PACIFIC LIFE

Understanding Trusts

A Summary of Trusts for Estate Planning

This content includes a discussion of strategies that may include annuities.

Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company and in all states by Pacific Life & Annuity Company. Product/material 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

Get Ready for Retirement

If your retirement-planning objectives include managing estate taxes and leaving a legacy for heirs, a trust may be an effective strategy to help you balance these goals.

What Is a Trust

A trust is an arrangement in which a trustee holds and manages money or other assets for the benefit of another. Trusts may be created to accomplish broad or specific goals:

- Personal and financial safeguards for family and other beneficiaries
- A means of controlling or administering your assets
- Simplifying the estate administration process by bypassing the probate process
- Deferring or reducing taxes

Who's Who in a Trust

Grantor: The person who creates the trust and provides the trust property. This person also may be referred to as the trustor, donor, or settlor.

Trustee: The individual, institution, or organization that holds legal title to the trust property. In some cases, a grantor can serve as the trustee. It also is possible for two or more trustees to serve together, or for both an individual and an organization to act as co-trustees. Separate trustees also may be named to manage different parts of the trust.

Beneficiary: The person or entity entitled to receive the benefits or advantages (such as income) of a trust. In general, any person or type of entity may be a beneficiary, including individuals, charities, or organizations.

Types of Trusts

Basically, there are two types of trusts:

- A **testamentary trust** is part of an individual's will and is established at an individual's death.
- A **living trust** is established during an individual's lifetime and is sometimes referred to as an "inter-vivos" trust.

Living trusts can be either revocable or irrevocable.

- **Revocable living trusts** are often established to simplify the management and distribution of your assets. In a revocable living trust, you (the grantor) own the assets and are typically the trustee, meaning you have control. The terms of the trust provide that the trust property be used for your (the grantor's) benefit during your life. After your death, the trust becomes irrevocable. Assets held by the trust are not subject to your state's probate process, so the distribution of trust property is often accomplished more quickly. In addition, the terms of how assets are distributed remain private.
- A trust is **irrevocable** when the grantor permanently transfers property to the trust and cannot alter, amend, revoke, or terminate the arrangement or reclaim the property. Appreciated assets in the trust generally are not subject to estate taxes.[1]

[1]According to the American Taxpayer Relief Act of 2012, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all $13,990,000 for 2025; the maximum estate, gift, and GST tax rates are 40%. 26 USC Section 1 note; Section IRC 671.

Taxation

Income-tax consequences with respect to trusts can vary depending on whether the trust is considered a grantor or non-grantor trust under the Internal Revenue Code. Income generated inside a grantor trust is taxable to the grantor. Income inside a non-grantor trust is taxable to the trust itself, and the tax is paid using trust assets. A revocable trust is considered a grantor trust because, for example, the grantor has the power to revoke the trust. An irrevocable trust can be structured as a grantor trust or non-grantor trust depending on the powers retained by the grantor over the trust assets. A tax and legal advisor should always be consulted when structuring a trust so it meets the grantor's goals and circumstances. For example, a grantor may prefer that an irrevocable trust be structured as a grantor trust to avoid the compressed income-tax schedule that could apply to a non-grantor trust.

2025 General Tax Rates

Income-Tax Rates	Single Filer	Married Filing Jointly	Trusts and Estates	3.8% Net Investment Income Tax (NIIT)[1]
10%	Up to $11,925	Up to $23,850	$3,150	No
12%	$11,926 – $48,475	$23,851 – $96,950	N/A	No
22%	$48,476 – $103,350	$96,951 – $206,700	N/A	No
24%	$103,351 – $197,300	$206,701 – $394,600	$3,151 – $11,450	No
32%	$197,301 – $250,525	$394,601 – $501,050	N/A	May Apply
35%	$250,526 – $626,350	$501,051 – $751,600	$11,451 – $15,650	Yes
37%	More than $626,351	More than $751,601	More than $15,651	Yes

Capital Gains and Qualified Dividends Tax Rates

Filing Status	0%	15%	20%
Single Filer	Up to $48,350	$48,351 – $533,400	More than $533,401
Married Filing Jointly	Up to $96,700	$96,701 – $600,050	More than $600,051

Source: Internal Revenue Service, "*Revenue Procedure 2024-40." December 15, 2024*.

[1]NIIT may apply if modified adjusted gross income (MAGI) exceeds these thresholds:
1. Single Filer: $200,000
2. Married Filing Jointly: $250,000
3. Trusts and Estates: $15,400

Table provided for informational purposes only.

26 CFR 1 and 602, Treasury Regulation § 1.1411–10(g). Effective December 2, 2013.

Frequently Asked Questions

When considering a trust, it is important to consult your tax and legal advisors.

Q. Do I need a trust?

A. It depends on your specific situation. If you're a single individual or a married couple without children, and without significant assets, a living trust is generally not needed. On the other hand, the greater the value of your assets, especially if you own real estate, the more a living trust may be warranted. Also, a living trust could be an important document to have in the event you suffer from a major accident or illness and are unable to make decisions independently going forward.

Q. What is the difference between a trust and a will?

A. Your will states how and to whom everything in your estate will be distributed upon your death and is subject to probate. A trust dictates how and to whom assets in your trust will be distributed upon your death and may not be subject to probate.

Q. What is probate?

A. Probate is the legal process of proving the validity of a will in court once an individual dies. The process also involves identifying the individual's assets, having property appraised, paying off any debts and taxes of the individual, and distributing the remaining property as directed in the will. Administering an individual's probate estate can be expensive (for example, attorney, executor, and accounting fees) and can be a lengthy, time-consuming process. If an individual dies without a will, state default rules (intestate laws) will determine how assets are distributed.

Q. If I establish a living trust, will my assets avoid probate?

A. Using a living trust is one way to have assets avoid probate. The first step is to create the trust agreement. Once the trust agreement is signed, you will need to work with your attorney and/or tax advisor in identifying which assets are appropriate to re-title (or change ownership) to the name of the trust. Once the trust becomes owner of the asset (and not you), only then will the property avoid probate.

Q. What do I need to set up a living trust?

A. It is important to consult with an attorney to set up a trust. The attorney will assist you with determining what type of trust, who the trustee and successor trustee should be, who the beneficiaries will be, and what assets should be included in the trust.

Q. Who should be named as trustees?

A. Typically you will name yourself as trustee, and if you're married, you may name your spouse as co-trustee. A trustee must be a person older than 18 years of age, or an entity such as a bank, attorney, or trust company. You may also want to name a successor trustee who would take over upon your death.

Q. What property can I put in my living trust?

A. Almost everything you own can be placed into your trust, with the goal to avoid the probate process upon your death. But you may retain ownership of assets that already avoid probate because they have beneficiaries, like life insurance, annuities, and retirement accounts. These types of assets do not need to be added into your trust to avoid probate.

Q. How often should I update my living trust?

A. As a general rule, you should review and consider changing your trust with your legal advisor anytime there is a significant life event or change to your goals and objectives.

Q. Am I required to file a tax return for my revocable living trust?

A. You typically do not need to file a tax return for a revocable living trust that is taxed as a grantor trust. Since you control and are permitted to revoke your living trust, it is treated as your income and your trust identification number remains your Social Security number.

Q. Am I required to record my trust with any government agency?

A. You are not required to record your trust with any government agency. A trust is a private document that will remain private even after your death and distribution of your estate.

Q. Can a trust own a deferred annuity?

A. Yes. However, under current law, a nonqualified deferred annuity that is owned by a non-natural person is generally not entitled to tax deferral. An exception to this rule is for trusts and other entities that are acting as agents for natural persons. Whether or not a trust is acting as an agent for a natural person is a legal question that must be determined on a case-by-case basis. However, the IRS has provided some insight through private letter rulings.[1]

> If you decide that an annuity would make sense as an income-generating asset in a trust, you may want to consider a deferred annuity.

It is advisable that the trustee appointed not be the financial professional. A financial professional who is paid a commission on the sale of an annuity contract represents both his or her personal interest and the interests of the trust, creating a conflict of interest.

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, beneficiary benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

A beneficiary benefit is referred to as a death benefit in the prospectus.

[1]Internal Revenue Service. Private Letter Ruling (PLR-140901-10). Department of the Treasury. March 16, 2011.

Q. Can a trust own a deferred annuity? (cont.)

A. With a non-grantor trust (managed by the trustee), one important indicator, according to the IRS in PLR 202031008, as to whether the trust is acting as an agent for a natural person is to review the trust beneficiaries—primary, contingent, remainder, etc. If any named beneficiary is a non-natural person, the trust could be deemed to be acting as an agent for that non-natural person and is not entitled to tax deferral on the annuity. However, if the trust is a grantor trust (managed by the grantor), one should look to the grantor.

Because of this rule, trust-owned nonqualified annuities give up some of the benefits of annuities. Spousal continuation of an annuity contract, for example, is not available when a trust is the owner, because a trust doesn't have a spouse. Also, beneficiary benefit payouts over a life expectancy are not available to a trust because it does not have a life expectancy. It's important to note that non-grantor trusts may not use the age 59½ exception for the additional 10% federal income tax on early withdrawals. This is only available for grantor trusts. A trust-owned annuity can be a complex strategy and should be carefully discussed with tax and legal counsel.

Why a Deferred Annuity

A deferred annuity is a long-term contract between you and an insurance company that helps 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.
- Convert your assets to guaranteed, lifetime retirement income beginning on a future date.
- Leave a financial legacy through a guaranteed beneficiary benefit.

Annuity withdrawals and other distributions of taxable amounts, including beneficiary 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 income tax may apply. A withdrawal charge also may apply. Withdrawals will reduce the contract value and the value of the beneficiary benefits, and also may reduce the value of any optional benefits. Guarantees, including optional benefits, are subject to the issuing company's financial strength and claims-paying ability.

Why Pacific Life

Pacific Life has nearly 160 years of experience and we remain committed to providing quality products, service, and stability to meetyour needs today and throughout your lifetime.

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 recognition[1] for high-quality service standards.
- We offer products that address market environments during all stages of your life.
- Pacific Life has been named one of the 2024 World's Most Ethical Companies®[2] by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices.
- 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 PacificLife.com.

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

[2]Based on the Ethisphere Institute's Ethics Quotient®. "World's Most Ethical Companies" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.

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. The independent third party from which this annuity is purchased, including the broker/dealer, 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.

To learn more about trusts, speak with
your financial professional or visit our website.

PacificLife.com

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.

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.

Insurance product and rider guarantees, including optional benefits and any fixed crediting rates or annuity payout rates, are backed by the financial strength and claims-paying ability of the issuing insurance company and do not protect the value of the variable investment options. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased, or any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

Pacific Life refers to Pacific Life Insurance Company and its subsidiary Pacific Life & Annuity Company. Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company and in all states by Pacific Life & Annuity Company. Product/material availability and features may vary by state. Each insurance company is solely responsible for the financial obligations accruing under the products it issues.

The home office for Pacific Life & Annuity Company is located in Phoenix, Arizona. The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

VLC0009-0225
2/25 E228

24-248A

THE OFFICIAL SPONSOR
OF RETIREMENT®