

Research Update:

# Pacific LifeCorp 'A-' Issuer Credit Rating Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

February 22, 2024

## Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- We view Pacific Life Group's (PL) capital and earnings as very strong due to its significant redundancy at the 99.95% confidence level, per our new risk-based capital (RBC) model.
- We affirmed our 'A-' long-term issuer credit rating on Pacific LifeCorp, the nonoperating holding company of PL, and our 'AA-' long-term financial strength and issuer credit ratings on its core and guaranteed operating subsidiaries.
- The stable outlook on the long-term ratings reflects our expectation that the group will maintain its very strong competitive position and capitalization through the next two years.

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## Rating Action

On Feb. 22, 2024, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating on Pacific LifeCorp and the 'AA-' long-term financial strength and issuer credit ratings on its core operating subsidiaries--Pacific Life Insurance Co. (PLIC) and Pacific Life & Annuity Co. --and its guaranteed operating subsidiaries--Pacific Life Re International Ltd. and Pacific Life Re (Australia) Pty Ltd. . Collectively, the holding company and its operating subsidiaries comprise Pacific Life Group (PL). The outlook on the ratings is stable.

We also affirmed our ratings on all outstanding hybrids and debt instruments issued by Pacific LifeCorp, PLIC, and Pacific Life Global Funding II, which is the group's financing subsidiary that issues funding agreement-backed notes.

## Impact Of Revised Capital Model Criteria

The implementation of our revised capital model criteria did not lead to any actions on our ratings on PL because its capital and earnings continue to be very strong, per our new methodology. This is largely due to the offsetting impacts of an increase in required capital (stemming from applying more severe stresses and new charges for interest rate and longevity risks) and an increase in total available capital (stemming from adding the value of in-force, as well as increased diversification credit).

## Credit Highlights

### Overview

#### Key strengths

Top 10 market positions across a number of life, annuity, and institutional products.

Sophisticated and robust enterprise risk management (ERM) practices.

Very strong capitalization.

#### Key risks

Exposure to variable annuities with guarantees, albeit declining as a percentage of assets.

Meaningful investments in 'BBB' rated corporate bonds and large commercial real estate loans.

Uncertain macroeconomic environment.

## Outlook

The stable outlook reflects our view that PL 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 PL'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.

### Upside scenario

We could raise our ratings in the next 24 months if we think PL's capital adequacy will become and remain redundant at the 99.99% confidence level, per our RBC model, over the long term.

## Rationale

PL's financial risk profile benefits from its very strong capital and earnings, moderately low risk exposure, and manageable leverage and fixed-charge coverage levels.

The group has some exposures to relatively risky investments and legacy products with guarantees, such as variable annuities. Overall, we view PL's investment portfolio as well diversified, although it contains sizable exposures to both 'BBB'-rated securities (about 50% of the total bond portfolio as of year-end 2022) and to commercial whole loans (about 16% of total invested assets). We expect the group's sophisticated ERM program--complete with a robust set of risk indicators, limits, tolerances, and appetites for each risk type--will manage these investment- and product-level exposures in such a way that they will not become outsized relative to PL's capital buffer.

We expect PL will maintain financial leverage below 25% and fixed-charge coverage above 4x in the next two years. As of year-end 2022, PL's financial leverage ratio (excluding non-recourse debt and operating leverage), consisting of roughly \$2.5 billion senior notes and \$1.2 billion surplus notes outstanding, was about 20%, and fixed-charge coverage was approximately 11.2x.

PL is among the top five individual life insurance companies in the U.S. and remains the leading player in indexed universal life. Its top 10 market positions in fixed annuities, pension risk transfers, and institutional products round out its diversified product offerings. Together with its well-recognized brand name, these market positions solidify its very strong competitive position.

PL's diverse, seasoned, and largely independent board of risk-aware directors; robust fiscal and succession planning; and exceptional liquidity support the current ratings. Per our calculations, the group had a liquidity ratio of about 278% as of year-end 2022.

Our issuer credit rating on Pacific LifeCorp, the group's holding company, is three notches lower than our financial strength rating on its core 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 (which totaled approximately \$600 million as of year-end 2022), to pay its fixed charges. The primary operating subsidiary, PLIC, has ordinary dividend capacity of over \$650 million.

## Ratings Score Snapshot

	To	From
Financial strength rating	AA-/Stable	AA-/Stable
SACP	aa-	aa-
Anchor	aa-	aa-
Business risk	Very strong	Very strong
IICRA	Low	Low
Competitive position	Very strong	Very strong
Financial risk	Very strong	Very strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0

	To	From
Support		
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

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

## Ratings List

### Ratings Affirmed

#### Pacific LifeCorp

Issuer Credit Rating

Local Currency A-/Stable/--

#### Pacific Life & Annuity Co.

Issuer Credit Rating

Local Currency AA-/Stable/--

#### Pacific Life & Annuity Co.

#### Pacific Life Re International Ltd.

#### Pacific Life Re (Australia) Pty Ltd.

#### Pacific Life Insurance Co.

Financial Strength Rating

Local Currency AA-/Stable/--

#### Pacific Life Insurance Co.

Issuer Credit Rating

Local Currency AA-/Stable/A-1+

Financial Enhancement Rating

Local Currency AA-/--/--

**Ratings Affirmed**

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**Pacific LifeCorp**

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Senior Unsecured	A-
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**Pacific Life Global Funding II**

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Senior Secured	AA-
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**Pacific Life Insurance Co.**

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Subordinated	A
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Commercial Paper	A-1+
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**Pacific Life Short Term Funding LLC**

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Commercial Paper	A-1+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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