



The Variable Annuity Life Insurance Company
2929 Allen Parkway
Houston, TX 77019

Bruce R. Abrams
President & CEO

September 22, 2008

Dear Valued AIG Retirement Clients:

I know that you remain concerned and watchful about the ongoing events affecting our parent holding company, AIG, and the many news reports those events are generating. As promised, I will continue to communicate any news or information about the evolving situation that I believe you will find useful.

To that end, I am attaching a [press release](#) and related set of [FAQ](#) issued this morning by the New York State Insurance Department. The document speaks for itself and may be useful as a reference in your own communications with employees and plan participants.

Thank you for your continued support and confidence. Your AIG Retirement team remains dedicated to meeting all your needs and those of your plan participants.

Sincerely,

A handwritten signature in black ink that reads "Bruce Abrams". The signature is written in a cursive, flowing style.

New York State
**Insurance
Department**



NEWS RELEASE

Contact:
Public Affairs
(212) 480-5262
www.ins.state.ny.us

Eric R. Dinallo Superintendent of Insurance 25 Beaver Street New York, N.Y. 10004

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FOR IMMEDIATE RELEASE

AIG POLICYHOLDERS SHOULD BE CAREFUL IF APPROACHED TO REPLACE POLICIES

***Insurance companies are financially sound; switching may have hidden costs;
insurers, brokers and agents warned to follow consumer protection rules***

AIG's insurance companies are financially sound, with substantially more in assets than they need to pay all valid present and projected claims, Insurance Superintendent Eric Dinallo today reassured New York policyholders. Dinallo also announced he would issue notices to insurance companies, agents and brokers, reminding them of their responsibilities under New York Insurance Law to fully inform consumers of the possible costs of switching life insurance, annuity and other policies.

“Don't worry and don't make any rash decisions if you have a policy issued by an AIG insurance company,” Dinallo said. “All your covered claims will be paid and all your annuity checks will come. Making sure insurance companies are solvent and able to pay every valid claim is my number one job, and the AIG insurance companies are strong and solvent.

“If you have a life insurance or annuity policy and someone tells you to replace it because of the troubles at AIG's parent company, call the Insurance Department immediately at 1-800-339-1759,” Dinallo said. “Replacing or liquidating a life insurance policy or an annuity can have heavy hidden costs and tax consequences. That is why our Insurance Law requires that you get all the information you need to make an educated decision in your best interests. There may be a cancellation penalty if you cancel your automobile or homeowners policy. If someone tells you to replace any policy because an AIG insurance company is in trouble and may not be able to pay your claim, that is not only untrue, it is against the law. Call us. Some regulators have received reports that this is happening. We will not allow it to happen in New York. We will protect consumers from improper sales practices.”

Dinallo explained that the trouble with AIG is largely with AIG's non-insurance parent company, which is not regulated by the states and therefore not held to the same investment, accounting and capital adequacy standards as its state-regulated insurance subsidiaries. The insurance subsidiaries are solvent and able to pay their obligations.

“The financial strength of the insurance companies is why Governor Paterson was able to take a leadership role in efforts to rescue AIG,” Dinallo said. “As an example, unlike the troubled parent company, the property and casualty insurance company New York regulates has significantly more in assets over and above the reserves required to cover all valid current and future claims. As regulators, we make sure the assets of the insurance companies are walled off, protected from the parent company’s troubles and available to pay all your covered claims.”

Why are the insurers in a much better position than the financially challenged parent? State insurance regulators have numerous actions they can take to prevent an insurer from failing. Rating downgrades and drops in share price do not change an insurer’s ability to pay claims. From conservative accounting rules and mandatory annual CPA audits to investment regulations/limitations and minimum capital/surplus requirements, a state insurance regulator’s “toolbox” allows insurers to handle greater losses than other parts of the financial sector in down-market cycles. Additional regulatory tools include performing regular, periodic financial analysis of insurers, and on-site examinations.

How are the policyholders protected, in the unlikely event that the insurer fails? Claims from individual policyholders are given the utmost priority over other creditors in these matters — and, in the unlikely event that assets are not enough to cover these claims, there is still another safety net in place to protect consumers: the state guaranty funds. These funds are in place in all states. If an insurance company becomes unable to pay claims, the guaranty fund will provide coverage, subject to certain limits, similar to the FDIC's coverage for bank accounts. This entire solvency framework and safety net for policyholders is uniform in every state.

How did the AIG parent get into financial distress? Non-insurance entities are not subject to the strict solvency framework applied to insurers. This allowed various non-insurers to engage in risky credit transactions (huge positions in credit derivative swaps on mortgage-backed securities) without the appropriate limits and minimum capital/surplus to protect the company from a downswing in the mortgage-backed security markets. Per the federal Gramm-Leach-Bliley Act (GLBA), insurance regulatory authority only applies to actual insurance entities and transactions with those entities. Within AIG, there are 71 U.S. insurers subject to this authority. The remaining 176 entities are split between foreign entities and non-insurance U.S. entities.

The New York State Insurance Department has closely monitored the financial condition of the insurance companies it regulates. Under the direction of Governor David A. Paterson, the Department worked with AIG, the Federal Reserve, the NAIC and others to facilitate transactions intended to help shore up the parent company and preserve New York jobs.

The NAIC named Dinallo chair of the working group established to oversee AIG insurance interests and ensure that policyholders of the insurance subsidiaries remain protected. This oversight will continue as AIG operates under the credit facility offered by the Federal Reserve.

The Department has undertaken various measures, including establishing an AIG hotline, to keep New York policyholders informed. A list of Frequently Asked Questions for Consumers is available at the Department's website, www.ins.state.ny.us. Consumers with questions on AIG should call the Department's AIG hotline at 1-800-339-1759 from 9 a.m. to 8 p.m., Monday through Friday.

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AIG Frequently Asked Questions and Answers

Question: Is AIG going bankrupt?

Answer: AIG is an international financial holding company with numerous businesses. Your insurance and annuity policies are written by AIG's insurance companies. Those companies are financially strong and their assets are protected by state regulators.

Question: Are the insurance and annuity policies I purchased from AIG safe or am I going to lose my money?

Answer: Your policies are safe. AIG's insurance companies are financially strong and fully able to honor all policyholders' claims. The New York State Insurance Department will continue to closely monitor the situation to ensure policyholders are protected and that there will continue to be sufficient assets to pay claims.

Question: Should I cash in my insurance and annuity policies and purchase insurance from another insurer?

Answer: As stated above, the AIG insurance companies are financially strong so your policies are not in jeopardy. Whether you should cash in your insurance policy or switch insurance to another insurer is, as always, a personal decision. Please be aware that some policies may contain surrender charges and/or cancellation penalties. Call the Insurance Department's AIG hotline at 1-800-339-1759 to find out all the information your agent or broker should give you before you make a decision. Talk to your financial adviser before making any decisions. If you have any insurance policy with an AIG company and someone tells you to replace it because of the troubles at AIG's parent company or supposed trouble at the insurance company, call the Insurance Department's AIG hotline immediately at 1-800-339-1759.

Question: Should I pay the insurance premium bill that I just received from AIG?

Answer: Yes, in order for your coverage with AIG to continue, you will need to pay the insurance premiums. Failure to pay your premiums can result in the termination of your insurance policies by the insurance company.

Question: Would my insurance and annuity policies have been protected had AIG been declared insolvent and ordered to be liquidated by a court?

Answer: There are guaranty funds in place in all states which act as a safety net in the event an insurer becomes insolvent. We have answers to some of your questions on New York's guaranty fund here. For policies issued to residents of New York, the Life Insurance Company Guaranty Corporation of New York protects life insurance policies as well as annuity contracts and accident and health insurance policies issued by licensed life insurers, subject to certain limitations. You may obtain information about the Guaranty Corporation by viewing the Policyholder Protection Brochure at http://www.ins.state.ny.us/consumer/life/licgc_brochure.pdf or visiting the company's website at www.nylifega.org. There are also guaranty funds in place for certain Property/Casualty insurance policies such as automobile, homeowners and Workers' Compensation insurance.

Question: I heard the government may take over AIG. What are state regulators doing to make sure AIG insurance companies will continue to be able to pay claims?

Answer: The agreement between AIG and the Federal Reserve protects the assets of the insurance companies so they will be available to pay claims. New York Insurance Superintendent Eric Dinallo heads a working group established by the National Association of Insurance Commissioners to oversee AIG insurance interests and make sure policyholders continue to be protected during this process. Any significant transaction affecting an AIG insurance company will need approval from state regulators.

Question: What can I do if I am having difficulty getting through to AIG on the telephone?

Answer: You may obtain information about filing a complaint with the New York State Insurance Department by visiting <http://www.ins.state.ny.us/complhow.htm>.

Question: What number can I call to speak with someone at the New York State Insurance Department?

Answer: The Insurance Department's AIG toll free hotline is 1-800-339-1759. As an alternative, you may e-mail us at consumers@ins.state.ny.us with your contact information and we will return your call within 24 hours.

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