

Retirement ESSENTIALS

SAVING : INVESTING : PLANNING

FALL 2009

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"Remember, today is the tomorrow you worried about yesterday."

—Dale Carnegie

Get Ready for A Recovery

The Dow Jones Economic Sentiment Indicator (ESI), is designed to gauge the health of the U.S. economy by analyzing its coverage in 15 major American newspapers, using a scale of 0 to 100. May's ESI figure of 29—far from the high of 73.7 in February 2000 and up from a low of 22.2 in November 2008¹—offered tentative signs that the worst of the recession may be past, although continued improvement isn't certain.

Timing is everything

No one knows exactly when the recession will end. Still, historically, stocks tend to rebound *before* the economy—and the biggest returns can happen over just a few days—so it's best to be prepared to reap those potential rewards. For example, if you'd pulled out of the stock market and missed just 10 of the best days of performance in the S&P 500 during the 73-month expansion period that followed the 2001 recession, your annualized return would have dropped from 7.33% to just 0.36%.²



Opportunity knocks

Declining stock prices have created potential buying opportunities, and if your money is sitting on the sidelines you have a 100% chance of *missing* a market recovery. In this newsletter we will provide tips on how to position yourself for the recovery, strengthen your portfolio and improve your retirement outlook.

¹Dow Jones Economic Sentiment Indicator, June 1, 2009

²Morningstar, Inc.

> To learn more about financial planning investment strategies, visit VALIC.com. Select the "Learning Center" tab, then "Investment Strategies."

Ask Us

Bouncing Back

Q How can I get back on track for retirement?

A Recent stock market volatility has taught investors harsh lessons about risk: While the market can produce spectacular returns, it can also deliver devastating losses. Picking up the pieces isn't pleasant, but it has to be done. Here are some suggestions for rehabilitating your plans for retirement:

Catch up and/or max out

If your plan allows, workers age 50 or older can boost workplace retirement plan contributions from \$16,500 to \$22,000 with a \$5,500 catch-up contribution in 2009. IRAs also have a \$1,000 catch-up contribution feature on top of a \$5,000 maximum contribution limit.

Consider annuities

An annuity is a long-term contract that involves giving cash to an insurance company in exchange for regular income payments, often for the rest of your life. An annuity doesn't reduce your income or taxes, but it does offer tax-deferred growth and compounding on your earnings.

Delay retirement

Extending time in the workplace may help recoup market losses. A steady paycheck will allow you to plump up your retirement accounts. What's more, you'll be able to continue to enjoy the potential for tax-deferred growth that workplace plans offer.

Hold off on Social Security

You can start collecting benefits between age 62 and your full retirement age: that's 65 for those born before 1943 and 66 for those born between 1943 and 1954. But the longer you delay, the bigger your monthly payouts can be. Start at age 62 and see your monthly benefit amount permanently reduced by about 20% to 25%. Wait until after full retirement age to collect your benefits and they will increase by 8% for each additional year, up until age 70.¹

¹www.socialsecurity.gov

> Did you know we offer online, topical educational videos that can help you make informed decisions as you prepare for the future? Find them at **VALIC.com**. Select the "Learning Center" tab, then "Multimedia Resources."



Mix It Up

You Can Count On Coupons

The average grocery store coupon is worth 92 cents. Take advantage! Visit Web sites like thegrocerygame.com and couponmom.com for tips on how to maximize coupons and sales as well as when and where to shop for goods. Here's a sampling of what you'll find:

- > Access to weekly lists of low-priced products at most major supermarkets, matched with manufacturers' coupons and specials—advertised and unadvertised.
- > eCoupons that can be linked to your grocery or drug store savings card.
- > Information on free offers, free samples and the deals of the day.
- > Books and articles on saving money and living frugally.

Remember, a dollar saved here can be a dollar you put toward retirement.



SmartMoney Savvy

Inflation: Make It Personal

The U.S. inflation rate, which is used extensively to adjust everything from incomes to tax brackets to school lunch prices, affects nearly all Americans. However, for retirement savers who also use these national figures when calculating how much money they'll need in retirement, this "average" of price estimates may not reflect the actual inflation that their family experiences. A better bet? Calculate your *personal* rate of inflation, based on your family size and income, typical purchases and projected costs.

Inside the inflation rate

A little background: The Consumer Price Index (CPI) tracks the average

prices paid by consumers for a fixed "basket" of goods and services representative of what a typical consumer purchases each month. While the country's inflation rate is based on increases in the CPI, your personal rate of inflation depends on what *you* spend *your* money on. If you spend more than the average person on healthcare—28% of 50- to 64-year-olds spend more than 10% of disposable family income on healthcare¹—and prices rise sharply for these goods and services, the increase in your personal expenditures and personal inflation may be larger than what the national average might lead you to believe.



Your personal plan

Recognizing your personal rate of inflation can give you a realistic picture of current spending and help you more accurately project future expenses. To stay *ahead* of inflation in retirement, consider ramping up your pretax contributions to your workplace plan now, while you can. The bigger the nest egg, the smaller the bite inflation can take out of it.

¹AARP Public Policy Institute Fact Sheet, "Expanding Health Coverage for 50- to 64-Year-Olds: Why It's a Health Reform Priority," May 2009

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The 411

How Much Do You Know About IRAs?

When you retire or take a new job, you can move the money in your retirement plan into an IRA. Take the following matching quiz to see how much you know about this retirement savings vehicle.

1. Taking funds out of your retirement plan, whether in cash or as a direct rollover to another plan, is called taking a _____.	A Transfer
2. Assets withdrawn from an eligible retirement plan (other than a 457(b) plan) and not contributed to a new account within 60 days will be taxed as ordinary income and will be subject to a 10% _____ if you're under age 59½ unless an exception applies.	B Rollover
3. A direct movement of funds between like retirement plans that triggers no tax reporting and no tax consequences is called a _____.	C Federal tax penalty
4. Moving a distribution from one eligible retirement plan to another (directly or indirectly) is called a _____.	D Distribution

Answers: 1-D, 2-C, 3-A, 4-B

The Importance of Financial Planning



Everyone should have a financial plan. It will help you evaluate your current assets and debts, identify the things you want or need to finance, and define the steps you'll take to accumulate the money to pay for them. It also will help you prepare for obstacles such as inflation, taxes and unexpected life events like illness or disability.

Without a financial plan, your retirement could be at risk. For investors nearing or already in retirement, common mistakes—such as underestimating life expectancy, inadequately monitoring or controlling the amount of money you draw down from your savings, or neglecting to factor in healthcare costs—can be disastrous.

A tool for the long view

Enter Retirement Income Strategies Plan, one of VALIC's comprehensive financial modeling tools. Accessed by your financial advisor from VALIC, this tool offers a year-by-year look at your retirement income

and provides tax investment strategies, distribution analysis and information on Social Security. Long-term care and estate-planning topics are also covered.

It's never too late to revise your game plan to achieve long-term financial security. Contact your financial advisor today to learn more about Retirement Income Strategies Plan.

Annuity Fund Updates

The VALIC Company I and VALIC Company II Boards of Directors have approved the following actions:

- Effective 07/24/09 Wellington replaced AIG Investments as sub advisor of the High Yield Bond Fund [60].
- Effective 08/10/09, subject to shareholder vote, SunAmerica Asset Management Corp. will replace AIG Investments as sub advisor of the Government Securities Fund [8].
- Effective 09/14/09 Dreman Value Management replaced Putnam as a sub advisor in the Small Cap Special Values Fund [84]. Evergreen will continue to manage their portion of this fund.
- Effective 09/14/09 BlackRock Financial Management replaced Putnam as sub advisor of the Global Equity Fund [87].

> Refer to the VALIC Company I and II prospectus supplements on VALIC.com for more information on fund changes.

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VALIC represents The Variable Annuity Life Insurance Company and its subsidiaries, VALIC Financial Advisors, Inc. and VALIC Retirement Services Company.