

Qualified Plans

Using Life Insurance



PACIFIC LIFE

Pacific Life Insurance Company

Maximizing Your Qualified Plan Assets



BEYOND RETIREMENT — TAKING CARE OF ONE'S HEIRS

If a qualified plan participant were to die prior to accumulating sufficient retirement savings, the assets in the qualified plan may not be enough to adequately provide for the participant's surviving spouse. Life insurance can help to make up the shortfall by providing a survivor death benefit.

USING PRE-TAX DOLLARS TO PURCHASE LIFE INSURANCE

Purchasing life insurance inside a qualified plan may provide a meaningful death benefit to the participant's heirs while minimizing the current out-of-pocket costs to the participant. Please note that life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

The participant should discuss with his or her legal and tax advisors and the qualified plan's third-party administrator (TPA) whether or not life insurance purchased inside a qualified plan is appropriate in light of the participant's financial and estate planning goals. Note that the plan document must allow for life insurance to be purchased inside the plan. If it is appropriate, prior to retirement, the participant directs the TPA to use a portion of his or her qualified plan assets to fund a life insurance policy on his or her life. By having the plan purchase and own the life insurance policy, the participant is able to use pre-tax dollars to fund the policy.

It is important to emphasize that the amount of plan contribution that can be allocated to the life insurance premium and the amount of death benefit that can be paid out in the event of death are limited under the "incidental death benefit" rules for qualified plans. Additionally, the use of life insurance in a qualified plan must meet certain non-discrimination rules. Participants are urged to discuss these limitations and rules with their qualified plan TPA before placing life insurance inside a qualified plan.

Experienced qualified plan TPAs can assist participants in selecting an appropriate plan design, as well as offer help, together with the plan's legal and tax advisors, in navigating the myriad of qualified plan rules and regulations to achieve specific objectives.

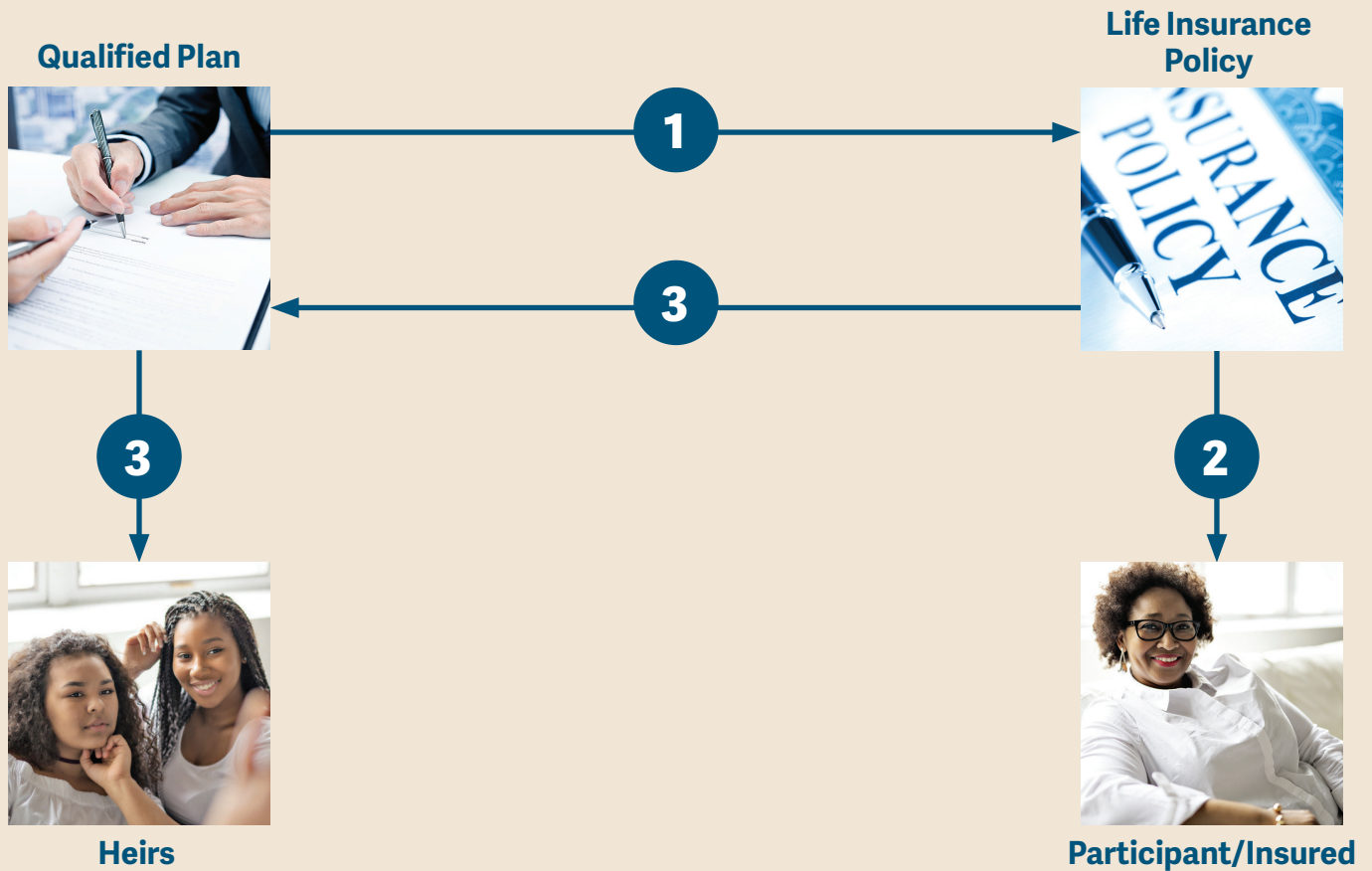
Once an appropriate amount of life insurance is purchased by the plan, the participant is benefited by current death benefit protection. The participant must therefore include, in his or her taxable income, the annual cost of life insurance protection (also known as the reportable economic benefit or REB). During a participant's normal working years, this cost is relatively small compared to the size of the total premium. Including this REB amount as taxable income will assure favorable tax treatment if the participant were to die while the policy is inside the plan.

At the participant's death, assuming the participant included the REB as taxable income, a portion of the policy's death benefit will be paid to the heirs income tax-free.¹ The portion of the death benefit equal to the cash value of the policy is paid to the plan and will assist in funding the retirement plan balance. This cash value portion of the death benefit (less the cumulative REB amounts accounted for), when ultimately paid out to the beneficiaries as a retirement plan benefit, is income taxable. The death benefit in excess of that amount, however, is paid income tax-free¹ to the named beneficiaries at the time of the participant's death. If the participant failed to include the REB costs as additional income, the entire death benefit may be income taxable.²

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). Per Treas. Reg. Sec. 1.72-16(c)(2)(iv), if the participant included the cost of life insurance protection as taxable income, a portion of the death benefit proceeds (that amount above the cash value) is treated as excludable benefits under IRC Sec. 101(a)(1).

² Treas. Reg. Sec. 1.72-16(c)(4).

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.



1 PREMIUMS

In order to provide additional death benefit coverage to the plan participant, the plan TPA, with consent of the participant, uses pre-tax dollars to purchase a life insurance policy on the participant's life.

2 REPORTABLE ECONOMIC BENEFIT (REB)

Each year, the participant must pay income taxes on the cost of current life insurance protection (REB).

3 DEATH BENEFIT

The plan is owner and beneficiary of the policy and as such will receive the death benefit proceeds. The life insurance death benefit paid to the qualified plan is then passed on to the participant's heirs. A portion of the death benefit proceeds received by the heirs may be income tax-free.¹

BENEFITS FOR THE PARTICIPANT

- The plan trustee, with the consent of the participant, is able to purchase a life insurance policy using pre-tax qualified plan dollars.
- The life insurance policy provides a meaningful death benefit to the participant's heirs at a current cost that may be considerably less than the actual premiums.
- If the plan is a defined benefit type of qualified plan, the purchase of life insurance inside the plan may increase the business's maximum allowable contribution each year.
- A portion of the life insurance death benefit is paid income tax-free³ to the participant's heirs.
- At some point in the future, the participant may be able to buy the policy from the qualified plan for the policy's fair market value. If a purchase occurs, the policy can be used for estate planning (e.g. gifted to an irrevocable trust), or, for supplemental retirement income needs.

CONSIDERATIONS FOR THE PARTICIPANT

- A policy inside a qualified plan is includable in the participant's taxable estate. If, however, the beneficiary of the life insurance benefit is the participant's spouse, the death benefit may avoid estate taxation at the death of the participant through the unlimited marital deduction.⁴
- There is a limit on the amount of life insurance that may be held inside a qualified plan. A participant's wealth transfer needs may require additional life insurance purchased outside the qualified plan.
- Each year the participant is taxed on the current cost of life insurance protection. This amount generally increases as the participant gets older.



The Power of Pacific

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⁴ According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are all \$10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are scheduled to revert to \$5,000,000 per person (indexed for inflation for tax years after 2011).

This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life as we cannot and do not provide financial, legal or tax advice.

The type and amount of life insurance policies applied for must be compatible with the terms and provisions of the qualified plan. Pacific Life does not provide qualified plan administrative services. Such administrative services include, but are not limited to: (1) the preparation and delivery of plan documents, forms, statements and reports; (2) the determination of funding, distribution amounts and investment strategies; or (3) other plan administration services. The following information is simply to assist in illustrating a life insurance policy. The use of such a policy must be discussed with the qualified plan administrator and with your legal and tax advisors. Please consult with your legal and tax advisors to determine if placing life insurance inside your qualified plan is appropriate given your overall financial and estate planning goals.

VITAL INFORMATION

Participant's Name: _____

Participant's Date of Birth: _____ Gender: _____

Participant's Risk/Health Status: _____

Income Tax Bracket: _____

Retirement Account Balance: _____

Does the qualified plan document permit the purchase of life insurance? Y N

Are there any restrictions on the type or amount of life insurance that may be purchased? Y N

If yes, please explain: _____

Note: Any life insurance policy illustrations must be run by the qualified plan's third-party administrator (TPA), as only the TPA has the ability to calculate the amount of life insurance that may be purchased.



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