GUIDANCE

Retirement Income Strategies

SAVING : INVESTING : PLANNING

FINANCIAL SEMINAR SERIES LITERACY

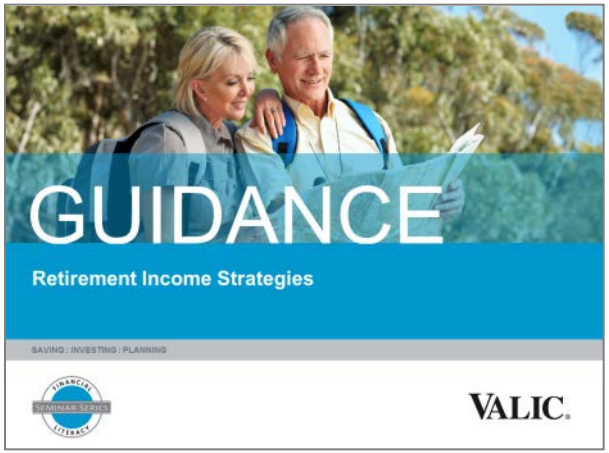
VALIC®

Objectives

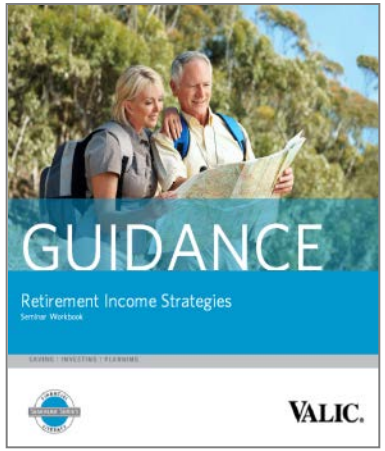
> To explore the major risks to retirement

> To introduce the benefits of sound financial planning

> To provide simple action steps to help you reach your financial goals



Presentation



Workbook

Evaluation form

Agenda

1. The new retirement realities
2. The five risks of retirement
3. Essential income planning
4. Where to go from here?

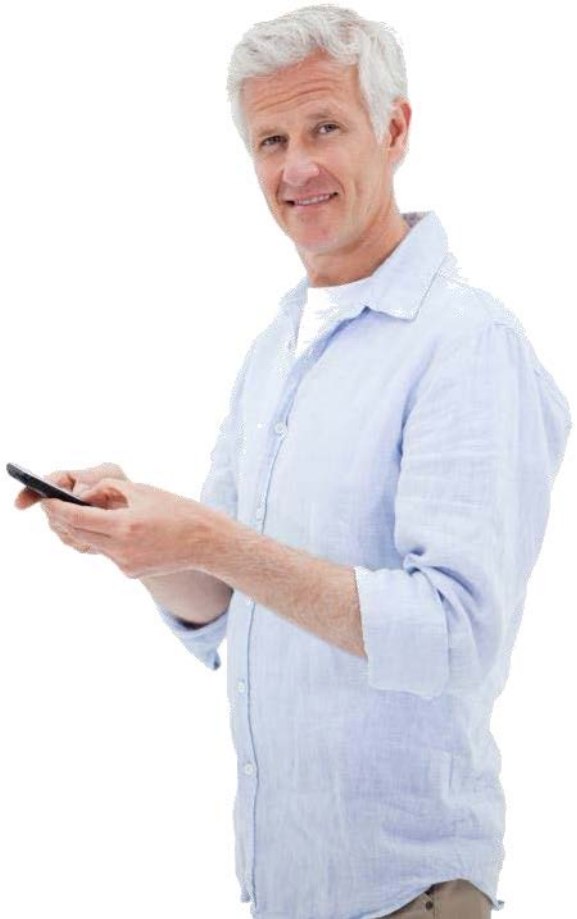
1 The new retirement realities

“Reality is merely an illusion, albeit a very persistent one.”

–Albert Einstein

How confident are you about your retirement?

24% of pre-retirees are "not at all confident" they will have enough saved for a comfortable retirement.



Source: The 2015 Retirement Confidence Survey: Having a Retirement Savings Plan a Key Factor in Americans' Retirement Confidence. EBRI, Issue Brief No. 413, April 2015.

Preparing for retirement

Challenges

- Higher personal debt
- Longer life expectancy
- Greater responsibility to save
- Concern for the future of Social Security

2 The five risks of retirement

What are the risks of retirement?

1. Longevity
2. Healthcare
3. Investment
4. Inflation
5. Withdrawal

1. Longevity risk

People are living longer

> The U.S. Census estimates over 66,000 centenarians in the U.S.[1]

> Living in the city might add years to your life[2]

> Pre-retirees are concerned about outliving their money

> More time for various factors to affect retirement savings

Sources: [1]Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: April 1, 2010 to July 1, 2014. U.S. Census Bureau, Population Division. Release Date: June 2015.
[2]Centenarians: 2010. 2010 U.S. Census Report.

1. Longevity risk

How to manage it

1. Reduce living expenses; save more
2. Adjust investment allocation
3. Work longer; retire later

2. Healthcare risk

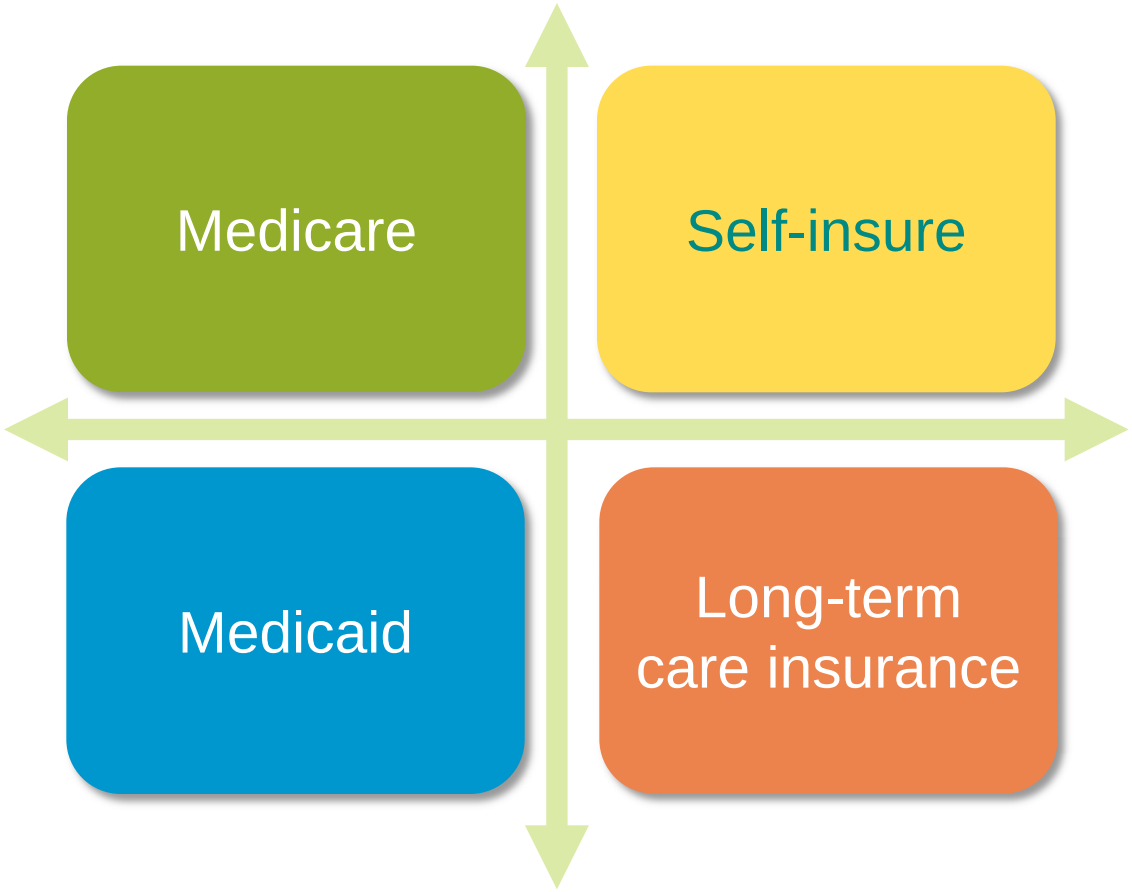
Expenses

A married couple entering retirement today would need **a median of $241,000** for a 90% chance of covering their healthcare expenses in retirement

Source: Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Some News Not So Rare Anymore. Monthly Newsletter. Vol. 35, No. 10. EBRI. October 2014.

2. Healthcare risk

The most common ways to pay for healthcare



2. Healthcare risk

Medicare and Medicaid

	Medicare	Medicaid
Features	• Medical coverage for people on Social Security • Federally managed • Does not pay for long-term care services	• Medical care for those living in poverty • State managed • Pays for long-term care, if certain conditions are met
Eligibility requirements	• Age 65 or older • Under 65 with certain disabilities • Any age with permanent kidney failure requiring dialysis or transplant	• U.S. citizen • Senior, disabled or blind and resident of state • Unable to perform two activities of daily living • Financially impoverished

Source: Medicare & You. Centers for Medicare & Medicaid Services, 2015.

2. Healthcare risk

Long-term care insurance

- Pays for assistance with Activities of Daily Living (ADLs)
- Eligibility requirements apply
- Cannot be cancelled or not renewed
- Premium is paid until benefits are received
- Medicaid allows greater asset retention under partnership-qualified policies
- Medicare eligibility is not hindered

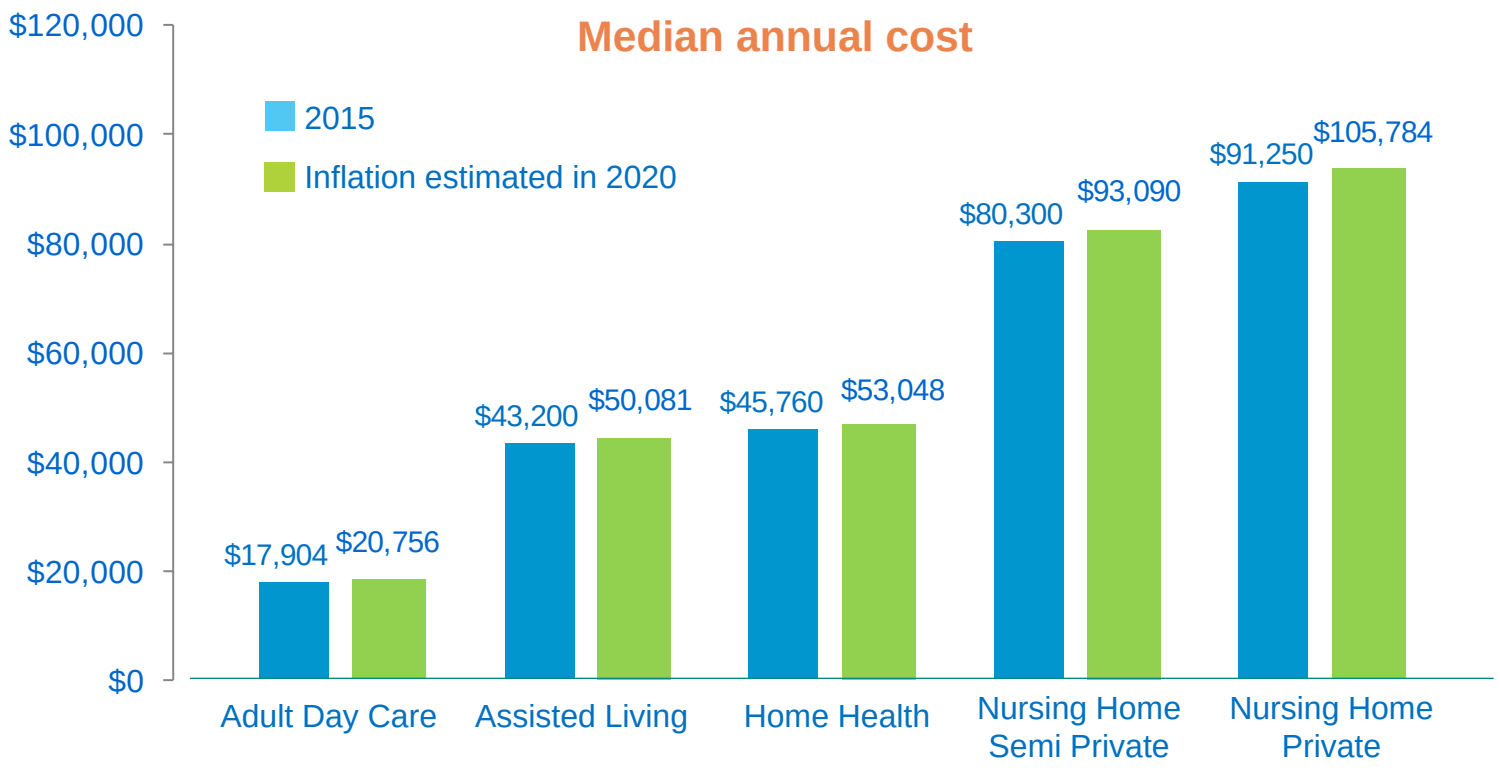
2. Healthcare risk

Why you might need long-term care insurance

- To protect your savings and income
- To maintain flexibility in care options
- To avoid burdening family and friends
- To preserve assets for your heirs

2. Healthcare risk

The cost of long-term care



This chart shows the median annual cost for long-term care across the United States in 2015 at different centers of care and the five-year average annual cost at an assumed 3% inflation rate.

Source: Cost of Long Term Care Survey, Genworth Financial, 2015.

2. Healthcare risk

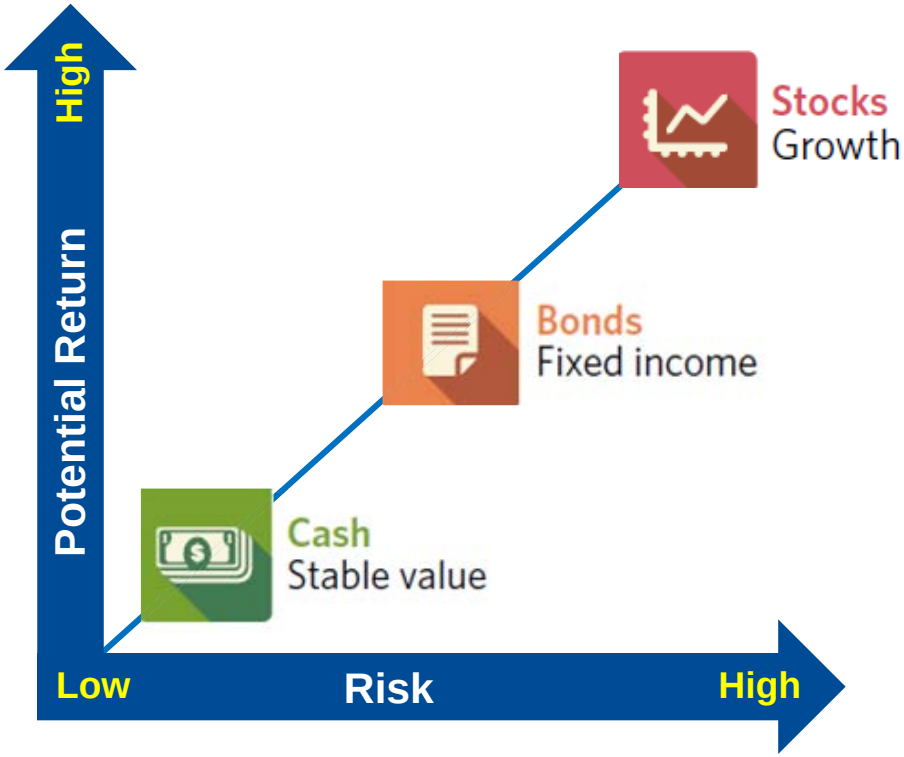
Self-insure

Monthly savings needed	Future cost for 2.5 years of long-term care	In
$1,685	$259,981	10 years
$861	$349,392	20 years
$576	$469,554	30 years

The chart assumes continuous monthly contributions with an average annual rate of return of 5%, annual nursing home care **cost of $80,300** in 2015 and an **inflation rate of 3%** for semi-private nursing home care. This chart is hypothetical and only an example.

3. Investment risk

Asset classes, theoretical risk versus return



Asset classes and indexes from which their historical returns are derived are not managed funds, have no identifiable objectives and cannot be purchased. They do not provide an indicator of how individual investments performed in the past or how they will perform in the future. Performance of indexes does not reflect the deduction of any fees and charges and past performance of asset classes does not guarantee the future performance of any investment.

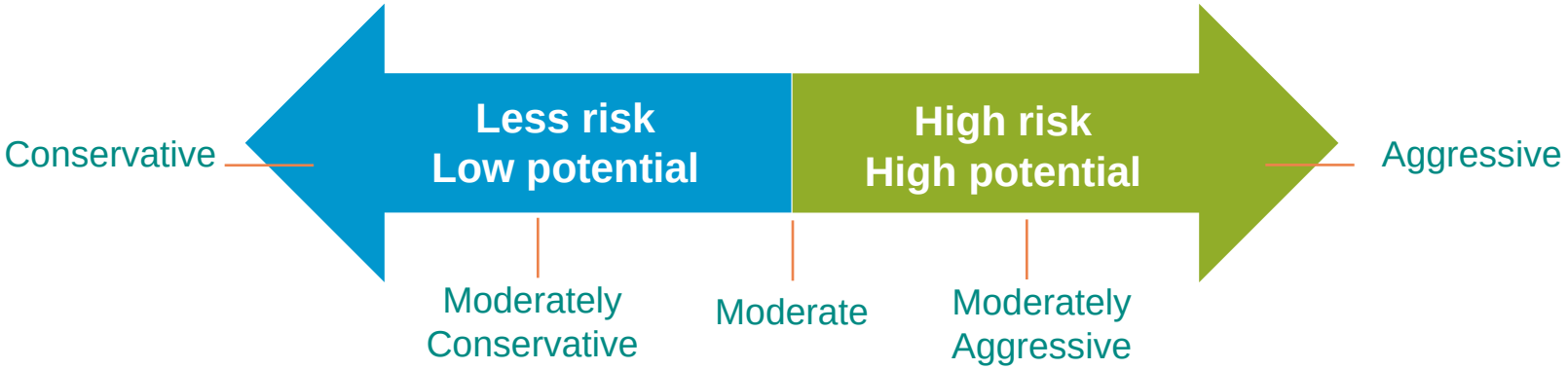
3. Investment risk

Investor profile

Determining factors	
Risk tolerance	Time horizon
> Emotional temperament > Current financial status > Time horizon > Prior investment experience	> Short-term, capital preservation > Long-term, capital appreciation

3. Investment risk

Investor categories



3. Investment risk

Asset allocation

> Aims to balance risk and reward

> Deciding right mix of asset classes

> Long-term and short-term goals

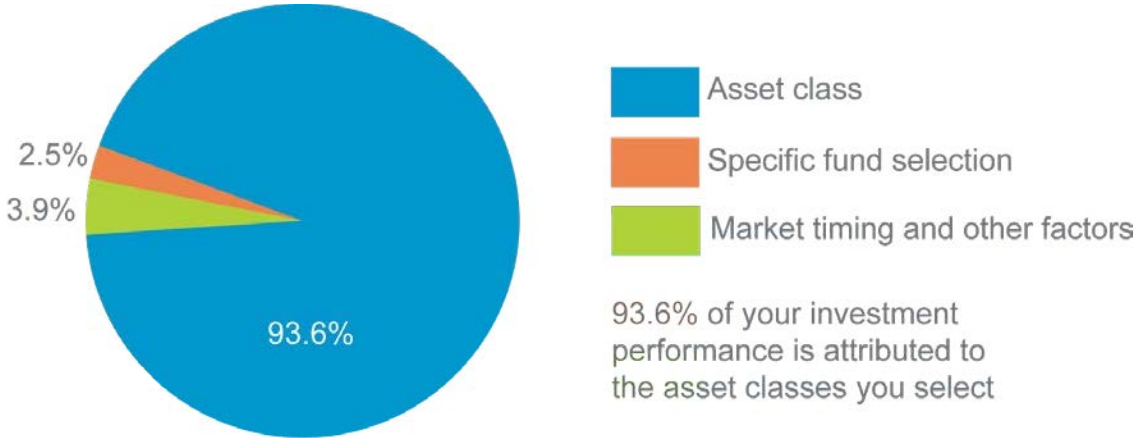
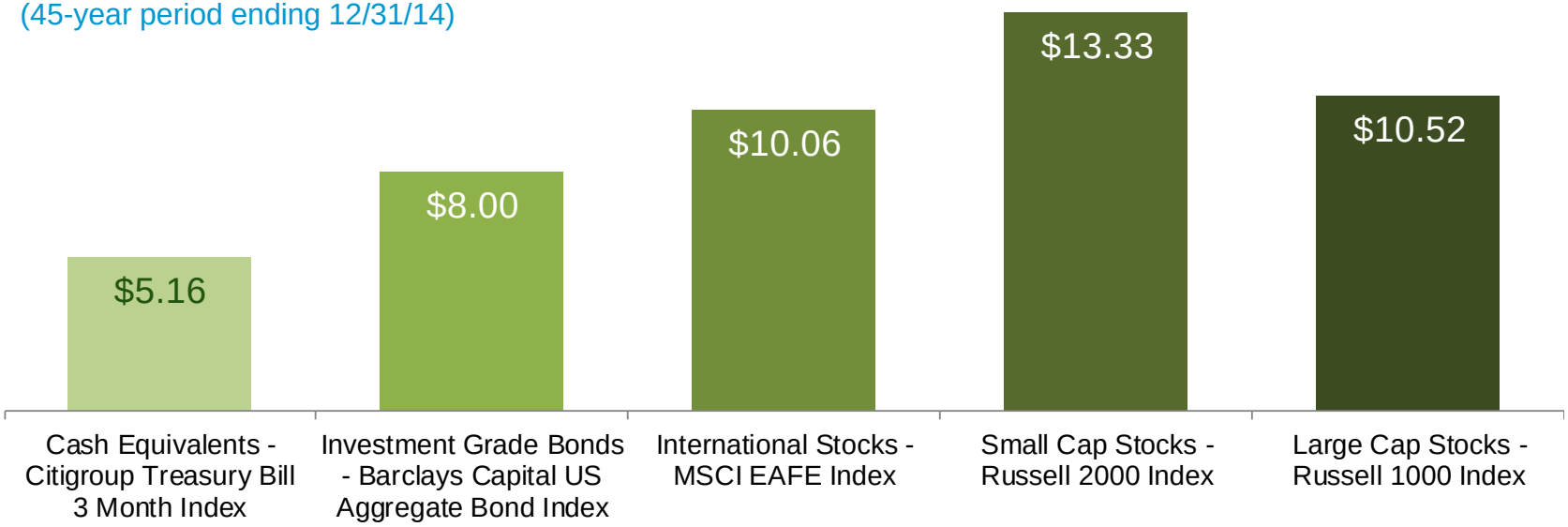


Chart source: Markowitz, H. *The Journal of Finance*, Vol. 7, No. 1. (Mar., 1952), pp. 77-91.

3. Investment risk

Asset allocation

Historical performance
Value of $1 invested over 45 years
(45-year period ending 12/31/14)

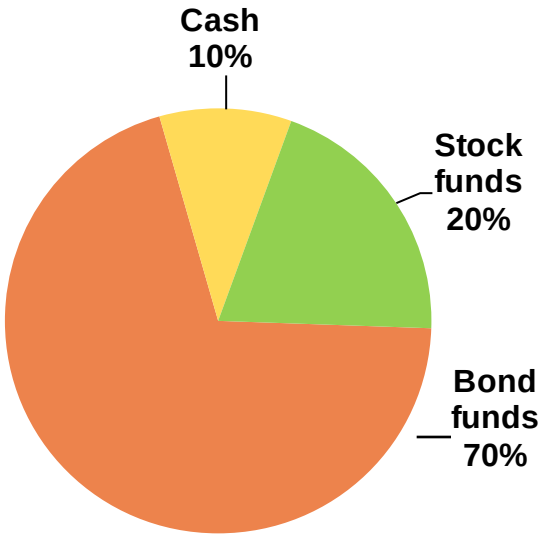


This chart is for illustrative purposes only. Past performance does not guarantee future results. Neither asset allocation nor diversification ensures a profit or protects against market loss.

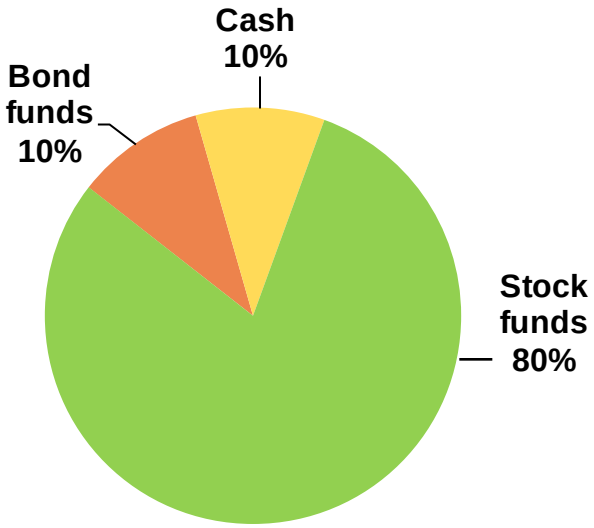
Source: Data is based on indexes that are representative of each asset class. The 45-year performance was calculated using the returns for the 45-year period ending 12/31/2014, provided by Ibbotson Associates, supplemented with returns data from publicly available sources.

3. Investment risk

Conservative Portfolio



Aggressive Portfolio



Higher potential returns generally involve greater risk and short-term volatility is not uncommon when investing in various types of funds, including but not limited to sector funds, emerging market funds and small- and mid-cap funds. Risks for emerging markets include, for instance, risks relating to the relatively smaller size and reduced liquidity of these markets, high inflation rates and adverse political developments. Risks for smaller companies include business risks, significant stock price fluctuations and reduced liquidity. Investing in higher yielding, lower rated bonds has a greater risk of price fluctuation and loss of principal and income than U.S. government securities such as U.S. Treasury bonds and bills. Treasuries are guaranteed by the government for repayment of principal and interest if held to maturity. Investors should carefully assess the risks associated with an investment in the fund. Government securities are guaranteed by the timely payment of principal and interest if held to maturity. Fund shares are not insured and are not backed by the U.S. government and their value and yield will vary with market conditions.

3. Investment risk

Diversification

> Don’t put all your eggs in one basket

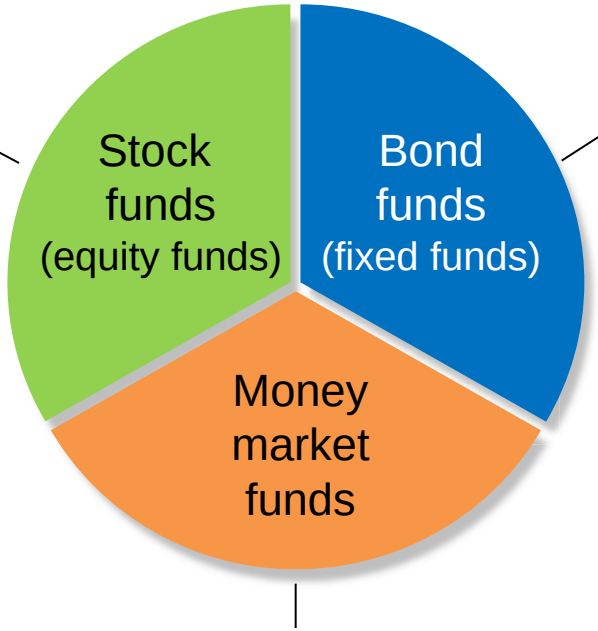
> Spread investments among securities

> Diversify among and within assets

3. Investment risk

Mutual funds

- Growth funds
- Income funds
- Index funds
- Sector funds



- Corporate funds
- High-yield (junk bond) funds
- International / global funds
- Treasury funds

- U.S. treasury bills
- Certificates of deposit (CDs)

Source: The Three General Types of Mutual Funds. About.com. Retrieved June 2015.

3. Investment risk

Annuities

> Consider annuities as an option to turn assets into income you'll never outlive

> What is an annuity?

- Contract with an insurance company
- Receive income payments at regular intervals in return for premiums paid
- Long-term investment for future retirement income
- Payments and earnings that grow tax deferred
- Income for life and to beneficiaries after your death

> Guarantees are backed by the issuing insurance company's claims-paying ability

3. Investment risk

Worried about market downturns? Consider annuities offering a guaranteed minimum withdrawal benefit (GMWB)

- A GMWB rider is purchased to ensure payments never fall below the amount guaranteed by your contract
- If you purchased the rider and your account value increased in a bull market, you would not need to use the rider
- Contract terms, payout options, fees and investment/age restrictions vary
- Available features may include lifetime income at a set annual percentage
- Guarantees backed by the claims-paying ability of the issuing insurance company

Withdrawals in excess of permitted free amounts may be subject to early withdrawal charges. Withdrawals are also subject to taxation as ordinary income and, if made prior to age 59½, may be subject to a federal early withdrawal penalty.

3. Investment risk

Erin is looking forward to a comfortable retirement

- Currently age 60
- Will retire at age 65
- Wants growth from equities (stocks)
- Wants to protect hard-earned savings

3. Investment risk

An annuity with a lifetime guaranteed minimum withdrawal benefit might be a good strategy

Assumption
Erin purchases an annuity that offers lifetime payouts and a 5% guaranteed minimum withdrawal benefit. She:
> Makes a single payment of $100,000
> Invests 70% in stocks and 30% in bonds
> Withdraws 5%, which is $5,000, per year
If recession drives down the value of her investments, she:
> Continues to withdraw her $5,000 per year for the rest of her life, even if the value of her account drops to $0
If a bull market increases the value of her investments, she:
> Does not need to use the rider she purchased. She continues to withdraw at least $5,000 per year, and her account value increases to reflect market gains according to the terms of the annuity.

Guarantees are backed by the claims-paying ability of the issuing insurance company.

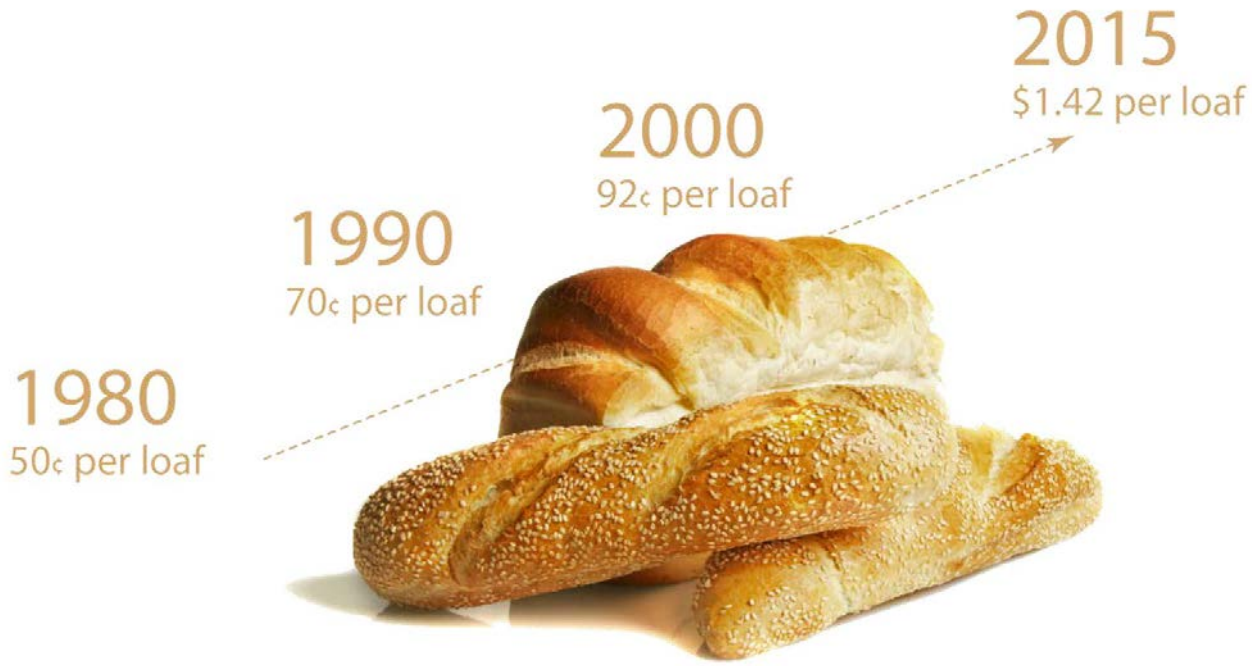
4. Inflation risk

The increase of goods and services over time

1. Use a financial plan to help protect against inflation
2. Monitor your investment portfolio and diversify
3. Develop a spending strategy
4. Ask for professional advice

4. Inflation risk

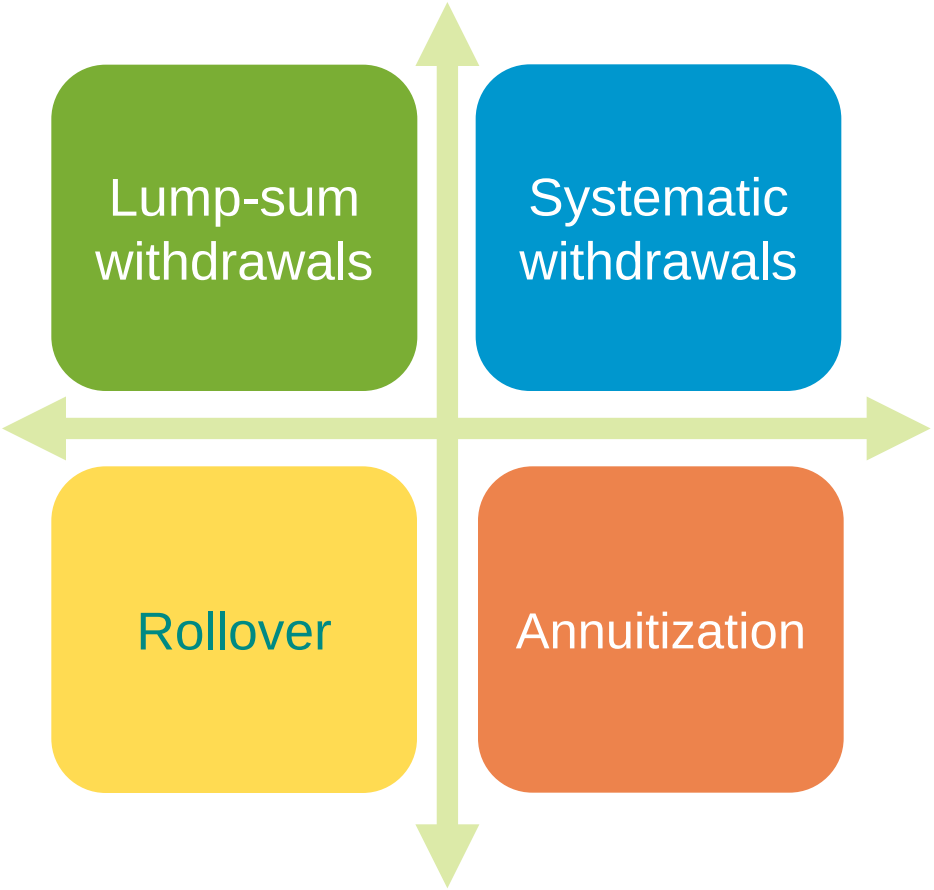
Even modest inflation over time can have a major impact on your retirement



Source: Average Price Data. Consumer Price Index, Bureau of Labor Statistics. August 2015.

5. Withdrawal risk

Most common ways to withdraw funds from a tax-qualified retirement plan



5. Withdrawal risk

Lump-sum distribution

Lump-sum amount	$200,000
Withholding, 20%	-$40,000
Additional income tax, 8%	-$16,000
Federal tax penalty, 10% (for early withdrawal if under age 59½)	-$20,000
Total tax	-$76,000
Total distribution	**$124,000**

Assumes a 28% tax bracket.

5. Withdrawal risk

Systematic withdrawal option	
Payout frequency	> Regular stream of income payments at set intervals (monthly, quarterly, semiannual or annually)
Payout duration	> Payments continue until you stop them or run out of money
Methods	> Specified dollar method – You select a specific *dollar* amount > Specified period method – You select a specific *number* of payments
Taxes	> Ordinary income taxes are due on amount withdrawn
Penalties	> Federal early withdrawal penalty of 10% may apply if under age 59½
Guarantees	> There's no guarantee of lifetime income

5. Withdrawal risk

Rollover: Assets moved from one tax-qualified plan to another

Direct rollover

Qualified plan → IRA or new qualified plan

- No income taxes
- No penalties
- No withholding

Indirect rollover

Qualified plan

- Lump-sum cash distribution
- 20% withholding

→ **60 days to roll over**

- No income taxes
- No penalties
- Replace 20% withholding

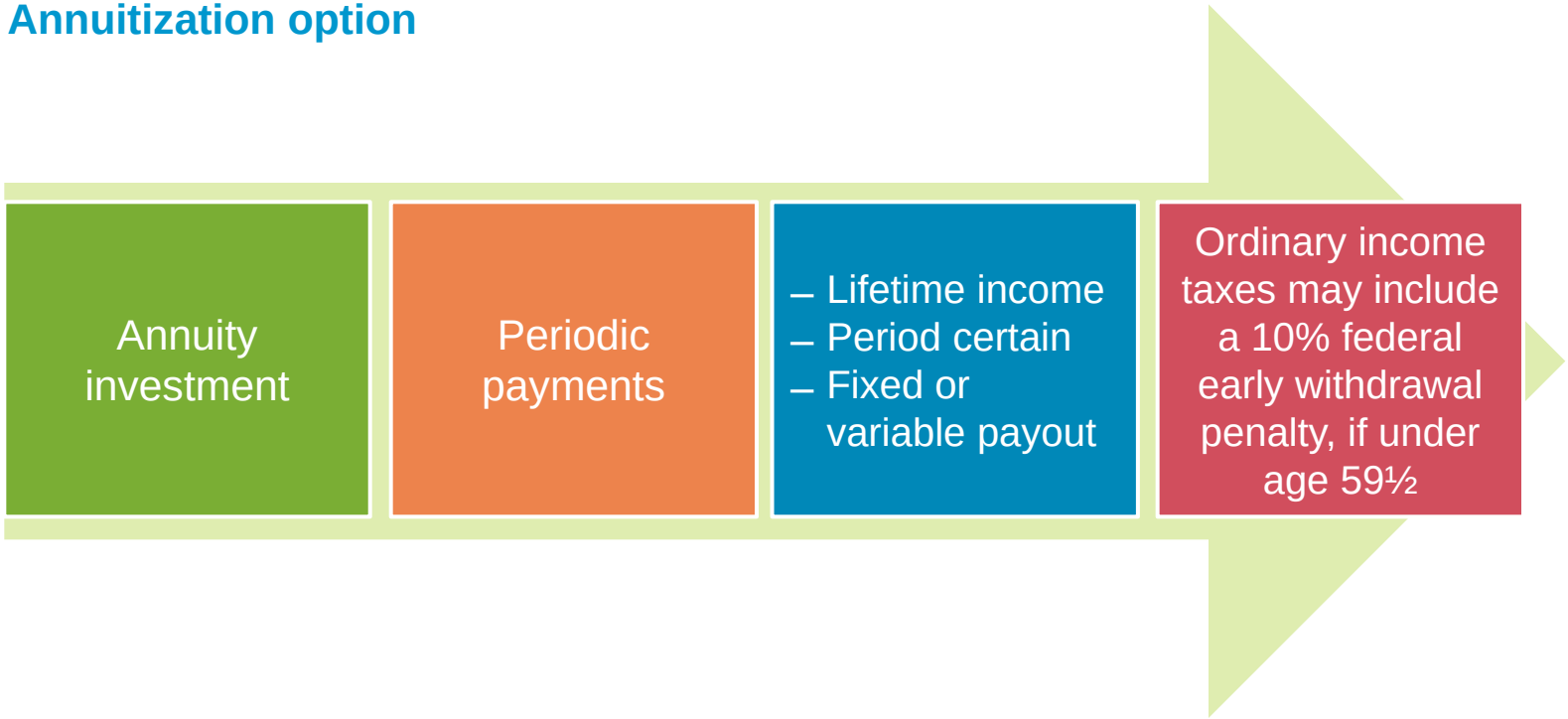
→ **After 60 days**

- Taxes are due on entire distribution
- 10% federal early withdrawal penalty may apply if under age 59½*

*The 10% federal early withdrawal penalty does not apply to 457(b) plans.

5. Withdrawal risk

Annuitization option



Keep in mind that annuitization is generally an irrevocable decision.

Guarantees are backed by the claims-paying ability of the issuing insurance company.

3 Essential income planning

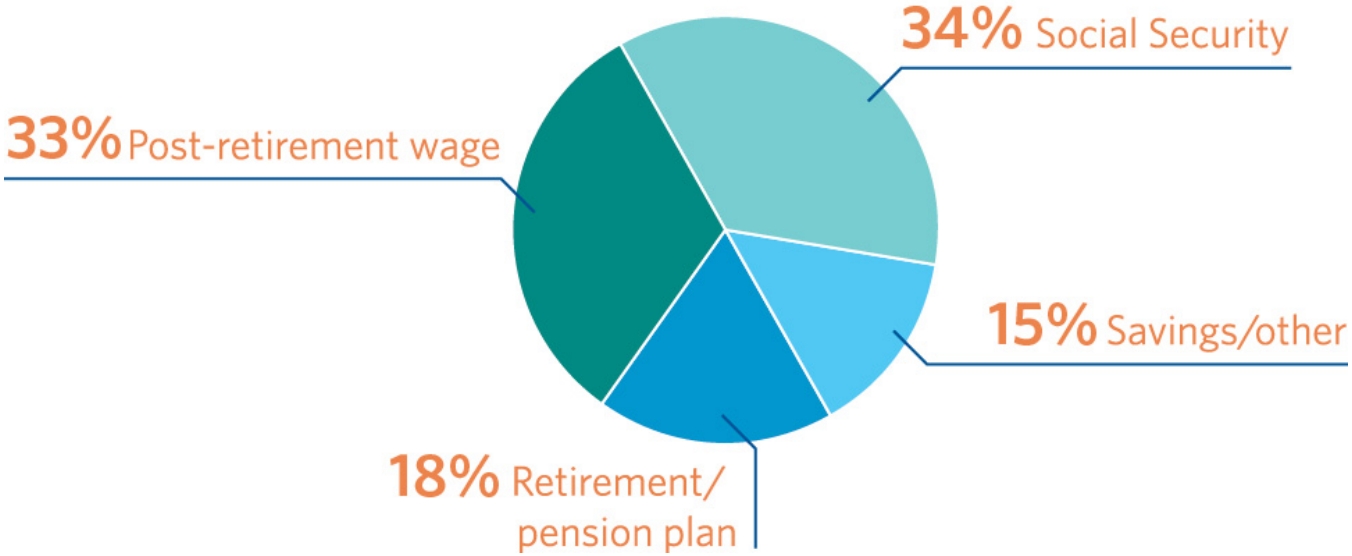
“Retirement: It's nice to get out of the rat race, but you have to learn to get along with less cheese.”

–Gene Perret, comedy writer

The essential expenses

- Food
- Shelter
- Clothing
- Healthcare
- Transportation

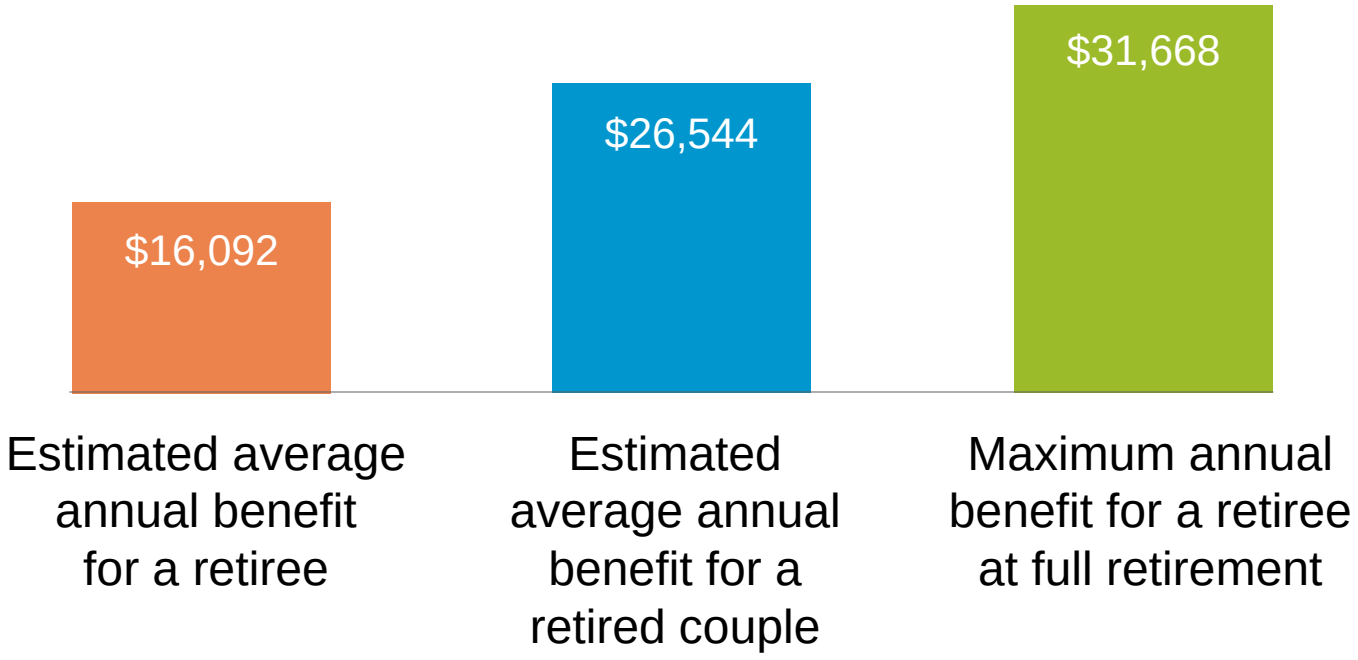
Sources of retirement income



Please note that this is just one scenario and the sources of retirement income will vary depending on your individual situation.

Source: Income of the Aged Population, Shares of Aggregate Income by Source, 1962 and 2013. Fast Facts and Figures About Social Security, 2015. SSA Publication No. 13-11785. Released September 2015.

Annual Social Security benefits*



*As of January 2016.

Source: 2016 Social Security Changes, Fact Sheet.ssa.gov.

Essential Income Planning

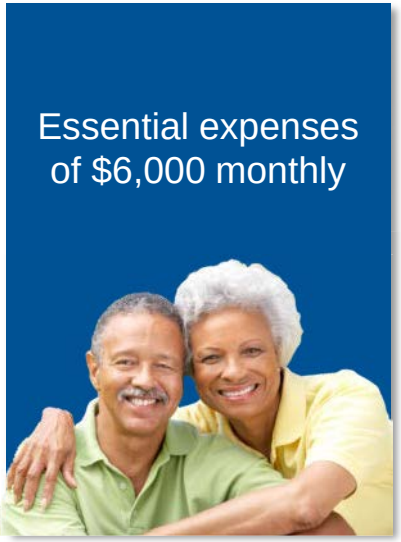
Three-step process

Filling the income gap

Case study

Dave and Julie	
Objective	Income for life for Dave (64) and Julie (62)
Retirement nest egg	$900,000 – $500,000 Dave's 401(k) – $300,000 Julie's 403(b) – $ 75,000 IRAs – $ 25,000 CDs
Monthly income	$5,600 – $2,650 combined pensions – $2,950 combined Social Security benefits at FRA
Monthly essential expenses	$6,000
Monthly income gap	$400

An annuity with a lifetime guaranteed minimum withdrawal could fill the income gap

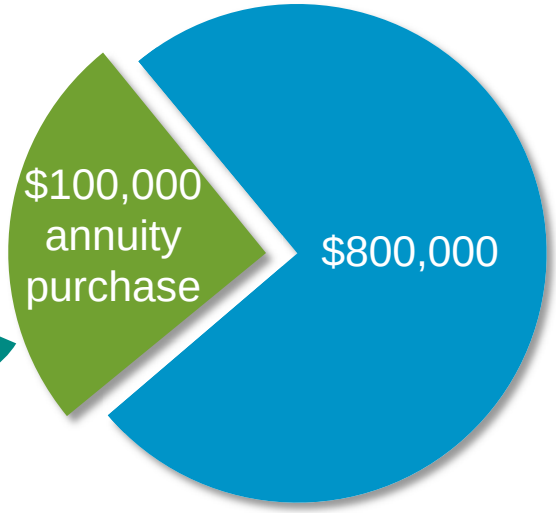


$2,650 Pensions

$2,950 Social Security

$5,600 monthly income

$400 monthly shortfall



Monthly lifetime income

Retirement savings

This hypothetical example is for illustrative purposes only. Annuity costs, fees, payouts, limitations and restrictions vary according to contract terms. Guarantees are backed by the claims-paying ability of the issuing insurance company.

The key is to have a strategy for life

- How much money will you need in retirement?
- How much money will you receive from your pension and Social Security?
- How much will be available in your tax-deferred plans and in other personal investments?
- Do you have a shortfall that you will need to make up?

4 Where to go from here?

"You have to be careful if you don't know where you're going because you might not get there."

– Yogi Berra, baseball hall of famer

Consider your expectations for retirement

> Will you continue to work?

> How is your health?

> Is there a history/expectation of longevity?

> Do you have a plan that guarantees your essential income needs will be met?

Consider working with a VALIC financial advisor

> A financial advisor can help you:

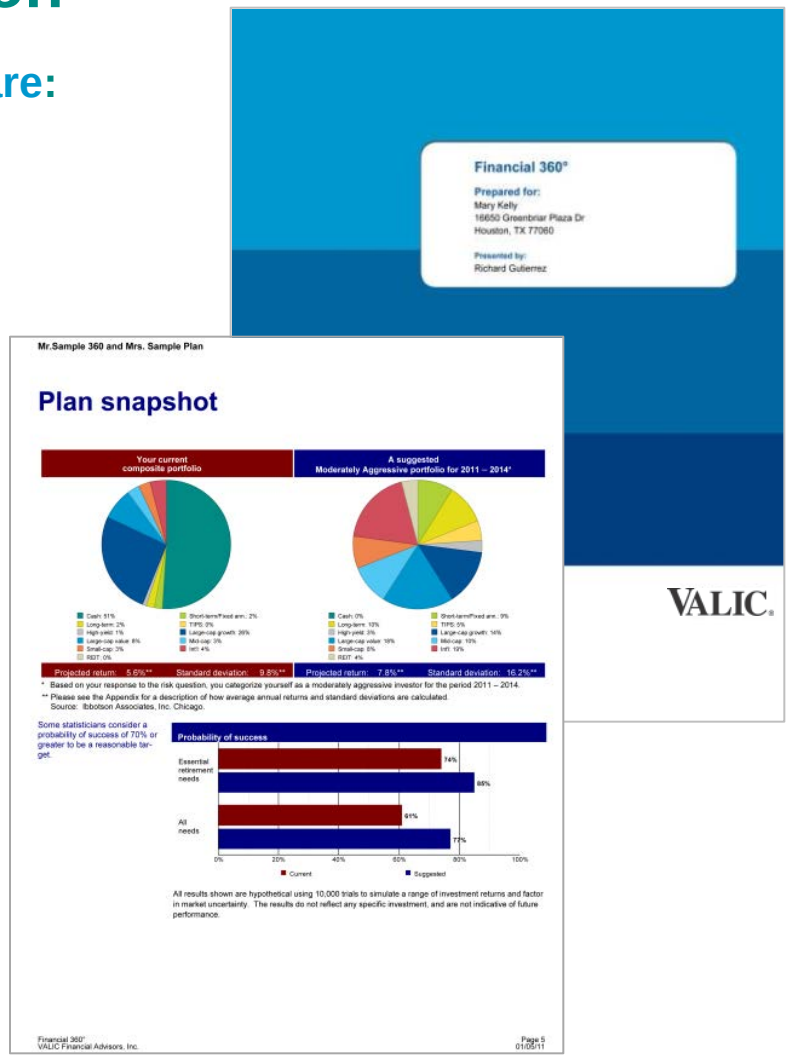
- Prioritize your investment goals
- Determine the time horizon needed to achieve your goals
- Determine a financial strategy to meet your goals

For more than half a century VALIC has helped Americans plan for and enjoy a secure retirement.

Assess your financial situation

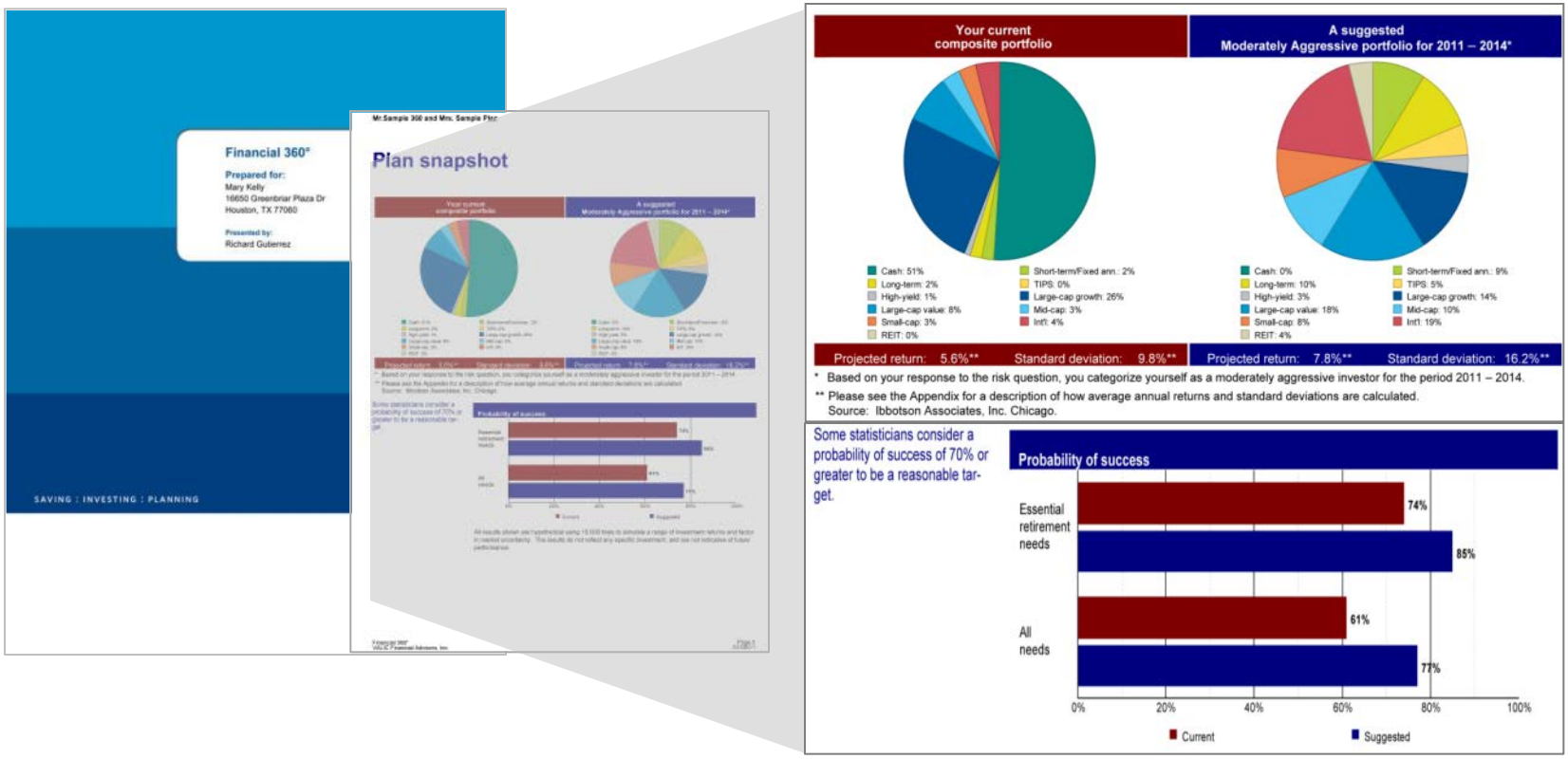
Some of the benefits of financial planning are:

- > Identifies the five major risks in retirement
- > Provides a big picture view of your current financial situation
- > Helps identify your financial goals and objectives
- > Will assist you in managing your cash flow to meet financial goals
- > Ensures your goals stay on track, if reviewed regularly



Financial 360 Plan

Provides a customized analysis of your financial situation



Financial 360 Plan

Retirement summary - sample plan

Age Client/Spouse	Essential retirement needs	Non-essential needs	Social Security / pension / GMWB[1]	Retirement plan withdrawals	Non-retirement withdrawals	Taxes[2]	Total income & withdrawals (minus taxes)	Surplus / shortfall	Retirement plan balances (excluding GMWB assets)	Non-retirement balances
	Initial Savings Balances: Retirement (excluding GMWB assets): $119,980							Non-retirement: $50,000		
65 / 64	$60,734	$10,746	$67,162	$0	$16,850	$12,531	$71,481	$0	$268,936	$48,681
66 / 65	$62,364	$11,069	$68,105	$0	$18,072	$12,745	$73,432	$0	$281,003	$32,527
67 / 66	$64,047	$11,401	$69,066	$0	$19,347	$12,965	$75,448	$0	$293,612	$14,461
68 / 67	$65,787	$11,743	$70,045	$6,925	$15,031	$14,472	$77,530	$0	$299,861	$0
69 / 68	$67,584	$12,095	$71,044	$27,020	$0	$18,384	$79,680	$0	$286,295	$0
70 / 69	$69,442	$12,458	$72,061	$28,748	$0	$18,908	$81,900	$0	$270,394	$0
71 / 70	$71,362	$12,832	$73,099	$30,546	$0	$19,451	$84,194	$0	$251,980	$0

This table assumes a hypothetical 4.5% rate of growth on investments (based on the geometric mean rate of return of your current portfolio).

[1] Estimates of pension values are only an approximation of the future amount(s) you may receive, and many things can affect the accuracy of the estimate, such as pensionable earnings, interest rates and plan changes, among others.

[2] This report approximates taxes by applying the effective tax rate furnished by the client to payments that are received from tax-deferred accounts as well as to any other taxable income. The taxes column also includes estimated capital gains taxes on any equity nonretirement assets withdrawn. Taxes on the growth of non-retirement assets are not included in this column. Instead, the effect of taxes on the amounts shown in the *Non-retirement balances* column is estimated by using an after-tax rate of return to grow taxable investments.

Evaluation

Seminar evaluation form

Date of seminar: _____ Name of presenter: _____

Would you like to schedule a complimentary consultation?

___ Yes ___ No

Name: _____

Day phone: _____

Evening phone: _____

E-mail address: _____

(Please indicate your preferred contact method.)

Please rate the overall seminar

Not very good 1 2 3 4 5 Excellent

1. What did you find of particular interest in today's seminar?_____

2. How could we improve this seminar?_____

3. What other topics would you like to learn more about? _____

4. Would any of your friends or associates benefit from this presentation?_____

If so, may we invite them to a future seminar? _____

Name: _____ Telephone: _____

Name: _____ Telephone: _____

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Retirement Income Strategies

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