:

$$+2.3 + (-5.0) + 2.0 + (-1.0) + 2.0 + 2.0 + 2.3 + 2.0 + 0.0 + (-2.0) + 2.3 + 0.0 = 6.9\%$$

Please note that if the monthly cap is 1.25%, your indexed interest would be 0.75% 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 5<sup>®</sup> 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:

- Accumulation value
- Cash surrender value
- Guaranteed minimum value

**Accumulation value.** The accumulation value equals the premium you pay into the contract, plus a 3% 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 accumulation value.

**Cash surrender value.** The cash surrender value is your accumulation value minus a 10-year decreasing surrender charge. The surrender charge may result in a partial loss of premium and a loss of some or all of your premium bonus, and indexed interest or fixed interest earned previously. We discuss surrender charges later.

**Guaranteed minimum value.** In addition to the two values mentioned directly above, we are required by law to provide a guaranteed minimum value with all fixed annuities. The guaranteed minimum value will generally be your lowest contract value. You would receive your contract's guaranteed minimum value only if it were higher than your contract's cash surrender value described above. 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 2% and no greater than 3%, depending upon your selection of index and/or interest allocations.

**What is a surrender charge?**

The surrender charge is the penalty you pay to surrender (cancel) all of your contract. In addition, partial surrenders are subject to surrender charges. Also, under certain circumstances a surrender charge may impact death benefit proceeds. See "What happens if I die before I have received all of my annuity's value?" later in this document.

The surrender charge starts at 10% of the contract's accumulation value, then gradually decreases by .0833% on each monthiversary. On your 10th contract anniversary, the surrender charge will be zero.

Here's a chart that shows the approximate amount we will deduct from your accumulation value if you cancel your contract in any given contract year. It also shows how the surrender charge diminishes as time passes.

| Start of contract year | 1   | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 |
|------------------------|-----|----|----|----|----|----|----|----|----|----|----|
| Surrender charge       | 10% | 9% | 8% | 7% | 6% | 5% | 4% | 3% | 2% | 1% | 0% |

Note: The above chart shows annual decreases in the surrender charge. Actually, it decreases monthly (at a rate of .0833% per month), until day one of contract year 11.

**Can you show me how the surrender charge would affect a sample MasterDex 5 Annuity?**

A complete chart showing hypothetical values for the MasterDex 5 Annuity is presented at the end of this document. Please look it over.

## How do I avoid surrender charges and get my contract's full accumulation value?

To avoid surrender charges and receive 100% of your annuity's full accumulation value, you must keep the contract in force at least until your 10th contract anniversary – at this point the surrender charge expires. After you have allowed your contract to accumulate money for at least 10 contract years, then you can take your contract's full accumulation value as a lump-sum payment.

After the fifth contract year you also have the option to take interest-only annuity payments over the next five years, or payments of both principal and interest over a period of 10 years (or longer, up to life). **This is what is meant by "annuitization." Once you begin taking your accumulation value as annuity payments, it will no longer receive indexed interest.**

If you decide not to let your contract accumulate money for 10 full years, or if you choose an annuity payment option different from those listed below, you will receive your contract's cash surrender value rather than its accumulation value.

Please note: Even when surrender charges are no longer a factor, there may still be tax consequences. See "Are there 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 five years. Interest will be paid as earned based on your then-current accumulation value. After five years of taking interest-only payments, you may then take your accumulation 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 accumulation 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.

## Can I take money out of my annuity without incurring a surrender charge 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

## 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 surrender charge. 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 surrender charges 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 12 months after taking 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 a surrender charge to that withdrawal. Withdrawals will decrease the accumulation 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 surrender charges, 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 accumulation 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 70<sup>1/2</sup> or older) and the tax designation of your contract (IRA, SEP, etc.) you may have to take 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 accumulation value can be paid to you in annuitization payments over as little as five years.

**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 10 years (or longer). As we've discussed, you can fully surrender (cancel) your contract on or after its 10th contract anniversary and get your annuity's full value. However, if you fully (or partially) surrender your annuity contract before its 10th anniversary, the amount you receive will be subject to a surrender charge. 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 59<sup>1/2</sup> 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 more money to my MasterDex 5<sup>®</sup> 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 3% bonus and then placed in an interim interest account where it will earn fixed interest – guaranteed to be at least 3% – 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 accumulation 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 5 Annuity is still in deferral?**

Your beneficiary(ies) may choose to receive annuity payments over the course of five years (or longer). If so, these payments will be based on your contract's accumulation value.

They may, on the other hand, want a lump-sum payment. If they choose this option, they will receive the contract's cash surrender value or the amount of premium paid minus withdrawals, whichever is greater. Beginning the day after your 10th contract anniversary, the cash surrender value equals the accumulation value.

**Are there any other important points I should know about annuities like the MasterDex 5 Annuity?**

If you are purchasing our MasterDex 5 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 5 Annuity. You will also begin a new surrender charge period with your purchase of the MasterDex 5 Annuity.

Purchasing the MasterDex 5 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 5 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.

**Can I see all the various values and factors that impact the value of my MasterDex 5® Annuity?**

The following chart shows hypothetical values for a MasterDex 5 Annuity that was purchased with an initial premium of \$100,000 with 100% allocated to an index option and an assumed monthly cap of 2.3%. You can track the \$100,000 initial premium and 3% bonus as it is impacted by hypothetical changes in the monthly index.

Notice the relationship between the accumulation value and cash value. You can see that once the contract has completed its 10-year surrender charge period, its accumulation value and cash value are identical. The guaranteed minimum value is also listed for your reference. Assuming a 1.25% monthly cap, which is the minimum that we guarantee, your accumulation value at the end of contract year 10 will be significantly lower than the accumulation value shown below.

| End of contract year | Sum of monthly index rates | Annual index rate (cannot be negative) | Annual index adjustment (cannot be negative) | Accumulation value | Surrender charge | Cash value   | Guaranteed minimum value |
|----------------------|----------------------------|--|--|--------------------|------------------|--------------|--------------------------|
| Issue                |                            |  |  | \$103,000          | 10.0000%         | => \$92,700  | \$87,500                 |
| 1                    | -8%                        | 0%                                     | + \$0  | => \$103,000       | 9.0833%          | => \$93,644  | \$89,250                 |
| 2                    | 16%                        | 16%                                    | + \$16,480                                   | => \$119,480       | 8.0833%          | => \$109,822 | \$91,035                 |
| 3                    | 12%                        | 12%                                    | + \$14,338                                   | => \$133,818       | 7.0833%          | => \$124,339 | \$92,856                 |
| 4                    | 4%                         | 4%                                     | + \$5,353                                    | => \$139,170       | 6.0833%          | => \$130,704 | \$94,713                 |
| 5                    | -12%                       | 0%                                     | + \$0  | => \$139,170       | 5.0833%          | => \$132,096 | \$96,607                 |
| 6                    | 11%                        | 11%                                    | + \$15,309                                   | => \$154,479       | 4.0833%          | => \$148,171 | \$98,539                 |
| 7                    | 12%                        | 12%                                    | + \$18,537                                   | => \$173,017       | 3.0833%          | => \$167,682 | \$100,510                |
| 8                    | 4%                         | 4%                                     | + \$6,921                                    | => \$179,937       | 2.0833%          | => \$176,189 | \$102,520                |
| 9                    | -10%                       | 0%                                     | + \$0  | => \$179,937       | 1.0833%          | => \$177,988 | \$104,571                |
| 10                   | 13%                        | 13%                                    | + \$23,392                                   | => \$203,329       | 0.0833%          | => \$203,160 | \$106,662                |

I have read the information above. It has been explained to me by the agent. I understand that, during the first 10 contract years, amounts payable under this contract are subject to a surrender charge. I have also received and read the MasterDex 5 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 \_\_\_\_\_

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