

Key Points:

Money Market Funds Q&A

SAVING : INVESTING : PLANNING

March 11, 2010

Background:

Questions may arise about negative yields in the VALIC Company I or II Money Market Fund (the "Money Market Fund") or about decreasing money market balances.

Isn't a money market fund always \$1 per share?

The Money Market Fund seeks to maintain a net asset value (NAV) of \$1.00 per share.

But it looks like I had a loss in the Money Market Fund this quarter. How could that be?

You are invested in the Money Market Fund as part of your variable annuity. Each of the variable account options in the variable annuity represents an investment in an "underlying" mutual fund. Every business day, the variable account option determines a unit value. This unit value can go up or down, even for money market funds.

OK, how does this work? How do you calculate the unit value?

A variable account option calculates its unit value starting with the NAV of the underlying mutual fund. For the Money Market Fund, the calculation starts with the \$1.00 per share NAV, plus any dividends paid by the underlying money market fund, minus the daily portion of the variable account option's annual separate account charge. If the daily dividends paid by the underlying mutual fund are less than the daily portion of the separate account charges, the unit value will decrease for the money market variable account options.

So you're saying that the overall value of a money market variable account option can go down even though it is a money market fund?

Yes. The separate account of the variable annuity offers a money market variable account option that invests in an underlying money market fund. The separate account charges within the annuity, coupled with declining interest rates, can cause the value of the money market variable account option to go down.

Can you give me an example?

In time periods when the general interest rate environment is not favorable, the underlying money market fund may have a very low yield. For example, during 2003 and 2004, interest rates decreased substantially, causing a two to three cent decrease in the unit value for the Money Market Fund during that time period. The unit value began increasing in the 4th quarter of 2004 when interest rates began to rise again. Thus, a low interest rate adversely affects the unit value of the money market variable account option, causing it to decline.

Key Points

Why do the Fund Profile performance pages of VALIC.com show negative annual returns for the Money Market Fund?

The Fund Profile pages on the www.valic.com website reflect a negative "Standard Average Annual Return" for the Money Market Fund variable account options, along with a positive "Non-Standard Average Annual Return."

The standardized returns are calculated in accordance with federal laws and regulations, requiring the returns to reflect the deduction of all fees and charges, including the maximum 5% surrender charge and account maintenance fees of \$3.75 per quarter. The standardized return does not include the effect of premium taxes or optional IncomeLock fees. Not all contracts are subject to surrender charges or contract maintenance fees.

The non-standardized average annual returns do not reflect the deduction of account maintenance fees, surrender charges, IncomeLock fees or premium taxes.

Is my annuity or money market fund insured by the FDIC?

No. The FDIC insures bank accounts, such as checking, savings, trust and money market deposit accounts, as well as certificates of deposit (CDs) and IRAs. Bank accounts generally are insured by the FDIC up to the legal limit of \$250,000.

An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the Money Market Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the funds. The FDIC does not insure products such as mutual funds, annuities, life insurance policies, stocks and bonds.

Committed to you

Our customers' trust is our most valuable asset

To obtain a prospectus, visit www.valic.com or call 1-800-428-2542. Prospectuses contain more complete information including fund risks and objectives, fees, charges, and expenses, and other information about the investment company, which should be considered before investing. Please read the prospectus(es) carefully before investing or sending money.

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(03/2010) J77588 EE

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