



# HELP OFFSET TAXES FOR YOUR BENEFICIARIES

Legacy Strategies Using a Variable Annuity with the optional Earnings Enhancement Death Benefit



---

## WHY A PACIFIC LIFE VARIABLE ANNUITY

A variable annuity is a long-term contract between you and an insurance company that can help you grow, protect, and manage retirement savings in a tax-advantaged way. It can help you:

- **Grow retirement savings faster** through the power of tax deferral.
- **Manage your investment strategy** by transferring among a diverse selection of investment options free of tax consequences.
- **Convert your assets** to guaranteed lifetime retirement income.
- **Leave a financial legacy** through a beneficiary benefit.

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

Guarantees, including optional benefits, are subject to Pacific Life's financial strength and claims-paying ability and do not protect the value of the variable investment options, which are subject to market risk. The value of the variable investment options will fluctuate so that shares, when redeemed, may be worth more or less than the original cost. 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 tax may apply. Withdrawals will reduce the contract value and the value of the death benefits, and also may reduce the value of any optional benefits.

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**

# LEAVING ASSETS TO LOVED ONES

Have you saved enough for your own retirement and are now interested in repositioning assets to give to your loved ones when you pass away? You may consider using those assets to purchase a variable annuity to help leave a financial legacy for your beneficiaries. Pacific Life variable annuities offer a variety of beneficiary benefit options that may help you find a solution right for you.

Certain Pacific Life variable annuities offer a contract value beneficiary benefit equal to the contract value and additional optional beneficiary benefits to choose from that provide important guarantees. The Earnings Enhancement Death Benefit (EEDB) is an optional benefit, available with certain variable annuities at contract issue for an additional cost, that may increase your financial legacy and help offset the impact of taxes for your beneficiaries.

We will now focus on the benefits of EEDB by defining how it works and exploring various tax considerations to help your beneficiaries offset the impact of taxes.

## Optional Earnings Enhancement Death Benefit

EEDB is designed to enhance a variable annuity beneficiary benefit for your beneficiaries. An additional percentage of earnings is added to the beneficiary benefit amount and is based on the owner's or annuitant's age when the optional benefit is purchased.

For Owners/Annuitants	EEDB Provides an Additional
Age 69 or Younger	40% of earnings
Age 70–75	25% of earnings

Earnings are equal to the contract value on the date of death minus the remaining purchase payments.<sup>1</sup> There is no limit on total earnings.

This benefit is offered for an additional fee of 0.25% (deducted annually on each contract anniversary based on the contract anniversary value) if the contract owner and annuitant are age 75 or younger at contract issue.<sup>2</sup>

If you purchase this optional benefit, an annual charge will be deducted from your contract value on each contract anniversary. The contract must have growth in excess of the remaining purchase payments in order for EEDB to be applicable. If there are no earnings in the contract, no benefit will be paid, and you will have incurred the charge but not received a benefit. The EEDB amount is treated as earnings and may be taxable. In addition, the EEDB amount may affect the beneficiary's adjusted gross income and marginal income-tax bracket. Withdrawals from the contract will reduce any earnings and decrease the EEDB amount. EEDB is not available in New York.

<sup>1</sup>The remaining purchase payments are equal to any purchase payments minus an amount for withdrawals. Withdrawals are assumed to be taken from earnings first, then from purchase payments, so the amount for withdrawals is the amount that each withdrawal exceeds the amount of earnings in the contract immediately prior to the withdrawal.

<sup>2</sup>Contract structure for owners and annuitants may vary between variable annuity products. For certain variable annuities, if the owner is not an annuitant and the owner dies prior to annuitization, the beneficiary benefit amount will equal the contract value. See the prospectus for complete information.

The Pacific Life beneficiary benefits will be calculated on the Notice Date, which is the day we receive, in proper form, proof of death and instructions regarding payment of beneficiary benefit proceeds.

# TAX CONSIDERATIONS WHEN YOU LEAVE RETIREMENT ASSETS TO YOUR BENEFICIARIES

The following pages include hypothetical examples of people repositioning IRA and nonqualified assets and purchasing a variable annuity with EEDB to help enhance the net after-tax beneficiary benefit from retirement assets left to loved ones. The examples include the following three scenarios.

1

## Traditional IRA and Nonqualified Deferred Annuity Left to Non-Spousal Beneficiaries

Help offset taxes for a traditional IRA or nonqualified deferred annuity.

2

## Roth IRA Left to a Non-Spousal Beneficiary Taking Distributions over a 10n-Year Period to Maximize Tax-Free Qualified Distributions

Distributing the plan's entire balance within 10 years of the plan owner's death.

3

## Traditional IRA Left to a Spousal Beneficiary Followed by a Spousal Rollover and a Roth IRA Conversion

Help offset taxes for a spousal rollover or Roth IRA conversion.



Jim inherits a traditional IRA.  
Sally inherits a nonqualified deferred annuity.



Andrew is age 25.



Tom and Mary are both age 60.

**Let's look at these examples in more detail.**

## Traditional IRA and Nonqualified Deferred Annuity Left to Non-Spousal Beneficiaries

Leaving a legacy for a loved one can sometimes result in an unexpected income-tax liability to the beneficiary. EEDB might help pay for some of these taxes, especially when you leave loved ones a traditional IRA or a nonqualified deferred annuity.

### Hypothetical Example

Jim is the beneficiary on his dad's IRA. Jim's sister, Sally, is the beneficiary on her dad's nonqualified deferred annuity. Their dad was age 65 at contract issue and had not taken any withdrawals from these contracts.

### Assumptions

- Purchase payment: \$150,000
- EEDB percentage of earnings: 40%
- Contract value beneficiary benefit amount: \$200,000
- Effective tax rate: 32%

## Traditional IRA—Federal Income-Tax Rule

A pretax traditional IRA beneficiary benefit would be subject to ordinary income-tax rates<sup>1</sup> when paid out to Jim.

	Contract Value Death Benefit Purchase Payment: \$150,000	Contract Value Death Benefit with optional EEDB Purchase Payment: \$150,000
<b>At Time of Death</b> Contract Value	\$200,000 <sup>2</sup>	\$200,000 <sup>2</sup>
<b>Earnings</b>	\$50,000	\$50,000
<b>EEDB Amount</b> (Earnings x EEDB)	\$0	\$20,000 (\$50,000 x 40%)
<b>Beneficiary Benefit</b> (Before Taxes)	\$200,000	\$220,000
<b>Jim's Taxes Due</b> (Beneficiary Benefit x Tax Rate)	\$64,000 (\$200,000 x 32%)	\$70,400 (\$220,000 x 32%)
<b>Beneficiary Benefit After Taxes</b>	\$200,000 – \$64,000 = <b>\$136,000</b>	\$220,000 – \$70,400 = <b>\$149,600</b>





## Nonqualified Deferred Annuity—Federal Income-Tax Rule

Gains in the nonqualified annuity distributed to Sally would be subject to ordinary income-tax rates.<sup>1</sup>

	Contract Value Death Benefit Purchase Payment: \$150,000	Contract Value Death Benefit with optional EEDB Purchase Payment: \$150,000
<b>At Time of Death</b> Contract Value	\$200,000 <sup>2</sup>	\$200,000 <sup>2</sup>
<b>Earnings</b>	\$50,000	\$50,000
<b>EEDB Amount</b> (Earnings x EEDB)	\$0	\$20,000 (\$50,000 x 40%)
<b>Beneficiary Benefit</b> (Before Taxes)	\$200,000	\$220,000
<b>Sally's Taxes Due</b> (Beneficiary Benefit x Tax Rate)	\$16,000 (\$50,000 Gain x 32%)	\$22,400 (\$70,000 Gain x 32%)
<b>Beneficiary Benefit After Taxes</b>	\$200,000 – \$16,000 = <b>\$184,000</b>	\$220,000 – \$22,400 = <b>\$197,600</b>

<sup>1</sup>Note that for illustrative purposes, we have only discussed general federal income-tax consequences. Other taxes, such as the federal estate tax, state estate/inheritance tax, and/or state income tax, may apply as well.

<sup>2</sup>Note that in addition to the lump-sum beneficiary benefit distribution option illustrated, other beneficiary benefit distribution options may exist. For example, Jim/Sally may be able to take minimum distributions of the beneficiary benefit over their single life expectancies and further enhance the net after-tax beneficiary benefits over time. Hypothetical values assume \$200,000 at time of death. If variable annuity charges were included (withdrawal charges, mortality and expense risk charges, administrative fees, optional beneficiary benefits, and other contract charges), the account values would be significantly lower.

## Roth IRA Left to a Non-Spousal Beneficiary Taking Distributions over a 10-Year Period to Maximize Tax-Free Qualified Distributions

A beneficiary benefit for a Roth IRA could be amplified with EEDB and increase qualified distributions to your beneficiaries. A qualified distribution is an income-tax-free distribution to your beneficiaries, and is available at your passing as long as the Roth IRA has been in existence five years. Upon inheriting, your beneficiaries would distribute the entire balance of the Roth IRA you leave them over a 10 year period to maximize tax-free qualified distributions.

### Hypothetical Example

Andrew, age 25, is the beneficiary on his mom's Roth IRA. She was age 60 when she started her annuity contract with her Roth IRA. She had not taken any withdrawals, and the account was in existence more than five years prior to her death.

### Assumptions

- Purchase payment: \$150,000
- Contract value beneficiary benefit amount: \$200,000
- EEDB percentage of earnings: 40%
- Effective tax rate: 37%

## Roth IRA—Federal Income-Tax Rule

If the Roth IRA was owned for more than five years prior to the death of the owner, the entire beneficiary benefit will pass income-tax-free to Andrew.

If Andrew creates an inherited Roth IRA after his mom's death, he could distribute the beneficiary benefit over a 10-year period, and such a distribution election may further enhance income-tax-free qualified distributions over the distribution period.





	<b>Contract Value Death Benefit</b> Purchase Payment: \$150,000	<b>Contract Value Death Benefit with optional EEDB</b> Purchase Payment: \$150,000
<b>At Time of Death</b> Contract Value	\$200,000	\$200,000
<b>Earnings</b>	\$50,000	\$50,000
<b>EEDB Amount</b> (Earnings x EEDB)	\$0	\$20,000 (\$50,000 x 40%)
<b>Andrew's Taxes Due</b>	\$0 <sup>1</sup>	\$0 <sup>1</sup>
<b>Beneficiary Benefit</b>	\$200,000 – \$0 = <b>\$200,000</b>	\$220,000 – \$0 = <b>\$220,000</b>

<sup>2</sup>For earnings from an inherited Roth IRA account to be distributed income-tax-free as a qualified distribution, the Roth IRA holder must have established a Roth IRA for five years AND either attained age 59½, become disabled, passed away, or qualified for a first-time home purchase exception.

## Traditional IRA Left to a Spousal Beneficiary Followed by a Spousal Rollover and a Roth IRA Conversion

If you're married and your spouse is your traditional IRA beneficiary, you may have the ability to help your spousal beneficiary pay some of the income-tax liability of converting your traditional IRA to a Roth IRA following your death. Your spouse will not have to take required minimum distributions (RMDs) and can leave the Roth IRA to loved ones.

### Hypothetical Example

Tom and Mary have been married for 30 years and have three adult children. Tom passed away at age 60. Tom's traditional IRA contained pretax funds from a previous 401(k). Mary, age 60, is the spousal beneficiary on Tom's traditional IRA.

### Assumptions

- Purchase payment: \$300,000
- Contract value beneficiary benefit amount: \$500,000
- EEDB percentage of earnings: 40%
- Effective tax rate: 37%

## Spousal Rollover and Roth IRA Conversion—Federal Income-Tax Rule

Because Mary is the sole beneficiary of her husband's traditional IRA, she can elect to roll the funds into her own IRA and continue the tax-deferred growth. She also can consider converting the IRA into a Roth IRA. Although the conversion to a Roth IRA will generate an up-front income-tax liability to Mary, after the conversion she does not need to take any RMDs from the Roth IRA during her lifetime. After Mary passes, and assuming the qualified distribution requirements relating to Roth IRAs are met, any beneficiary benefit available may pass income-tax-free to Mary's beneficiaries.

Keep in mind, Roth IRA conversions are not for everyone. Income tax owed upon conversion can be paid with outside funds or funds inside the retirement account. Funds distributed from the retirement account to pay the conversion tax must be included in taxable income. Always confirm with your legal and tax advisors whether or not a conversion makes sense given your circumstances.



### Taxes Due at Conversion by Surviving Spouse

Consider using the EEDB amount to help cover taxes due at conversion.

	Contract Value Death Benefit Purchase Payment: \$300,000
<b>At Time of Tom's Death</b> Contract Value (Beneficiary Benefit Before Taxes)	\$500,000
<b>Earnings</b>	\$200,000
<b>Beneficiary Benefit Amount to Convert</b>	\$500,000 <sup>1</sup>
<b>Out-of-Pocket Tax Liability to Convert to Roth IRA</b>	<b>\$500,000 × 37% = \$185,000</b>
	Using the optional EEDB Amount to Help Cover Taxes Due at Conversion
<b>EEDB Amount</b> (Earnings × EEDB)	\$80,000 (\$200,000 × 40%)
<b>Taxes Owed on Distribution of EEDB Amount</b> (EEDB × Tax Rate)	\$29,600 (\$80,000 × 37%)
<b>EEDB Amount to Help Cover Portion of Taxes Due to Conversion</b> (EEDB – Tax Owed)	<b>\$80,000 – \$29,600 = \$50,400</b>

**\$50,400 can help offset the \$185,000 tax liability to convert to a Roth IRA.**

<sup>1</sup>Note that in addition to the conversion option illustrated, other strategies may exist. For example, Mary could have elected to roll the pretax IRA assets to her own IRA and begin taking required minimum distributions from her IRA when she reaches age 72. Always rely on your own legal and tax advisors to discover the best approach for you given your unique facts and circumstances.

Talk to your financial professional today to learn if a variable annuity with the optional Earnings Enhancement Death Benefit could help meet your legacy-planning needs, or visit our website.  
[PacificLife.com](http://PacificLife.com)

---

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 is a product provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.*

**This material must be preceded or accompanied by the product prospectus. Contact your financial professional or visit [PacificLife.com](http://PacificLife.com) for more information, including product and underlying fund prospectuses that contain more complete information about Pacific Life and a variable annuity's risks, charges, limitations, and expenses, as well as the risks, charges, expenses, and investment goals of the underlying investment options. Read them carefully before investing.**

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, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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 insurance company is solely responsible for the financial obligations accruing under the products it issues. Insurance product and rider guarantees, including optional benefits and any fixed subaccount crediting rates or annuity payout rates, are backed by the financial strength and claims-paying ability of the issuing insurance company and do not protect the value of the variable investment options. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased, or any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

Variable insurance products are distributed by **Pacific Select Distributors, LLC** (member FINRA & SIPC), a subsidiary of Pacific Life Insurance Company (Newport Beach, CA) and an affiliate of Pacific Life & Annuity Company, and are available through licensed third parties.

Not all products or riders are available at all broker/dealer firms.

Contract Form Series: ICC12:10-1252, ICC20:10-1020  
Rider Form Series: ICCE14:20-1295, ICC14:20-1296, ICC20:20-1020  
*State variations to contract form series and rider series may apply*  
VLC0867-1122



THE OFFICIAL SPONSOR  
OF RETIREMENT™