

# IN A RISING INTEREST-RATE ENVIRONMENT, DEFERRAL CAN HELP CLIENTS WHO ARE HIGH EARNERS MANAGE THE IMPACT TO THEIR 1099s

Due to rising interest rates, some taxpayers could see higher ordinary income—and a higher tax bill.

Tax drag can affect the rate at which invested assets grow. With interest rates rising, investors may be facing higher federal taxes and potentially be subject to the Net Investment Income Tax (NIIT) as well as hit threshold limitations for Social Security taxation and Medicare parts B and D penalties.

Deferral can allow clients to time and control the recognition of gains, which, in turn, can help reduce or smooth out tax costs.

## Examples of clients who might benefit from deferral:

- **Higher income now, less income in retirement.** In their peak earning years, some couples are high-income earners now, but expect to need less income in retirement. For this group, tax deferral can reduce tax drag during the peak earning years. The ability to control distributions of ordinary income in retirement can be managed. If qualified accounts are already maxed out, a deferred annuity may be another option to consider. *(Remember that Roth accounts can produce tax-free distributions for this group.)*
- **Retirees looking for tax management.** Many retirees want to invest but are reluctant to add to their 1099s. For this group, additional tax deferral from a tax-deferred annuity may help avoid current taxation of any growth of the asset.

*(For those with a desire for growth and concerns about the market, some tax-deferred variable annuities offer principal or income protection for an additional cost.)*

## Some common sources of deferral:

- **Employer-sponsored retirement plans.** Many clients are familiar with the deferral offered by employer-sponsored plans, such as [401\(k\)s](#), [403\(b\)s](#), [457\(b\)s](#), [SEP-IRAs](#), and [Simple IRAs](#). These plans offer clients tax-deferred growth. For those with large qualified accounts and/or other significant resources, there can be one downside: The IRS requires annual required minimum distributions (RMDs) after the account owner reaches age 72. That can mean unneeded additional ordinary income is distributed at an inopportune time.
- **Roth accounts.** Roth IRAs and [designated Roth accounts](#) in employer plans such as Roth 401(k)s, [Roth 403\(b\)s](#), [Roth 457\(b\)s](#), offer tax-deferred growth, as well as tax-free distributions (assuming the accounts qualify under the Internal Revenue Code (IRC)). Qualified tax-free distributions do not impact modified gross income thresholds and will not negatively impact Social Security provisional income calculations or Medicare Income Related Monthly Adjustment Amount (IRMAA) penalties. While the designated Roth accounts require RMDs, Roth IRAs offer the additional benefit of no RMDs for account owners.

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.

- 
- **Tax-deferred annuities.** For some clients, tax-deferred annuities offer an additional way to delay taxes on invested assets. This is particularly the case if they are not currently living off their investment income and would like to control timing of income recognition for tax purposes. While qualified accounts typically should be funded first, some clients will benefit from this option. *(Remember that access to tax-deferred annuities, like qualified accounts, is limited before age 59½.)*

Except for qualifying Roth accounts, remember that the distributions from the above accounts are considered ordinary income and taxed at those rates, which are usually higher than capital gains rates.

This may be an opportune time to check your clients' 1099s and determine if deferral may be appropriate. With the potential for rising tax rates in today's environment, deferral may help manage tax drag and help more clients reach their goals.

## Additional Resources and Links

[The Power of Tax Deferral](#)

[IRA Rollovers and Lifetime Income: A Game Plan](#)

[IRA and Qualified Plan Contribution Limits Update](#)

[Time for a Strategic Roth Conversion?](#)

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

***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 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. 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 optional benefits.

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.

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.

VLC1765-1022W

**This material is educational and intended for an audience with financial services knowledge.**

2 of 2



THE OFFICIAL SPONSOR  
OF RETIREMENT™