Understanding
FIXED ANNUITIES

An Overview for Your Retirement

PACIFIC LIFE

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GET READY FOR RETIREMENT

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

With life expectancy increasing each year, receiving pension-like income for as long as you live is an important consideration. Lifetime retirement income 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 (purchase payments) into different types of annuity contracts and then, in return, receive some common benefits: (1) help accumulate money for retirement, (2) provide protected income that can last the as long as you live, or (3) both.

What Is a Fixed Annuity?

> Think of an annuity as a personal pension plan 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.

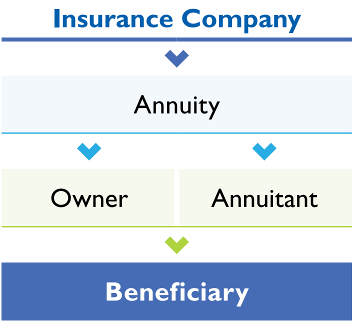
A fixed annuity can provide a fixed rate of interest, guaranteed for a specified time period (deferred), or a fixed amount of income to be taken now or in the future (immediate or income).

Guarantees, including interest rates and subsequent income payouts, are backed by the claims-paying ability of the issuing company.

Who's Who in an Annuity?

The way you structure your annuity will affect the income payments and death benefits. The following parties are 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 income 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 FIXED ANNUITIES

Single-Premium vs. Flexible-Premium

If a fixed annuity is single-premium, you must purchase with a single lump-sum purchase payment. If it is flexible-premium, then you may make an initial purchase payment, as well as make subsequent contributions.

Deferred, Immediate, or Income

Assets in certain annuities are tax-deferred for individuals. Many people purchase fixed annuities because they want to earn a fixed rate of interest and let it grow tax-deferred while they save for retirement. These types of annuities are known as deferred fixed 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 guaranteed income for life or a specified period of time, whichever you decide.

For people who would like to guarantee 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 future income payments guaranteed to last as long as you choose—either for a specific number of years, for your entire life, or for both your life and the life of your spouse.

Deferred 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.

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

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. You may choose to receive your first income payment anytime within the first year (immediate annuities) or after 13 months (deferred income annuities). 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 you contribute, and when you start receiving income payments. Once the contract is issued, the income option and frequency selected cannot change.

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. The amount of interest that can be earned may be capped at a fixed percentage. Fees cause a reduction in principal.

Nonqualified or Qualified

You can purchase an annuity either with after-tax or pretax 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.
- 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 90 or 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, an 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.

Withdrawal Charges

If a contract owner decides to surrender the contract or take withdrawals from a deferred fixed annuity during the early years of the contract, withdrawal charges may apply. These charges typically vary in amount and generally decline to zero over a period of time. Withdrawal charges also may be called surrender charges. Typically, there is a set percentage of the contract value that can be taken each year without a withdrawal charge.

Because annuities are designed for long-term savings, you may be charged penalties if you take your money out early. For example, if you take withdrawals before you're age 59½, you may have to pay a 10% federal tax in addition to ordinary income taxes. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. Consult your tax advisors regarding your unique situation.

WHY CHOOSE A FIXED ANNUITY?

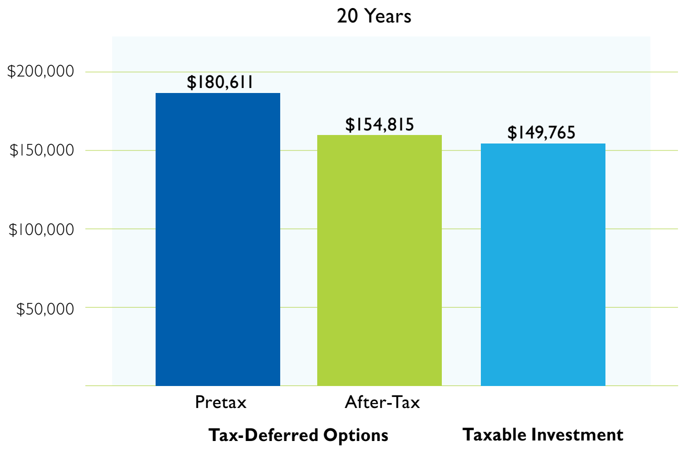
Tax Advantages

If you purchase a fixed 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 fixed 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) 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 $154,815. 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) x 0.68 (or 32% ordinary income tax)] + $100,000 = $154,815

Lifetime Income Payout Option

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

Protection for Loved Ones

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.

Additional Features and Options

Certain deferred fixed annuities may offer optional benefits for an additional cost. Some income or immediate annuities may provide features to accelerate income, protect against inflation, or to modify a future payment start date.

To learn more about fixed annuities and whether or not 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 recognition[1] 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. For more information and current financial-strength ratings, please visit PacificLife.com.

[1]Recipient of multiple DALBAR Service Awards since 1997. Refer to www.DALBAR.com for more information regarding awards, certifications, 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.

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