Money Market Reform Frequently Asked Questions

On July 23, 2014, the Securities and Exchange Commission (SEC) adopted amendments to Rule 2a-7 (the rule governing money market funds) and other rules under the Investment Company Act of 1940, as well as related reporting and disclosure requirements. These amendments follow lengthy consideration of potential regulatory responses to concerns triggered by the 2007-2008 financial crises over the susceptibility of money market funds to significant shareholder redemptions and consequent risks to the U.S. financial system. Notwithstanding prior amendments to Rule 2a-7 adopted in 2010, the 2014 reforms represent significant changes to the way money market funds currently operate.

All references to VALIC include The Variable Annuity Life Insurance Company, VALIC Retirement Services Company and VALIC Financial Advisors, Inc.

General Questions

1. **What are the key reforms that will impact money market funds?**

   The SEC has enacted several structural and operational changes to money market mutual funds. The primary changes noted below become effective on October 14, 2016. By this date, money market funds must be classified as retail, institutional or government money market funds. Based on how the fund is classified, the fund will be required to adopt certain features:

   - Floating vs. Stable Net Asset Value (NAV). Institutional money market funds must have an NAV or share price that will "float" (i.e., vary from day-to-day). Retail and government money market funds may maintain a stable share price, typically $1.00 per share.
   - Redemption gates/Liquidity fees. Retail and institutional money market funds must have the ability to impose liquidity fees and restrict shareholders' right to redeem fund shares under certain scenarios.

   Additional reforms were adopted which impact the operation of money market funds, such as new prospectus and website disclosures, as well as new stress testing requirements. Additional details of the changes can be found in the VALIC commentary, Money Market Reform and Your Retirement Plan: Issues and Considerations for Plan Sponsors.

2. **How could a redemption gate or liquidity fee impact retirement plan participants?**

   The impact of gates could be dramatic, should a situation like the 2008 financial crisis occur again. In certain cases of stressed liquidity for a retail or institutional money market fund, a liquidity fee would go into place that could damage plan participant returns. In other cases, a redemption gate could be implemented, lasting up to 10 days, preventing all withdrawals from these funds which include systematic withdrawals, RMDs, and automatic rebalancing in asset allocation programs.

3. **Why has the SEC amended the rules governing money market funds?**
   Based upon commentary provided by the SEC, there are two primary objectives: managing inordinately large institutional investor redemption requests (i.e., "investor run" risk) and providing greater transparency to investors. The fact sheet issued by the SEC provides the background and supporting rationale to its final rules.

4. **Will VALIC offer money market funds that impose fees or gates on its retirement plan platforms?**
   After careful and thorough consideration of the new money market fund reforms, VALIC has concluded that it will only support government money market funds on its recordkeeping platform. We believe the utilization of money market funds which are required to impose gates and liquidity fees (i.e., retail and institutional money market funds) is inconsistent with the liquidity goals that retirement plan participants seek in money market funds and it may negatively impact a participant's ability to take systematic withdrawals, RMDs or to effect automatic rebalancing in asset allocation programs.

5. **Are VALIC competitors offering money market funds other than government money market funds on their platforms?**
   The VALIC position to offer only government money market funds on its retirement plan recordkeeping platform is consistent with most other retirement plan recordkeepers. There are limited exceptions, such as Fidelity, which will continue to offer retail and institutional money market funds. With respect to variable annuities, we are unaware of any insurance companies that intend to offer a variable annuity with an underlying investment option that is a retail or institutional money market fund.

6. **Are government money market funds impacted by these key reforms?**
   Yes. Government money market funds are not mandated to adopt liquidity fees or redemption gates but may voluntarily adopt fees and gates if disclosed to investors prior to implementing the change. Generally, the industry believes that it is unlikely that government money market funds will adopt fees and gates. In addition, government money market funds are also exempt from the floating NAV requirements and may continue to transact at a stable NAV. However, with respect to the SEC's other reforms to money market fund rules such as disclosure and stress-testing requirements, government money market funds are required to implement such reforms.

Portfolio Director/Variable Annuities

7. **Do the key reforms impact Portfolio Director® Fixed and Variable Annuity or other VALIC group variable annuity products?**
   Yes. The VALIC Company I Money Market I Fund and VALIC Company II Money Market II Fund are underlying investment options in the Portfolio Director contract and other VALIC variable annuity products. On or about October 1, 2016, these funds will transition to government money market funds. See the January 26, 2016 supplement to their respective prospectuses noting the impending changes to both funds.

8. **If a plan has a Portfolio Director contract (or other VALIC variable annuity product), what actions are required by the plan sponsor?**
   If the plan has a VALIC variable annuity product, including Portfolio Director, no further action by the plan sponsor is required. For ERISA plans, VALIC will update fee disclosure documents.

Group Mutual Fund Plans

9. For Group Mutual Fund retirement plans, has VALIC determined if the plan currently offers a retail or institutional money market fund?

Within the Group Mutual Fund platform, VALIC has identified all money market funds that intend to be categorized as an institutional or retail money market fund on or before October14, 2016, which funds include the following:

- Dreyfus Cash Management Portfolio (Institutional/Investor/Administrative/Participant Classes)
- Fidelity Select Money Market Fund
- Fidelity Spartan Money Market Fund
- SSGA Money Market Fund (Institutional Class)
- Vanguard Prime Money Market Fund (Institutional Class)

10. Must plan sponsors on the VALIC group mutual fund platform replace an institutional or retail money market fund currently offered within its retirement plan?

Yes. Because VALIC will no longer offer institutional or retail money market funds on its retirement plan platform, plan sponsors must select an alternative investment option. These options may include a government money market fund, stable value option or a Fixed-Interest Option from VALIC. The VALIC investment team will continue to communicate with our fund company partners and will provide a list of appropriate options to each impacted plan sponsor to select an alternative investment option. We can also work with the plan's current investment adviser on other available options that they may suggest as well.

11. If the plan has a retail or institutional money market fund as an investment option, must the plan sponsor take action? If so, on what date must action be taken?

Yes. For those plans that have a retail or institutional money market fund, VALIC sent a package directly to the plan sponsor on or about February 15, 2016, advising that such funds would no longer be available on the VALIC platform. Further, the letter advises the plan sponsor to take action to select an alternative investment option by May 15, 2016. In that package, the following documents were provided to plan sponsors:

- Letter advising plan sponsors of the changes and actions required;
- Brochure entitled, "Money Market Reform and Your Retirement Plan: Issues and Considerations for Plan Sponsors (VC 27378);
- Money Market Fund Direction Form; and
- List of government money market funds and the Fixed-Interest Option from VALIC, which are available to replace the retail or institutional money market fund currently in the plan.

12. Why is it important that a plan sponsor take action on or before May 15, 2016?

VALIC is requesting that plan sponsors provide investment direction prior to May 15 for two reasons.

- For ERISA plans, a change in the plan's investment options will require a fee disclosure to participants. VALIC must deliver to the plan sponsor for distribution to participants this fee disclosure describing a change to the plan's investment options. The fee disclosure must be sent to participants 30 to 90 days prior to the change. In order to ensure that the fee disclosure is timely sent and to avoid the additional cost of supplemental mailings, VALIC is requesting that instructions be provided well in advance of the effective date of the new regulations.
- Because of the number of retirement plans impacted by these new regulations, the VALIC Implementation Team needs sufficient time to be able to implement the changes prior to the October 14 effective date.

13. Can the plan sponsor elect to direct assets from its existing money market fund to its VALIC fixed interest annuity contract?

14. Yes. If the plan currently has a VALIC fixed interest annuity contract as part of its existing fund lineup, the plan sponsor should check the box on the Money Market Fund – Direction Form indicating the Fixed-Interest Option currently available in the plan as its Replacement Investment Option. If the plan does not currently have a VALIC fixed interest annuity contract as an option, the plan sponsor can call their designated Relationship Manager or the Plan Sponsor Service Team at 1-888-478-7020 to request the addition of such option to its fund lineup.

14. What is the impact on fee disclosure requirements?

The annual participant fee disclosure must be provided within 14 months of the prior annual participant fee disclosure. Information on investment fund changes in participant fee disclosures must be provided to participants 30 to 90 days before the event. Ideally a plan sponsor will select the alternate fund in time to include both the required information for the existing fund and the required information for the new fund in the 2016 annual participant fee disclosure document. For example, if the fund change is October 16, 2016, and the fee annual participant disclosure is delivered to participants no earlier than July18, 2016 and no later than September 16, 2016, both the annual disclosure and the fund change can be provided at the same time.

15. Will the plan sponsor be required to amend its Service Provider and Trust/Trust Services/Custodial Agreements (Agreements) with VALIC Retirement Services Company and AIG Federal Savings Bank to effect changes to the fund lineup?

Yes, the Agreements should be amended. However, the Money Market Fund - Direction Form sent to plan sponsors contains language that will effectively amend the Agreements. Following receipt of the Direction Form, VALIC will provide a new Appendix A or other documentation acknowledging the amendment to the Agreements to reflect the removal of the prior investment option and the addition of the new investment option.

16. What if the plan sponsor fails to take action to replace the retail or institutional money market fund invested in their plan by May 15, 2016?

VALIC intends to send a second letter on or about April 1, 2016, to those plan sponsors that have not yet taken action. After May 15, 2016, VALIC intends to begin the process for replacing the retail/institutional money market fund for the alternative investment option.

- For both ERISA and non-ERISA plans, if no affirmative election is received from the employer by May 15, 2016, VALIC will replace the existing institutional money market fund currently in the plan with the Vanguard Federal Money Market Fund (VMFXX), which is the lowest-cost government money market fund available on the VRSCO platform.

If the plan sponsor of an ERISA plan fails to take action prior to May 15, VALIC will continue to seek direction from the plan pre-October 14, 2016.

17. How will a plan be impacted if it has a forfeiture account that invests its cash in the SunAmerica Money Market Fund?

The SunAmerica Money Market Fund will transition to a government money market fund on or about April 29, 2016. As a result, no action is required by the plan sponsor on behalf of the plan.

18. If the Schwab Personal Choice Retirement Account (PCRA) is an available option in the plan, will the Money Market Funds in the PCRA lineup be impacted?

Yes. PCRA currently uses the Schwab Money Market Fund (SWMXX) as a sweep vehicle and the Fund intends to qualify as a retail money market fund by October 14, 2016. In advance of the October 14, 2016 deadline, Charles Schwab will work with VALIC and plan sponsors to meet the compliance requirements of the new rules related to money market mutual funds held in employer retirement plans. This will include communicating a solution for qualified plans that will not be subject to fees and gates and will have a constant net asset value (NAV) of $1.00.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. While the fund seeks to preserve the value of your investment at $1 per share, it is subject to potential loss of principal.

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VC 27539 (03/2016) J98559 ER

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