

Life Can Change. Your Plans Should Too.

A Multi-Product Case Study Using Annuities



Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company and in all states by Pacific Life & Annuity Company. Product/material availability and features may vary by state.

Planning on Your Own

A major life change, such as divorce or the death of a spouse, can take an emotional and financial toll on you. It also may require you to reevaluate your lifestyle and adjust your saving and spending habits.

You may want to meet with your financial professional to assess your financial situation. The questions below can help guide the discussion. Then, you and your financial professional can create a financial strategy to fit your specific needs, challenges, and goals.



○ Based on my monthly and annual expenses how much do I need for essential costs?

○ How much income do I need to live the retirement lifestyle that would give me joy?

○ How much access to my savings is reasonable for unexpected events?

○ Is it important to me to leave money to my loved ones?

○ Is it possible to lower my taxes?

○ How can tax deferral help me grow my savings?

Often, you'll find you have several goals, and a strategy involving a mix of financial products can help you meet them. One approach to consider includes financial products that can provide guaranteed and stable lifetime income, and help with legacy planning and tax management. The following pages provide an example.

Guarantees, including optional benefits, are subject to the issuing company's claims-paying ability and financial strength and do not protect the value of the variable investment options, which are subject to market risk.

Meet Barbara

Hypothetical Example

- Age: 66
- Retired and recently widowed with one son (age 36) and two granddaughters
- Upcoming federal income tax filing status change: from Married Filing Jointly to Single
- Nonqualified financial assets: \$2M
- Essential expenses: \$90,000 per year
- Discretionary expenses: vary by year; last year she withdrew \$40,000 from her portfolio
- Current guaranteed income to cover essential expenses:
 - Social Security retirement benefits: \$20,000 per year
 - Survivor's pension: \$50,000 per year

A Multiple-Product Strategy

After listening to Barbara and discussing her goals, her financial professional suggests that she may want to diversify her nonqualified assets among multiple financial products. Doing so will help Barbara create sustainable lifetime income to help pay for essential expenses, balance her legacy and liquidity needs, and help her manage tax obligations.

Together, Barbara and her financial professional discuss the options, weigh the pros and cons, and decide to reallocate her \$2M portfolio in the following way:



SINGLE-PREMIUM IMMEDIATE ANNUITY (SPIA)

- Provides immediate (within one year) annuity income payments of approximately \$20,000 per year in guaranteed lifetime income.
- Uses Life with Installment Refund option.¹
- Part of the annuity payments may be tax-free if nonqualified (i.e., after-tax money) funds were used to purchase the SPIA.



VARIABLE ANNUITY

- Provides asset growth potential and tax deferral. Earnings are not subject to taxation until Barbara decides to take withdrawals or the funds are passed on as a financial legacy through a guaranteed beneficiary benefit or gifts to family.



MARKET INVESTMENTS

- Provides asset growth potential and can be used as a source of withdrawals for discretionary expenses or gifts to family members.

A beneficiary benefit is referred to as a death benefit in the prospectus.

For illustrative purposes only. Does not reflect a specific actual investment or insurance product. Premium taxes vary by state. Your actual payment will differ. Systematic mutual fund withdrawals are generally from the sale of fund shares, the value of which may be worth more or less than the original cost when redeemed, and in a period of declining market values, continued withdrawals could eventually exhaust the principal. Diversification does not guarantee future results, ensure a profit, or protect against loss.

¹Annuity income payments are made for the life of the annuitant. When the annuitant dies, if there is any remaining purchase-payment amount, it will be paid to the owner or beneficiary in installments. Please note, there are other annuity income options available, subject to state, firm, and product availability.

Goals

- Define a withdrawal strategy to minimize depletion of her portfolio.
- Manage the tax implications due to the change of her filing status.
- Leave a financial legacy for her son and granddaughters.

Considerations

- Longevity risk: Barbara is in good health and may need at least \$90,000 per year in income for many years to come.
- Tax management: Barbara is concerned about how the change to her income-tax filing status will impact her tax obligations.
- Market volatility: While one of her goals is to leave a legacy for loved ones, she's unsure of how changes in the markets might affect her savings.

Barbara's spouse died this year. She qualifies to use Married Filing Jointly as her federal income-tax filing status for this year. Next year, she expects her filing status to change to Single filer. If she has the same amount of income as a Single filer, this could result in her paying more in taxes next year.

What Barbara's Strategy Accomplishes

INCOME

Combined with Social Security retirement benefits and pension, ensures \$90,000 per year in guaranteed lifetime income for Barbara's essential living expenses.

TAX MANAGEMENT

For tax purposes, SPIA income (purchased with nonqualified financial assets) may be treated on an exclusion-ratio basis, so a portion of the SPIA payments may be tax-free.

LEGACY

With the Life with Installment Refund income option, if Barbara dies before receiving \$350,000 in income (her original purchase payment), the remainder of the purchase payment goes to her beneficiaries.

Because taxes on earnings in an annuity are deferred until withdrawn, they are not affected by Barbara's current tax circumstances and the growth potential for the earnings in the variable annuity will continue. If she chooses to withdraw from her variable annuity for discretionary expenses or emergency funds, earnings come out first and will be taxed at her ordinary federal income-tax rate.

A variable annuity beneficiary benefit can help provide for her family and protect her financial legacy.¹

Barbara can let her market investments pursue growth or use them as a source of withdrawals for discretionary expenses such as travel, hobbies, unexpected major expenses, or gifts to family.

Any remaining market investments passed on to beneficiaries may have a stepped-up cost basis (cost basis = value at the time of Barbara's death), potentially lowering taxes for them.

¹In general, the standard death benefit on a variable annuity guarantees that, upon Barbara's death, beneficiaries receive the greater of (A) the variable annuity contract value or (B) Barbara's original \$350,000 purchase payment adjusted for withdrawals she made. The adjustment is proportionate and may be more or less than the actual amount withdrawn. The portion of death benefit payouts that exceeds the total amount of purchase payments not previously distributed will be subject to ordinary income tax.

Address Multiple Goals with Annuities

Planning for income in retirement can mean using different types of financial products. In this case study, we use two different types of annuities that can provide income—for life—to complement market investments.

Fixed and variable annuities are long-term contracts between you and an insurance company designed for retirement savings and income. One of the annuities in our case study is a **SINGLE-PREMIUM IMMEDIATE ANNUITY (SPIA)** and the other is a **VARIABLE ANNUITY**.

A SPIA is a type of fixed annuity that can provide you guaranteed income for life or a specified period of time, whichever you choose. The initial income payment can be received anytime within the first year. A SPIA is designed specifically for providing income in the immediate future based on the single premium you paid up front, and does not have a feature that provides growth potential for the premium like the variable annuity. Like all fixed annuities, a SPIA is not a security and does not participate directly in the stock market or any index, so it is not an investment.

While SPIAs offer consistent guaranteed income starting immediately, it should be noted that they are irrevocable, and the selected payout option cannot be changed. They may not be appropriate if you need access to funds in addition to the guaranteed income payments.

A **VARIABLE ANNUITY** can help you grow retirement savings faster through the power of tax deferral, manage your investment strategy by transferring among a diverse set of investment options free of tax consequences,¹ convert your assets into protected lifetime retirement income, and leave a financial legacy through a guaranteed beneficiary benefit.

Variable annuities are designed as long-term investments and may not be appropriate for immediate needs. Early withdrawals may be subject to a withdrawal charges and, if made prior to age 59½, a 10% additional federal income tax. Please keep in mind that all investing involves risk, including the possible loss of the principal amount invested, and because values fluctuate, your investments may be worth more or less than the original cost when redeemed.

Each of these product types has trade-offs. Be sure to discuss the products with your financial professional and consider whether they make sense as a part of your retirement strategy.

THIS BROCHURE IS PART OF A SERIES FOCUSED ON
WOMEN AND THE POWER OF COLLABORATING
WITH A TRUSTED FINANCIAL PROFESSIONAL.

¹You may transfer between investment options up to 25 transfers each calendar year. If the 25-transfer limit has been reached, we reserve the right to charge a fee for each additional transfer. You do not pay any current income tax for transfers.

Talk to your financial professional about planning a personalized strategy for retirement, and visit PacificLife.com for more information.

WealthWise Women

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You should carefully consider a variable annuity's risks, charges, limitations, and expenses, as well as the risks, charges, expenses, and investment goals of the underlying investment options. This and other information about Pacific Life are provided in the product and underlying fund prospectuses. These prospectuses are available from your financial professional or at PacificLife.com. Read them carefully before investing.

Annuity withdrawals and other distributions of taxable amounts, including beneficiary benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal income tax may apply. A withdrawal charge and a market value adjustment also may apply. Withdrawals will reduce the contract value, and the value of the beneficiary benefit and may reduce the value of any optional benefits.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income and death benefit options.

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Insurance products and their guarantees, including optional benefits, annuity payout rates, and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company, but they do not protect the value of the variable investment options. Look to the strength of the insurance company with regard to such guarantees because these guarantees are not backed by the independent broker/dealers, insurance agencies, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the issuing company.

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