

Understanding The Interest Adjustment

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

When is the Interest Adjustment Applied?

The Interest 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 Interest Adjustment only applies during the surrender charge period should you elect to surrender your annuity. The Interest 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 and make sure the annuity selected meets your liquidity needs. The Interest 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 Interest Adjustment Work?

The Interest 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 interest adjustment formula (*see 2nd page*) will be applied at the time your annuity Contract is surrendered during the surrender charge period as stated in your Contract. The impact of the Interest 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 rise 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 Interest Adjustment. The amount of the Interest Adjustment will never exceed the interest (including any premium bonus-if applicable) credited to your Contract since issue.



The table below illustrates the effect of an Interest Adjustment on an annuity, assuming the future new money interest rate increases or decreases.

EFFECT OF FUTURE NEW MONEY INTEREST RATE CHANGES ON ANNUITY SURRENDER VALUES ^{1,2,#}						
Contract Year	2% Decrease	1% Decrease	0.5% Decrease	No Change	1% Increase	2% Increase
1	\$12,320	\$7,301	0	-\$3,727 [#]	-\$3,727 [#]	-\$3,727 [#]
2	\$16,813	\$6,308	0	-\$6,308	-\$8,630 [#]	-\$8,630 [#]
3	\$18,041	\$6,014	0	-\$6,014	-\$12,747 [#]	-\$12,747 [#]
4	\$17,057	\$5,686	0	-\$5,686	-\$17,057	-\$18,235 [#]
5	\$15,965	\$5,322	0	-\$5,322	-\$15,965	-\$21,696 [#]
6	\$14,759	\$4,920	0	-\$4,920	-\$14,759	-\$24,598
7	\$13,430	\$4,477	0	-\$4,477	-\$13,430	-\$22,384
8	\$11,972	\$3,991	0	-\$3,991	-\$11,972	-\$19,954

1. Values assume a \$100,000 single premium allocated to the Fixed Account with a 4% interest rate in all years and 8% premium bonus based on a North American CharterSM 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.

Interest 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.



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The Interest Adjustment Formula

The Interest 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

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

i₀ = The current interest rate, excluding any additional interest, when the contract was issued.

i_t = 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 North American CharterSM 14-year annuity with a 4% interest rate and an 8% premium bonus, you would have an Accumulation Value of \$142,121 in seven years. This example assumes that the Interest 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 a 15% surrender charge would apply.

If the new money interest rate changes, from 4% to:

Current Interest Rate for new contracts	3%	5%	
Interest Adjustment Calculation	(0.04-0.03-0.005) x 7	(0.04 - 0.05 - 0.005) x 7	
	= 0.0350	= -0.1050	
Accumulation Value	\$142,121	\$142,121	
10% Penalty-free Withdrawal Amount	\$14,212	\$14,212	
Interest Adjustment	(142,121 - 14,212) x 0.0350 = 4,477	(142,121 - 14,212) x -0.1050 = -13,430	
Accumulation Value (after Interest Adjustment)	\$146,598	\$128,691	
Surrender Charge	\$19,186	\$19,186	
Cash Surrender Value**	\$127,412	\$109,505	

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



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It is not the intent of North American, this flyer, or your representative to give tax advice. Consult your personal tax advisor on specific points of importance to you. The North American CharterSM is issued by North American Company for Life and Health Insurance[®], West Des Moines, IA on Form LC156A or LS156A or appropriate state variation. This product may not be available in all states. The Interest Adjustment feature is not available in all states. Please refer to your Contract to determine if this feature is available.