

Understanding ANNUITIES



An Overview
for Your Retirement



PACIFIC LIFE

TABLE OF CONTENTS

Get Ready for Retirement	1
What Is an Annuity?	1
Who's Who in an Annuity?	2
Types of Annuities	3
Single vs. Flexible-Premium Annuities	3
Deferred, Immediate, and Deferred Income Annuities	3
Fixed Annuities	4
Variable Annuities	5
Immediate and Deferred Income Annuities	6
Nonqualified vs. Qualified Annuities	6
Understanding Charges and Fees	8
Withdrawal Charges	8
Investment Management Fees	8
Contract Charges	8
Why Choose an Annuity	9
Tax Advantages	9
The Power of Tax Deferral	10
Lifetime Income Payout Option	11
Guaranteed Death Benefit	11
Optional Living Benefits	11
Flexible Withdrawal Options	11
Why Pacific Life	12

Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state.

No bank guarantee • Not a deposit • May lose value

Not FDIC/NCUA insured

Not insured by any federal government agency

GET READY FOR RETIREMENT

Are you ready for retirement? Whether you are just beginning to plan for retirement, approaching the start of your retirement years, or have already reached them, you need to ensure that your portfolio is prepared. Annuities are designed to be both a savings vehicle and a source of retirement income. They offer a number of choices that can help grow and protect your income in a way that can meet your needs.

With life expectancy increasing each year, from 73.6 years in 1980 to 78.8 in 2015, making a retirement income last for as long as you live is an important consideration. The lifetime retirement income, guaranteed by an insurance company, is a valuable benefit that an annuity can provide.

What Is an Annuity?

An annuity is a contract between you and an insurance company; you put money into the contract (purchase payments) and in return, it can provide income for the rest of your life. There are many different types of annuities, but the common benefits among all annuities are that they can (1) help you accumulate money for retirement through tax deferral, (2) provide monthly income that can be guaranteed to last for as long as you live, or (3) both.

Think of an annuity as a personal retirement strategy that can help your money grow and make it last longer when you retire. Your money grows faster because you don't pay taxes on earnings until you actually withdraw them or until they are distributed to you.

Guarantees, including interest rates and subsequent income payouts, are backed by the claims-paying ability of the issuing company. However, these guarantees do not protect the value of the variable investment options, which are subject to market risk.

Who's Who in an Annuity?

How you structure your annuity will affect the income payments and death benefits. The following are the parties involved in an annuity contract.

Insurance Company

An insurance company issues the contract, provides contract information, and allocates the money as instructed by the owner.

Owner

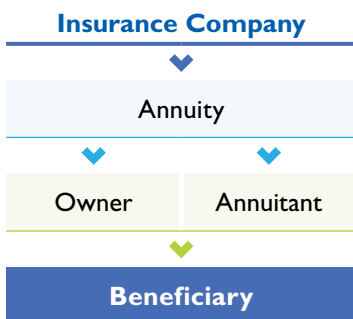
The owner makes the decisions about the annuity, such as the purchase-payment amount, the way it should be allocated, and is the recipient of any income from the contract during his or her lifetime. The owner also names the annuitants and the beneficiaries.

Annuitant

The owner and the annuitant may or may not be the same person. Either way, it's the annuitant's life expectancy that is used to set the dollar amount of future annuity income.

Beneficiary

Usually, the beneficiary is the one who may have the right to receive the death benefit if the owner or annuitant dies before income payments begin and there is no surviving owner. After annuity payments begin, if the owner dies and the annuitant is still living, the beneficiary receives the payments. Naming a beneficiary is an important detail that is surprisingly overlooked by some contract owners. If you don't name one, the money in your annuity could end up going to your estate or being subject to probate. In this case, the distribution of your assets may have to be determined in court. In general, beneficiaries can be changed on a contract at any time, so it is important to keep this information current.



TYPES OF ANNUITIES

If you are thinking about purchasing an annuity, some of the things you should consider include:

- What is your risk tolerance? How comfortable are you with market fluctuation?
- How soon will you need income?
- What are the fees associated with the contract?
- What guarantees are associated with the annuity?
- What is the claims-paying ability of the insurance company backing the annuity?
- When do you need access to the funds?

Single vs. Flexible-Premium Annuities

You may purchase an annuity with a lump-sum payment (a single-premium annuity) or make an initial purchase payment with subsequent contributions (a flexible-premium annuity).

Deferred, Immediate, and Deferred Income Annuities

Assets in certain annuities are tax-deferred for individuals. Many people purchase annuities because they want their money to grow tax-deferred while they save for retirement. These types of annuities are known as deferred annuities because you are allowing your money to grow before taking income.

People who would like to receive income right away may be interested in an immediate annuity. An immediate annuity can provide you with guaranteed income for life or a specified period of time, whichever you decide.

For people who would like a guaranteed income, but do not need it to start right away, there is another type of annuity known as a deferred income annuity that can provide guaranteed income at a future date. It can be an efficient way to maximize future income because the longer you wait to start to receive income payments, the higher your income amount will be. You will receive the future income payments guaranteed to last as long as you



choose: for a specific number of years, for your entire life, or for both your life and the life of your spouse.

Deferred Annuities

There are two types of annuities in which your purchase can be invested: fixed or variable.

Fixed Annuities

A deferred fixed annuity offers a guaranteed minimum interest rate for the life of the contract. Additionally, the annuity may offer a higher interest rate guaranteed for an initial period, such as one, three, six, or 10 years. Generally, after the initial guaranteed period expires, a renewal rate will be declared by the insurance company. Declared renewal rates will always be set at the contract's guaranteed minimum interest rate or higher. When you purchase a fixed annuity, you are not invested in the market and therefore will never lose your principal because of market performance.

There are a variety of deferred fixed annuities available.

Book Value—A type of annuity that pays a declared rate of interest for a specified period.

Market Value Adjusted (MVA)—Also pays a declared rate of interest for a specified term, but full or partial withdrawals of the contract value (in excess of the specified free withdrawal amount) before the end of the guaranteed term will be adjusted upward or

In a variable annuity, you can transfer among investment options or rebalance your assets to help achieve your long-term goals without current tax consequences.

Variable Annuities

A deferred variable annuity is a long-term investment designed to help you grow your retirement assets and retirement income. It offers a range of investment options from professional money managers. The value of your variable annuity contract will vary depending on the performance of the investment options you choose and, when redeemed, may be worth more or less than the original cost. The investment options for a variable annuity are typically portfolios that invest in stocks, bonds, money-market instruments, or other alternative asset classes. Variable annuities offer the flexibility of investing in one product with multiple investment options. Variable annuities also allow you to transfer assets among variable annuity investment options without having to pay taxes on gains. This allows you to make changes to help achieve your investment goals without current tax consequences. Some transfer limits may apply.

downward according to a formula that takes into account current interest rates.

Fixed Indexed—Credits a variable rate of interest based on how the selected index or combination of indexes performs, but with no loss of principal due to the index(es) performing poorly.¹ The amount of interest that can be earned may be capped at a fixed percentage.

¹Optional benefit fees cause a reduction of principal.

Immediate and Deferred Income Annuities

Immediate and deferred income annuities can help maximize and protect income for the rest of your life.

In return for your purchase payment, the insurance company provides you guaranteed pension-like income for your lifetime or for a specified period of time. You may choose to receive your first income payment anytime within the first year (immediate annuities) or after 13 months (deferred income annuities) up to a certain year or age. Because you are not invested in the market, you can be confident that your income amount will never vary because of market performance.

You can customize your income to meet your retirement-planning needs by choosing from a variety of payout options. Income payments will differ based on several factors, including your age, gender, the amount of your purchase payments, and when you start receiving income payments. Once the contract is issued, the income option and frequency selected cannot change. While some immediate and income annuities do offer some access to your money, it should be noted that immediate and income annuities are less liquid than deferred annuities.

Nonqualified vs. Qualified Annuities

You can purchase an annuity either with after-tax (nonqualified) or pretax (qualified) dollars.

Nonqualified

- Nonqualified annuities are purchased with after-tax dollars. This means that when you are ready to take annuity income payments, you won't owe tax on the portion that's considered a return of your original principal. You only pay taxes on earnings when you take them.
- Distributions from a deferred annuity (prior to annuitization) generally are taxed on a last in, first out (LIFO) basis. That is, any gain within the contract will be distributed before principal.

-
- Income payments during the income phase (annuity payments) will be taxed on an exclusion-ratio basis. That is, each annuity payment will consist of a portion that is earnings and a portion that is a return of after-tax principal.
 - There are no government-imposed limits to the amount of money you can contribute to your nonqualified annuity. However, there may be some company-imposed limits. Your contract will state a date by which you must begin to receive annuity income payments. For deferred annuities, it's typically a specific age, usually around age 95.

Qualified

- Annuities that fund IRAs and employer-sponsored qualified plans are typically purchased with pretax dollars. Qualified contracts and IRAs are subject to IRS contribution limits and other restrictions.
- Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA. Individuals should buy an annuity contract for the annuity's additional features, such as lifetime income payments, living benefits, and/or death benefit protection.
- With a qualified contract or an IRA, when you are ready to retire and take money out, you will owe taxes on both the pretax amount paid into the annuity and the earnings.

UNDERSTANDING CHARGES AND FEES

A fixed annuity typically does not impose direct expense charges on the contract owner. Deferred fixed annuities may impose withdrawal charges, a market value adjustment (MVA), and charges associated with optional benefits. An MVA is an amount that may be added to or subtracted from the amount you receive from withdrawals that are made prior to the end of the withdrawal charge period. A variable annuity, on the other hand, has several types of expenses: investment management fees for the underlying investment portfolios and annual contract charges in addition to potential surrender charges.

Withdrawal Charges

If a contract owner decides to surrender the contract or take withdrawals from a deferred annuity during the early years of the contract, withdrawal charges may apply. These charges vary in amount and generally decline to zero over a period of time. Withdrawal charges also may be called surrender charges.

Investment Management Fees

Investment management fees are charged for the management of the different funds within the variable annuity subaccounts. These fees will vary depending on the type of investment options you choose.

Contract Charges

Contract charges generally include administrative and distribution charges, and mortality and expense risk charges.

The administrative and distribution charges pay for all the services involved in the maintenance of variable annuity contracts, such as the preparation of the contract statement, mailings, and other customer services. Some variable annuities also impose an annual contract fee.

WHY CHOOSE AN ANNUITY

Tax Advantages

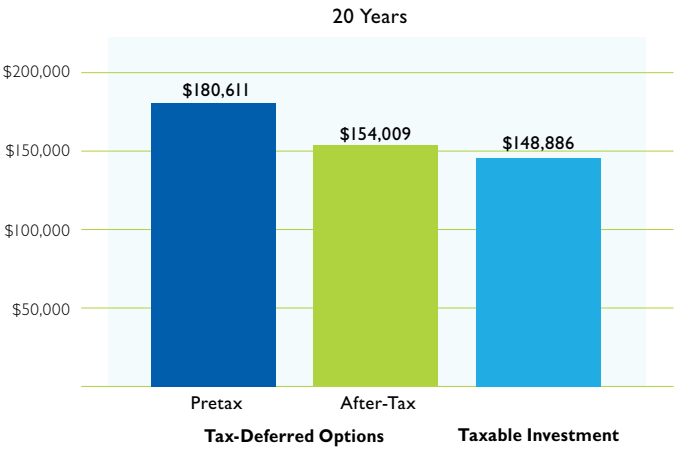
If you purchase an annuity with after-tax dollars, a portion of the income you receive after the contract has been annuitized (converted to annuity income payments) will be a nontaxable return of your purchase payment until all the principal has been received. Or, if you purchase an annuity with pretax dollars, all the income you receive is taxable.

For deferred annuities, the power of tax deferral allows your money to grow faster because any earnings will compound without current income tax. Whether you purchase your annuity with after-tax (nonqualified) or pretax (qualified) dollars, you have the benefit of tax-deferred compounding.



THE POWER OF TAX DEFERRAL

Deferred interest can make a difference in how much money you can accumulate. Here, we see \$100,000 (nonqualified money) compounded at 3% annually. After 20 years, the \$100,000 has grown to \$180,611 before taxes. Once taxes are paid on the lump-sum distribution, the after-tax amount is \$154,009. Taxes are just one of the factors you should consider when deciding what type of product may work for you.



Hypothetical example for illustrative purposes only. The assumed rate of return is not guaranteed. Lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance in the examples shown. Actual tax rates may vary for different taxpayers and assets from that illustrated (e.g., capital gains and qualified dividend income). Upon withdrawal, any earnings accumulated in the tax-deferred investment will be subject to ordinary income taxes. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal tax may apply. Consider your personal investment time horizon and income-tax brackets, both current and anticipated, when making an investment decision, as the illustration may not reflect these factors. Product-level fees and charges are not included. If they were, the tax-deferred performance would be significantly lower.

Tax-Deferred Total (Calculation) After Taxes

$$[(\$180,611 - \$100,000) \times 0.67 \text{ (or 33\% ordinary income tax)}] + \$100,000 = \$154,009$$

Lifetime Income Payout Option

This feature helps alleviate the fear that you will outlive your income. It's an important benefit that only annuities can provide.

Guaranteed Death Benefit

If you die before you begin to receive lifetime income or any other annuity payout option, your beneficiaries will typically receive the contract value. Unlike a life insurance death benefit that is free of income tax, the taxable portion of the death benefit from an annuity may be subject to ordinary income tax. The portion that is a return of principal will not be taxed to the beneficiary.

Optional Living Benefits

Optional living benefits include principal protection, withdrawal, and income benefits for an additional charge. These optional features have greatly increased the flexibility and appeal of annuities as an option for retirement planning.

Flexible Withdrawal Options

A deferred annuity provides a number of withdrawal options. An immediate or income annuity may also provide withdrawal options after income payments begin, subject to limitations and state availability. It's important to be aware that withdrawals and other distributions of taxable amounts may reduce the value of the death benefit and any optional benefits. In addition, withdrawals and other distributions may be subject to income taxes and, if taken prior to age 59½, an additional 10% federal tax may apply. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. Withdrawal charges and a market value adjustment also may apply.

To learn more about annuities and whether they may be a good strategy for you, talk to your financial professional.

WHY PACIFIC LIFE

It's essential for you to choose a strong and stable company that can help you achieve your future income needs. Since 1868, individuals and their families have relied on the strength of Pacific Life to help protect their financial security.

- Pacific Life Insurance Company is organized under a mutual holding company structure and operates for the benefit of its policyholders and contract owners.
- We have achieved ongoing recognition¹ for high-quality service standards.
- We offer products that address market environments during all stages of your life.
- We maintain strong financial-strength ratings from major independent rating agencies.

Ratings may change and do not apply to the safety or performance of the underlying variable investment options. For more information and current financial-strength ratings, please visit www.PacificLife.com.

¹Recipient of multiple DALBAR Service Awards since 1997. Refer to www.DALBAR.com for more information regarding awards, certification, and rankings.

While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company. The independent third party from which this annuity is purchased, including the broker/dealer, the insurance agency from which this annuity is purchased, and any affiliates of those entities make no representations regarding the quality of the analysis conducted by the rating agencies.

Pacific Life has more than 150 years of experience, and we remain committed to providing quality products, service, and stability to meet your needs today and throughout your lifetime.

This material is not intended to be used, nor can it be used by any taxpayer, for the purpose of avoiding U.S. federal, state, or local tax penalties. This material is written to support the promotion or marketing of the transaction(s) or matter(s) addressed by this material. Pacific Life, its affiliates, their distributors, and respective representatives do not provide tax, accounting, or legal advice. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor or attorney.

Pacific Life refers to Pacific Life Insurance Company and its affiliates, including Pacific Life & Annuity Company. Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state. Each company is solely responsible for the financial obligations accruing under the products it issues.

VLC0441-0917

Mailing addresses:

Pacific Life Insurance Company
P.O. Box 2378
Omaha, NE 68103-2378
(800) 722-4448

In New York:

Pacific Life & Annuity Company
P.O. Box 2829
Omaha, NE 68103-2829
(800) 748-6907