

09 SEP 2022

# Fitch Affirms Pacific LifeCorp's Ratings; Outlook Stable

Fitch Ratings - Chicago - 09 Sep 2022: Fitch Ratings has affirmed the ratings of Pacific LifeCorp (PLC) and its subsidiaries, including Pacific Life Insurance Company (PLIC). The Rating Outlook is Stable. Additionally, Fitch has assigned an 'A-' rating to PLC's new senior unsecured issuance, which is consistent with the company's outstanding senior unsecured notes and reflects standard notching under Fitch's criteria.

## Key Rating Drivers

**Favorable Company Profile:** PLC is one of the leading providers of individual life insurance and retirement savings products in the U.S. The company maintains a strong competitive position within the affluent market and benefits from an extensive distribution network. PLC has made meaningful progress in diversifying its revenues and earnings away from legacy variable annuities (VAs).

**Very Strong Statutory Capital:** Fitch views the capitalization of Pacific Life Insurance Company (PLIC), PLC's key operating subsidiary, as very strong based on its RBC ratio of 586% at YE 2021 and a Prism score of 'Extremely Strong' at YE 2021. PLIC's total adjusted capital (TAC) increased 6% through YE 2021 to \$12.6 billion. PLC's financial leverage ratio dropped modestly to 18%. PLC's total financing and commitments (TFC) ratio was flat at 0.8x at YE 2021.

**Reduced RBC Volatility:** PLC diversified and de-risked its product portfolio and strengthened its VA hedging program, which should diminish its capital impact from significant equity market deterioration. The company also reinsures a portion of its VA business to third-party reinsurers.

**Strong Earnings:** In 2021, Pacific Mutual Holding Company reported net income of \$1.102 billion, up from a loss of \$671 million in 2020. The results reflect strong investment performance, offset by assumption changes and higher claims due to the pandemic.

**Moderate Investment Risk:** Fitch views the overall quality of PLC's investment portfolio as generally good, but notes the company's above-average exposure to corporate bonds rated 'BBB' could have a material effect on earnings and capital in a severe credit market downturn. PLC also maintains material exposure to commercial mortgage loans, although Fitch believes the company has substantial headroom for losses as a result of pandemic-related disruptions.

**Macroeconomic Environment:** Sustained macroeconomic disruptions, including sustained equity market volatility, rapidly rising interest rates, and the potential for increased credit losses and impairments would have a negative, but modest, impact on PLC, although Fitch does not expect a

material impact to either earnings or capital over the near term.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A material change in business risk profile that indicates a risk appetite lower than the life insurance sector as a whole;

--Return on equity above 10% and GAAP based fixed-charge coverage maintained at or above 10x;

--Financial leverage of 15% or less.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Deterioration in Prism capital model score below 'Very Strong';

--Financial leverage ratio sustained at or above 23%;

--Significant earnings and capital volatility, such as a 10% or more drop in TAC;

--The Short-Term ratings could be downgraded if the corresponding Long-Term ratings were downgraded. The Short-Term ratings could also be downgraded if either of Pacific Life's ST-DSCFF or ST-ALLM scores fell below 'aa'.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## Fitch Ratings Analysts

### Douglas Baker

Director  
 Primary Rating Analyst  
 +1 312 368 3207  
 Fitch Ratings, Inc. One North Wacker Drive Chicago, IL 60606

### David Marek

Director  
 Secondary Rating Analyst  
 +1 212 612 7866

### Brad Ellis, CFA

Senior Director  
 Committee Chairperson  
 +1 312 368 2089

## Media Contacts

### Sandro Scenga

New York  
 +1 212 908 0278  
 sandro.scenga@thefitchgroup.com

## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Pacific Life Global Funding II			
• senior secured LT	AA-	Affirmed	AA-
Pacific Life Re Limited	Ins Fin Str AA- ●	Affirmed	AA- ●
Pacific Life Insurance	LT IDR A+ ●	Affirmed	A+ ●

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Company				
	ST IDR	F1+	Affirmed	F1+
	Ins Fin Str	AA- ●	Affirmed	AA- ●
	Ins Fin Str ST	F1+	Affirmed	F1+
• subordinated		A	Affirmed	A
• senior unsecured	ST	F1+	Affirmed	F1+
Pacific Life & Annuity Company	Ins Fin Str	AA- ●	Affirmed	AA- ●
Pacific LifeCorp	LT IDR	A ●	Affirmed	A ●
• senior unsecured	LT	A-	Affirmed	A-
• senior unsecured	LT	A-	New Rating	
Pacific Life Short Term Funding, LLC				
• senior	ST	F1+	Affirmed	F1+

ENTITY/DEBT	RATING	RECOVERY	PRIOR
	secured		

## RATINGS KEY OUTLOOK WATCH

POSITIVE	+	◇
NEGATIVE	-	◇
EVOLVING	◊	◆
STABLE	○	

## Applicable Criteria

[Insurance Rating Criteria \(pub.15 Jul 2022\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism U.S. Life Insurance Capital Model, v1.3.1-2021 (1)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

Pacific Life & Annuity Company	EU Endorsed, UK Endorsed
Pacific Life Global Funding II	EU Endorsed, UK Endorsed
Pacific Life Insurance Company	EU Endorsed, UK Endorsed
Pacific Life Re Limited	EU Endorsed, UK Endorsed

Pacific Life Short Term Funding, LLC      EU Endorsed, UK Endorsed

Pacific LifeCorp      EU Endorsed, UK Endorsed

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