Getting a tax refund? Spend it? Or put it to work?

It’s easy to look at a tax refund and see anything from a new smartphone to a big screen TV. But wait! Why not use that “extra money” that Uncle Sam has been saving for you to reduce next year’s income taxes, or shrink your debt?

Savvy tax moves:

• “One Up” yourself by increasing your retirement savings plan contribution by 1%.

• If you’re eligible, use the extra cash as a catch-up contribution toward your retirement savings.

• Open and contribute up to $5,500 to an IRA account and potentially withdraw that money tax-free during retirement. A spousal IRA account may be another viable option.

All of these will reduce your taxable income for next year ... and defer the taxes until after retirement.

Don’t stop there. Here are other things you can do with the windfall:

• Pay off high interest credit card debt and keep that extra 18% or more in interest in your pocket.

• Start or contribute to a college saving fund. A 529 account will allow tax-free use of the money to pay college bills.

• Take a peek at your current home and liability insurance policies and make sure there aren’t any gaps in coverage ... before the unexpected comes knocking.

• Pre-pay toward your mortgage, car or student loan principal balance. It could save you substantially in interest payments.

• Build or rebuild an emergency fund that can last three to six months if needed. So if you’re hit with unexpected bills, you won’t have to reach for that credit card or raid your retirement plan.

Now, there’s a great gift to get with your refund ... the future. And remember, we’re here to help.
Making Cents

How to teach kids about money: spending and saving

When it comes to giving your kids – or grandkids – a head start on handling money, experts agree — the sooner the better.

Use these online tools to help teach your children the basics of budgeting and saving.

Bizkids.com: Biz Kid$ is a national financial education initiative based on an Emmy Award-winning public television series. The show features a fast-paced mix of direct education to teach young viewers how to make and manage money. The website also offers games, resources and lesson plans geared toward financial literacy and entrepreneurship.

Thefrugalitygame.com: The Frugality Game describes itself as “a financial journey that can change your life.” Players follow the Frugal family as they search the world for treasure and adventure, revealing hidden treasures in your own personal finances along the way. Kids and teens can play on the website or download it to their mobile devices.

Mymoney.gov: A product of the congressionally chartered Federal Financial Literacy and Education Commission, mymoney.gov offers several links to games, fun activities, video games and information about money for kids and youth.

Money Talks

An easier road to higher contributions?

Switch lanes and contribute a percentage of your salary.

A financially comfortable future should be on everyone’s itinerary, but choosing the right route can be daunting. With employer-sponsored savings plans like 403(b)s and 401(k)s, many American workers already have a reliable vehicle to help them reach retirement, but there are important decisions to make along the way.

Dollars and (per)cents

One decision facing workers is how to set up contributions: Should you select a set dollar amount? Or do you pick a percentage based on your salary? Let’s take a closer look.

The high road

A set dollar amount will stay the same unless you change it. By contrast, when you contribute a percentage of your salary, your contributions rise along with your salary. For example, when you contribute a percentage of your salary strategy, if you get a 3% cost-of-living salary increase, your contribution amount increases proportionately. It’s like using cruise control to build your contributions!

With a long-distance journey like saving for retirement, the difference between these two options could be dramatic.

To learn more, talk to your financial advisor or call 1-800-448-2542.
Reasons to refinance
- Lock in lower interest rate: Reduce monthly payments
- Shorten mortgage term: Quicker loan payoff
- Switch from adjustable-rate to fixed-rate mortgage: Make finances more predictable

Refinancing expenses
- Closing costs: Generally from 2% to 3% of the amount being refinanced
- Prepayment penalty: Does your current loan contain this charge? If yes, that amount will be added to the closing costs of your new loan
- Do some research: Will refinancing, in the long run, save you money, or even recover your refinancing expenses?

Do the math
Here’s a hypothetical example showing the time period before recovering refinancing expenses.

$3,500 ÷ $125 = 28 Months
Closing costs ÷ Monthly savings = Break even point

According to this example ...
- If you are planning to sell your property within 2½ years, the cost of refinancing outweighs the savings — so refinancing is probably not a good idea.
- If you’re holding on to this property for the long run, you should consider refinancing.

Dollars & Sense
Should I refinance my mortgage?
With mortgage interest rates hovering near historic lows, many people are wondering if they should refinance their mortgages. If you’re one of those people, here are some things for you to think about on the road to your decision – to refinance ... or not to refinance.

By the Numbers
Who’s skimping?
Who’s saving?
A basic rule of retirement preparation is to save as much as possible for as long as possible. That means getting your retirement account set up early and making a commitment to save regularly throughout your working life. If you’re among the many Americans who have decided to continue working past traditional “retirement age,” this will certainly make sense to you.

Unfortunately, as you can see in the chart, that’s not happening. Research from the Employee Benefit Research Institute and Greenwald & Associates, shows that the percentage of workers who say they are saving for retirement has declined. The decade of 2004 to 2014 saw declines in all age groups except age 55+. The baby boomers, who are staring at a quickly approaching retirement reality, are socking money away.

The biggest drop is for those age 25 through 34 and that is bad news. The power of compounding interest and earnings is most effective for those who start young and keep their savings working for them steadily for decades.

Don’t overthink it — stick with the basics. If you haven’t already, enroll in your employer’s workplace retirement plan. As a plan participant, contribute as much as you can, plus catch-ups if possible. If circumstances, like unemployment, cause you to stop saving, start saving again as soon as possible. In the meantime, leave your retirement account alone so it can continue to work for you.

Percentage of workers saying they have saved for retirement, 2004 and 2014

By the Numbers
Penny Wise

Tax-deferred accounts

When it comes to saving up for a financially comfortable future, are you aware of the advantages that a tax-deferred account can offer? Take our quiz to learn more!

1. With a tax-deferred account, you don’t have to pay taxes.  
   T F

2. Taxes on long-term investments are generally lower than taxes on ordinary income.  
   T F

3. Over time, tax-deferred investments can compound faster than taxable investments because:
   A. The money you would have paid to taxes is allowed to grow and compound until you withdraw it for retirement.
   B. The IRS adds money to tax-deferred accounts.
   C. Taxes are automatically lowered when you retire.

Answers:
1. False: Taxes on the money you contribute to a tax-deferred account, as well as on any capital gains, dividends, interest, etc. are due when you withdraw the money — usually in retirement.
2. True: Long-term (assets held for more than one year) capital gains are currently taxed at a lower rate than ordinary income tax or on gains from assets held less than one year. This makes your long-term retirement investments even more valuable!
3. A: With more money in your account, the compounding growth effect is magnified.

Fund updates

Effective December 30, 2014, the T. Rowe Price Retirement Fund series was added to the variable account option line-up in Portfolio Director® Fixed & Variable Annuity and PD Advantage Fixed & Variable Annuity products. The funds are not available in all groups/plans. The T. Rowe Price Retirement Funds series includes five-year increments from 2015 to 2060.

The investment objective and strategy is to provide the potential for growth over time consistent with an emphasis on both capital growth and income. The funds invest in a diversified portfolio of other T. Rowe Price stock and bond funds that represent various asset classes and sectors. The principal value of the Retirement Funds is not guaranteed at any time, including at or after the target date. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility over shorter time horizons.

Effective March 13, 2015, Tocqueville Asset Management, L.P. was terminated as sub-advisor from Mid Cap Value Fund [38]. The assets of the Fund managed by Tocqueville were reallocated to Robeco Investment Management, Inc. and Wellington Management Company LLP, who continue to be sub-advisors to the Fund. Robeco manages approximately 55% of the Fund’s assets and Wellington manages approximately 45% of the Fund’s assets.

To obtain a prospectus, visit www.valic.com or call 1-800-428-2542 and follow the prompts. The prospectuses contain the investment objectives, risks, charges, expenses and other information about the respective investment companies that you should consider carefully before investing. Please read the prospectuses carefully before investing or sending money. Policy Form series UIT-194, UITG-194, and UITG-194P. Investment values will fluctuate and there is no assurance that the objective of any fund will be achieved.

Income taxes on tax-deferred accounts are payable upon withdrawal. Federal restrictions and a 10% federal early withdrawal tax penalty may apply to withdrawals prior to age 59½.

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