NONQUALIFIED ANNUITY DISTRIBUTION OPTIONS FOR YOUR BENEFICIARIES

Pacific Life Insurance Company

24-55

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NONQUALIFIED DEFERRED ANNUITY

Getting Started

Beneficiary distribution options tied to annuities may differ depending on the type of annuity as well as the relationship of the beneficiary to the owner. Nonqualified annuities are long-term saving vehicles designed for retirement outside of an employer-sponsored plan or IRA, whereas qualified annuities are purchased inside such accounts. Nonqualified annuities are unique from other types of saving vehicles in that:

- **Nonqualified** (after-tax) funds may grow tax-deferred, although the contributions do not receive any initial income-tax deductions. Recent legislative changes did not impact the distribution options that nonqualified annuity beneficiaries have.

When these assets pass to your beneficiaries, it is important for you to understand the available distribution options, including those that offer continued tax deferral, to help beneficiaries avoid unnecessary taxes.

Consider an Annuity

An annuity is a long-term contract between you and an insurance company that can help you:

- **Grow your retirement** savings through the power of tax deferral.
- **Provide retirement income** for life.
- **Leave a financial** legacy through a guaranteed death benefit.

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

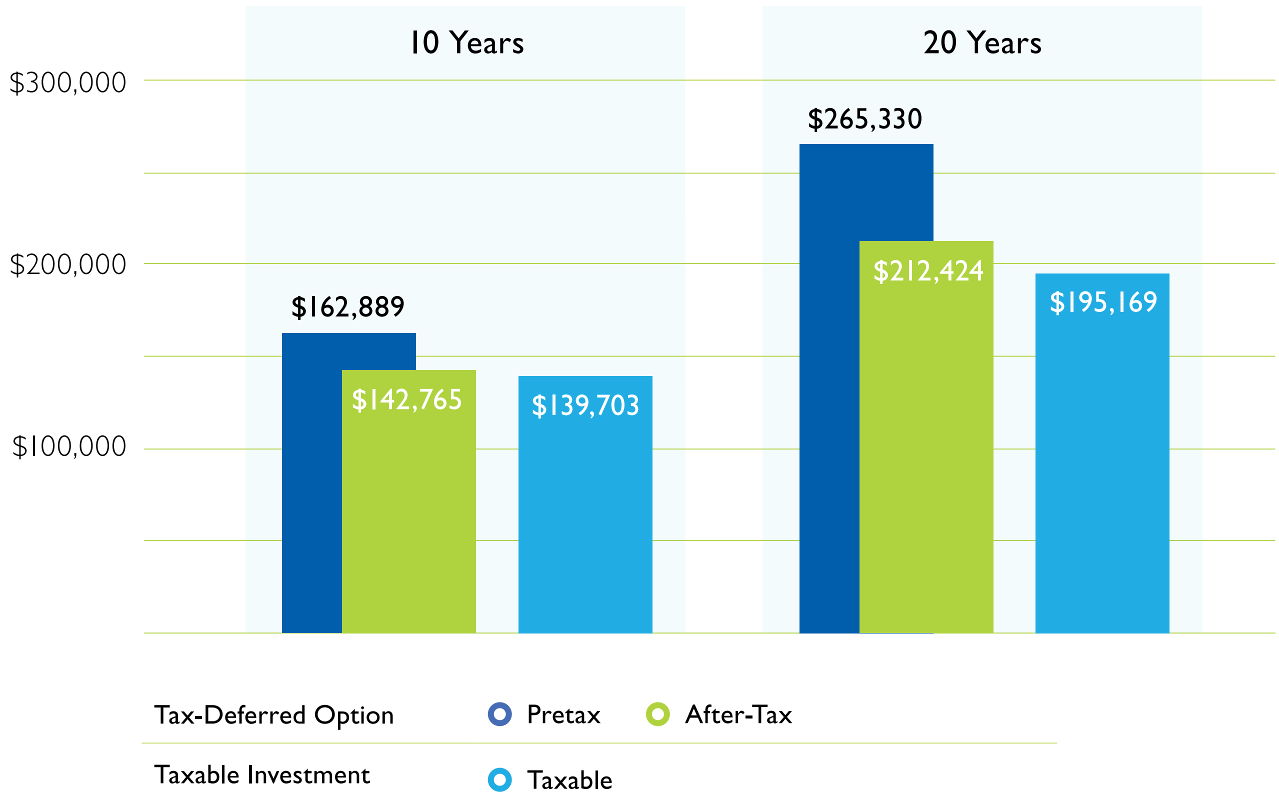
Death Benefit Distribution Options	Spousal Beneficiary	Non-Spousal Beneficiary	Trust Beneficiary
Lump Sum	○	○	○
Five-Year Rule Distribute entire contract value within five years of the owner's death	○	○	○
Payments for Life or Life Expectancy[1] Such as systematic withdrawals or annuitized payments	○	○ Not available for non-living beneficiaries (such as trusts, charities, and estates)	
Spousal Continuation Spouse becomes the new owner of the contract	○		

[1]A post-death 1035 exchange of nonqualified assets may be available for beneficiaries. In private letter ruling (PLR) 201330016, a taxpayer was allowed a tax-free 1035 exchange of the death proceeds from five deferred annuity contracts to a new variable annuity contract. It is important to understand, however, that a PLR is directed only to the taxpayer who requested it, and not all annuity companies may process the transaction.

THE POWER OF TAX DEFERRAL

It is important to consider the power of tax deferral when seeking to leave a legacy to your beneficiaries. By taking smaller distributions over a longer period of time, such as the beneficiary's life expectancy, the earnings in an annuity may continue to grow without taxation each year, so that your beneficiaries may receive a larger financial legacy.

The graph below demonstrates the way a hypothetical investment of $100,000 would grow in a taxed versus tax-deferred investment if each earns 5% annually for 10 and 20 years and is taxed at a 32% ordinary income-tax rate. If the full amount is withdrawn after 20 years and taxes are paid on the lump-sum distribution, the amount would be $212,424—more than the $195,169 accumulated in a taxable investment over the same time frame.



Tax-deferral assumptions: Hypothetical example for illustrative purposes only. Assumes a nonqualified contract with a cost basis of $100,000. The full amount before taxes equals the purchase payments plus interest, $265,330. The amount withdrawn after taxes are paid is calculated by taking the full amount and subtracting the cost basis; it is then multiplied by 0.68 (32% ordinary income-tax rate) and adding back in the cost basis, for a total of $212,424 after taxes.

Assumes a 32% ordinary income-tax rate, assessed yearly on the taxable investment and at period-end on the tax-deferred example. Actual tax rates may vary for different taxpayers and assets from that illustrated (e.g., capital gains and qualified dividend income). Actual performance of your investment also will vary. 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. Consider your personal investment time horizon and income-tax brackets, both current and anticipated, when making an investment decision. Hypothetical returns are not guaranteed and do not represent performance of any particular investment. If withdrawal charges were included (9% maximum withdrawal charge), the tax-deferred performance would be significantly lower.

Annuity withdrawals and other distributions of taxable amounts, including death 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 (MVA) also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any other 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 features include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

To learn more about beneficiary distribution options,
please talk to your financial and tax professionals today.
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