

# Understanding The Market Value Adjustment

The *Understanding the Market Value Adjustment* piece is designed to provide an important explanation of how the Market Value Adjustment (also known as Interest Adjustment) affects your annuity Contract with North American. Please read carefully.

## WHEN IS THE MARKET VALUE ADJUSTMENT APPLIED?

The Market Value Adjustment is applied during the surrender charge period of your annuity Contract. The surrender charge period will vary by product. *Please see your annuity Contract or product brochure for details.* The Market Value Adjustment only applies during the surrender charge period should you elect to surrender your annuity. The Market Value Adjustment will also apply if you elect to take a withdrawal that exceeds your penalty-free withdrawal amount. Please understand annuity contracts have limited liquidity during the surrender charge period, so make sure the annuity selected meets your liquidity needs. The Market Value Adjustment does not apply upon death of the owner and/or annuitant and may not apply upon annuitization, and does not apply after the surrender charge period.

## HOW DOES THE MARKET VALUE ADJUSTMENT WORK?

The Market Value Adjustment affects the surrender value of your annuity Contract. The surrender value is defined in your annuity Contract and is also explained in each product brochure.

The Market Value Adjustment formula (see 2nd page) will be applied at the time your annuity Contract is surrendered or if more than your penalty-free available is withdrawn during the surrender charge period as stated in your Contract. The impact of the Market Value Adjustment is similar to how bond values are impacted by interest rates. The surrender value of your annuity will generally decrease as new money interest rates for your annuity product increase which creates a negative adjustment to your surrender value. Alternatively, when

new money rates for your annuity product have decreased since your Contract was issued, the surrender value generally increases due to the Market Value Adjustment. The amount of Market Value Adjustment will never exceed the lesser of: a) total interest credited to the Accumulation Value since issue, less the sum of the absolute values of all the Market Value Adjustments on prior partial surrenders (i.e. all adjustments positive or negative added together), or b) the surrender charge plus any premium bonus recapture (if applicable).

Lower interest rates at time of issue may result in less opportunity for a positive Market Value Adjustment in future contract years. In certain rate scenarios at the time of issue, it may not be possible to experience a positive Market Value Adjustment.



The table below illustrates the effect of a Market Value Adjustment on an annuity, assuming the future new money interest rate increases or decreases by 1% or 2%.

EFFECT OF FUTURE NEW MONEY INTEREST RATE CHANGES ON ANNUITY SURRENDER VALUES <sup>1,2, #</sup>						
Contract Year	-2% Decrease	-1% Decrease	-0.5% Decrease	No Change	1% Increase	2% Increase
1	\$9,200	\$7,098	0	-\$4,905 <sup>1</sup>	-\$4,905 <sup>1</sup>	-\$4,905 <sup>1</sup>
2	\$13,568	\$6,133	0	-\$6,133	-\$8,520 <sup>1</sup>	-\$8,520 <sup>1</sup>
3	\$15,630	\$5,846	0	-\$5,846	-\$12,329 <sup>1</sup>	-\$12,329 <sup>1</sup>
4	\$16,055	\$5,528	0	-\$5,528	-\$15,727	-\$15,727 <sup>1</sup>
5	\$15,521	\$5,174	0	-\$5,174	-\$15,521	-\$16,497 <sup>1</sup>
6	\$14,349	\$4,783	0	-\$4,783	-\$14,349	-\$15,262
7	\$13,057	\$4,352	0	-\$4,352	-\$13,057	-\$13,948
8	\$11,640	\$3,880	0	-\$3,880	-\$11,640	-\$12,553

1. Values assume a \$100,000 single premium allocated to the Fixed Account with a 4% interest rate in all years and 5% premium bonus based on a NAC SecureChoice<sup>SM</sup> 14-Year contract issued by North American. Products offering premium bonuses may result in a lower rate than products that don't offer a premium bonus. 2. The effect on the values of the Contract you purchased may differ from those reflected in this table. Refer to your Contract for details.

#. Market Value Adjustments cannot cause the surrender value to be lower than the minimum requirements set by state law. These values reflect minimum state law requirements assuming a 1% interest rate. Current state law minimum requirements may be greater or less than a 1% interest rate.

# The Market Value Adjustment Formula

The Market Value Adjustment will be calculated by multiplying the portion of any full or partial surrender that exceeds any available penalty-free withdrawal amount before the reduction for any surrender charge by the formula\* described below:

**HOW IT WORKS**

$$[ (i_0 - i_t - 0.005) \times (T) ]$$

**i<sub>0</sub>** = The current interest rate, excluding any additional interest, when the contract was issued.

**i<sub>t</sub>** = The current interest rate, excluding any additional interest, offered for new contracts at time of the partial or full surrender.

**T** = Time in years as follows: number of days from the date of the partial or full surrender to the end of the current contract year divided by 365; plus whole number of years remaining in the surrender charge period.

\* Formula varies by state, see your contract for details.

## Sample Calculation

If you put \$100,000 into the Fixed Account of a NAC SecureChoice<sup>SM</sup> 14-year Fixed Index Annuity with a 4% interest rate and a 5% premium bonus, you would have an Accumulation Value of \$138,173 in seven years. This example assumes that the Market Value Adjustment would be applied upon full surrender at the end of the 7th contract year with a penalty-free partial surrender of 10% available and an 8% surrender charge would apply.

If the new money interest rate changes from 4% to:		
Current Interest Rate for new contracts	3%	5%
Market Value Adjustment Calculation	(0.04-0.03-0.005) x 7	(0.04 - 0.05 - 0.005) x 7
	= 0.0350	= -0.1050
Accumulation Value	\$138,173	\$138,173
10% Penalty-Free Withdrawal Amount	\$13,817	\$13,817
Market Value Adjustment	(\$138,173 - \$13,817) x 0.035 = 4,352	(\$138,173 - \$13,817) x -0.105 = -13,057
Accumulation Value (after Market Value Adjustment)	\$142,525	\$125,116
Surrender Charge	\$9,948	\$9,948
Premium Bonus Recap	\$4,000	\$4,000
Cash Surrender Value**	\$128,577	\$111,168

\*\*Surrender Value after surrender charge and Market Value Adjustment is guaranteed to not be less than the minimum required by the laws of the state in which the contract is written.

Fixed Index Annuities are not a direct investment in the stock market. They are long term insurance products with guarantees backed by the issuing company. They provide the potential for interest to be credited based in part on the performance of specific indices, without the risk of loss of premium due to market downturns or fluctuation. They may not be appropriate for all clients.

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