

Understanding ANNUITIES



An Overview for Your Retirement



PACIFIC LIFE

No bank guarantee • Not a deposit • May lose value

Not FDIC/NCUA insured

Not insured by any federal government agency

Contents

Get Ready for Retirement	1
What Is an Annuity	1
Who's Who in an Annuity	2
Types of Annuities	3
Single vs. Flexible-Premium	3
Fixed vs. Variable.	3
Deferred, Immediate, and Income	4
Nonqualified vs. Qualified	6
Understanding Charges and Fees	8
Why Choose an Annuity	9
Tax Advantages.	9
The Power of Tax Deferral	10
Lifetime Income Payout Option.	10
Guaranteed Death Benefit.	11
Optional Living Benefits.	11
Flexible Withdrawal Options	11
Why Pacific Life	12

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.

Get Ready for Retirement

Are you ready for retirement? Whether you are approaching the start of your retirement years or have already reached them, you need to ensure that your portfolio is prepared. Annuities are designed to be both a savings vehicle and a source of retirement income. They offer a number of choices that can help grow and protect your income in a way that can meet your needs.

With life expectancy increasing each year, receiving retirement income for as long as you live is an important consideration. The lifetime retirement income, guaranteed by an insurance company, is a valuable benefit that an annuity can provide.

What Is an Annuity

An annuity is a contract between you and an insurance company; you put money into the contract (purchase payments) and in return, it can provide a series of lifetime income payments. There are many different types of annuities, but the common benefits among all annuities are that they can (1) help you accumulate money for retirement through tax deferral, (2) provide monthly income that can be guaranteed to last for as long as you live, or (3) both.

Guarantees, including interest rates and subsequent income payouts, are backed by the claims-paying ability of the issuing company. However, these guarantees do not protect the value of the variable investment options, which are subject to market risk.

Think of an annuity as a personal retirement strategy that can help your money grow and make it last longer when you retire. Your money grows faster because you don't pay taxes on earnings until you actually withdraw them or until they are distributed to you.

Who's Who in an Annuity

How you structure your annuity will affect the income payments and death benefits. The following are the parties involved in an annuity contract.

Insurance Company

An insurance company issues the contract, provides contract information, allocates the money as instructed by the owner, and is responsible for the guarantees.

Owner

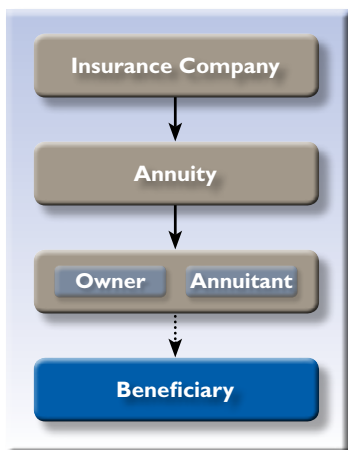
The owner makes the decisions about the annuity, such as how much money to invest and the way it should be allocated. The owner also names the annuitants and the beneficiaries.

Annuitant

The owner and the annuitant may or may not be the same person. Either way, it's the annuitant's life expectancy that is used to set the dollar amount of future annuity income.

Beneficiary

Usually, the beneficiary is the one who may have the right to receive the death benefit if the owner or annuitant dies before income payouts begin and there is no surviving owner. After annuity payouts begin, if the owner dies and the annuitant is still living, the beneficiary receives the payments. Naming a beneficiary is an important detail that is surprisingly overlooked by some contract owners. If you don't name one, the money in your annuity could end up going to your estate or being subject to probate. In this case, the distribution of your assets may have to be determined in court. In general, beneficiaries can be changed on a contract at any time, so it is important to keep this information current.



Types of Annuities

Single vs. Flexible-Premium

You may purchase an annuity with a lump-sum payment (a single-premium annuity) or make an initial purchase payment with subsequent contributions (a flexible-premium annuity).

Fixed vs. Variable

There are two basic categories of annuities you can purchase: fixed or variable.

If you are thinking about purchasing an annuity, some of the things you should consider include:

- ✓ What is your risk tolerance? How comfortable are you with market fluctuation?
- ✓ How soon will you need income?
- ✓ What are the fees associated with the contract?
- ✓ What guarantees are associated with the annuity?
- ✓ What is the claims-paying ability of the insurance company backing the annuity?
- ✓ When do you need access to the funds?



Deferred, Immediate, and Income

Many people purchase annuities because they want their money to grow tax-deferred while they save for retirement. These types of annuities are known as deferred annuities because you are allowing your money to grow before taking income.

People who would like to receive income right away may be interested in an immediate annuity. An immediate annuity can provide you with guaranteed income for life or a specified period of time, whichever you decide.

For people who would like a guaranteed income, but do not need it to start right away, there is another type of annuity known as a deferred income annuity that can provide guaranteed income at a future date. It can be an efficient way to maximize future income because the longer you wait to start to receive income payments, the higher your income amount will be. You receive the security of future income payments guaranteed to last as long as you choose; for a specific number of years, for your entire life, or for both your life and the life of your spouse.

Deferred

Fixed Annuities

A deferred fixed annuity offers a guaranteed minimum interest rate for the life of the contract. Additionally, the annuity may offer a higher interest rate guaranteed for an initial period, such as one, three, six, or 10 years. Generally, after the initial guaranteed period expires, a renewal rate will be declared by the insurance company. Declared renewal rates will always be set at the contract's guaranteed minimum interest rate or higher.

There are a variety of deferred fixed annuities available:

Book Value—a type of annuity that pays a declared rate of interest for a specified period.

Market Value Adjusted—also pays a declared rate of interest for a specified term, but full or partial withdrawals of the contract value (in excess of the specified free withdrawal amount) before the end of the guaranteed term will be adjusted upward or downward according to a formula that takes into account current interest rates.

Indexed—offers a variable rate of interest based on how the selected index or combination of indexes performs, but with no loss of principal¹ due to the index(es) performing poorly. The amount of interest that can be earned may be capped at a fixed percentage.

Variable Annuities

A deferred variable annuity is a long-term investment designed to help you grow your retirement assets and provide retirement income. It offers a range of investment options from professional money managers. The value of your variable annuity contract will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically portfolios that invest in stocks, bonds, money market instruments, or other alternative asset classes. Variable annuities offer the flexibility of investing in one product with multiple investment options.

Variable annuities also allow you to transfer assets among variable annuity investment options without having to pay taxes on gains. This allows you to make changes to help achieve your investment goals without current tax consequences. Some transfer limits may apply.

In a variable annuity, you can transfer among investment options or rebalance your assets to help achieve your long-term goals—without current tax consequences.

¹Fees will cause a reduction in principal.

Immediate and Income Annuities

Immediate and income annuities can help maximize and protect income for the rest of your life.

In return for your contribution, the insurance company provides you guaranteed pension-like income for your lifetime or for a specified period of time. You may choose to receive your first income payment anytime within the first year (immediate annuities) or after 13 months (income annuities). Because you are not invested in the market, you can be confident that your income amount will never vary because of market performance.

You can customize your income to meet your retirement planning needs by choosing from a variety of payout options. Income payments will differ based on several factors, including your age, gender, the amount you contribute, and when you start receiving income payments. Once the contract is issued, the income option and frequency selected cannot change. While some immediate and income annuities do offer some access to your money, it should be noted that immediate and income annuities are less liquid than deferred annuities.

Nonqualified vs. Qualified

You can purchase an annuity either with after-tax or pretax dollars.

Nonqualified

- ✓ Nonqualified annuities are purchased with after-tax dollars. This means that when you are ready to take annuity income payments, you won't owe tax on the portion that's considered a return of your original principal. You only pay taxes on earnings.
- ✓ Distributions from a deferred annuity (prior to annuitization) generally are taxed on a last in, first out (LIFO) basis. That is, any gain within the contract will be distributed before principal.

- ✓ Withdrawals during the income phase (annuity payments) will be taxed on an exclusion ratio basis. That is, each annuity payout will consist of a portion that is earnings and a portion that is a return of after-tax principal.
- ✓ There are no government-imposed limits to the amount of money you can contribute to your nonqualified annuity. However, there may be some company-imposed limits. Your contract will state a date by which you must begin to receive annuity income payments. For deferred annuities, it's typically a specific age, usually around age 95.

Qualified

- ✓ Annuities that fund IRAs and employer-sponsored qualified plans are typically purchased with pretax dollars. Qualified contracts and IRAs are subject to IRS contribution limits and other restrictions.
- ✓ Qualified plans are generally set up by employers for employees under the Internal Revenue Code—for example, 401(k) and 403(b) plans. It's important to know that qualified plans, as well as IRAs, are already tax-deferred. Therefore, a deferred annuity contract should be used to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. The other benefits of using an annuity to fund an employer-sponsored qualified plan or an IRA include the lifetime income and death benefit options. A variable annuity offers optional living benefits and the ability to transfer among investment options without sales or withdrawal charges. In fact, Congress has recognized the use of annuity contracts, particularly with respect to funding IRAs, in Internal Revenue Code Section 408(b).
- ✓ With a qualified contract or an IRA, when you are ready to retire and take money out, you will owe taxes on both the pretax amount you invested and the earnings.

Understanding Charges and Fees

A fixed annuity typically does not impose direct expense charges on the contract owner other than a withdrawal charge. A variable annuity, on the other hand, has several types of expenses: investment management fees for the underlying investment portfolios and annual contract charges in addition to surrender charges.

Withdrawal Charges

If a contract owner decides to surrender the contract or take withdrawals from a deferred annuity during the early years of the contract, withdrawal charges may apply. These charges typically range from 5–9% of the annuity value and generally decline to zero over a period of time, such as three to nine years. Withdrawal charges may also be called surrender charges.

Investment Management Fees

Investment management fees are charged for the management of the different funds within the variable annuity subaccounts. These fees will vary depending on the type of investment options you choose.

Contract Charges

Contract charges generally include administrative and distribution charges, and mortality and expense risk charges.

The administrative and distribution charges pay for all the services involved in the maintenance of variable annuity contracts, such as the preparation of the contract statement, mailings, and other customer services. Some variable annuities also impose an annual contract fee.



Why Choose an Annuity

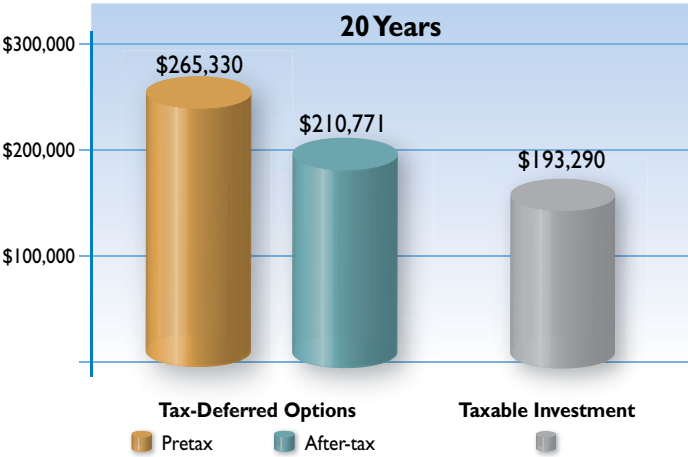
Tax Advantages

If you purchase an annuity with after-tax dollars, a portion of the income you receive after the contract has been annuitized (converted to annuity income payments) will be a nontaxable return of your investment until all the principal has been received. Or, if you purchase an annuity with pretax dollars, all the income you receive is taxable.

For deferred annuities, the power of tax deferral allows your money to grow faster because any earnings will compound without current income tax. Whether you purchase your annuity with after-tax (nonqualified) or pretax (qualified) dollars, you have the benefit of tax-deferred compounding.

The Power of Tax Deferral

This chart illustrates just how effective tax deferral can be. A \$100,000 initial purchase payment, compounded at 5% annually, grows with taxes deferred. Once taxes are paid on the lump-sum distribution after 20 years, the amount would be more than the amount accumulated in a taxable investment over the same time frame. Taxes are just one of the factors you should consider when making an investment selection.



Assumes a 33% ordinary income tax rate, assessed yearly on the taxable investment and at period-end on the tax-deferred investment. Actual tax rates may vary for different taxpayers and assets from that illustrated (for example, capital gains and qualified dividend income). Actual performance of your investment also will vary. Lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the investments shown. Consider your personal investment time horizon and income-tax brackets, both current and anticipated, when making an investment decision. Hypothetical returns are not guaranteed and do not represent performance of any particular investment. If annuity charges were included, the tax-deferred performance would be significantly lower.

Lifetime Income Payout Option

This feature helps alleviate the fear that you will outlive your income. It's an important benefit that annuities can provide.

Guaranteed Death Benefit

If you die before you begin to receive lifetime income or any other annuity payout option, your beneficiaries will typically receive at least the amount you originally invested, minus an adjustment for any withdrawals. Death benefit payouts will be subject to ordinary income tax.

Optional Living Benefits

Optional living benefits include principal protection, withdrawal, and income benefits for an additional charge. These optional features have greatly increased the flexibility and appeal of annuities as an option for retirement planning.

Flexible Withdrawal Options

A deferred annuity provides a number of withdrawal options. An immediate or income annuity may also provide withdrawal options after income payments begin, subject to limitations and state availability. It's important to be aware that withdrawals and other distributions of taxable amounts may reduce the value of the death benefit and any optional benefits. In addition, withdrawals and other distributions may be subject to income taxes and, if taken prior to age 59½, an additional 10% federal tax may apply. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. Withdrawal charges and a market value adjustment also may apply.

To learn more about annuities and whether an annuity is a good investment strategy for you, talk to your financial advisor.

Why Pacific Life

It's essential for you to choose a strong and stable company that can help you achieve your future income needs. Since 1868, individuals and their families have relied on the strength of Pacific Life to help protect their financial security.

- ✓ Pacific Life Insurance Company is organized under a mutual holding company structure and operates for the benefit of its policyholders and contract owners.
- ✓ We have achieved ongoing recognition¹ for high-quality service standards.
- ✓ We offer products that address market environments during all stages of your life.
- ✓ We maintain strong financial strength ratings from major independent rating agencies.

Ratings may change and do not apply to the safety or performance of the underlying variable investment options. For more information and current financial strength ratings, please visit our website.

While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company and do not apply to any underlying variable investment options. The broker/dealer from which this annuity is purchased, the insurance agency from which this annuity is purchased, and any affiliates of those entities make no representations regarding the quality of the analysis conducted by the rating agencies. The rating agencies are not affiliated with the above-mentioned entities nor were they involved in any rating agency's analysis of the insurance companies.

¹Recipient of multiple DALBAR Service Awards since 1997. Refer to www.DALBAR.com for more information regarding awards, certification, and rankings.

Pacific Life has more than 145 years of experience, and we remain committed to providing quality products, outstanding service, and stability to meet your needs today and throughout your lifetime.



This material is not intended to be used, nor can it be used by any taxpayer, for the purpose of avoiding U.S. federal, state, or local tax penalties. This material is written to support the promotion or marketing of the transaction(s) or matter(s) addressed by this material. 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.

You should carefully consider a variable annuity's risks, charges, limitations, and expenses, as well as the risks, charges, expenses, and investment objectives of the underlying investment options. This and other information about Pacific Life are provided in the product and underlying fund prospectuses. These prospectuses are available from your financial professional or by calling the toll-free numbers listed below. Read them carefully before investing.

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 company is solely responsible for the financial obligations accruing under the products it issues. Insurance product and rider guarantees are backed by the financial strength and claims-paying ability of the issuing company and do not protect the value of the variable investment options.

Variable insurance products are distributed by **Pacific Select Distributors, LLC** (member FINRA & SIPC), a subsidiary of Pacific Life Insurance Company (Newport Beach, CA). Variable and fixed annuity products are available through licensed third-party broker/dealers.

Mailing addresses:
Pacific Life Insurance Company
P.O. Box 2378
Omaha, NE 68103-2378
(800) 722-4448

In New York,
Pacific Life & Annuity Company
P.O. Box 2829
Omaha, NE 68103-2829
(800) 748-6907

www.PacificLife.com

I3096-15A