



HELP PRESERVE WEALTH FOR YOUR BENEFICIARIES

Using a Stretch Variable Annuity Strategy



WHY CONSIDER A 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 protected death benefit.

Variable annuities also offer features such as asset allocation and optional principal protection. Optional benefits are available for an additional cost.

Guarantees, including optional benefits, are subject to the financial strength and claims-paying ability of the issuing insurance company 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 and, 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. A withdrawal charge also 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.

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.

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**



YOUR FINANCIAL LEGACY

Consider the following scenario. You reach retirement age and find you don't need your variable annuity for income. Instead, you want to keep it because your retirement needs may change, but your primary intent is to leave the variable annuity as a financial legacy to your beneficiaries as a death benefit. At death, the nonqualified (after-tax) annuity assets will pass to your beneficiaries, who will receive the greater of:

- **A return of your principal**—Beneficiaries receive at least the amount you put into your annuity contract, minus any adjustments for withdrawals you made.
- **Your accumulated contract value**—This is the total value of your contract, including any earnings.

Generally, the death benefit payout options available to your beneficiaries are:

- 1 **A Lump Sum** of an individual's entire share of the annuity contract value immediately.
- 2 **A Five-Year Period** that allows the annuity contract value to grow tax-deferred, and then distribute the contract value within five years from your death.
- 3 **Annuity Payments** over an individual's life or over a period that does not exceed the beneficiary's life expectancy. This option helps spread the tax liability. However, the beneficiary may have less flexibility regarding how the death proceeds can be invested.
- 4 **The Nonqualified "Stretch" Annuity Strategy** as scheduled withdrawals over a beneficiary's life expectancy.

WHAT IS THE “STRETCH” ANNUITY STRATEGY?

This strategy allows your beneficiaries to stretch distributions over their life expectancies.¹ Although beneficiaries must take minimum distributions each year, the undistributed annuity contract value can continue to grow through the power of tax deferral.

Unlike annuity payments, this strategy allows beneficiaries the flexibility to withdraw additional amounts (or even the entire balance) at any time.



¹Based on the IRS Single Life Expectancy Table.

OVERVIEW OF THE STRETCH STRATEGY

Benefits to Beneficiaries

- The stretch annuity strategy provides investment flexibility.
- Beneficiaries are able to take more than the minimum distribution if desired.¹
- Death benefit distributions from the contract are not subject to withdrawal charges.
- Distributions are not subject to an additional 10% federal tax for withdrawals prior to age 59½.
- Each designated beneficiary (that is, a living beneficiary) can elect to take payouts based on his or her own respective life expectancy.

The Process

- The first annual distribution must occur no later than one year from date of the death.
- The contract stays in the name of the deceased for the benefit of the beneficiary.
- Proceeds are not annuitized.
- The contract value is subject to market risk.
- Annual distributions are determined by the contract value and the beneficiary's single life expectancy.
- Mortality and expense risk charges and administrative fees of the contract may continue to apply.

Tax Issues

The information in this section is based on our interpretation of current tax laws; such laws may change from time to time.

- Ordinary income tax only applies on the amount withdrawn based on a last-in, first-out basis (the taxable gain is withdrawn first, then the tax-free return of principal).²
- Any potential growth on the remaining contract value continues growing tax-deferred.
- Distributions are considered death distributions and are not subject to an additional 10% federal tax for withdrawals prior to age 59½.
- A post-death 1035 exchange of nonqualified stretch assets may be available for beneficiaries.³

¹Assumes that the owner did not restrict the beneficiary from taking more than the minimum required distribution, such as with a Predetermined Beneficiary Payout Option.

²Assumes no contributions were made before August 14, 1982, when the Tax Equity and Fiscal Responsibility Act of 1982 became effective.

³In 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.

TWO DISTRIBUTION STRATEGIES IN ACTION

- Mitch contributed a total of \$350,000 to his annuity contract prior to retirement.
- He designates his son, Frank, and favorite 501(c)(3) charity, as equal primary beneficiaries.
- At Mitch’s death, the annuity contract had an annuity contract value of \$500,000.

| | | | |
|--|---|------------|-------------------------|
| Lump-Sum Strategy | The 501(c)(3) charity inherits \$250,000 and chooses a lump-sum distribution option. | | |
| | Lump Sum | Cost Basis | Taxable Ordinary Income |
| | \$250,000 | \$175,000 | \$0 ¹ |
| 1A 501(c)(3) charity is a tax-exempt organization and generally is exempt from federal income tax. | | | |
| Nonqualified “Stretch” Annuity Strategy | Frank elects to “stretch” his \$250,000 inheritance. | | |
| | When Frank inherits his portion of the annuity contract value at age 62, he is able to “stretch” his annual minimum distribution for a period of 24 years—helping to minimize the amount of taxable income each year. | | |
| | At age 85, he has distributed a total of \$363,001 from the inherited annuity contract. | | |

These examples are for illustrative purposes only

Frank's Nonqualified "Stretch" Annuity Strategy

| Year | Age | Life Expectancy Factor ¹ | Minimum Distribution | Taxable Income | Remaining Cost Basis | Account Balance (Year End) | Total Distribution |
|-----------|-----------|-------------------------------------|----------------------|----------------|----------------------|----------------------------|--------------------|
| 1 | 62 | 23.5 | \$10,638 | \$10,638 | \$175,000 | \$246,587 | \$10,638 |
| 2 | 63 | 22.5 | \$10,959 | \$10,959 | \$175,000 | \$242,754 | \$21,597 |
| 3 | 64 | 21.5 | \$11,291 | \$11,291 | \$175,000 | \$238,479 | \$32,888 |
| 4 | 65 | 20.5 | \$11,633 | \$11,633 | \$175,000 | \$233,738 | \$44,521 |
| 5 | 66 | 19.5 | \$11,987 | \$11,987 | \$175,000 | \$228,506 | \$56,508 |
| 6 | 67 | 18.5 | \$12,352 | \$12,352 | \$175,000 | \$222,758 | \$68,860 |
| 7 | 68 | 17.5 | \$12,729 | \$12,729 | \$175,000 | \$216,467 | \$81,589 |
| 8 | 69 | 16.5 | \$13,119 | \$13,119 | \$175,000 | \$209,604 | \$94,708 |
| 9 | 70 | 15.5 | \$13,523 | \$13,523 | \$175,000 | \$202,138 | \$108,231 |
| 10 | 71 | 14.5 | \$13,941 | \$13,941 | \$175,000 | \$194,039 | \$122,172 |
| 11 | 72 | 13.5 | \$14,373 | \$14,373 | \$175,000 | \$185,274 | \$136,545 |
| 12 | 73 | 12.5 | \$14,822 | \$14,822 | \$175,000 | \$175,806 | \$151,367 |
| 13 | 74 | 11.5 | \$15,287 | \$5,887 | \$165,600 | \$165,600 | \$166,654 |
| 14 | 75 | 10.5 | \$15,771 | \$4,786 | \$154,615 | \$154,615 | \$182,425 |
| 15 | 76 | 9.5 | \$16,275 | \$4,468 | \$142,808 | \$142,808 | \$198,700 |
| 16 | 77 | 8.5 | \$16,801 | \$4,127 | \$130,134 | \$130,134 | \$215,501 |
| 17 | 78 | 7.5 | \$17,351 | \$3,761 | \$116,544 | \$116,544 | \$232,852 |
| 18 | 79 | 6.5 | \$17,930 | \$3,368 | \$101,982 | \$101,982 | \$250,782 |
| 19 | 80 | 5.5 | \$18,542 | \$2,947 | \$86,388 | \$86,388 | \$269,324 |
| 20 | 81 | 4.5 | \$19,197 | \$2,497 | \$69,687 | \$69,687 | \$288,521 |
| 21 | 82 | 3.5 | \$19,911 | \$2,014 | \$51,790 | \$51,790 | \$308,432 |
| 22 | 83 | 2.5 | \$20,716 | \$1,497 | \$32,571 | \$32,571 | \$329,148 |
| 23 | 84 | 1.5 | \$21,714 | \$941 | \$11,798 | \$11,798 | \$350,862 |
| 24 | 85 | 0.5 | \$12,139 | \$341 | \$0 | \$0 | \$363,001 |

¹IRS Single Life Expectancy Table.

The table illustrates how the nonqualified stretch option works. This example assumes the investment grows at a hypothetical annual rate of 5% and that annual minimum distributions are taken at the end of each year.

No part of the illustration is guaranteed and does not represent performance of an actual investment. It is a hypothetical example.

It assumes the beneficiary's annuity contract value is \$250,000, and the beneficiary elects the life expectancy payout options in compliance with Internal Revenue Code (IRC) Section 72(s). Values illustrated assume product mortality and expense risk charges of 1.15%, administrative fees of 0.15%, advisory fees of 0.81%, and an annual contract fee of \$40.

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