S&P Global Ratings

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Pacific LifeCorp

Primary Credit Analyst:
Katilyn Pulcher, ASA, CERA, New York + 1 (312) 233 7055; katilyn.pulcher@spglobal.com

Secondary Contacts:
Heena C Abhyankar, New York + 1 (212) 438 1106; heena.abhyankar@spglobal.com
Divya Shastry, Mumbai; divya.shastry@spglobal.com

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Anchor	aa-
Business Risk	**Very Strong**
Competitive position	Very strong
IICRA	Low
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	aa-
Support	**0**
Group support	0
Government support	0

=

Rating	
AA-/Stable/--	Financial strength rating
A-/Stable/--	Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Very strong competitive position with solid market positions in the U.S. individual life and annuity markets	Exposure to legacy variable annuities, albeit declining as a percentage of assets
Well-diversified earnings with contributions from life, retirement, institutional, and reinsurance businesses	Meaningful investments in 'BBB' rated corporate bonds and large commercial real estate loans
Excellent capitalization with 'AAA' level redundancy per our year-end 2021 risk-based capital model	Uncertain macroeconomic conditions

Pacific LifeCorp's capital position has materially improved, and we expect it will remain very strong. We recently received new information about the contractual arrangements for Pacific Life's longevity swap business that led us to view its capital as significantly redundant at the 'AAA' level, per our risk-based capital (RBC) model. Although a capital redundancy at the 'AAA' level is likely sustainable in the short term, Pacific Life's management team has committed to maintaining a redundancy at the 'AA' confidence level over the long term, consistent with its business growth strategy. As such, we project its financial risk profile will remain very strong. Pacific Life also holds sufficient liquidity at the holding company, as demonstrated by $710 million in cash and short-term investments as of third-quarter-end 2022.

Pacific Life's funding structure continues to support the ratings, despite rising interest rates placing pressure on its financial leverage ratio. On an unadjusted basis, Pacific Life's financial leverage ratio is projected to hover around 40%. However, we do not expect the unrealized investment gains or losses on its balance sheet to be realized because we expect the investments to be held to maturity, and thus, we view its shareholders' equity as understated. After adjusting out the current sizable unrealized loss position, we view the leverage ratio as sustainable around 20% over the next two years.

A looming recession or slowcession could lead to credit losses, increased required capital charges, or lower earnings, but we think the company is well positioned to handle this macroeconomic stress. With meaningful exposure to 'BBB' rated corporate bonds and large commercial real estate loans, Pacific Life could face large increases in required capital charges if the anticipated recession happens in the next two years and leads to credit stress. However, we expect Pacific Life will be able to absorb this noise by using its capital buffer at the 'AAA' level. We also expect the group could withstand significant earnings stress, given its low fixed charges and dividends relative to EBITDA.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' view that the group will maintain its very strong business risk and capital redundancy at least at the 'AA' level, per our RBC model. We expect its consolidated financial leverage to remain around 20% and fixed-charge coverage above 6x over the next two years.

Downside scenario

We could lower the ratings over the next 12-24 months if Pacific Life's:

- Competitive position deteriorates due to a weakening market position,
- Operating performance declines significantly and is consistently below peers', or
- Earnings become significantly less diversified.

We may also lower our ratings if the group adopts a more aggressive investment policy or if the quality of its overall investment portfolio deteriorates and capital is no longer expected to remain redundant at the 'AA' level.

Upside scenario

We could raise our ratings in the next 24 months if we believe capital adequacy will remain redundant at the 'AAA' level, per our RBC model, over the long term.

Assumptions

- Real GDP growth of negative 0.1% in 2023 and 1.4% in 2024
- Core Consumer Price Index growth of 4.7% in 2023 and 2.8% in 2024
- Consumer spending growth of 0.8% in 2023 and 1.2% in 2024
- Unemployment rate of 4.9% in 2023 and 5.3% in 2024
- 10-year Treasury note yield of 3.9% in 2023 and 3.4% in 2024

Source: "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," published Nov. 28, 2022

Table 1

Pacific LifeCorp--Key Metrics					
(Mil. $)	**2023f**	**2022f**	**2021**	**2020**	**2019**
Net income (GAAP)	800-1,000	750-950	1,252	(658)	864
Financial leverage (GAAP) (%)	<25	<25	15	15	13
EBITDA fixed-charge coverage (GAAP) (x)	>6	>6	9.3	4.3	12.1
Net investment yield (statutory) (%)	3.0-4.0	3.0-4.0	3.4	3.6	4.8
S&P Global Ratings' capital adequacy/redundancy	AAA	AAA	AAA	AAA	AAA

f--Forecast.

Business Risk Profile: Very Strong

We view Pacific Life's competitive position as very strong based on its well-recognized brand, solid market share, and diversified product offerings. The group primarily caters to the affluent market and relies on a well-diversified distribution network consisting of independent producers and planners, financial advisers, and financial institutions (regional banks and wirehouses). At the same time, the company is growing its digital capabilities. Pacific Life is among the top 10 in individual life insurance companies in the U.S and remains the leading player in indexed universal life. The group has a well-established presence in annuities and institutional offerings.

Over the past decade, Pacific Life has rebalanced its variable annuity (VA) sales to include more investment-only VAs, as well as some VAs with accumulation benefits. It has achieved a strong position in fixed indexed annuities and has a growing presence in term life. Internationally, the company is expanding its presence in the longevity risk market through Pacific Life Re and is one of the top players in this market.

The group's historical operating performance has been stable and in line with peers', with a five-year (2017-2021) average generally accepted accounting principles (GAAP) return on assets (ROA) of about 0.3%, compared with the peer group average of 0.24%. However, market volatility and elevated mortality claims in the first nine months of 2022 affected Pacific Life's operating performance. We think the anticipated recession in 2023 could pressure the group's earnings, but we expect GAAP ROA to remain in 0.6%-0.9%.

Financial Risk Profile: Very Strong

We expect Pacific Life will maintain very strong capital through year-end 2024--its statutory RBC ratio was 586% at year-end 2021. Our consolidated capital analysis covers non-U.S. operations as well as captive entities. We also make adjustments to account for the risk associated with longevity swaps.

The company has boosted capitalization by gradually lowering its exposure to capital-intensive products. We expect the group's capital management strategy to remain focused on generating strong statutory retained earnings, which support our view of the group's capitalization. While the group uses hedging, both GAAP and statutory earnings have shown some volatility.

In our view, Pacific Life has a well-diversified investment portfolio and no material risks not already captured in our capital and earnings analysis. The group maintains a low level of high-risk assets (speculative-grade bonds, unaffiliated common equities, equity real estate, and alternative investments) relative to capital.

While most of the investment portfolio consists of fixed maturities (66%), the group is exposed to commercial mortgage loans--about 14% of total invested assets. However, any impact from nonperforming commercial whole loans (CWLs) should be fairly absorbable given the group's very strong capitalization. As of year-end 2022, Pacific Life's overall CWL portfolio's loan-to-value ratio was 45% and its debt service coverage ratio was 2.1x.

The company also has sizable exposure to 'BBB' rated securities--about 53% of the total bond portfolio as of year-end 2021. However, we have a favorable view of the group's tight risk controls and believe they will prevent losses above the well-defined tolerances. While we do not anticipate any meaningful changes in general asset allocation or credit quality in the next couple of years, we will continue to monitor the group's investment strategy and the credit quality of its portfolio.

We view Pacific Life's funding structure as neutral to the ratings. On an adjusted, projected basis, wherein we remove unrealized losses from total shareholders' equity because we do not expect the company to realize them, we expect the group will maintain financial leverage around 20% through year-end 2024. We also expect the group will maintain fixed-charge coverage above 6x through year-end 2024.

Other Key Credit Considerations

Governance

In our view, Pacific Life's governance is in line with that of industry peers. The group has a well-ingrained risk management framework and a well-defined risk appetite. It has a clear strategic planning process balanced with a risk appetite for each division.

In August 2021, Jim Morris, chairman, president, and CEO of Pacific Life Group, announced his retirement, and former CFO Darryl Button took over as president and CEO in April 2022. We view this internal succession as evidence of the company's deep bench strength and the significant planning that takes place in its managerial ranks.

Liquidity

We view Pacific Life's liquidity as exceptional, as reflected in its liquidity ratio of 352%, per our calculations. The group has borrowing capacity under its commercial paper, lines of credit, and Federal Home Loan Bank holdings to access for liquidity during times of stress.

Factors specific to the holding company

Our issuer credit rating on Pacific LifeCorp, the group's intermediary holding company, is three notches lower than our financial strength rating on the group's insurance operating companies, reflecting the structural subordination of the holding company obligations. Pacific LifeCorp relies on subsidiary interest payments on internal surplus notes, as well as its own cash and short-term investments, to meet its fixed charges. It held $710 million in cash and short-term investments as of third-quarter-end 2022. Primary subsidiary Pacific Life Insurance Co. typically has ordinary dividend capacity of over $650 million.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance factors have no material influence on our credit rating analysis of Pacific Life.

Accounting considerations

Pacific LifeCorp is part of a mutual holding company structure and timely prepares its financial statements under GAAP and statutory accounting principles. In our analysis, we consider GAAP and statutory statements when examining capital, earnings, and other financial metrics compared with peers'.

In deriving our year-end 2021 pro forma capital model outcome, we make the following material analytical adjustments:

- Add $310 million in holding company cash to total available capital (TAC), reflecting management's target to hold $100 million in excess of 2x interest expenses at all times;
- Subtract the fixed payments and fees charged on the group's longevity swaps from the longevity charges we apply to the floating payments it makes on those swaps;
- Remove a $134 million surplus note from TAC because it has less than 10 years to maturity and, thus, does not qualify for intermediate equity content;
- Remove $120 million from TAC, reflecting redundant reserves, net of permitted practices, in the group's operating companies and captive reinsurers; and
- Apply a look-through treatment to schedule BA and schedule D common stock holdings, resulting in a reduction in required capital at the 'AAA' level, per our RBC model, of about $800 million.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014

- Criteria | Insurance | General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria | Insurance | General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Table 2

Pacific LifeCorp--Credit Metrics History

(Mil. $)	2021	2020
S&P Global Ratings capital adequacy	AAA	AAA
Total invested assets	108,392	97,293
Net premiums earned	14,567	12,213
EBIT	(475)	(155)
Net income (attributable to all shareholders)	893	(91)
Return on revenue (%)	(2.5)	(0.9)
Return on assets (excluding investment gains/losses) (%)	(0.3)	(0.1)
EBITDA fixed-charge coverage (GAAP) (x)	9.3	4.3
Financial obligations/EBITDA adjusted (GAAP)	2.2	5.7
Financial leverage including pension deficit as debt (GAAP) (%)	15	15
Net investment yield (%)	3.4	3.6

All metrics measured using statutory accounting principles unless otherwise noted.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	**aa/aa-**	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of February 22, 2023)*	
Pacific LifeCorp	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Senior Unsecured	A-
Related Entities	
Pacific Life & Annuity Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Pacific Life Global Funding II	
Senior Secured	AA-
Pacific Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Financial Enhancement Rating	
Local Currency	AA-/--/--
Commercial Paper	
Local Currency	A-1+
Subordinated	A
Pacific Life Re (Australia) Pty Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Pacific Life Re International Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Pacific Life Short Term Funding LLC	
Commercial Paper	
Local Currency	A-1+
Domicile	Delaware

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.