PACIFIC LIFE

Life Can Change.
Your Plans Should, Too.

Take Control of Your Financial Strategy Today

I AM CONFIDENCE

A Case Study Using Annuities and Mutual Funds

VLC1273-0219

LEGACY, INCOME, AND MANAGING TAXES

While there are a variety of financial products that may be used in legacy and income planning as well as managing taxes, the three product types below were selected to address the challenges in this case study.

A SINGLE-PREMIUM IMMEDIATE ANNUITY (SPIA) offers guaranteed, pension-like income for your lifetime or for a specified period. While immediate annuities offer consistent guaranteed income, it should be noted that they are irrevocable, and the selected payout option cannot be changed. They may not be appropriate if you need funds in addition to the guaranteed income payments.

A VARIABLE ANNUITY is a tax-deferred investment that helps 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 set of investment options free of tax consequences; convert your assets to guaranteed, lifetime retirement income; and leave a financial legacy through a guaranteed death benefit.

Variable annuities are designed as long-term investments and may not be appropriate for immediate needs. Early withdrawals may be subject to a contingent deferred sales charge and, if made prior to age 59½, a 10% additional federal income tax. Because values fluctuate, your investments may be worth more or less than the original cost when redeemed.

MUTUAL FUNDS are made up of stocks, bonds, and/or other securities that are professionally managed. These investments provide the potential for growth and allow access to your money. However, mutual funds do not provide a lifetime income guarantee. Because values fluctuate, your investments may be worth more or less than the original cost when redeemed.

Each of these three product solutions has trade-offs. Be sure to discuss the products with your financial professional and consider whether they make sense for your retirement strategy. Annuity 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.

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

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 and adjust your saving and spending habits as well as your lifestyle.

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.

- How much do I believe I can comfortably withdraw from my savings each year?
- How much access to my savings would I like for unexpected events?
- Is it important to me to leave money to my loved ones?
- Is it possible to lower my taxes?

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, help with legacy planning, and offer the potential to manage taxes. The following pages provide an example.

Meet Barbara

- Age: 66; retired
- Widow with upcoming change in federal income-tax filing status from Married Filing Jointly to Single filer
- Nonqualified financial assets: $2,000,000
- Family: One son, age 36, with two young daughters
- 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: $20,000 per year
  - Survivor's pension: $50,000 per year

Barbara's Multiple-Product Strategy

After listening to Barbara and discussing her goals, Barbara's financial professional suggests that she may want to diversify her nonqualified assets among multiple financial products. Doing so will help her create a sustainable lifetime cash flow for essential expenses, balance her desire to withdraw from her assets with her financial legacy goals, and may help her manage tax challenges.

Allocate her approximately $2 million portfolio this way:

18%

$350,000

SINGLE-PREMIUM IMMEDIATE ANNUITY (SPIA)

- Provides immediate annuity income of approximately $20,000 per year in guaranteed lifetime income.
- Uses Life with Installment Refund option.
- Gives favorable exclusion-ratio tax treatment.

18%

$350,000

TAX-DEFERRED VARIABLE ANNUITY

- Provides asset growth potential, and 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 death benefit or gifts to family.

64%

$1,300,000

MUTUAL FUNDS

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

For illustrative purposes only. Does not reflect a specific actual investment. Premium taxes vary by state. Your actual payment will differ. Systematic mutual fund withdrawals are generally from the sale of fund shares, and in a period of declining market values, continued withdrawals could eventually exhaust the principal.

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.

Challenges

- Longevity: Barbara is in good health and may need at least $90,000 per year in income for many years to come.
- 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.
- Tax positioning : Barbara is concerned about how the change to her income-tax filing status will impact her taxes.

Barbara's spouse died during 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 the Strategy Accomplishes

<table>
<tr><th>INCOME</th><th>TAX MANAGEMENT</th><th>LEGACY</th></tr>
<tr><td>Combined with Social Security and pension, ensures $90,000 per year in guaranteed lifetime income for Barbara's essential living expenses.</td><td>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.</td><td>With the Life with Installment Refund option, if Barbara dies before receiving $350,000 in income (her original purchase payment), the remainder of the purchase payment goes to her beneficiaries.</td></tr>
<tr><td colspan="2">Because earnings grow tax-deferred, they are not affected by Barbara's current tax circumstances and, while inside the annuity, earnings may grow tax-free. If she chooses to withdraw from her annuity for discretionary expenses or emergency funds, earnings come out first and will be taxed at the ordinary income-tax rate.</td><td>A variable annuity death benefit can help protect her family and her financial legacy.[1]</td></tr>
<tr><td>Barbara can let her mutual funds grow or use them as a source of withdrawals for discretionary expenses, for example, travel, hobbies, unexpected major expenses, or gifts to family.</td><td colspan="2">Any remaining mutual fund assets 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.</td></tr>
</table>

[1] In 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.

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

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