

Adding Value When the Unexpected Happens

Benjamin Franklin once said that “nothing in this world is certain except death and taxes.” The unfortunate thing is that those two things happen at the same time for surviving spouses. Helping the survivor understand his or her options in the aftermath is key for tax-efficient planning.

Death is a tragic event, and the effects it can have for a surviving spouse can be difficult not just emotionally, but financially as well. Predicting when someone will pass is impossible; however, planning for the unexpected may help ease the financial burden when the time comes. Here are a few strategies to consider.

A Life Insurance Policy

Life insurance can provide a death benefit for your clients when the unexpected occurs. There are many different types of life insurance and different ways to structure the policies. From term insurance to whole life, each product will address different needs. An appropriate policy can help couples plan for the future and meet their goals. Life insurance, when taken as a lump-sum payout is income-tax-free for the surviving spouse.¹ Life insurance may be included in the estate to help minimize the amount of potential estate taxes but can be estate-tax-free if properly structured.² However, as we get older, it becomes more expensive or difficult to get insured, but there are other options such as annuities that can provide some level of insurance.

An Annuity

Different types of annuities can offer a level of insurance when one of the spouses passes. Each carrier will be

different in their offerings, so it is important to understand the products and guarantees for your clients.

There are variable annuities that offer growth potential and an optional benefit that locks in investment gains (if any) increasing the value of the beneficiary benefit.

This gives your clients a buffer of at least the premium paid or the highest contract value on any previous contract anniversary prior to the oldest contract owner's or annuitant's 81st birthday as the beneficiary benefit.

A Roth IRA

A Roth IRA can be a good strategy for those who are able to contribute or convert assets from a traditional IRA. Keep in mind there are contribution limits each year, and individuals (or their spouses) must have earned income to contribute. In addition, be cognizant of the phase-out ranges to avoid clients having to take an excess contribution withdrawal or need to recharacterize Roth contributions. As long as the criteria are met to be considered qualified distributions, withdrawals from Roth IRAs (including distribution at death) are tax-free.

These strategies can't predict an individual's life expectancy, but they can lessen the tax burden for the widow or widower. Keep in mind the “widow's penalty,” which can be complicated and cause higher taxation for the surviving spouse in the year the spouse passed.

All guarantees, including optional benefits, 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.

¹For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

²According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all \$10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift, and GST tax rates are 40%. In 2026, the federal estate, gift, GST tax exemption amounts are scheduled to revert to \$5,000,000 per person (indexed for inflation for tax years after 2011).

Optional benefits are available for an additional cost.

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

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.

**No bank guarantee • Not a deposit • May lose value
Not FDIC/NCUA insured • Not insured by any federal government agency**

1 of 3

VLQ3361BG-2400

Under current rules, the survivor will have a lower standard deduction and be subject to the single tax brackets. This means that a similar income will have a bigger tax bite, at which time a life insurance payout and Roth IRA distributions may be helpful should the survivor need income. A surviving spouse may be able to choose to continue an annuity contract with its tax-deferred growth potential as long as the surviving spouse chooses spousal continuation and does not take withdrawals.

Preparing for Loss May Help Lessen Stress

Losing a loved one is never easy emotionally or financially, but you can help your clients be prepared. There are options and strategies for tax-efficient legacy planning. Working with an estate attorney and tax professional can help clients ease tax burdens when a spouse passes.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Discuss Roth conversions for estate planning with clients who have heavy assets in IRAs and qualified plans.**
- **Work with clients who recently lost a spouse to review beneficiary designations and review claiming strategies.**

Additional Resources and Links

[Financial Wellness Amid Grief](#)

[Encouraging Financial Wellness Amid Grief](#)

For more information about retirement planning,
please contact our Retirement Strategies Group at
RSG@PacificLife.com or (800) 722-2333, ext. 3939.

Annuities.Pacificlife.com

This material is provided for informational purposes only and should not be construed as investment, tax, or legal advice. Information is based on current laws, which are subject to change at any time. Clients should consult with their accounting or tax professionals for guidance regarding their specific financial situations.

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.

Investors 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 should be read 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 (MVA) also may apply. Withdrawals will reduce the contract value and the value of the beneficiary benefit, and also 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, 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 subsidiary Pacific Life & Annuity Company. 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. 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 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 and an affiliate of Pacific Life & Annuity Company.

The home office for Pacific Life & Annuity Company is located in Phoenix, Arizona. The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

Contract Form Series: 10-2252-13, 10-1352, 10-2352, 10-1212, 10-17800, 10-1780R

Rider Series: 20-1126-B

3 of 3

VLQ3361BG-2400

This material is educational and intended for an audience with financial services knowledge. 10/24 E1027

