INVESTMENT Digest

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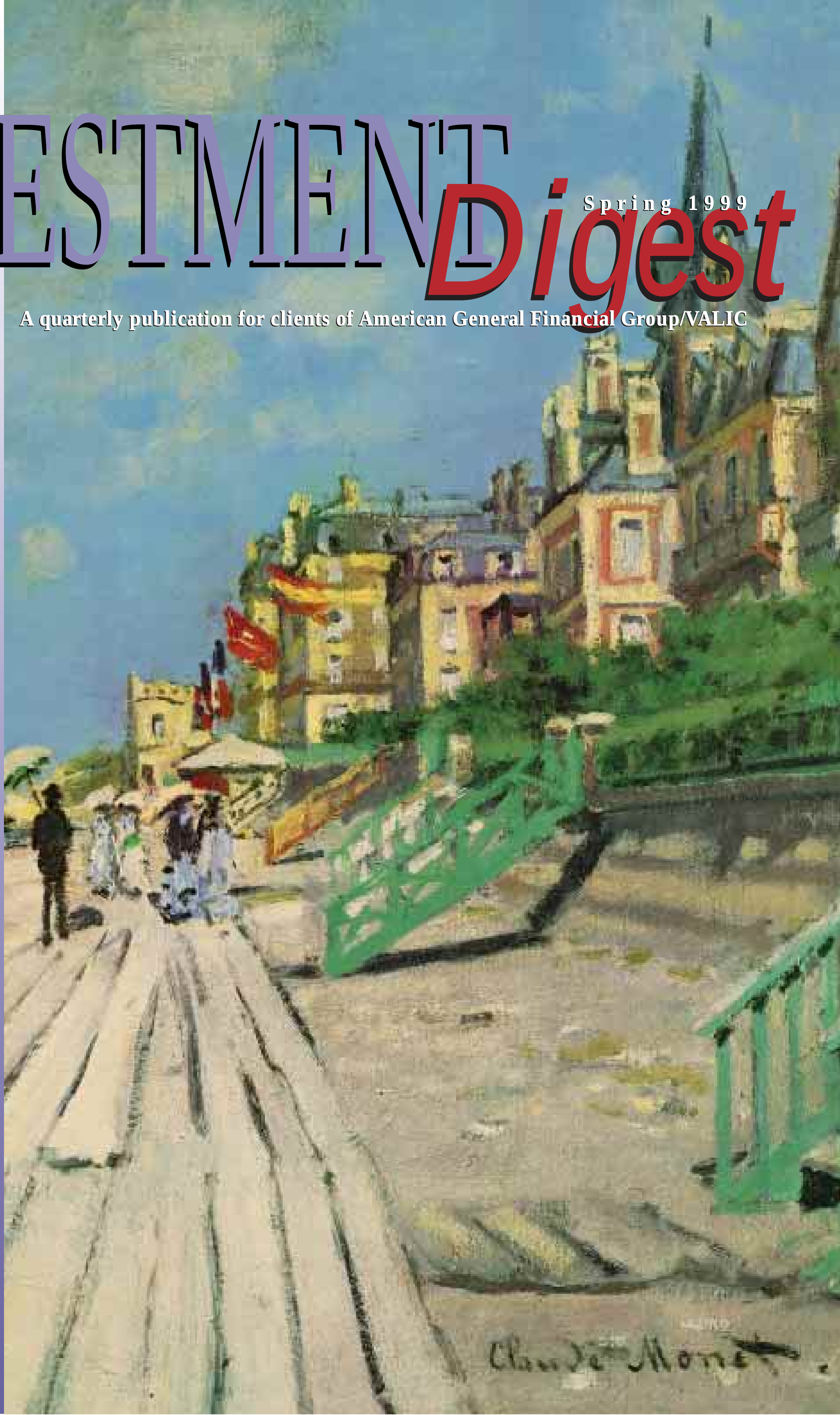
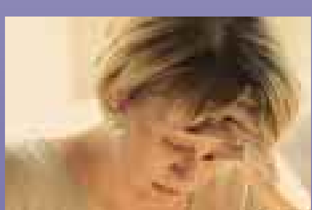


DAZED AND CONFUSED BY RETIREMENT PLAN INVESTMENT CHOICES?



OK, so you've completed all the steps you're "supposed" to take when planning for your retirement. What now? **See page 2.**

DAZED AND CONFUSED BY RETIREMENT PLAN INVESTMENT CHOICES?

...from the cover

You have already:

- ✔ decided to participate in your employer-sponsored retirement plan;
- ✔ faced your "retirement income gap;"
- ✔ know how much savings will provide you a secure retirement;
- ✔ determined your risk tolerance level;
- ✔ know how to diversify your portfolio;
- ✔ understand asset allocation; and
- ✔ developed a personal action plan.

That's all there is, right? Now, just fill out the papers, check a few boxes, and you're done?

Not so fast! You're certainly ahead of the game. But when you open that benefits package, and there are 20-30 funds to choose from, how are you going to decide? Flip a coin? Throw darts? Then, again, do you really want to trust your money to chance?

After all, many financial experts say your choice of funds makes less difference than asset allocation and leaving your money invested for the long term. Although that is somewhat reassuring, when your retirement money is at stake, you may want a little more practical guidance, so here it is?

Active or passive investing

First, how often do you want to rebalance your portfolio? If you are not interested in watching the market and keeping close track of your investments, you may want to consider a balanced, lifestyle, index, or asset-allocated fund which closely match as your personal objective and risk tolerance level. The balancing act is left to the professionals. If you choose one of these funds, check the "fund mix," the percentage of investments in each of the basic asset classes: stocks, bonds, and cash equivalents (see chart below for class strengths). Be sure it closely matches your selected allocation.

In evaluating individual funds, analysts normally consider the following relevant information, available in the fund's prospectus:

Historical performance

Many people only look at the historical performance of an investment. Long-term historical performance is helpful as one factor to consider, but short-term can be very misleading. No matter how good past performance looks, it does not guarantee future returns. Keep in mind these equally important factors:

- ✔ Volatility, the ups and downs of the investment, should be within your risk comfort zone.
- ✔ A fund which has performed well for years can take a nose dive if it is heavily invested in a failing industry sector.
- ✔ A new fund with almost no performance history can perform extremely well if it has successful, experienced fund management.

If you base your decision only on short-term returns, you could invest too large a percentage in high-risk investments. This could jeopardize the accumulation you need for retirement. So, make sure you look at the bigger picture before choosing the "pie-in-the-sky."

Appropriateness

Is the fund appropriate for your portfolio? Will it help you achieve your financial goals within your risk comfort level? To evaluate appropriateness, check the fund's objective and compare it to your personal objective. Many funds have a clearly defined objective stated in the prospectus. How well is the fund meeting that goal? You want to be careful of funds without stated objectives or with very vague ones.

Fund objective

Clearly defined fund objectives may read something like this:

International Growth: *Long-term capital appreciation through investments in non-U.S. companies, the majority of which are expected to be in developed markets.*

Large Cap Growth Fund: *Long-term growth through investments in large cap U.S. issuers. Dividend income is a secondary objective. (Similar language is used for small cap and mid cap growth funds)*

Specialty Equity Fund: *Growth through investments in companies meeting social criteria of the fund (such as socially responsible funds, which may choose not to invest in weapons, nuclear energy, or known environmental polluters). If you have a strong social, philosophical or religious belief, you may want to investigate whether there is a specialty fund that matches your convictions.*

Balanced Fund: *Conservation of principal and long-term growth of capital and income through investments in fixed-income and equity securities.*

Income Funds: *Highest possible total return and income consistent with conservation of capital through investments in income producing securities or bonds.*

Index Fund: *Seeks to closely match the performance of its benchmarking index. (If this is the stated objective, how successfully is it matching its benchmark?)*

Investment strategy

If the fund has a defined strategy, does the strategy make sense to you? It?s not a good idea to invest in funds you don?t understand. For instance, an investment strategy might read:

International Growth Fund: *Invests in equity securities in the markets of at least three countries outside the U.S. It will diversify its investments among developed and emerging market countries, and will focus its emerging market investments on those countries in which the subadviser believes the economies are developing and the markets are becoming more sophisticated. A flexible, value-oriented approach will be used to select investments for this fund, investments, focusing on companies rather than on countries or markets. The goal is to identify stocks selling at the greatest discount to their intrinsic future value.*

Fund management

Who manages the investments of the fund? What are the track record, experience and reputation of the fund manager, adviser and subadvisers? If this is a new fund, does the management have successful track records with other funds? Does that include funds of a similar nature? For instance, if you are considering an international growth fund, does the management have other successful international funds?

Management style

Is the fund managed top-down or bottom-up? Top-down begins with looking at the indicators first, like market, market sector and global conditions which might affect performance, then choosing securities that should fare well in that larger context. Bottom-up means looking at the performance of the individual securities and choosing undervalued stocks, or those with a possibility for exceptional growth. Based on the investment strategy above, that International Growth Fund has a bottom-up approach.

Individual holdings

You could investigate the top ten holdings of the fund. Check their historical performance, corporate strength, management, financial statements, and plans for the future. However, this is in-depth research that most investors would rather leave to professional analysts. If you really want to dig deeper, for information that is not provided in the prospectus, your retirement planning specialist is a good resource.

The Internet has a vast amount of information, but be sure you are using reliable sources, like independent reporting services that publish research on mutual funds and other investments.

Bond funds

In selecting bond funds, there are ratings, depending on the rating entity, ranging from grade AAA (least risk) to grade EEE (most risk). These ratings tell you how credit worthy the investment is. The bond fund prospectus will tell you what grade of bonds it invests in. If you are looking for a conservative investment, choose a fund investing in higher-grade bonds. And, if you are looking for higher returns, don't forget to factor in the federal tax savings of municipal bonds (see profile, page 11).

Don?t invest in what you don?t understand

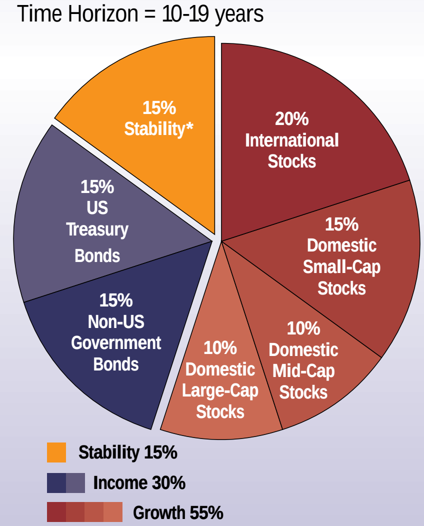
And finally, never be afraid to ask questions. If you don?t understand the prospectus or anything in your retirement plan package, call your retirement planning specialist. Ask in-depth questions. After all, it is your money, and if you don?t ask, you might as well throw darts.

Now, you're ready to fill out those papers, check those boxes and make the choices that will help make your retirement secure. You've worked hard for it; won't it be nice to have the money to enjoy it.

SAMPLE ASSET ALLOCATION MODEL
based on Risk Tolerance and Time Horizon

Here is a sample aggressive asset allocation model (Use VALIC's "easy allocation model portfolio" calculator on our web site at (www.valic.com) to generate your own personal portfolio mix.) As you can see, even when you know what percentages you need to invest in each asset class, you still have to choose the individual fund within each asset class of growth, income and stability (stocks, bonds and cash equivalents).

Risk Tolerance = Aggressive
Time Horizon = 10-19 years



*Fixed Accounts: cash equivalents, guaranteed investments (Cash equivalents, guaranteed investments)

This chart is for illustration purposes only and do not represent any actual investment.

EACH INVESTMENT CLASS HAS ITS STRENGTH IN YOUR PORTFOLIO?

Class	Risk Level	Potential Income	Potential Appreciation	Individual Goals/ Time Horizon
Stability (Money)	conservative	average	none	short-term
Income (Bonds)	moderately conservative	average to excellent	moderate	longer-term
Growth (Equity/Stocks)	aggressive	poor to average	excellent	long-term

Each investment class offers different strengths to meet your goals and needs, and that is why asset allocation is important.