VALIC

Retirement ESSENTIALS

SAVING : INVESTING : PLANNING

SPRING 2012

"Without frugality, none can be rich, and with it very few would be poor."

–Samuel Johnson, author

Put Retirement First

It's easy to let planning and saving for retirement take a back seat to your everyday financial concerns. However, focusing on retirement will make you wiser about managing your money overall.

Your biggest tax break

As long as you stay in the plan, a percentage of your pretax earnings will be automatically directed from each paycheck to your workplace retirement plan account. That money grows without being taxed until you start taking withdrawals. This is your most powerful savings tool—so take full advantage of it during your earning years. At a minimum, contribute enough to benefit from any match your employer may offer.

Create a safety net

Setting aside cash to cover unexpected expenses will help you avoid having to tap your retirement savings in an emergency. Have a set amount of your paycheck directed to a savings account every pay period.

Bring on the budget

Staying on top of your expenses means living below—not at—your means because, ultimately, you want to stay focused on saving. Track your expenses for two months and then see where you can cut back. Budget tools at sites like VALIC.com and mint.com can help you track and manage your spending.

> To help you reach your saving goals, visit the Learning Center at **VALIC.com**.

Mix It Up

Get Out of Debt

Americans who have credit card and other high-interest debt are more likely to have difficulty saving.[1] Try these steps for eliminating your credit card debt:

> **Calculate your total** outstanding balances, and make note of the interest rates you're paying.

> **Prioritize your payments.** Make bigger payments on the highest-interest balances, and pay the minimum amount required on the rest. Always pay on time to avoid late penalties.

> **Consolidate your debt.** Perhaps consider the possibility of a lower-interest-rate credit card, or a home-equity loan (the interest is usually tax-deductible), if paying more than the minimum is a struggle.[2]

> **Work with a credit counselor** on a repayment plan. He or she may be able to negotiate lower interest rates with your creditors on your behalf.[3] Visit nfcc.org (the National Foundation for Credit Counseling) for more information.

[1]"Card Debt Hinders Savings," 2011, bankrate.com.
[2]"10 Ways to Dump Your Debt," 2009, bankrate.com.
[3]"Help! I'm Drowning in Debt," July 11, 2010, smartmoney.com.

Ask Us

Money Talks

Q **How can I help my teens be better savers?**

A When teaching the importance of saving, budgeting and planning for the future, communication—early and often—is key.

Turn earners into savers

As soon as your children begin earning money from household chores or working part-time, explain the importance of devoting a portion of income to saving. Opening and maintaining a savings and checking account can teach your children about fees, account maintenance and interest. Offering to match their deposits is a great incentive for promoting good savings habits. Once they save $1,000, consider helping your children choose among basic investment options, such as a Roth IRA.[1]

Make shopping informative

Show how to spend responsibly by using a shopping excursion as an opportunity to explain price comparison, value and inflation. Does your child want to buy something outside the family budget? Describe the pitfalls of using credit cards—effectively taking out a high-interest loan—for such purchases.

Consider a Roth IRA

Minors who report earnings—whether from mowing lawns, babysitting or a summer job—are entitled to contribute up to $5,000 annually to a Roth IRA, as long as their contribution does not exceed their taxable income.[2] Roth IRAs can be particularly advantageous for young people, who are typically in a lower tax bracket than they will be later in life. Young Roth holders contribute after-tax money that has the potential to grow over time and can be withdrawn tax-free after the age of 59½.[2] More importantly, Roths provide a way for young investors to save for the long term—and get into a mindset of planning ahead.

[1]"How to Teach Kids About Money," June 17, 2011, smartmoney.com.
[2]"Roth IRAs for Kids," October 21, 2010, smartmoney.com.

> To learn more about IRAs and Roth IRAs, log on to **VALIC.com**, click on the Investment Products tab and then Retirement & Benefit Plans. To help your teen improve his or her financial literacy, suggest a visit to jumpstart.org/reality-check.

SmartMoney
THE WALL STREET JOURNAL.

SmartMoney Savvy

The Catch-Up Puzzle

Are you behind on saving for retirement? You're not alone. Nearly half of workers born between 1948 and 1954 appear to be at risk of outliving their retirement savings.[1] Fortunately, there are still things you can do to minimize a shortfall. But don't focus on just one; combine all of these moves for an all-encompassing catch-up strategy.

Get aggressive

In 2012, you can contribute up to $17,000 pretax to your workplace retirement plan, plus another $5,500 in "catch-up contributions" if you are age 50 or older, if allowed by your plan.[2] If you haven't maxed out, look for ways to cut back elsewhere so you can boost your contributions. Even if you can't hit the maximum, a small increase can make a difference over time.

Boomers at risk of outliving retirement savings:[1]

47%
of people born between 1948 and 1954

44%
of people born between 1955 and 1964

Postpone retirement

If you're able to work longer, you'll save more and give your savings more time to grow. Or consider part-time work or a career change doing something you love. You'll likely earn less, but the extra income will offset your living expenses and help you stretch your retirement savings.

Be savvy about Social Security

Eligibility for Social Security benefits begins at age 62, but your benefit increases with each year you delay collection, up until age 70. To get a sense of the now-vs.-later tradeoff, visit the Social Security Administration's Benefits Calculators for an estimate of your potential benefit amounts.[3]

[1]"The EBRI Retirement Readiness Rating," July 2010, ebri.org.
[2]irs.gov.
[3]ssa.gov.

Research Roundup

Long-Term Care: A Common-Sense Approach

Many older Americans recognize they will have trouble paying for long-term care.[1] Most do not own long-term care insurance,[2] which can be complicated and costly—as much as $4,000 annually, if they're over age 61. (The cost can be as low as $1,000 a year for people under age 61.)[3]

Some financial professionals say a lower-cost policy that offers a smaller daily payout is often better than none. If and when the need arises, you'll at least be able to offset the cost of care while paying a far more affordable premium.[4]

[1]Retirement and Health Poll, Robert Wood Johnson Foundation, Harvard School of Public Health, September 2011.
[2]"Long-Term Care: To Buy or Not to Buy," Financial Security Project at Boston College, 2011.
[3]American Association for Long-Term Care Insurance (aaltci.org).
[4]"Some Long-Term Care Insurance Is Better Than None," smartmoney.com, December 28, 2011.
[5]"What Is Long-Term Care?" (Long-Term Care Planning Tool), Medicare.gov.

The Disconnect on Medicare

32%
of pre-retirees and

43%
of retirees believe Medicare covers the cost of long-term care.[1]

What Medicare actually covers:

Short-term hospital or nursing facility stays tied to illness or injury—not assisted living or nursing-home care.[5]

The 411

Emergency Fund Smarts

Everyone needs a financial cushion. Test your knowledge of emergency funds.

True or False:

1. The size of your emergency fund is based on a percentage of your salary.	❑ T ❑ F
2. A money market fund is a good place to keep your emergency funds.	❑ T ❑ F
3. If you can't do both, build an emergency fund before paying down credit card debt.	❑ T ❑ F

Answers

1. **False:** Three to six months of living expenses is the recommended amount. An emergency fund is meant to help you pay unanticipated expenses.

2. **True:** It's best to keep your emergency savings in accounts that offer the liquidity you need—but aren't so easy to access that you might be tempted to tap them for a nonemergency.[1]

3. **False:** Pay down your credit card balance first. You'll likely earn far less interest on your emergency fund account than you'll pay on this high-cost debt.[2]

[1]"Where to Put the Emergency Fund," morningstar.com. [2]"Should You Pay Debt Before Saving?" 2009, bankrate.com.

Fund Update

The VALIC Company I & II Board of Directors has approved the following subadvisor changes:

Effective November 14, 2011: JP Morgan has been added as a subadvisor to the Government Securities Fund [08]. In addition, Columbia Management Investment Advisors, LLC (Columbia) will replace Wells Capital Management as a subadvisor in the Large Cap Core Fund [76].

Effective December 5, 2011: Robeco Investment Management, Inc. (Robeco) replaced FAF Advisors Inc./Nuveen Asset Management as subadvisors in the Mid Cap Value Fund [38]. UBS Global Asset Management (Americas) replaced PineBridge Investments as subadvisor in the International Small Cap Equity Fund [33]. Boston Company Asset Management (Boston Company) replaced Bridgeway Capital Management as subadvisor in the Capital Appreciation Fund [39].

For more information on these fund changes, please go to VALIC.com to review the prospectus.

Securities and investment advisory services are offered by VALIC Financial Advisors, Inc., member FINRA and an SEC-registered investment advisor.

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