

UNDERSTANDING YOUR POLICY LOAN CHOICES



Standard Loans vs. Alternate Loans

Pacific Life Insurance Company

Cash value life insurance policies help protect the people who matter from the financial impact of your death. These policies may also provide supplemental income through tax-free¹ policy loans and withdrawals from the policy's available cash surrender value. Certain Pacific Life Insurance Company policies offer two types of policy loans: standard and alternate.^{2,3} Here are how the two loan types compare.

	Standard Loan	Alternate Loan
Loan Amount Based On	<ul style="list-style-type: none"> Policy's cash surrender value 	<ul style="list-style-type: none"> Only the policy's cash surrender value in the policy's eligible indexed account (varies by product)
Impact of Loan on Accumulated Value	<ul style="list-style-type: none"> Amount deducted from the accumulated value and allocated to the loan account 	<ul style="list-style-type: none"> Amount remains in the eligible indexed accounts' accumulated value, earning any indexed interest crediting as segments mature
Annual Interest Charged on Loaned Amounts	<ul style="list-style-type: none"> Policy's stated guaranteed loan interest charge Generally, 2.25% in most products 	<ul style="list-style-type: none"> Currently declared rate that may change over time, subject to a guaranteed maximum rate but may vary based on product and state
Interest Credited to Policy's Accumulated Value	<ul style="list-style-type: none"> Policy's currently declared rate (subject to a guaranteed minimum) 	<ul style="list-style-type: none"> Eligible indexed accounts' accumulated value, including Alternate Loan amount, receives any indexed interest crediting
Net Loan Cost (difference between the interest charged and credited)	<ul style="list-style-type: none"> Guaranteed net loan cost that may vary by product Current net loan cost may be [0% in years 6+] 	<ul style="list-style-type: none"> Varies based on how the eligible indexed accounts' crediting rate compares to the loan interest rate charged

Loan Interest charged, loan interest credited, and eligible indexed accounts may vary by product and state.

Ask your financial professional⁴ for the following to help understand your policy's loan options better:

- 1. Policy Loan Details Report:** This report shows the impact of standard loans and alternate loans on the policy's accumulated value, death benefit, and policy debt.
- 2. Interest Rate Randomizer:** This tool helps illustrate policy values when interest crediting rates fluctuate instead of remaining constant, for an illustration that reflects a potentially more realistic crediting rate environment than illustrating a level interest crediting rate in all years.

¹ 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. See IRC §§ 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

² Alternate loans are automatically included with certain cash value life insurance policies via the Alternate Loan Rider (Form #R10ALR) or Alternate Loan Rider 2 (Form series R20ALR2, S20ALR2, varies based on state of policy issue).

³ Riders will likely incur additional charges and are subject to availability, restrictions, and limitations. Clients should be shown policy illustrations with and without riders to help show the rider's impact on the policy's values.

⁴ In order to sell life insurance products, a financial professional must be a licensed and appointed life insurance producer.

Standard, Alternate, or Both?

For policies offering alternate loans, policyowners may have both standard and alternate loans at the same time. You have the choice of taking one type of loan, both types of loans, or switching between loan types once every 12 months, subject to certain restrictions. Any policy distribution or loan reclassification that reduces an indexed account that is not a part of a systematic distribution program (like the Automated Income Option) will result in a 12-month lockout period in which no new allocations may occur from the fixed account to the indexed accounts.

Consider the Protection of the Overloan Protection 3 Rider

The Overloan Protection 3 Rider⁵ is potentially available to help protect a policy with a large loan balance from lapsing. The rider is automatically added to eligible policies. It has no effect on the policy until the policyowner chooses to exercise it. Once exercised, the rider helps protect the policy from lapse even if the policy debt exceeds the accumulated value. Since no new premiums, policy loans, withdrawals, or benefit

changes are allowed after rider exercise, it may be most effective to exercise the rider at the end of clients' income-drawing years. There is a one-time fee to exercise the rider and certain eligibility limits and restrictions apply in order to exercise the rider. Request a personalized illustration for details.

Alternate Loan Risks

Alternate loans offer more potential income but also more risk. If the policy debt amount exceeds the policy's accumulated value, the policy will lapse and may trigger a taxable event. This risk is greater with alternate loans than with standard loans due to the fluctuation of index-based interest crediting potential. Because the net loan cost for alternate loans could be as high as 7.50% in periods of market downturns, a policy may perform worse due to higher net loan costs as compared to standard loans. Note that while the illustration typically reflects constant rates for indexed interest crediting and alternate loan interest charged, actual policy performance will be different.

⁵ Overloan Protection Rider 3 (Form series R15OLP, R15OLP SP, varies based on state of policy issue). The potential tax consequences of the Overloan Protection 3 Rider have not specifically been ruled on by the IRS or courts. Clients should consult their tax advisors.

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Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.



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