

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



Stretch Your Retirement Savings

Thanks to rising life expectancy, Americans can expect to enjoy—and finance—a lengthy retirement. The average 65-year-old will, on average, live to be age 83.6, and many of this group will live even longer.¹ Fortunately, there are ways to guard against a savings shortfall.

Limit withdrawals

The general rule of thumb is to withdraw no more than 3%-4% from your total portfolio the first year of retirement. Each subsequent year, you'll take out the amount you withdrew during the previous year, plus the rate of inflation. Following this “4% rule” will enable you to set

an annual spending budget that helps make your savings last.²

Create a safety net

Since most retirees should retain some equity exposure in order to continue to grow their savings, a steep market downturn could derail even the relatively conservative 4% strategy. Holding a cash reserve for withdrawals in the event of a significant market drop will help give your portfolio a chance to recover.³

¹U.S. Department of Health and Human Services, February 2011.

²“How to Cash Out in Retirement,” March 9, 2011, smartmoney.com.

³“Don't Get So Emotional About Investing,” October 12, 2009, smartmoney.com.



> For help determining your withdrawal rate, 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 grandchildren be better savers?

A Lessons about managing money at a young age can start your grandchild on the right path for a successful financial life. The key: Make it fun and informative.

Look for teachable moments

Rather than sitting down to formally talk about finances, use opportunities that arise while you're spending time together. For example, during a shopping trip with your grandchildren, take a few moments to explain price comparison, value and inflation. If you stop at an ATM, take a moment to emphasize that the money you're withdrawing isn't simply doled out by a machine. If your grandchildren enjoy computer time, go online with them to explore games and resources that promote financial literacy.

Start them saving

Helping your grandchildren open savings and checking accounts will teach them about fees, account

maintenance and interest. As an incentive, consider matching your grandchildren's deposits. Once they save \$1,000, consider counseling them about basic investment options, such as Roth IRAs.

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 to a Roth IRA as long as their contribution does not exceed their taxable income.¹ 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 and can be withdrawn tax-free at age 59½.² More importantly, though, Roths provide a way for young investors to save for the long term—or at least start thinking about it.

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 a teen improve his or her financial literacy, suggest a visit to jumpstart.org/reality-check.



SmartMoney Savvy

The Catch-Up Puzzle

Are you behind in retirement savings? You're not alone. Nearly one quarter of American retirees don't think they have enough money to pay for basic expenses.¹ Fortunately, there are still things you can do to minimize a shortfall, especially if you're still working. But don't focus on just one; combine all of these moves—plus those in "Stretch Your Retirement Savings" on page 1—for an all-encompassing catch-up strategy.

Get aggressive

If you're still working, in 2012 you can contribute up to \$17,000 pretax to your workplace retirement plan, plus another \$5,500 in "catch-up

Will my savings last?¹

21%
of America's current retirees are not confident about affording basic expenses in retirement.

42%
are only "somewhat confident."

contributions," 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.

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

When you're thinking about Social Security, remember that your benefit increases 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"2011 Retirement Confidence Survey," eabri.org.
²irs.gov.

³ssa.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

¹Retirement 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.

³American 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

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.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.

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