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 for retirement, you could find that their value has fallen when it's time for you to reinvest in another bond.

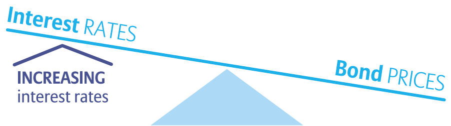
If you're depending on a certain amount of bond investment income, getting a lower yield could result in lowering your standard of living.

What contributes to volatility in bond values?

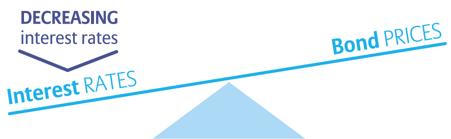
Many factors impact bond prices, one of which is the inverse relationship bond prices have with interest rates. Longer-term bonds tend to be more sensitive to interest rates since there is more time for rates to fluctuate.

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.℠

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CSI-380

How would a rising interest rate environment affect your portfolio?

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

But with interest rates at their lowest levels since the 1950s, the Financial Industry Regulatory Authority recently 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."[2]

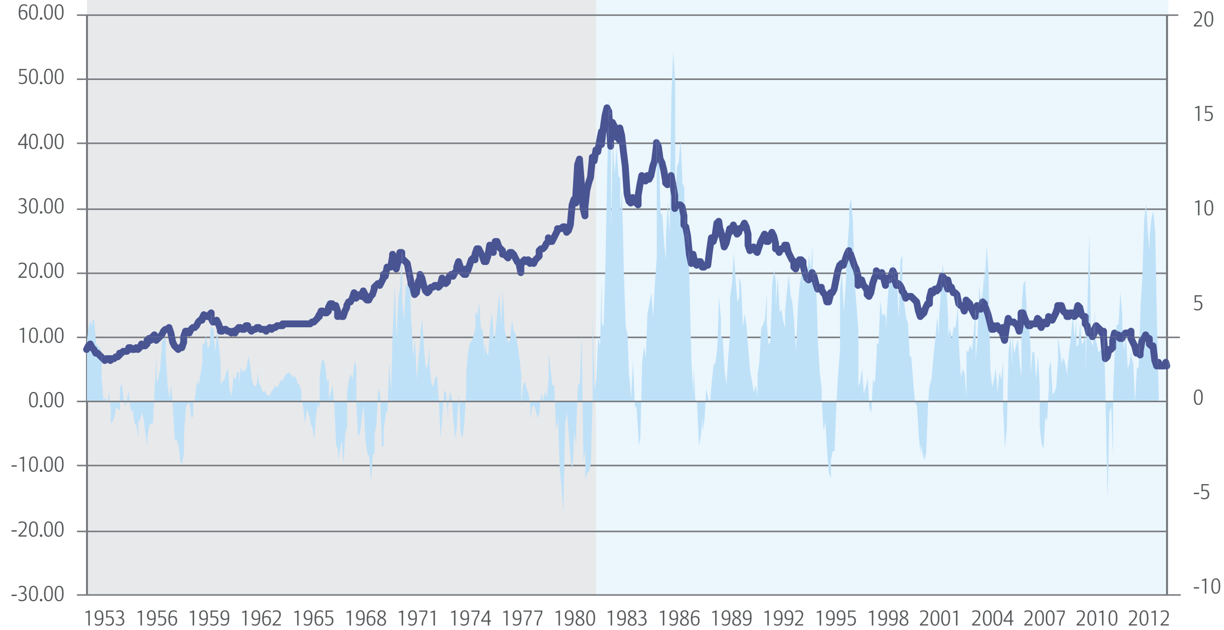
According to Ben S. Bernanke, Federal Reserve chairman, experts on the Federal Open Market Committee expect the first increase in the federal funds rate to occur in 2015 or 2016.[3]

BOND MARKET RETURNS

1953 – 1981
GENERALLY INCREASING INTEREST RATE ENVIRONMENT
Average annual return for all bonds **2.4%**

1981 – 2012
GENERALLY DECREASING INTEREST RATE ENVIRONMENT
Average annual return for all bonds **11.47%**

What typically happens to bond prices if interest rates rise? 70% of respondents **DIDN'T KNOW** or answered wrong.[1]



Ibbotson/Morningstar Long-Term Government Bond Index

10-year Treasury yield (represents interest rates)

Source: Ibbotson/Morningstar and U.S. Department of the Treasury, 1953-2012.

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] FINRA Investor Education Foundation, *2012 National Financial Capability Study: Report of National Findings*, 2013 .

[2] "Duration: What an Interest Rate Hike Could Do To Your Bond Portfolio," FINRA Investors Alert, Investors Education Series, February 2013.

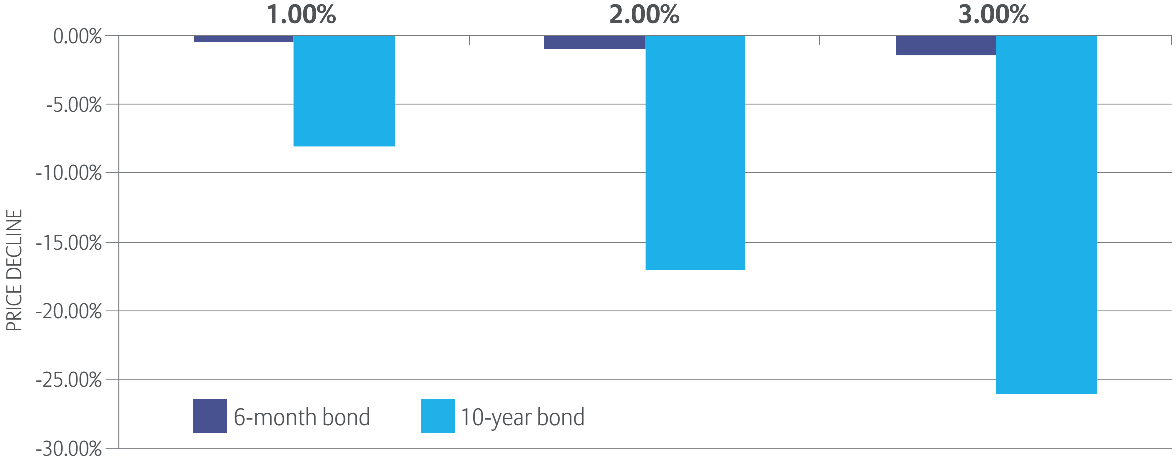
[3] "Transcript of Chairman Bernanke's Press Conference," Board of Governors of the Federal Reserve System, March 20, 2013.

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 (measure of time to the maturity of the bond) 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-maturity bonds can be reinvested at new, higher rates at a quicker pace. Consider the following chart: a rise in interest rates of 1% would result in a decline of nearly 10% for a 10-year bond, a rise of 2% would result in a decline of over 15%, and a rise of 3% would result in a decline of over 25%.

BONDS AND AN INCREASING INTEREST RATE ENVIRONMENT

SHORT-TERM BONDS ARE LESS SENSITIVE to movements in interest rates than longer-term bonds.



Source: "Evaluating a Short-Duration Bond Strategy," Market Analysis, Research & Education, March 8, 2011.

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.

Different financial products have different purposes and risk levels. Please analyze your own goals before making a purchasing decision regarding any financial product.

This is not intended as legal or tax advice.

Surrender charges (early withdrawal penalties) may result in a loss of credited interest or contract gains and a loss of principal (your premium). Any distributions for 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.®

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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 pride ourselves on our financial strength, we're made of much more than our balance sheet. We believe in making a difference with our clients by being true to our commitments and keeping our promises. People rely on Allianz and Allianz Life of NY today and count on us for tomorrow – when they need us most.

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• 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

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