



# Life Insurance for Living Life. Protection Now. Income Later.

CLIENT GUIDE



**PACIFIC LIFE**

Pacific Life Insurance Company

# IMAGINE YOUR FUTURE



The financial security of your family and the future of your retirement may be impacted by three of these key financial risks. Ask yourself:

**1**

## **What if I die?**

Without my income, how will the bills get paid?



**2**

## **What if I live longer than I expected?**

Will I have enough assets and income for a long retirement?



**3**

## **What about taxes?**

How much net income can I expect after taxes?  
How can I potentially optimize my retirement portfolio for tax efficiency?



Pacific Life Insurance Company is licensed to issue insurance products in all states except New York. Product availability and features may vary by state.

Let's face it—life is full of risks. Fortunately, you can address some key financial risks with a properly funded cash value life insurance policy.

## VISUALIZE THE OUTCOME

Cash value life insurance may address these three financial challenges.

### 1 Mortality

In the event of your premature death, your family will receive the policy's death benefit tax-free<sup>1</sup> to help protect their financial security and all the dreams you shared.

### 2 Longevity

If you outlive your other sources of retirement income, a properly funded cash value life insurance policy may provide a source of tax-free<sup>2</sup> supplemental income.

### 3 Taxes

Supplement your income with tax-free<sup>2</sup> policy loans and withdrawals from your available cash value.<sup>3</sup>

1 For 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).

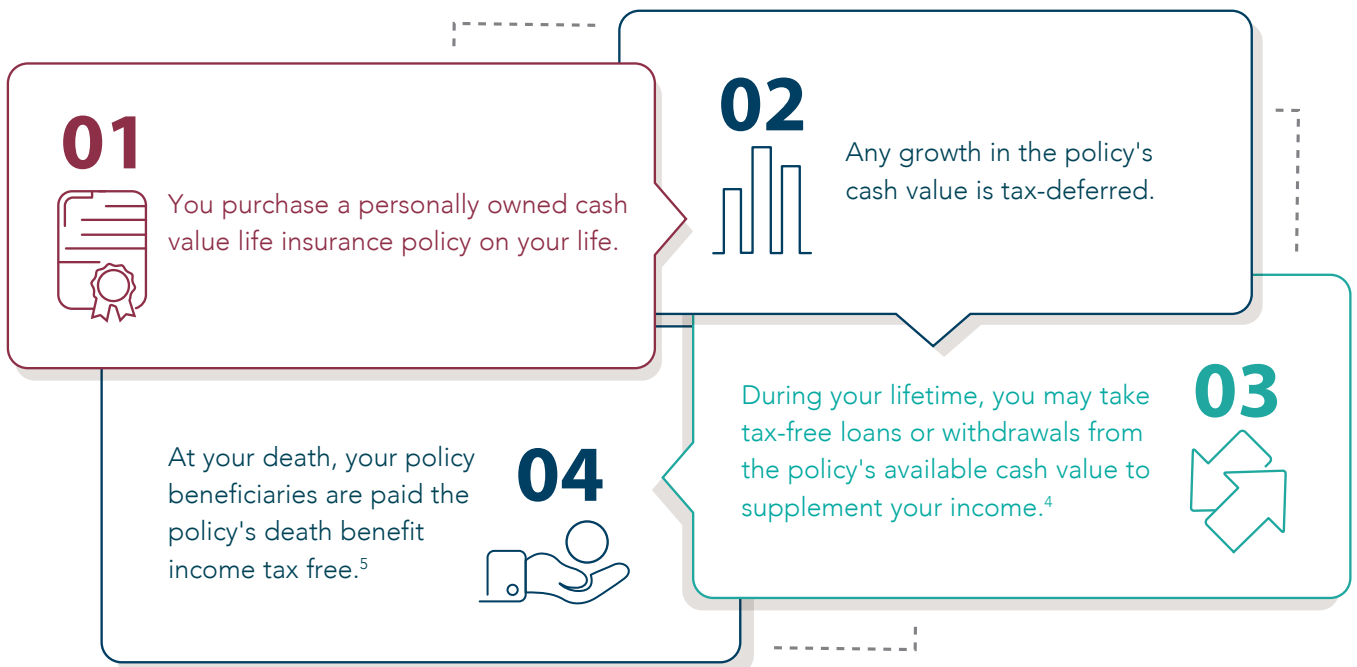
2 For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract.

3 Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

# UNDERSTAND THE BIG PICTURE

For income in retirement, you and your family may be unable to rely on your employers, your small business, or the government to provide adequate benefits. Cash value life insurance offers an independent alternative to help supplement your retirement income.

## How Cash Value Life Insurance Works for Protection Now and Income Later.



You can protect your loved ones and add cash value life insurance as a diversified, tax-advantaged asset to your financial portfolio.

<sup>4</sup> For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

<sup>5</sup> For 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).

## Retirement Income and Taxes

How will the assets below generally be taxed when you need to access them for supplemental retirement income?

### Assets in Retirement Plans

**Distributions generally taxed at income tax rates**

**(max federal rate = 37%)<sup>6</sup>**

- 401(k)
- Pension Plan
- Traditional IRA

### Assets Outside of Retirement Plans

**Distributions generally taxed at capital gains rates**

**(max federal rate = 20%)<sup>6</sup>**

- Stocks
- Mutual Funds
- Real Estate

### Assets You May Have Overlooked

**Income is generally tax free**

- Life insurance loans and withdrawals<sup>4</sup>
- Roth IRA Distributions
- Municipal Bond Interest



CONSIDER THE  
**RIGHT OPTION**

<sup>6</sup> Individual effective tax rates as of 2020. Source: Tax Cuts and Jobs Act of 2017.

# RECOGNIZE THE FULL SPECTRUM

Depending on your financial goals and retirement income needs, one or more of these options may be right for you. If you have maximized contributions to your qualified plans, life insurance may complement your existing financial portfolio by providing financial protection for your family or business today and supplemental retirement income in the future.

Financial Tool	Annual Limits on Contributions	Tax-Deductible Contributions	Tax-Deferred Accumulation	Income Tax-Free Distributions	Penalty Tax for Early Withdrawal	Income Tax-Free Death Proceeds
Traditional IRA	Yes	Yes**	Yes	No	Yes	No
Roth IRA	Yes	No	Yes	Yes††	Yes††	Yes††
Qualified Plan	Yes	Yes	Yes	No	Yes	No
CD*	No	No	No	No	No	No
Mutual Fund†	No	No	No	No	No	No
Municipal Bond‡	No	No	Yes	Yes	No	No
Individual Owned Deferred Annuity	No	No	Yes	No	Yes§§	No
<b>Life Insurance</b>	<b>No§</b>	<b>No</b>	<b>Yes</b>	<b>Yes††</b>	<b>No††</b>	<b>Yes***</b>

Income tax treatment includes the treatment of Capital Gains and Dividends. This chart excludes Estate Tax treatment. There are ways to structure your estate to help protect against this impact. Consult with your life insurance producer and independent tax advisor before purchasing any financial products.

**One or More of These Options  
May Be Right for You.**

- \* A Certificate of Deposit (CD) is FDIC insured.
- † Mutual funds may be subject to income tax and/or capital gains tax. Consult your tax advisor for more information.
- ‡ Municipal bonds: Generally, interest paid on municipal bonds is tax-free, but not all municipal bonds are exempt from federal and/or state income tax. Some bonds may be subject to capital gains tax at sale. Consult your tax advisor for more information.
- § Life Insurance: There is not a specific limit on dollars allocated to purchase life insurance; however, there are maximum premium limits determined by a specified policy face amount. A policy will qualify as life insurance if it meets the requirements of IRC Sec. 7702, which includes limits on the amount of premium that may be paid into a specific face amount and still qualify as life insurance.
- \*\* Traditional IRA: If you are covered by a qualified retirement plan at work, traditional IRA contributions are fully deductible only if your adjusted gross income falls within the following 2020 limits: single up to \$65,000; married filing jointly up to \$104,000. Source: Irs.gov, Dec. 2019 <https://www.irs.gov/retirement-plans/plan-participant-employee/2020-ira-contribution-and-deduction-limits-effect-of-modified-agi-on-deductible-contributions-if-you-are-covered-by-a-retirement-plan-at-work>.
- †† Roth IRA: A distribution from a Roth IRA generally is income tax-free if (a) it meets all the requirements for a qualified distribution (which include a 5-year waiting period and one of several additional requirements, one being that the distribution is made to a beneficiary on or after the death of the individual), or (b) it is a nonqualified distribution to the extent of after-tax contributions (basis) see IRC Sec. 408A. Early withdrawal penalty applies to earnings only.
- ‡‡ Life Insurance: For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.
- §§ Early withdrawal penalty applies to earnings only. The annuity issuer may also charge early a surrender fee.
- \*\*\* Life Insurance: For 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).

Is a cash value life insurance policy with income potential right for me?

## OUTLINE YOUR NEXT STEPS

Contact your life insurance producer to help you:

**1**

Protect your loved ones while you save and add a tax-diversified asset to your portfolio. To begin, select the type of life insurance policy that suits your risk tolerance and time horizon.

**2**

Structure the policy's ownership and beneficiaries. Typically, you are the owner and insured of the policy. As the owner, you designate the policy's beneficiaries.

**3**

Configure the policy's planned premiums to accept maximum premium payments relative to the desired death benefit. That way the policy's cash value has greater potential to grow over time.



Pacific Life, its affiliates, their distributors and respective representatives do not provide tax, accounting, or legal advice and any information contained in this material may not be relied upon by any taxpayer for the purpose of avoiding any tax penalties. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor or attorney.

*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.*

Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges. In general, additional premium is required to continue coverage of the policy. Policy may lapse if premium is insufficient to continue coverage.



## PACIFIC LIFE

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Pacific Life Insurance Company is licensed to issue insurance products in all states except New York. Product/material availability and features may vary by state. Insurance products and their guarantees, including optional benefits and any crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency, or their affiliates from which products are purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company.

Pacific Life Insurance Company's individual life insurance products are marketed exclusively through independent third-party life insurance producers, which may include bank-affiliated entities. Some selling entities may limit availability of some optional riders based on their client's age and other factors. Your life insurance producer can help you determine which optional riders are available and appropriate for your clients.

Investment and Insurance Products: Not a Deposit	Not Insured by any Federal Government Agency	
Not FDIC Insured	No Bank Guarantee	May Lose Value