Reclaiming the Future

White Paper

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Allianz

Methodology

Allianz Life Insurance Company of North America contracted Larson Research and Strategy Consulting, Inc. and DSS Research to field a nationwide online survey of 3,257 U.S. adults, aged 44-75. The online survey was conducted in the United States between May 6, 2010 and May 12, 2010.

In addition to polling a representative sample of 1,642 U.S. households, the survey also targeted subsamples of more affluent households and households who own annuities. Results were weighted by age, gender, education, race/ethnicity, and income to account for disproportionate sampling of certain populations. The margin of error for the total sample was approximately +/- 1.7%.

In addition, we also conducted a nationwide qualitative research study with financial professionals who do not currently sell annuities. The research was entirely anonymous as we conducted in-depth, one-on-one interviews to determine general practice strategies and strategies for generating income in retirement, as well as perceptions, beliefs, feelings about, and objections to annuities.

Introduction

Retirement in America will never be the same.

At 76 million strong, the "baby boom" generation represents the largest, wealthiest, and most influential segment of the U.S. population. Compared to past generations, the baby boomers have unprecedented wealth, life experiences, perspectives, and attitudes that combine to give them a unique definition of "retirement."

Yet, this "power generation" is facing one of the most pronounced retirement income challenges in history. This challenge is threefold.

First, the once-reliable sources of retirement income are either disappearing or becoming less dependable. The defined benefit plans that provided retirement income for retirees in past generations are now rare. And Social Security – which was always intended to be a small piece of the retirement-income picture – is continuing to erode.

Second, increasing life expectancies mean that the number of years spent in retirement is steadily growing, even as the average retirement age inches higher. When Social Security was established in 1935, the average life expectancy was 61.7 years, while the average retirement age was 65.[1] By 2010, the projected average life expectancy had risen to 78.3.[2]

Third, increased personal responsibility for retirement savings is making retirees more vulnerable to market turbulence. When the financial markets imploded in 2008 and the first quarter of 2009, many investors' portfolios lost 30% of their value virtually overnight.[3] Although the market is recovering, the continued volatility has stirred some deep-seated fears for many Americans.

When combined, the three factors we've just discussed could spell disaster for many Americans' retirement preparedness. As a result, we're already seeing a seismic shift in attitudes toward retirement among the baby boomers and their children.

[1] National Vital Statistics Reports, Vol. 52, No. 14, Feb 18, 2004.
[2] U.S. Census Bureau, *The 2010 Statistical Abstract: Life Expectancy*.
[3] Investment Company Institute, *Enduring Confidence in the 401(k) System*, U.S. Retirement Assets, January 2010.

About the study

With this confluence of factors as a backdrop, we conceived and designed The Allianz ***Reclaiming the Future*** Study to be one of the most comprehensive examinations of baby boomers' preparation for and expectations of retirement.

Our study looked at the unique needs, perceptions, and strategies that define this generation's need to rethink retirement. We also looked into consumer and financial professional attitudes toward annuities, and their role in providing retirement income.

While there are no easy answers to the retirement puzzle, The Allianz ***Reclaiming the Future*** Study did yield some reasons for optimism. Perhaps the biggest of these was the fact that Americans do have options in planning for retirement in a way that addresses reduced sources of income, the risk of longevity, and market volatility.

The study revealed several key findings, which are discussed in depth in this document. Among these key findings, we learned that:

- Americans believe that there is a retirement crisis, and that they are unprepared.
- There are five distinct financial "personalities."
- Americans fear outliving their money more than they fear death.
- The economic downturn was a big "wake-up call."
- Annuity-like solutions are gaining relevance and appeal.

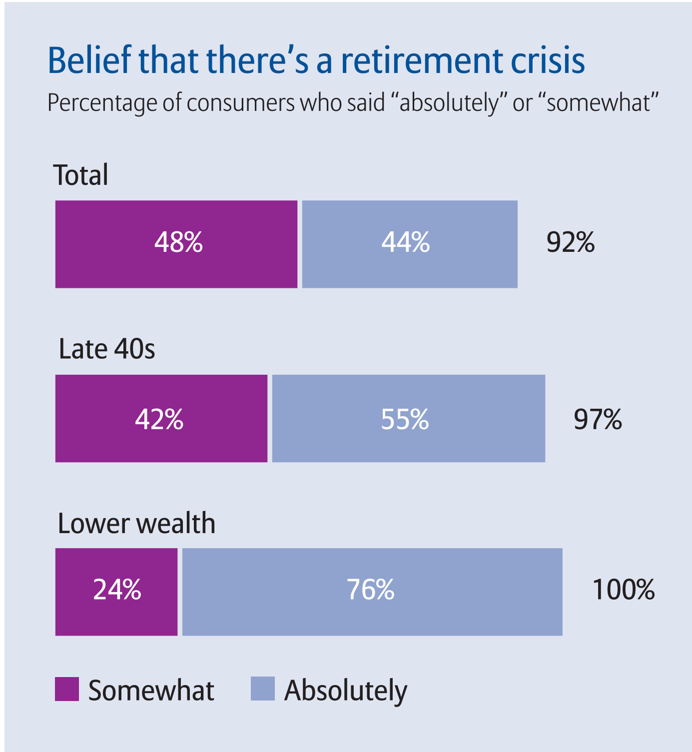
Discovery #1:

Americans believe there is a retirement crisis in this country and fear that they are unprepared.

One of the most striking findings of The Allianz *Reclaiming the Future* Study was the almost universal agreement that the U.S. is facing a retirement crisis.

When asked, "Do you believe there is a retirement crisis in this country?" an overwhelming 92% of the respondents answered affirmatively. Among those in their late 40s, that number rose to 97%. And all (100%) of the respondents with lower income levels[1] agreed that the U.S. is facing a retirement crisis.

While this finding points to a startlingly universal concern, we found even greater significance in the personal ripple effect it had on many of our respondents. The realization that there is a crisis has left them feeling unsure of their own retirement, in two primary areas: preparedness and adequacy of savings.



[1] "Lower income" was defined as a household income of $30,000-$45,000 and investable assets of under $50,000.

Preparedness

Our respondents' confidence in their retirement preparedness was shaky, at best. Among those aged 44-54, more than half (51%) said they feel unprepared for retirement. And 77% of those with lower income levels said they feel "totally unprepared for retirement." Women also seemed less certain of their preparedness than the men who were surveyed (43% felt unprepared vs. 35%).

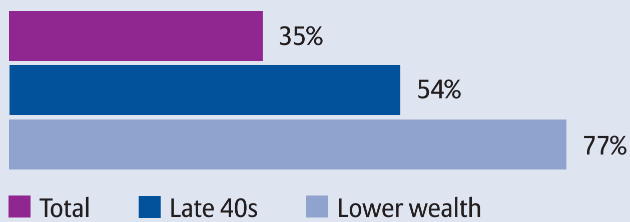
Savings

The study's participants also expressed concerns about their savings. Overall, 57% said they are worried that their nest egg may not be large enough in retirement. In fact, 47% are afraid of not being able to cover their basic living expenses in retirement. This number soars to 77% among those with lower income levels.

92% of the respondents believe the U.S. is facing a retirement crisis, and 47% fear not being able to cover basic living expenses in retirement.

Confidence and comfort about financial preparedness for retirement

Percentage of consumers who agree with the statement, "Financially speaking, I feel totally unprepared for retirement"



Adding to the fears about savings is the market uncertainty of the past two years. The recent downturn affected many Americans deeply – and they are continuing to feel those effects today. Of the people surveyed, 56% of those aged 44-54 agree that "recent market events created major questions around when, and whether, I can retire."

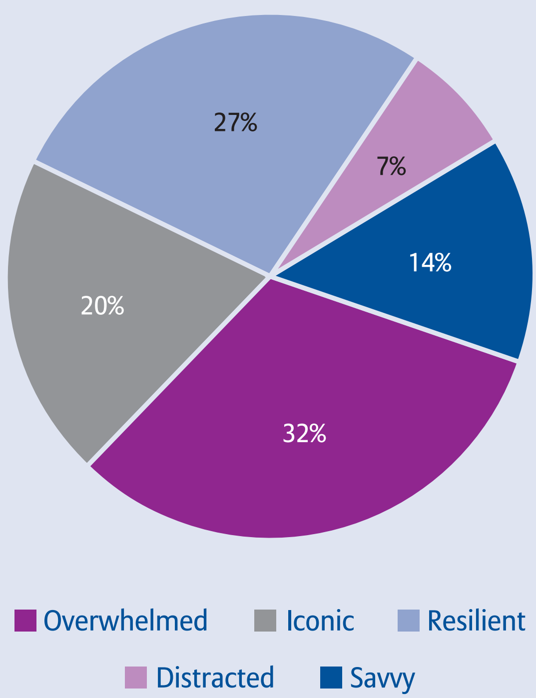
Discovery #2:

There are five distinct financial "personalities."

The Allianz ***Reclaiming the Future*** Study identified five distinct financial "personalities." These personalities emerged as the respondents' demographic data were analyzed and correlated with their responses about economic resilience, concerns, attitudes, and financial needs.

The Allianz ***Reclaiming the Future*** Study found that almost one-third of the population (32%) is feeling overwhelmed and concerned about financial security and retirement planning. Meanwhile, the smallest segment of the population (the "distracted" group, which includes 7% of those surveyed) is either oblivious to the financial crisis, or simply in denial.

The five distinct financial "personalities"



Overwhelmed

The "overwhelmed" personality comprised the largest segment (32%) of our respondents. Demographically, this financial personality tends to have the lowest income and education levels. One-third of the respondents in this segment have been affected by job loss, either personally or indirectly. Further, this group tends to have high credit card debt and meager assets. As a group, the overwhelmed respondents tend to be somewhat pessimistic.

The overwhelmed personality feels unprepared for retirement and is unsure of when – or if – they'll be able to retire. They expect to significantly reduce their living expenses in retirement; others plan to rely heavily on Social Security or continue working in retirement. They might say that, "Financially speaking, I am pretty much in survival mode."

Iconic

The "iconic" personality encompassed 20% of our respondents. This financial personality tends to be over 60, is already retired, and is likely receiving a pension. The iconic personality is confident that their sources of income will last throughout their lifetime. This group tends to be generally optimistic.

The iconic personality feels that they have prepared well for the future and that they have a right to a comfortable retirement, even if it means leaving a smaller inheritance for their heirs. They may have reduced some of their spending, but they do have a clear understanding of their retirement expenses. Fundamentally, this group believes in the "American Dream." Their attitude could be summarized as, "I've worked hard and invested wisely for my retirement security, and I'm enjoying it."

Resilient

We classified 27% of our respondents as "resilient." People with this financial personality tend to be in their mid-50s, are still working full-time, and have moderate income and asset accumulation. Nearly one-fifth have been affected by job loss and are worried that the U.S. is entering a major economic depression. They tend to plan ahead and they value their independence, but they also realize that they may have to work longer. The resilient personality is pragmatic and grounded.

About half of the respondents in our resilient group said that they plan to retire; the other half is unsure of when they'll be able to afford retirement. The resilient personality is concerned about outliving their income. To address this concern, most are planning on investing, working longer, or supplementing Social Security with some other form of income. Most resilient personalities expect to make some reduction in their living expenses in retirement. Their outlook could be quoted as, "Deep down, I realize things will never be the same in terms of financial security."

Distracted

The "distracted" personality describes 7% of our respondents. This group is the youngest, with most of the respondents in their late 40s or early 50s. The distracted personality also has the highest income, and tends to live in more expensive homes in metropolitan areas. Many have seen their net worth drop significantly and have cut back on some spending as a result. However, they have not changed their retirement plans or reevaluated their overall financial strategy.

Respondents in the distracted group expect to retire in their early 60s – although they would prefer to retire in their early 50s. They are counting on receiving their full Social Security benefits, and are relying on 401(k)s more than any other group. They are worried that their savings will not be adequate for retirement, but they don't have a plan for growing those savings. This group tends to live in the present and externalize big decisions (e.g., wanting government to solve the country's financial problems). Their attitude could be summarized as, "I am happy to live in the moment with a full house and a full life."

Savvy

The "savvy" personality describes 14% of our respondents. This group is older (predominantly over 60), generally highly educated, and has been retired or semi-retired for at least five years. Although the savvy personality may have suffered some recent market losses, these had little impact on their spending habits or daily life. However, they may have adopted a more conservative approach to investing.

The savvy group is living comfortably in retirement, and is the best-prepared of the five financial personalities. They are financially independent, they're comfortable taking risks, and they're confident that their income will last throughout their lives. Savvy personalities tend to have large, diversified portfolios – and therefore, few financial concerns. Their motto could be summed up as, "I watch the markets and manage my investments."

Discovery #3:

Americans fear outliving their money more than they fear death.

As we discussed in the introduction, increasing life expectancies mean that Americans are spending more years in retirement. Unfortunately – as pension plans disappear and Social Security benefits dwindle – they're also funding more of their own retirement. The result? Americans are increasingly at risk of outliving their assets.

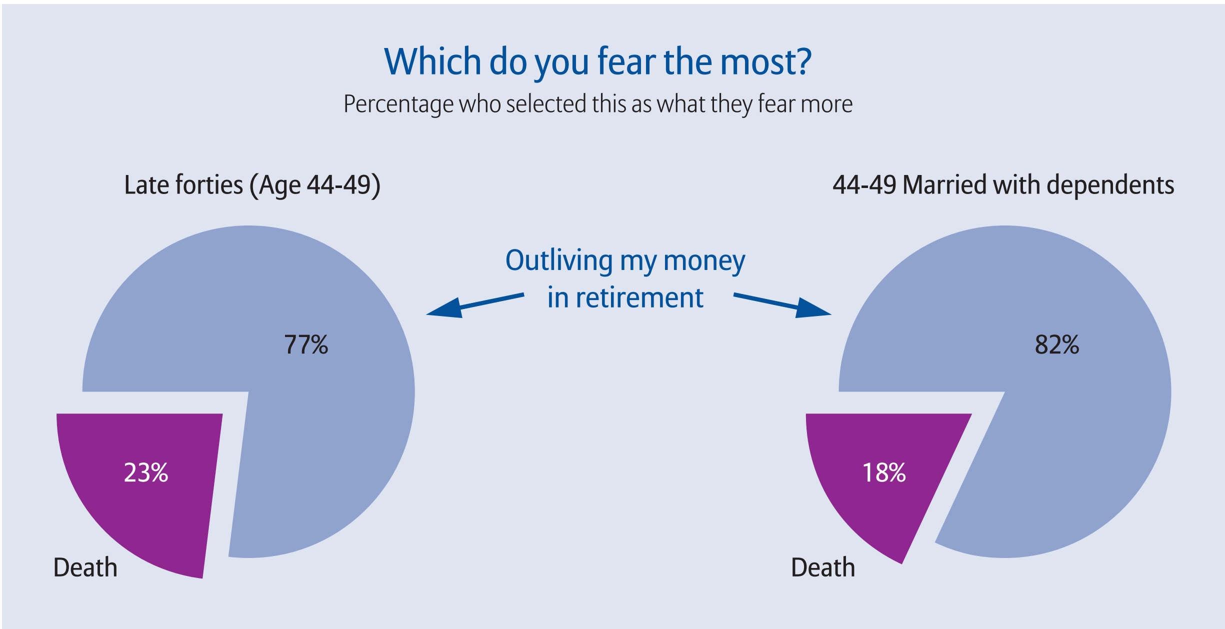
And consumers are aware of this risk. When surveyed, between 58% and 60% of the respondents in all age groups reported worrying about longevity. Those with lower income levels[1] reported the most anxiety: 63% of them said that they worry about outliving their assets.

The Allianz *Reclaiming the Future* Study tackled this question by asking, "Which do you fear the most: outliving your money in retirement, or death?"

A surprising 61% of the respondents said they were more scared of outliving their assets than they were of dying. Among people aged 44-49, that number climbed to 77%. And a whopping 82% of those in their late 40s who had dependents were more afraid of outliving their money than they were of death.

61% of those surveyed said they were more afraid of outliving their assets than they were of death.

[1] For the purposes of this study, "lower income" was defined as a household income of $30,000-$45,000 and investable assets of under $50,000.



Other insecurities

The Allianz *Reclaiming the Future* Study also explored other areas of retirement insecurity.

We asked the respondents to consider which is likelier: getting their full due from Social Security, or getting struck by lightning. More than one-third (39%) said it's more likely to be hit by lightning. Among middle-class respondents,[1] this number climbed to 56% .

> 56% of middle-class consumers feel "It's more likely I'll get struck by lightning than get my full due from Social Security."

[1] "Middle-class respondents" were defined as households with an income of $45,000-$75,000 and investable assets of $50,000-$100,000.

Discovery #4:

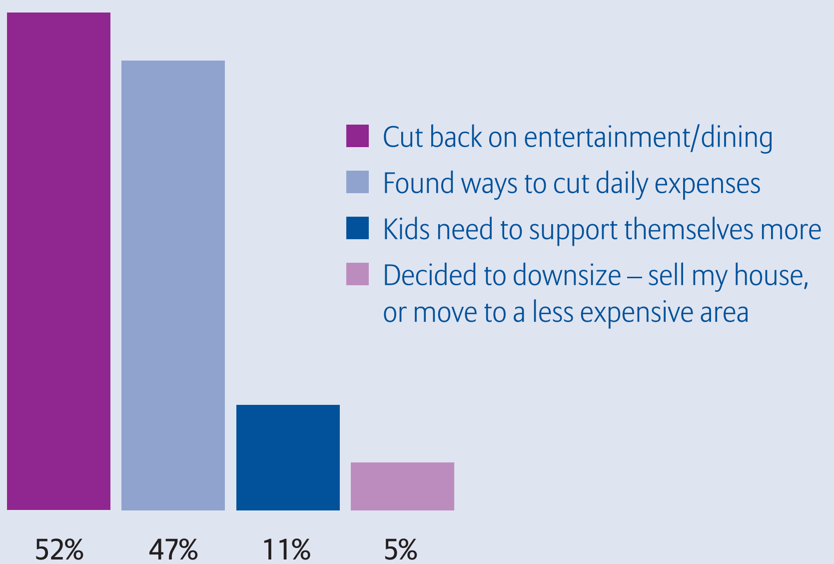
The economic downturn was a big wake-up call.

The market downturn that began in 2008 – 2009 caused a profound financial shift for many Americans. The Allianz ***Reclaiming the Future*** Study explored the extent of the damage – and its effect on baby boomers' behavior.

The market downturn had a measurable adverse effect on our respondents. More than half (53%) reported that their net worth dropped significantly in a very short period. About 43% saw their home's value drop. Almost as many (41%) realized that they were not as "in control" of their financial future as they'd thought.

The rules were clearly changing – and many of the respondents' behaviors soon followed. Some curtailed their spending. Others took a keener interest in the news, or in studying the market. A few even paused to rethink their retirement strategy.

Lots of Americans made changes in their behavior after the market downturn. What was true for you?



Changing market, changed behaviors.

Of those surveyed, more than half (52%) said they had cut back on entertainment and dining as a result of the economic downturn. Almost half (47%) found ways to cut daily expenses. 11% told their kids to expect less financial support. And about 5% actually decided to move to a less expensive area.

Several of the study's respondents also said that the downturn prompted greater financial engagement. Almost a quarter (22%) said that they began watching or reading more financial news. Another 15% reported paying greater attention to "fine print," and 14% started reading their financial statements "a lot more closely."

But perhaps most significantly, the market downturn caused a seismic shift in how the respondents viewed retirement planning. More than half (51%) came to realize that a comfortable retirement is not guaranteed. 46% decided that protecting the security of their assets was "much more important now." And almost a third (30%) wanted to provide themselves with "a new level of certainty" about their financial future.

Across the board, a majority of the respondents agreed that, "The safety of my money matters more to me than it did a few years ago."

Discovery #5:

Annuity-like solutions are gaining relevance and appeal.

When planning for retirement, Americans must now address three challenges. First, they must look beyond defined benefit plans or Social Security for their retirement income. Second, they must guard against outliving their assets. And third, they must find a way to protect their assets from market downturns.

With these themes as a backdrop, The Allianz *Reclaiming the Future* Study asked consumers to consider the features that would be most important to them, if they could build the ideal financial product. The individuals surveyed were allowed to choose from a wide selection of variables that included high returns, low fees, access to money, and so forth.

The most-selected feature was "the ability to create a stable, predictable standard of living throughout retirement." In second and third place, respectively, were the "ability to provide a guaranteed income stream for life" and "guaranteed not to lose value."

When asked to choose between high returns or guarantees, 69% of those surveyed said they'd prefer a product that was "guaranteed not to lose value," while only 31% chose a product whose goal was "providing a high return."

Top 5 most important

1. Stable, predictable retirement standard of living
2. Guaranteed income stream for life
3. Guaranteed not to lose value
4. Protect against market downside
5. Don't think about, stable, predictable

Boomers are describing an annuity-like solution as what they most want, without even knowing that this is an annuity!

Americans want safety over growth.

As we saw earlier, a majority of the study's respondents agreed that, "The safety of my money matters more to me than it did a few years ago." This finding applied to financial products, as well.

An overwhelming 80% of the people surveyed preferred a product with 4% return and a guarantee against losing value over a product with 8% return and a vulnerability to market downturns.

When asked to choose between putting money into an annuity-like product (moderate growth opportunity, monthly income, guaranteed for life, but limited access to the lump sum) vs. a similar instrument that provides total access but risks running out of money, 56% chose the annuity-like product. Among the mass affluent,[1] this number rose to 77%.

[1] The "mass affluent" were defined in this study as households with an income of $100,000-$150,000+, and investable assets of $300,000-$500,000+.

Unfortunately, the solution is shrouded in misperceptions.

The Allianz ***Reclaiming the Future*** Study showed that a surprising 54% of the respondents expressed a distaste for the word "annuity" – even after describing an annuity-like product as their ideal financial vehicle.

Perhaps this is because 25% of the respondents formed their opinion of annuities more than 20 years ago. Another 28% of respondents said they formed their opinion between 10 and 20 years ago. And of those respondents, 64% percent admit that they haven't researched annuities in the years since. Another 29% say they've considered annuities "once in a while," and only 7% say they've kept up with new product developments.

But the facts about annuities are compelling.

According to the study, 76% of the annuity owners surveyed are happy with their purchase. Among the reasons they cite are:

- protection of their nest egg,
- protection from market downturns, and
- guaranteed income for life.

More than half of the annuity owners surveyed said that they like the product because it's a safe long-term investment vehicle (57%), a great way to supplement their retirement income (56%), and an effective way to get tax-deferred growth potential (56%).

In fact, consumers ranked annuities second-highest in satisfaction among all financial instruments, beating out mutual funds at 38%, stocks at 36%, U.S. Savings Bonds at 35%, and CDs at 25%. (Gold and precious metals came in first, with a satisfaction rating of 62%.)

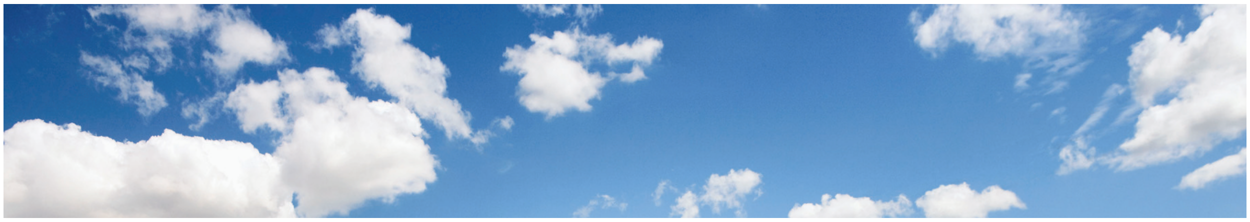
Conclusion

An unprecedented number of Americans is getting ready to retire, and they will face unprecedented challenges. Once-reliable sources of retirement income will disappear. They'll risk outliving their savings. And they'll be more vulnerable to market downturns.

As the Allianz ***Reclaiming the Future*** Study has demonstrated, Americans are aware of this looming crisis – and they are scared.

Fortunately, there is hope: As the Allianz ***Reclaiming the Future*** Study has also demonstrated, Americans do have options as they face these challenges and plan for retirement. Further, the study also found that annuities may be one of the most relevant of these options: Only annuities can offer the combination of principal protection and income for life.

Learn more about Allianz Life Insurance Company of North America, and about how its annuities are helping Americans prepare for retirement. **For more information log on to www.allianzlife.com.**



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Through a line of innovative products and our network of trusted financial professionals, Allianz helps more than 1.2 million people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is now 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 today and count on us for tomorrow – when they need us most.

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