

RatingsDirect®

Pacific LifeCorp

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Table Of Contents

Credit Highlights

Outlook

Assumptions

Business Risk Profile

Financial Risk Profile

Other Credit Considerations

Related Criteria

Appendix

Pacific LifeCorp

Anchor	aa-	+	Modifiers	0	=	SACP	aa-	AA-/Stable/--
Business Risk			Support			0		
Competitive position	Very strong		Governance	Neutral		Group support	0	
IICRA	Low		Liquidity	Exceptional		Government support	0	
Financial Risk			Comparable ratings analysis	0				A-/Stable/--
Capital and earnings	Very strong							
Risk exposure	Moderately low							
Funding structure	Neutral							

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

Credit Highlights

Overview	
Key strengths	Key risks
Top 10 market positions across several life, annuity, and institutional products.	Volatile operating performance, as measured by statutory return on assets.
Sophisticated and robust enterprise risk management practices.	Meaningful investments in 'BBB' rated corporate bonds and large commercial real estate loans.
Very strong capital and earnings.	Uncertain macroeconomic conditions.

Pacific Life Group's capital and earnings were excellent as of year-end 2023, and S&P Global Ratings expects they'll remain at least very strong over the next two years. Pacific Life has maintained its sizable capital redundancy at the 99.99% confidence level, per our risk-based capital (RBC) model, year over year. However, management remains committed to maintaining a redundancy at the 99.95% confidence level, earmarking the excess capital for both organic and opportunistic inorganic growth. As such, we project its financial risk profile will remain very strong.

Pacific Life's recent profitability, as measured on a GAAP basis, has been consistent and in line with similarly rated peers', while statutory returns on assets have been frequently negative. Pacific Life's profitability, as measured by a five-year average return on assets (ROA) on a generally accepted accounting principles (GAAP) basis, is 0.63%, and its full-year 2024 GAAP ROA was 0.96%. These numbers compare favorably to similarly rated peers'.

At the same time, the group's U.S. statutory ROA has been negative in four of the last five years and was approximately -0.7% in 2024, which compares unfavorably to similarly rated peers' recent performance. Despite this, hedging impacts that are accounted for below the operating earnings line often lead to positive net income, as evidenced by Pacific Life's \$212 million in statutory net income for full-year 2024.

The group's earnings and geographic diversity and its top 10 market positions anchor its very strong competitive position, but this may weaken over the long term if similarly rated peers showcase consistently stronger profitability.

A recession could lead to credit losses, increased required capital charges, or lower earnings, but we think Pacific Life is well positioned to handle this potential macroeconomic stress. If a U.S. recession occurs--which is highly uncertain but projected with 25% likelihood by S&P Global Ratings' economists--Pacific Life could sustain large increases in required capital due to its sizable holdings in commercial real estate loans and 'BBB' rated corporate bonds. However, we expect the group's multi-billion-dollar capital buffer at the 99.95% confidence level, per our RBC model, could easily absorb this potential increase. 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 our view that Pacific Life will maintain its very strong business risk and capital redundancy at least at the 99.95% confidence level, per our RBC model, over the next two years. We also expect it will maintain a consolidated financial leverage ratio below 25% and a fixed-charge coverage ratio above 6x over the same time period.

Downside scenario

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

- Competitive position deteriorates due to a weakening market position;
- Operating performance is consistently below its peers; or
- Earnings become significantly less diversified.

Upside scenario

We could raise our ratings in the next 24 months if we think the group's capital adequacy will remain redundant at the 99.99% confidence level, per our RBC model, over the long term and if profitability improves in line with similarly rated peers'.

Assumptions

- Real GDP growth of 2% in 2025 and 2026.
- Core Consumer Price Index growth of 2.6% in 2025 and 2.4% in 2026.
- Consumer spending growth of 2.3% in 2025 and 2.0% in 2026.
- Unemployment rate of 4.2% in 2025 and 2026.
- 10-year Treasury note yield of 4.0% in 2025 and 3.6% in 2026.

Source: "Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty," published Nov. 26, 2024.

Table 1

Pacific LifeCorp--Key metrics					
	2026f	2025f	2024	2023	2022
Net income (GAAP) (mil. \$)	800-1,000	600-1,000	1,293	915	843
Financial leverage (GAAP) (%)	<25	<25	18	19	20
EBITDA fixed-charge coverage (GAAP) (x)	>6	>6	13.5	9.6	11.5
Net investment yield (statutory) (%)	3.0-4.0	3.0-4.0	3.2	3.3	3.2
S&P Global Ratings' capital adequacy/redundancy (%)	99.95	99.95	99.99f	99.99	AAA

f--Forecast. Source: S&P Global Ratings.

Business Risk Profile: Very Strong

Pacific Life has a well-recognized brand, solid market share, and diversified product offerings. The group primarily caters to the affluent market via independent producers and planners, financial advisors, and financial institutions (regional banks and wirehouses). Pacific Life is consistently a top 10 seller of individual life insurance in the U.S. and remains the leading player in indexed universal life.

Fixed, indexed, and variable annuities; pension risk transfers; workforce benefits; and institutional offerings round out the group's market presence. Internationally, it's expanding its presence in the longevity risk market through Pacific Life Re Global Ltd. and is one of the top players in this market.

The group's historical statutory operating performance has been rather volatile and significantly below its peers', with a five-year (2019-2023) average statutory return on assets (ROA) of 0.01%, compared with the peer group average of 0.17%. Increased surrenders due to rising interest rates and hedging impacts due to market volatility strained Pacific Life's performance in 2023.

We think the market uncertainty and persistently elevated inflation could pressure the group's earnings in the near term. However, we are currently projecting an annual statutory ROA of 0%-0.3% through 2026 in our base-case scenario.

Financial Risk Profile: Very Strong

Pacific Life has lower-than-peer leverage and coverage and a multi-billion-dollar excess capital position, relative to management's committed level. We expect the group will maintain very strong capital and earnings through year-end 2026--its statutory RBC ratio was 503% at year-end 2024. The group's robust, sophisticated enterprise risk management department deploys both GAAP and statutory hedging strategies to keep risks within predefined tolerances and limits.

As of year-end 2024, Pacific Life's financial leverage ratio (excluding nonrecourse debt and operating leverage) was about 18%, consisting of roughly \$2.5 billion senior notes and \$1 billion surplus notes outstanding. Fixed-charge

coverage was approximately 13.5x.

In our view, Pacific Life has a well-diversified investment portfolio and no material risks not already captured in our capital and earnings analysis.

While most of the investment portfolio consists of fixed maturities (65%), the group is exposed to commercial mortgage loans--about 13% of total invested assets. It also has sizable exposure to 'BBB' rated securities--about 46% of the total bond portfolio as of year-end 2023.

Other Credit Considerations

Governance

In our view, Pacific Life has a diverse, seasoned, largely independent, risk-aware board of directors. Two of these board members are expected to retire in 2025, but replacements have already been recruited and selected, evidencing the group's robust succession planning.

Liquidity

We view Pacific Life's liquidity as exceptional, reflecting its liquidity ratio of 384% as of year-end 2023, per our calculations. Moreover, it has no material confidence-sensitive liabilities, ratings triggers, or collateral posting risk. The group has borrowing capacity under its commercial paper, lines of credit, and Federal Home Loan Bank holdings that it can access for liquidity during times of stress.

Factors specific to the holding company

Our issuer credit rating on Pacific LifeCorp, the group's holding company, is three notches lower than our financial strength ratings on the group's insurance operating companies because of 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 \$761 million in cash and short-term investments as of year-end 2023. Primary subsidiary Pacific Life Insurance Co. typically has ordinary dividend capacity of over \$650 million.

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 2023 pro forma capital model outcome, we made the following adjustments:

- Added \$609 million in holding company cash to total available capital (TAC);
- Subtracted the approximately \$2 billion in 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; and
- Removed \$895 million from TAC, reflecting redundant reserves, net of permitted practices, in the group's captive reinsurer, Pacific Baleine Reinsurance Co.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Appendix

Table 2

Pacific LifeCorp--Credit metrics history		
(Mil. \$)	2024	2023
S&P Global Ratings capital adequacy (%)	99.99*	99.99
Total invested assets	139,888	130,592
Net premiums earned	14,791	5,742
EBIT	(1,458)	(1,289)
Net income (attributable to all shareholders)	212	46
Return on revenue (%)	(7.3)	(10.5)
Return on assets (excluding investment gains/losses) (%)	(0.7)	(0.7)
EBITDA fixed-charge coverage (GAAP) (x)	13.5	9.6
Financial obligations/EBITDA adjusted (GAAP)	1.6	2.3
Financial leverage including pension deficit as debt (GAAP) (%)	18	19
Net investment yield (%)	3.2	3.3

*Forecast. Note: 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 April 3, 2025)*

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/--

Ratings Detail (As Of April 3, 2025)*(cont.)**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.

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