GUIDANCE

Retirement Income Strategies

SAVING : INVESTING : PLANNING
About this seminar

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
<table>
<thead>
<tr>
<th></th>
<th>Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The new retirement realities</td>
</tr>
<tr>
<td>2</td>
<td>The five risks of retirement</td>
</tr>
<tr>
<td>3</td>
<td>Essential income planning</td>
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<tr>
<td>4</td>
<td>Where to go from here?</td>
</tr>
</tbody>
</table>
The new retirement realities

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

–Albert Einstein
The new retirement realities

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.

The new retirement realities

Preparing for retirement

Challenges

- Longer life expectancy
- Greater responsibility to save
- Concern for the future of Social Security
- Higher personal debt
The five risks of retirement
What are the risks of retirement?

The five risks of retirement are:

1. Longevity
2. Healthcare
3. Investment
4. Inflation
5. Withdrawal
The five risks of retirement

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

The five risks of retirement

1. Longevity risk

How to manage it

1. Reduce living expenses; save more
2. Adjust investment allocation
3. Work longer; retire later
The five risks of retirement

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.

The five risks of retirement

2. Healthcare risk

The most common ways to pay for healthcare

- Medicare
- Medicaid
- Self-insure
- Long-term care insurance
The five risks of retirement

2. Healthcare risk

Medicare and Medicaid

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

The five risks of retirement

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
The five risks of retirement

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Day Care</td>
<td>$17,904</td>
<td>$17,904</td>
</tr>
<tr>
<td>Assisted Living</td>
<td>$20,756</td>
<td>$20,756</td>
</tr>
<tr>
<td>Home Health</td>
<td>$43,200</td>
<td>$43,200</td>
</tr>
<tr>
<td>Semi Private Nursing</td>
<td>$50,081</td>
<td>$50,081</td>
</tr>
<tr>
<td>Private Nursing Home</td>
<td>$53,048</td>
<td>$53,048</td>
</tr>
<tr>
<td>Home Health</td>
<td>$80,300</td>
<td>$80,300</td>
</tr>
<tr>
<td>Semi Private Nursing</td>
<td>$93,090</td>
<td>$93,090</td>
</tr>
<tr>
<td>Private Nursing Home</td>
<td>$105,784</td>
<td>$105,784</td>
</tr>
</tbody>
</table>

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.
The five risks of retirement

2. Healthcare risk

Self-insure

| Monthly savings needed | Future cost for 2.5 years of long-term care | In  
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,685</td>
<td>$259,981</td>
<td>10 years</td>
</tr>
<tr>
<td>$861</td>
<td>$349,392</td>
<td>20 years</td>
</tr>
<tr>
<td>$576</td>
<td>$469,554</td>
<td>30 years</td>
</tr>
</tbody>
</table>

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.
The five risks of retirement

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.
The five risks of retirement

3. Investment risk

Investor profile

<table>
<thead>
<tr>
<th>Determining factors</th>
<th>Risk tolerance</th>
<th>Time horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emotional temperament</td>
<td></td>
<td>Short-term, capital preservation</td>
</tr>
<tr>
<td>Current financial status</td>
<td></td>
<td>Long-term, capital appreciation</td>
</tr>
<tr>
<td>Time horizon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior investment experience</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Investment risk

Investor categories

The five risks of retirement
The five risks of retirement

3. Investment risk

Asset allocation

- Aims to balance risk and reward
- Deciding right mix of asset classes
- Long-term and short-term goals

The five risks of retirement

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.
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.
The five risks of retirement

3. **Investment risk**

*Diversification*

- Don’t put all your eggs in one basket
- Spread investments among securities
- Diversify among and within assets
The five risks of retirement

3. Investment risk

Mutual funds

- Growth funds
- Income funds
- Index funds
- Sector funds
- Stock funds (equity funds)
- Bond funds (fixed funds)
- Money market funds
  - U.S. treasury bills
  - Certificates of deposit (CDs)
- Corporate funds
- High-yield (junk bond) funds
- International / global funds
- Treasury funds

The five risks of retirement

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.
The five risks of retirement

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
The five risks of retirement

3. Investment risk

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

<table>
<thead>
<tr>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erin purchases an annuity that offers lifetime payouts and a 5% guaranteed minimum withdrawal benefit. She:</td>
</tr>
<tr>
<td>&gt; Makes a single payment of $100,000</td>
</tr>
<tr>
<td>&gt; Invests 70% in stocks and 30% in bonds</td>
</tr>
<tr>
<td>&gt; Withdraws 5%, which is $5,000, per year</td>
</tr>
</tbody>
</table>

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.
The five risks of retirement

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

The five risks of retirement

5. Withdrawal risk

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

- Lump-sum withdrawals
- Systematic withdrawals
- Rollover
- Annuitization
5. Withdrawal risk

Lump-sum distribution

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump-sum amount</td>
<td>$200,000</td>
</tr>
<tr>
<td>Withholding, 20%</td>
<td>-$40,000</td>
</tr>
<tr>
<td>Additional income tax, 8%</td>
<td>-$16,000</td>
</tr>
<tr>
<td>Federal tax penalty, 10% (for early withdrawal if under age 59½)</td>
<td>-$20,000</td>
</tr>
<tr>
<td>Total tax</td>
<td>-$76,000</td>
</tr>
<tr>
<td>Total distribution</td>
<td>$124,000</td>
</tr>
</tbody>
</table>

Assumes a 28% tax bracket.
## 5. Withdrawal risk

<table>
<thead>
<tr>
<th><strong>Systematic withdrawal option</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payout frequency</strong></td>
</tr>
<tr>
<td><strong>Payout duration</strong></td>
</tr>
</tbody>
</table>
| **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 |
The five risks of retirement

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 → 60 days to roll over
- Lump-sum cash distribution
- 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.
The five risks of retirement

5. Withdrawal risk

Annuitization option

- Annuity investment
- Periodic payments
- Lifetime income
- Period certain
- Fixed or variable payout

Ordinary income taxes may include a 10% federal early withdrawal penalty, if under age 59½

Keep in mind that annuitization is generally an irrevocable decision.

Guarantees are backed by the claims-paying ability of the issuing insurance company.
“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
Essential income planning

The essential expenses

- Food
- Shelter
- Clothing
- Healthcare
- Transportation
Please note that this is just one scenario and the sources of retirement income will vary depending on your individual situation.

Annual Social Security benefits*

- Estimated average annual benefit for a retiree: $16,092
- Estimated average annual benefit for a retired couple: $26,544
- Maximum annual benefit for a retiree at full retirement: $31,668

*As of January 2016.
Essential Income Planning

Three-step process

1. **Essential income need**
   - Food, shelter, clothing, transportation, healthcare
   - Income designed to last a lifetime
   - Pension, Social Security, GMWB, annuitization, other

2. **Variable income**
   - Non-essential income need
   - Travel, leisure, hobbies
   - Mutual funds, annuities, MM, CDs, managed accounts

3. **Legacy**
   - Generational planning

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Essential income planning
Essential income planning

Filling the income gap

Case study

<table>
<thead>
<tr>
<th>Dave and Julie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
</tr>
<tr>
<td>Retirement nest egg</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Monthly income</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Monthly essential expenses</td>
</tr>
<tr>
<td>Monthly income gap</td>
</tr>
</tbody>
</table>
An annuity with a lifetime guaranteed minimum withdrawal could fill the income gap

Essential expenses of $6,000 monthly

$2,650 Pensions
$2,950 Social Security
$5,600 monthly income

$400 monthly shortfall

Monthly lifetime income

$100,000 annuity purchase

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.
Essential income planning

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?
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
Where to go from here?

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?
Where to go from here?

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.
Where to go from here?

**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
Where to go from here?

Financial 360 Plan

Provides a customized analysis of your financial situation
Where to go from here?

Financial 360 Plan

Retirement summary - sample plan

<table>
<thead>
<tr>
<th>Age Client/Spouse</th>
<th>Essential retirement needs</th>
<th>Non-essential needs</th>
<th>Social Security / pension / GMWB</th>
<th>Retirement plan withdrawals</th>
<th>Non-retirement withdrawals</th>
<th>Taxes</th>
<th>Total income &amp; withdrawals (minus taxes)</th>
<th>Surplus / shortfall</th>
<th>Retirement plan balances (excluding GMWB assets)</th>
<th>Non-retirement balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 / 64</td>
<td>$80,734</td>
<td>$10,746</td>
<td>$67,162</td>
<td>$0</td>
<td>$16,850</td>
<td>$12,531</td>
<td>$71,481</td>
<td>$0</td>
<td>$268,936</td>
<td>$48,881</td>
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<tr>
<td>66 / 65</td>
<td>$82,364</td>
<td>$11,069</td>
<td>$68,105</td>
<td>$0</td>
<td>$18,072</td>
<td>$12,745</td>
<td>$73,432</td>
<td>$0</td>
<td>$281,003</td>
<td>$32,527</td>
</tr>
<tr>
<td>67 / 66</td>
<td>$84,047</td>
<td>$11,401</td>
<td>$69,066</td>
<td>$0</td>
<td>$19,347</td>
<td>$12,965</td>
<td>$75,448</td>
<td>$0</td>
<td>$293,612</td>
<td>$14,461</td>
</tr>
<tr>
<td>68 / 67</td>
<td>$85,787</td>
<td>$11,743</td>
<td>$70,045</td>
<td>$6,925</td>
<td>$15,031</td>
<td>$14,472</td>
<td>$77,530</td>
<td>$0</td>
<td>$299,861</td>
<td>$0</td>
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<tr>
<td>69 / 68</td>
<td>$87,584</td>
<td>$12,095</td>
<td>$71,044</td>
<td>$27,020</td>
<td>$18,394</td>
<td>$18,908</td>
<td>$81,900</td>
<td>$0</td>
<td>$286,295</td>
<td>$0</td>
</tr>
<tr>
<td>70 / 69</td>
<td>$89,442</td>
<td>$12,458</td>
<td>$72,061</td>
<td>$28,748</td>
<td>$0</td>
<td>$18,908</td>
<td>$81,900</td>
<td>$0</td>
<td>$270,394</td>
<td>$0</td>
</tr>
<tr>
<td>71 / 70</td>
<td>$71,382</td>
<td>$12,832</td>
<td>$73,099</td>
<td>$30,546</td>
<td>$0</td>
<td>$19,451</td>
<td>$84,194</td>
<td>$0</td>
<td>$251,980</td>
<td>$0</td>
</tr>
</tbody>
</table>

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.
Where to go from here?

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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THANK YOU

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