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## Fitch Affirms Pacific LifeCorp's Ratings; Outlook Stable

Fitch Ratings - Chicago - 22 Aug 2024: Fitch Ratings has affirmed Pacific LifeCorp's (PLC) Long-Term Issuer Default Rating (IDR) at 'A' and senior unsecured debt at 'A-'. Fitch has also affirmed the Long-Term Insurer Financial Strength (IFS) ratings of PLC's insurance operating subsidiaries, including Pacific Life Insurance Company (PLIC) at 'AA-'. The Rating Outlook is Stable.

The rating affirmations reflect the group's favorable company profile, very strong capital position, strong financial performance and moderate investment risk. The ratings also reflect the company's exposure to 'bbb' rated corporate securities and commercial mortgage loans.

### 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 continues to make significant progress in diversifying its revenues and earnings away from legacy variable annuities (VAs). The company launched its workplace benefits business in 2023, which is expected to continue to grow over 2024. Additionally, the company's global life reinsurance and institutional products continued to grow materially.

**Very Strong Capital Position:** Fitch views PLC's capitalization as very strong, based on a Prism capital model score of 'Very Strong' at YE 2023, an NAIC RBC ratio of 508% at its core operating subsidiary, Pacific Life Insurance Company (PLIC), and an increase in PLIC's total adjusted capital (TAC) to \$13.2 billion. PLC's financial leverage ratio decreased modestly to 19%, remaining in line with Fitch's rating expectations.

**Strong Financial Performance:** Financial performance remains strong, and in 2023, Pacific Mutual Holding Company (PMHC) reported consolidated net income of \$875 million, up from \$763 million in 2022. Operating results in 2023 continued to reflect strong investment performance, as well benefits from higher interest rates. Very strong life and annuity sales were also beneficial. Reported results remain sensitive to changes in equity markets, due to the hedge program associated with PLC's VA business.

PLC continued to diversify and de-risk its product portfolio while strengthening its VA hedging program. This is expected to minimize any potential capital impact from significant equity market deterioration and prolonged or severe recession.

**Moderate Investment Risk:** Fitch views the overall quality of PLC's investment portfolio as strong. However, the company maintains above-average exposure to assets Fitch considers riskier, although Fitch notes the company's strong historical performance and minimal impairments in 2023. PLC also maintains material exposure to commercial mortgage loans. However, Fitch believes the company has substantial headroom for losses before capital or ratings would be materially impacted.

**Macroeconomic and Regulatory Environment:** Fitch views the current levels of interest rates as a tailwind for both PLC and the broader industry. However, the potential for relatively short and mild recession remains. Under that scenario Fitch expects a negative, but modest, impact on PLC, but does not expect a material impact to earnings or capital over the near term.

The current regulatory environment remains dynamic, with several regulatory initiatives regarding insurer's investments and capital requirements being considered or adopted in both the U.S. and Bermuda. While the ultimate impact to the broader industry remains to be seen, Fitch believes that PLC is well positioned to navigate any enacted reforms.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Deterioration in the Prism capital model score below 'Very Strong';
- A 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 are downgraded. The Short-Term ratings could also be downgraded if either of PLIC's short-term debt service capabilities and financial flexibility and short-term asset/liability and liquidity management fall below 'aa'.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- A material change in the business risk profile that indicates a risk appetite lower than the life insurance sector as a whole;
- ROE above 10% and a GAAP-based fixed-charge coverage ratio maintained at or above 10x;
- Financial leverage of 15% or less.

## **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**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Pacific Life Global Funding II			
• senior secured	LT	AA-	Affirmed
			AA-

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Pacific Life Insurance Company	LT IDR	A+ ●	Affirmed	A+ ●
	ST IDR	F1+	Affirmed	F1+
	LT IFS	AA- ●	Affirmed	AA- ●
	ST IFS	F1+	Affirmed	F1+
• subordinated	LT	A	Affirmed	A
• senior unsecured	ST	F1+	Affirmed	F1+
Pacific Life & Annuity Company	LT IFS	AA- ●	Affirmed	AA- ●
Pacific Life Corp	LT IDR	A ●	Affirmed	A ●
• senior unsecured	LT	A-	Affirmed	A-
Pacific Life Short Term Funding, LLC				
• senior secured	ST	F1+	Affirmed	F1+

## RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

### Applicable Criteria

[Insurance Rating Criteria \(pub.04 Mar 2024\) \(including rating assumption sensitivity\)](#)

### 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, v1.3.4-2023 (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 Short Term Funding, LLC	EU Endorsed, UK Endorsed
Pacific LifeCorp	EU Endorsed, UK Endorsed

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