

# Retirement ESSENTIALS

SAVING : INVESTING : PLANNING

SPRING 2012

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“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](http://VALIC.com).

## Ask Us

# Money Talks



## Mix It Up

### Get Out of Debt

Americans who have credit card and other high-interest debt are more likely to have difficulty saving.<sup>1</sup> 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.<sup>2</sup>
- > **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.<sup>3</sup> Visit [nfcc.org](http://nfcc.org) (the National Foundation for Credit Counseling) for more information.

<sup>1</sup>"Card Debt Hinders Savings," 2011, [bankrate.com](http://bankrate.com).

<sup>2</sup>"10 Ways to Dump Your Debt," 2009, [bankrate.com](http://bankrate.com).

<sup>3</sup>"Help! I'm Drowning in Debt," July 11, 2010, [smartmoney.com](http://smartmoney.com).

**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.<sup>1</sup>

### 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.<sup>2</sup> 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.<sup>2</sup> More importantly, Roths provide a way for young investors to save for the long term—and get into a mindset of planning ahead.

<sup>1</sup>"How to Teach Kids About Money," June 17, 2011, [smartmoney.com](http://smartmoney.com).

<sup>2</sup>"Roth IRAs for Kids," October 21, 2010, [smartmoney.com](http://smartmoney.com).

- > To learn more about IRAs and Roth IRAs, log on to [VALIC.com](http://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](http://jumpstart.org/reality-check).



SmartMoney Savvy

# The Catch-Up Puzzle

Retirement may seem light-years away, but like many workers your age, you may already be behind on saving. So take advantage of the decades ahead to get on track.

### Step up your savings

As a young investor, you have the luxury of time. Even a small increase in the amount you are contributing to your workplace retirement plan can make a big difference. In 2012, the IRS allows you to contribute up to \$17,000 pretax to your workplace retirement plan.<sup>1</sup>

### Don't tap your nest egg

It can be tempting to make an early withdrawal from your retirement

### Not Saving Enough

**45%**  
of workers born between 1965 and 1974 appear to be at risk of eventually outliving their retirement savings.

Source: "The EBRI Retirement Readiness Rating," July 2010, ebri.org.

savings, but if you do, you'll pay income taxes on the money and, in most cases, a 10% federal penalty. Moreover, you'll lose the potential growth that money would potentially reap over time. Borrowing from your retirement account—assuming your plan allows it—is far from ideal should you be unable to repay the loan. Moreover, if you lose your job, you may have to repay the loan in

60–90 days or it will be treated as a withdrawal.<sup>2</sup>

### Go for growth

Financial professionals generally recommend that investors in their 30s and early 40s hold at least 70%–80% of their retirement portfolio in stocks. That's far more than the 48%, on average, actually held by investors age 30–44, according to the Employee Benefit Research Institute. Because you can sacrifice potential growth by playing it too safe, it's important to hold an age-appropriate diversified portfolio.<sup>3</sup>

<sup>1</sup>Amounts can vary by plan.

<sup>2</sup>"Top 10 Ways to Prepare For Retirement," The United States Department of Labor, dol.gov.

<sup>3</sup>"What's Gen X So Scared Of? Stocks." May 5, 2011, smartmoney.com.

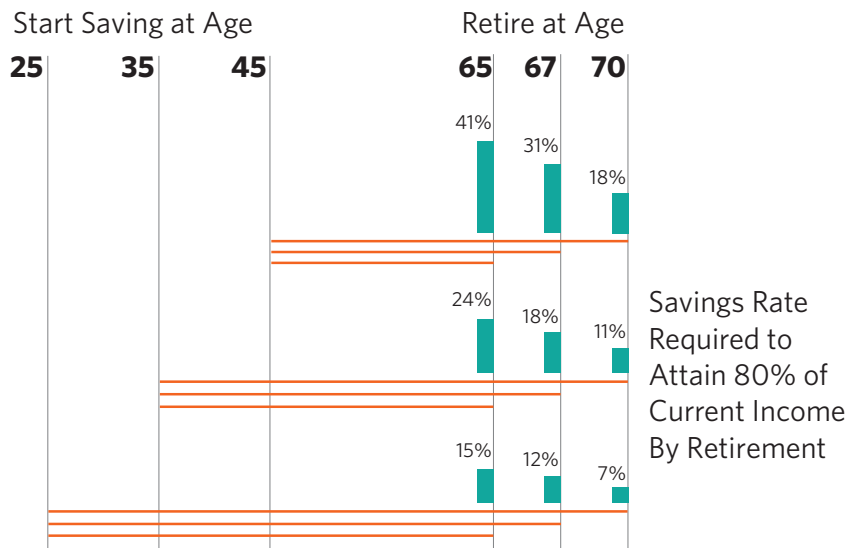
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### Research Roundup

## Put Time on Your Side

### Getting a jump on saving for retirement can give you a huge advantage:

You won't have to set aside as much of your income as someone who begins saving later in life. Many financial planners say you should expect to replace at least 80% of your preretirement income. The table at right compares the savings rates required for workers at different ages to attain an 80% retirement-income replacement rate.



Source: "How Much to Save for a Secure Retirement," November 2011, Center for Retirement Research at Boston College.

Calculations assume a 4% average annual return, median annual income as defined by the Social Security Administration and annual wage growth of 1.2%.

# 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.	<input type="checkbox"/> T	<input type="checkbox"/> F
2. A money market fund is a good place to keep your emergency funds.	<input type="checkbox"/> T	<input type="checkbox"/> F
3. If you can't do both, build an emergency fund before paying down credit card debt.	<input type="checkbox"/> T	<input type="checkbox"/> 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.<sup>1</sup>
- 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.<sup>2</sup>

<sup>1</sup>"Where to Put the Emergency Fund," morningstar.com. <sup>2</sup>"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.

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