

Retirement income: Making the most of your nest egg



Planning and investing
for one of life's most
important goals.

Planning for retirement income is different

Retirement brings change to all facets of life, including investing. Strategies for accumulating a retirement nest egg differ from the approaches necessary to provide income when one's earning days are over.

Without a paycheck to replenish assets depleted by spending or market downturns, lowering volatility, emphasizing income and accounting for inflation assume greater prominence. As a result, meeting the retirement income challenge means selecting the right investments and creating portfolios focused on specific retirement objectives.

Saving for retirement	Living in retirement
<ul style="list-style-type: none"> • Emphasis on return • Time horizon clearly defined yet adjustable • Impact of market declines is more manageable • Inflation managed through wage growth 	<ul style="list-style-type: none"> • Emphasis on income and capital preservation • Time horizon unknowable and not adjustable • Impact of market declines is less manageable • Inflation managed through investment choices

Five retirement income realities

Effective retirement income portfolios must allow for the many challenges that may arise during decades of living in retirement.

Working with an adviser to account for the following five factors can help your transition to retirement.

Pre-retirement		Retirement			
		Longevity A lengthy retirement can deplete assets. An investment program must be designed to help provide for retirement income needs over long periods and through market cycles.			
	Market shocks Market declines are inevitable. Mitigating their impact is particularly important when withdrawals commence.				
		Inflation Inflation can take a meaningful toll on purchasing power. Growing income can help offset the impact.			
Retirement realities ▲		Consumption patterns Though living expenses decline in retirement, the drop-off can be gradual. Providing income to meet meaningful ongoing expenses is key.			
Years in retirement ►			Health care Health care costs continue to rise, and expenses often increase as we age. Investment plans should account for this possibility.		
	Retirement ▲	Less critical ← → More critical			

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Three approaches to retirement income

A number of different investment strategies have historically helped retirees meet their income needs. Below are three of the most prevalent strategies that advisers use to help their clients navigate this critical, often complex, challenge.

1. Total return



This approach relies on a combination of income and capital appreciation to seek to provide retirees with a regular monthly paycheck. The money in that paycheck will typically be a combination of income generated by portfolio investments and proceeds from investments sold to meet income needs. The success of this approach significantly depends on an investment portfolio growing at a faster rate than the rate at which it's being liquidated. This approach — sometimes known as the “endowment model” — calls for flexibility as income amounts vary from year to year.

American Funds income-oriented mutual funds

Working with their advisers, investors can build portfolios that include a wide variety of the American Funds spanning multiple asset classes.

2. Pooled approach



Also known as the “cash-ladder approach,” the pooled strategy emphasizes investor objectives, which it groups according to time horizon and importance. To help pursue those objectives, separate investment pools are created with asset mixes matched to each set of goals. For example, assets needed to meet crucial near-term needs like living expenses would be invested in short-term, high-quality instruments such as short-term bonds or Treasury bills. Assets for long-term “nice-to-have” goals would likely be invested in growth or small-capitalization stocks, or growth-oriented mutual funds. Pools and objectives can be evaluated individually, and this approach offers the opportunity to tap and rebalance assets strategically according to the market environment.

American Funds objective-based portfolios

American Funds offers eight prepopulated investment portfolios built to help investors with a variety of goals including preservation, balance and appreciation.

3. Income certainty



The name says it all. Used on its own or in combination with another approach, income certainty aims to lock in an income stream through products like annuities, which can offer a steady, guaranteed payout regardless of market or economic conditions.* Variable annuities typically have additional insurance-related expenses and, depending on how they are used, there can be tax consequences. But for many retirees, the peace of mind that comes with knowing they have a stable income stream is of utmost importance. Though these investments emphasize income, they may also feature growth potential.

American Funds Insurance Series®

American Funds Insurance Series options are available in variable insurance products offered by some of the nation's leading insurance companies.

*Subject to the claims-paying ability of the contract issuer.

Investing for retirement income is different

Investment attributes like low volatility and an emphasis on income may be secondary thoughts when accumulating assets, but can become more important when an investor begins relying on investments to provide income.

How taking income can change the story

American Mutual Fund® (AMF) is an example of a fund that, thanks to its objective of balancing current income, growth of capital and conservation of principal, has fared well as an accumulation investment over its lifetime, but has done even better when called upon to produce income.

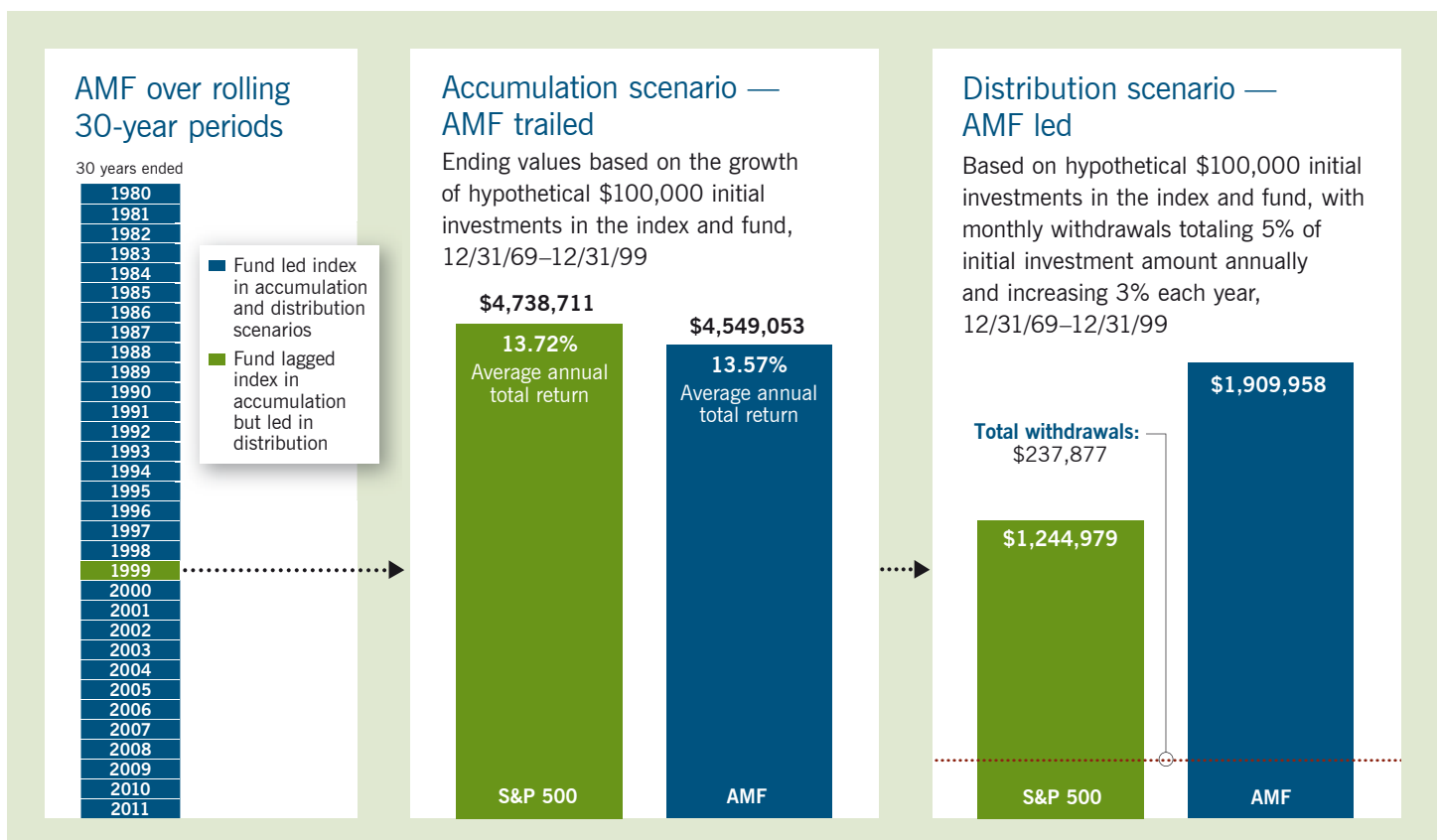
One period in particular underscores how AMF's approach could have been beneficial to a retirement-income investor. Consider the following:

- Looking at periods of 30 calendar years, American Mutual Fund's results surpassed those of Standard & Poor's 500

Composite Index for 31 of the 32 periods over its lifetime. The lone exception was the 30 years ended December 31, 1999 — the last full year of the tech-driven bull market when dividend-paying companies had fallen out of favor.

- Yet when a distribution scenario was applied to those same periods, AMF's advantage became complete. Though it's important to note that past results are not predictive of future results, in a scenario that assumes a 5% annual withdrawal that increases 3% each year, the fund outpaced the S&P 500 in every period and significantly topped the benchmark during the one time frame when it had lagged in an accumulation scenario.

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results are for Class A shares at net asset value with all distributions reinvested. If the fund's maximum sales charge (5.75%) had been deducted, results would have been lower. For current information and month-end results, visit americanfunds.com.



Results are as of the first calendar year-end since the inception of American Mutual Fund (AMF) on 2/21/50 and assume reinvestment of all distributions. Data for the distribution scenario is based on hypothetical \$100,000 initial investments in the S&P 500 and AMF, with monthly withdrawals totaling 5% annually and increasing 3% each year, for each 30-year period. The withdrawal amount was \$5,000 in the first year (or \$416.67 per month); this amount was increased 3% each year thereafter. In the distribution scenarios, the total amount withdrawn for each period was \$237,877. In the distribution scenario shown above, AMF generated \$608,245 in reinvested dividends, while the S&P 500 generated \$222,818; the ending investment values for both the fund and index take into account withdrawals. The S&P 500 is unmanaged and, therefore, has no expenses.

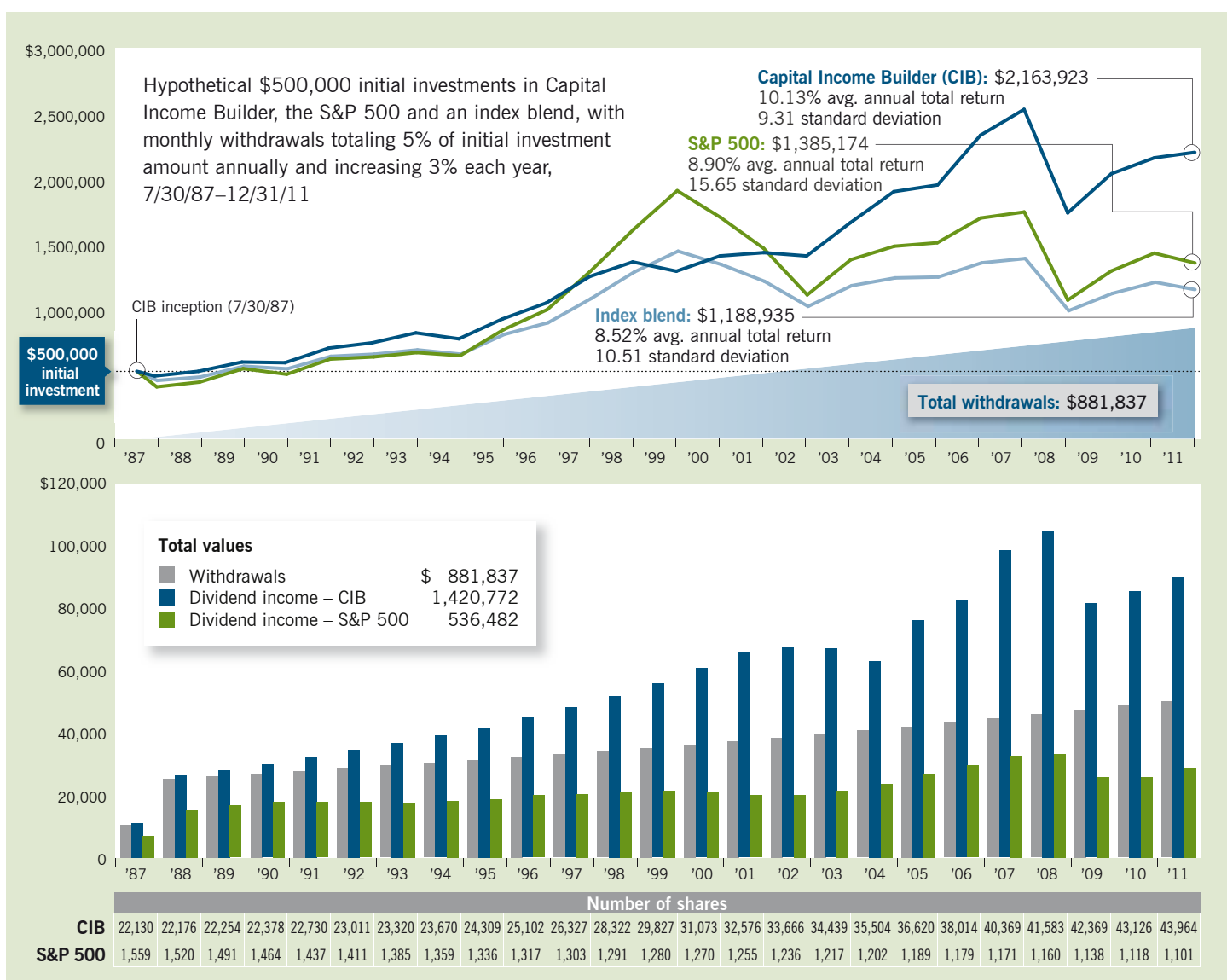
The power of rising income

Capital Income Builder® (CIB) is an equity-income fund primarily focused on a common retirement need: income — specifically, high current income and rising income. Consider how pursuing these objectives could have served an investor with retirement income needs over the fund's 24-year lifetime.

- Near the halfway point in the fund's lifetime, tech stocks ruled and dividend-paying investments had fallen out of favor. CIB began to trail the broader market, as measured by the S&P 500, but held fast to its rising income objective.
- After the tech bubble burst, dividend-paying stocks rebounded and the fund's focus on a growing stream of income helped build a significant advantage over both the S&P 500

(the fund's primary benchmark) and a blended index consisting of 60% stocks and 40% bonds.

- Though all hypothetical investments withdrew the same amount, the CIB investment's value at the end of the period was over \$778,000 more than the S&P 500 investment and nearly \$975,000 more than the index blend.
- In every year, CIB produced a greater amount of income than was withdrawn; the S&P 500 never did.
- Excess dividend income reinvested into additional fund shares enabled CIB's share balance to rise every year. In contrast, the S&P 500 investment sold shares each year to meet withdrawals.
- As measured by standard deviation, CIB was less volatile than both the S&P 500 and the index blend.



Results are as of Capital Income Builder's inception on 7/30/87 and assume reinvestment of all distributions. The average annual total return and ending investment values for all three investments take into account withdrawals. Because the withdrawal amount for the first year is based on a partial period (7/30/87–12/31/87), this amount was \$10,416.67 (or \$2,083.33 per month for five months). Subsequent years' withdrawals, which were increased 3% in August of each year, are based on complete years. Therefore, the withdrawal amount for the year ended 12/31/88, for example, was \$25,312.50 (or \$2,083.33 for the first seven months and \$2,145.83 for the following five months). Results for the index blend are not rebalanced and are based on an initial investment amount of 60% S&P 500 and 40% Barclays Capital U.S. Aggregate indexes. The indexes are unmanaged and, therefore, have no expenses. Standard deviation is a measure of how returns over time have varied from the mean and is one of the most common measures of absolute volatility. A lower number signifies lower volatility.

Finding the right investment

When evaluating investments for their effectiveness as retirement income vehicles, it's important to look at more than their average annual total returns. Consider the following questions:

Are they designed to help meet objectives? Retirement-income investors generally have distinct objectives. Among them are keeping pace with inflation, maintaining a certain lifestyle and keeping their nest egg healthy. Funds designed to help pursue objectives like these can be important.

How volatile are they? A certain portion of retirement income is often generated through selling shares of an underlying investment. Inevitably, some of this selling will take place during down markets, when shares have dropped in value. Investments that decline less than the broader

market during downturns can mean that investors will need to sell fewer shares to meet income needs. And a higher share balance can increase the portfolio's ability to produce income.

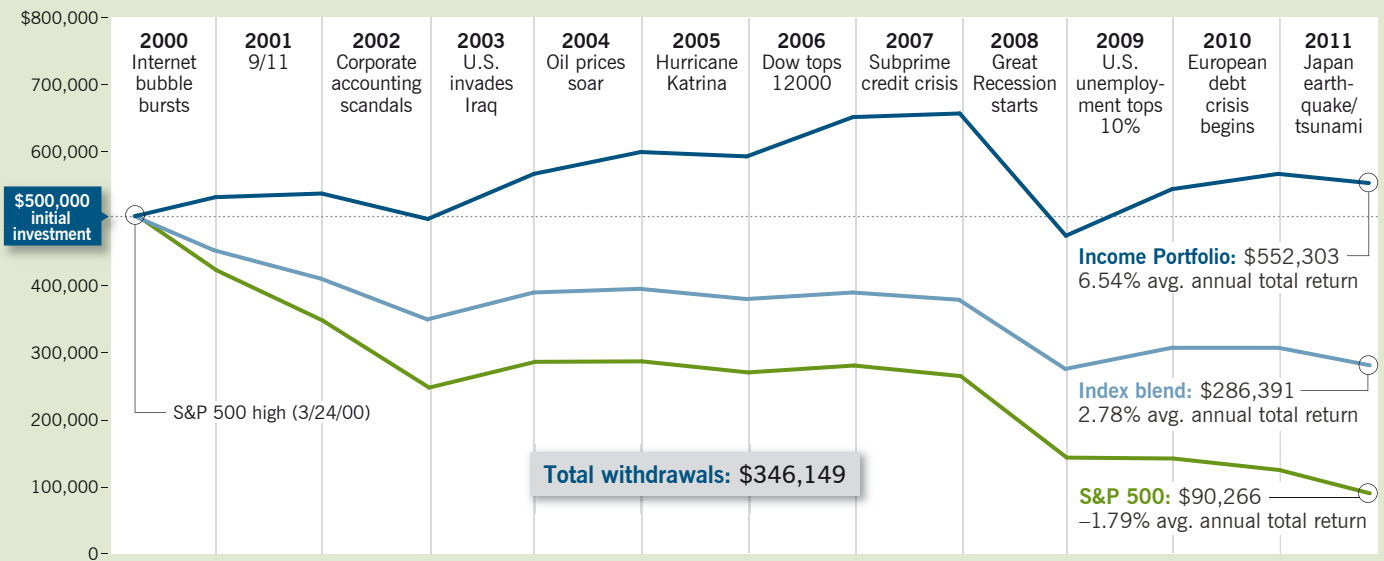
Do they emphasize income? Funds that invest in dividend-paying companies pass on those dividends to shareholders, providing the potential for a natural retirement income stream. Lower yielding investments, on the other hand, may have to rely more heavily on selling shares of the underlying investment to meet retirement income needs.

What if you retired on one of the worst possible days?

No investments are completely immune to downturns, but portfolios focused on income and designed to mitigate market volatility can help investors weather challenging environments. Consider how the **American Funds Income PortfolioSM**, an objective-based portfolio that focuses on income and strives to be less volatile than the stock market, would have helped an investor who retired on one of the worst possible days to do so — March 24, 2000, the day of the tech bubble market high. For retirees taking income, the period since then has been one of the

most challenging on record, as the S&P 500 was nearly flat on an annualized basis and yields on bonds and cash were relatively low. Yet as you can see, a hypothetical \$500,000 investment in this income-oriented portfolio, which features a mix of actively managed equity and bond funds, not only provided \$346,149 in withdrawals, but also ended the period with a value greater than the original investment. It also finished well ahead of the primary index blend and the broader stock market.

Ending values of hypothetical \$500,000 initial investments in the American Funds Income Portfolio and index blend, with monthly withdrawals totaling 5% of initial investment amount annually and increasing 3% each year, 3/24/00–12/31/11



American Funds Income Portfolio is equal parts American High-Income Trust,SM American Mutual Fund,[®] Capital Income Builder,[®] The Income Fund of America[®] and U.S. Government Securities FundSM. Results for the primary index blend are based on an initial investment of 60% S&P 500, 20% Barclays Capital U.S. Corporate High-Yield 2% Issuer Capped and 20% Barclays Capital U.S. Government/Mortgage-Backed Securities indexes. Results for both the American Funds Income Portfolio and index blend assume reinvestment of all distributions and are not rebalanced. The average annual total returns and ending investment values shown take into account withdrawals. Because the withdrawal amount for the first year is based on a partial period (3/24/00–12/31/00), this amount was \$18,750.00 (or \$2,083.33 per month for nine months). Subsequent years' withdrawals, which were increased 3% in April of each year are based on complete years. Therefore, the withdrawal amount for the year ended 12/31/01, for example, was \$25,562.50 (or \$2,083.33 for the first three months and \$2,145.83 for the following nine months). The indexes are unmanaged and, therefore, have no expenses.

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results are for Class A shares at net asset value with all distributions reinvested. If the fund's maximum sales charge (5.75%) had been deducted, results would have been lower. For current information and month-end results, visit americanfunds.com.

American Funds: Measuring up the retirement income challenge

Since 1931, American Funds has helped investors pursue long-term success with some of life's most important investing objectives, including retirement income. Our consistent approach — in combination with a proven system — has resulted in a superior long-term track record.



Consistent approach

Each of our 33 mutual funds was conceived and designed to pursue real-life investing objectives. These include goals like conservation of principal and income generation that are essential to those with retirement income needs. In addition, we base our decisions on a long-term perspective. Our portfolio counselors average 27 years of investment experience, including 23 years at our company, reflecting a commitment to our long-term approach.¹



Proven system

In our system, each fund is divided into portions that are individually managed by investment professionals with varied backgrounds, ages and investment styles. The diversification this system helps create can lower fund volatility and create a smoother ride for investors — particularly important for those in the distribution phase.



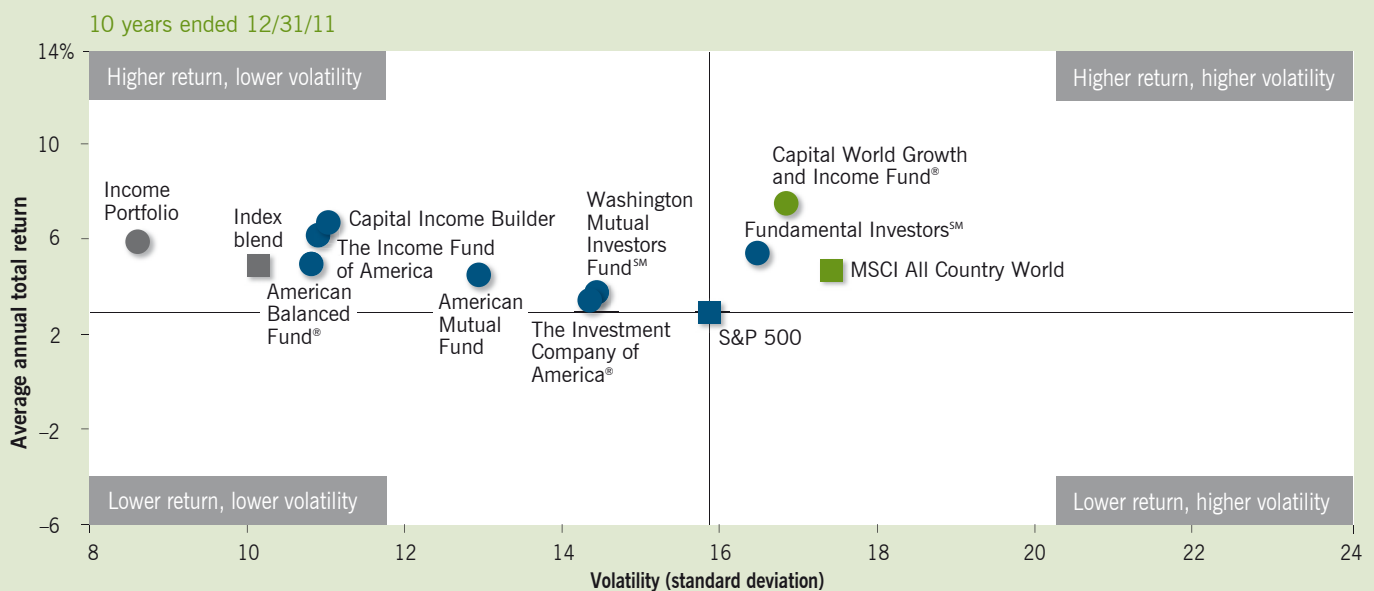
Superior long-term track record

Our equity funds have beaten their Lipper averages in 91% of 10-year periods and 96% of 20-year periods. Our fixed-income funds have beaten their Lipper averages in 60% of 10-year periods and 67% of 20-year periods.² For the past decade, our income-focused equity funds have had higher yields than their Lipper peers in 97% of the monthly rolling one-year periods measured.³ Our fund management fees have generally been among the lowest in the industry.⁴

The American Funds historical advantage

By emphasizing income and paying close attention to risk, American Funds growth-and-income, equity-income and balanced funds fared well relative to their respective indexes

during the 10-year period ended December 31, 2011. In addition, all but Fundamental Investors were less volatile than their respective indexes during that period.



Standard deviation is a measure of how returns over time have varied from the mean and is one of the most common measures of absolute volatility. A lower number signifies lower volatility. The indexes are unmanaged and, therefore, have no expenses. There have been periods when the funds have lagged the indexes.

¹ As of 12/31/11.

² Based on Class A share results for periods through 12/31/11. Periods covered are the shorter of the fund's lifetime or since the comparable Lipper index inception date.

³ Based on Class A share results for periods through 12/31/11. Calculated by comparing each fund's 12-month yield with that of its Lipper peers for all monthly rolling one-year periods captured in the time frame. Applies to all funds in the American Funds growth-and-income, equity-income and balanced categories.

⁴ Based on management fees for the 20-year period ended 12/31/11, versus comparable Lipper categories, excluding funds of funds.

Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results are for Class A shares and reflect deduction of the maximum sales charge (5.75% for equity and 3.75% for most bond funds). For current information and month-end results, visit americanfunds.com.

Results as of 12/31/11

	1 year	5 years	10 years	Expense ratio	Annualized 30-day SEC yield	12-month distribution rate
American Funds Portfolios						
American Funds Income Portfolio	-0.57%	2.05%	5.46%	0.62%	3.62%	3.94%
American Funds						
American Balanced Fund	-2.13	1.18	4.36	0.63	1.78	2.07
American High-Income Trust	-1.84	4.28	6.93	0.67	7.34	7.57
American Mutual Fund	-1.24	0.10	3.93	0.62	2.32	2.38
Capital Income Builder	-3.05	-0.33	6.11	0.61	3.36	3.99
Capital World Growth and Income Fund	-12.85	-2.11	6.89	0.79	2.61	2.79
Fundamental Investors	-7.54	-0.75	4.77	0.64	1.69	1.64
The Income Fund of America	-0.49	0.48	5.59	0.58	3.84	3.93
The Investment Company of America	-7.41	-2.03	2.87	0.61	2.05	2.02
U.S. Government Securities Fund	3.75	5.18	4.49	0.61	1.24	1.81
Washington Mutual Investors Fund	0.89	-1.10	3.14	0.63	2.33	2.29

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Expense ratios are as of each fund's prospectus available at the time of publication. From 9/1/04 through 12/31/08, the investment adviser to the American Funds and the business manager for Washington Mutual Investors Fund waived a portion of their management fees. The investment adviser has also reimbursed expenses for some funds. Investment results reflect the waiver and/or reimbursements, without which the results would have been lower. Please see each fund's most recent shareholder report or prospectus for details.

Annualized 30-day SEC yields were calculated in accordance with the SEC formula. The SEC yield reflects the rate at which each fund is earning income on its current portfolio of securities, while the distribution rate reflects each fund's past dividends paid to shareholders. Accordingly, the fund's SEC yield and distribution rate may differ. SEC yields and distribution rates reflect the maximum sales charge.

Data for the American Funds Income Portfolio are weighted averages.

Investors should carefully consider the investment objectives, risks, charges and expenses of the American Funds and American Funds Insurance Series. This and other important information is contained in the summary prospectuses and prospectuses for the American Funds and American Funds Insurance Series, which can be obtained from a financial professional and should be read carefully before investing. This white paper must be preceded or accompanied by a prospectus or summary prospectus for the funds being offered. If used after 3/31/12, this white paper must be accompanied by a current American Funds quarterly statistical update.

Investing outside the United States involves risks such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries. Bond prices and a bond fund's share price will generally move in the opposite direction of interest rates. The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

American Funds Insurance Series serves as the underlying investment option for multiple insurance products, including variable annuity contracts and variable life insurance policies. Availability of funds will vary based on the insurance contract offered. For more information on the American Funds Insurance Series, visit americanfunds.com/afis.

Capital Research and Management Company manages equity assets through two separate groups that make independent investment decisions.

The Capital Group Companies

American Funds Capital Research and Management Capital International Capital Guardian Capital Bank and Trust