THE INDEX-LINKED ANNUITY PAYMENT ADJUSTMENT RIDER

Help Structured-Settlement Clients Manage Inflation

When personal-injury clients choose a structured settlement, they can look forward to many years of steady, guaranteed income. But is a *level*-payment settlement the right choice? What about the rising cost of living?

Some costs, like medical care, tend to increase as clients age. What is the best answer for this problem?

Traditionally, the only way to create payment increases within a structured settlement was to add a cost-of-living adjustment (COLA) rider. But Pacific Life has another option—one that gives clients the potential for higher payment increases: the Index-Linked Annuity Payment Adjustment (ILAPA) rider.

The ILAPA Rider Advantage: Upside Potential without the Downside Risk

	Payment Increases	Annual Increase Amounts
COLA	Fixed	Typically set at 2–3%
ILAPA	Occur when annual S&P 500® index[1] performance is positive	Equal the increase in the index, up to a maximum of 5%

With the ILAPA rider, there is never a decline in payments if the S&P 500® index performance is negative. Payments can only go up or stay the same; they cannot go down.

How the Index-Linked Annuity Payment Adjustment Rider Works

Index Performance	% Change	Impact on Payment
If the S&P 500® index rises	Up to 5%	When the S&P 500® index rises over a period of 12 months (referred to as "Index Measurement Periods"), your payments also will rise, subject to an annual maximum of 5%.
If the S&P 500® index decreases or there is no change	No Change	When the S&P 500® index has a negative or zero return, there is no reduction to the payment amount.

[1]The "S&P 500® index" is a product of S&P Dow Jones Indices LLC or its affiliates ("SPDJI"), and has been licensed for use by Pacific Life Insurance Company. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Pacific Life's product is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500® index.

The index is not available for direct investment, and index performance does not include the reinvestment of dividends.
Cost-of-living adjustment and the Index-Linked Annuity Payment Adjustment rider cannot be used together with the same payment stream.

Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state.

IT'S TIME TO THINK OF TOMORROW

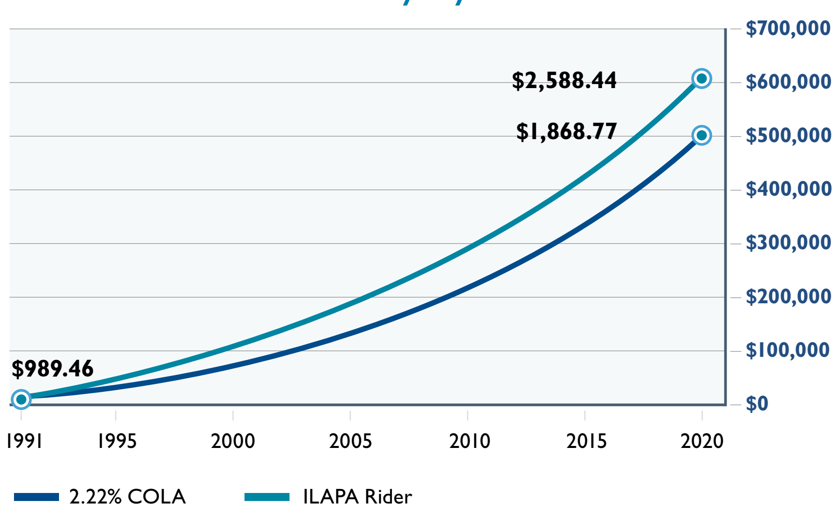
A Hypothetical Example

Because the ILAPA rider links your client's payment increases to the S&P 500® index, the long-term growth of payments may be greater than with a COLA.

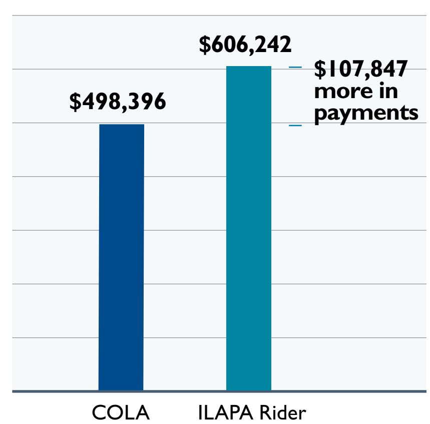
In the example below, a client wanted an initial monthly payment of $989.46 for life, guaranteed for 30 years (purchase cost of $500,000). With a structured settlement from Pacific Life (Life with 30-Year Period Certain) and a COLA rider, payments would have increased 2.22% annually from $989.46 to $1,868.77 in 30 years.

But what would have happened with the ILAPA rider? The ILAPA rider increases shown in the chart below are based on the actual performance of the S&P 500® index increases from January 15, 1991, to January 15, 2020, and reflect the ILAPA rider's 5% cap. As you can see, the two incomes would have been virtually the same in the early years. But despite stock-market values that fluctuated during those years, the contract with the ILAPA rider would have outpaced inflation, growing from $989.46 to $2,588.44 in 30 years.

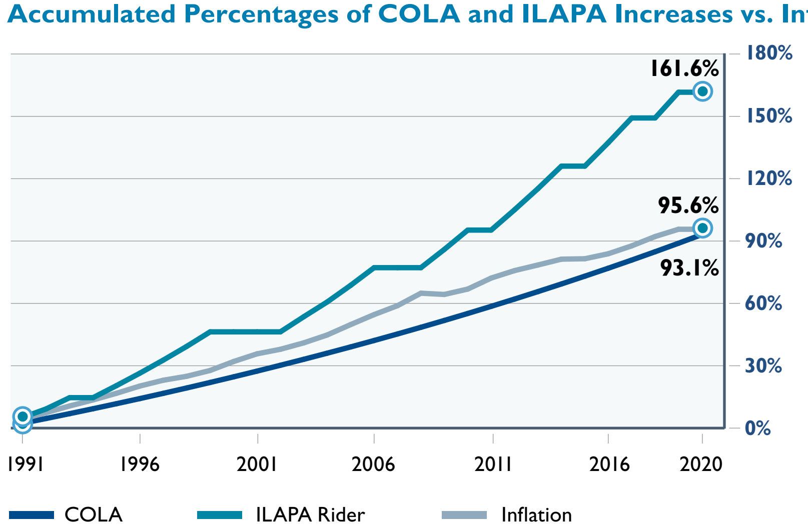
COLA vs. ILAPA Rider Monthly Payment Amounts



Accumulated Payment Amounts



Accumulated Percentages of COLA and ILAPA Increases vs. Inflation



Historically, the ILAPA rider would have done a better job of outpacing inflation. The chart shows the accumulated percentage of payment increases during the last 30 years. (Inflation line assumes the actual annual inflation rates for the past 30 years resulted in an average annual rate of 2.34%.[1])

Assumptions: Life with 30-Year Period Certain for a purchase cost of $500,000. COLA increase set at 2.22% to match initial ILAPA payment. For illustrative purposes only.

[1]U.S. Bureau of Labor Statistics, Consumer Price Index Data for All Urban Consumers, 1991–2020.

The Results

The table below shows details of the COLA versus ILAPA rider comparison chart on the previous page. Over the 30-year period, the ILAPA rider payment more than doubles, while the COLA payment increases by just over two-thirds.

		COLA			ILAPA		
Year #	Year	Annual Increase	Monthly Payment[1]	S&P 500® Index Annual Return[2]	Annual Return[3] (Maximum 5%)	Monthly Payment	COLA vs. ILAPA Annual Variance
1	1991	2.22%	$989.46	34.12%	5.00%	$989.46	-
2	1992	2.22%	$1,011.40	3.89%	3.89%	$1,038.94	$330.48
3	1993	2.22%	$1,033.82	8.64%	5.00%	$1,079.35	$546.36
4	1994	2.22%	$1,056.74	−1.88%	0.00%	$1,133.32	$918.96
5	1995	2.22%	$1,080.17	28.73%	5.00%	$1,133.32	$637.80
6	1996	2.22%	$1,104.11	27.91%	5.00%	$1,189.99	$1,030.56
7	1997	2.22%	$1,128.59	23.92%	5.00%	$1,249.49	$1,450.80
8	1998	2.22%	$1,153.61	30.77%	5.00%	$1,311.96	$1,900.20
9	1999	2.22%	$1,179.18	17.85%	5.00%	$1,377.56	$2,380.56
10	2000	2.22%	$1,205.32	−10.01%	0.00%	$1,446.44	$2,893.44
11	2001	2.22%	$1,232.05	−13.07%	0.00%	$1,446.44	$2,572.68
12	2002	2.22%	$1,259.36	−19.89%	0.00%	$1,446.44	$2,244.96
13	2003	2.22%	$1,287.28	23.29%	5.00%	$1,446.44	$1,909.92
14	2004	2.22%	$1,315.81	4.63%	4.63%	$1,518.76	$2,435.40
15	2005	2.22%	$1,344.98	8.70%	5.00%	$1,589.08	$2,929.20
16	2006	2.22%	$1,374.80	11.12%	5.00%	$1,668.53	$3,524.76
17	2007	2.22%	$1,405.28	−3.48%	0.00%	$1,751.96	$4,160.16
18	2008	2.22%	$1,436.43	−38.90%	0.00%	$1,751.96	$3,786.36
19	2009	2.22%	$1,468.28	34.64%	5.00%	$1,751.96	$3,404.16
20	2010	2.22%	$1,500.83	13.84%	5.00%	$1,839.55	$4,064.64
21	2011	2.22%	$1,534.10	−0.32%	0.00%	$1,931.53	$4,769.16
22	2012	2.22%	$1,568.11	14.22%	5.00%	$1,931.53	$4,361.04
23	2013	2.22%	$1,602.87	25.54%	5.00%	$2,028.11	$5,102.88
24	2014	2.22%	$1,638.40	7.81%	5.00%	$2,129.51	$5,893.32
25	2015	2.22%	$1,674.73	−5.64%	0.00%	$2,235.99	$6,735.12
26	2016	2.22%	$1,711.85	20.97%	5.00%	$2,235.99	$6,289.68
27	2017	2.22%	$1,749.80	22.49%	5.00%	$2,347.79	$7,175.88
28	2018	2.22%	$1,788.59	−6.31%	0.00%	$2,465.18	$8,119.08
29	2019	2.22%	$1,828.24	26.01%	5.00%	$2,465.18	$7,643.28
30	2020		$1,868.77			$2,588.44	$8,636.04
					3.40% Avg. Annual Increase		**$107,847** Total Variance

By year 30, the ILAPA rider payment increased to $719 more per month than the COLA payment for an annual total difference of $8,636.

[1]Monthly payment beginning March 1, 1991. [2]Returns as of January 15 of each year.
[3]The annual return (see column 6) is applied to the payment for the next year.

For more information, contact your structured settlements consultant.

Pacific Life, its affiliates, its distributors, and respective representatives do not provide tax, accounting, or legal advice. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor or attorney.

The Index-Linked Annuity Payment Adjustment rider is not a security and does not participate directly in the stock market or any index, so it is not an investment. It is an insurance product designed to help a client prepare for his/her future. Selecting the Index-Linked Annuity Payment Adjustment rider may result in a varying benefit amount based on the annuity type and period selected.

Pacific Life & Annuity Company will issue annuity policies if ANY of the following occur inside the state of New York: solicitation, sales, negotiation of settlement, court/legal action, or claimant/payee residence.

Pacific Life refers to Pacific Life Insurance Company and its affiliates, including Pacific Life & Annuity Company. Insurance products are issued by Pacific Life Insurance Company (Newport Beach, CA) in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state. Each insurance company is solely responsible for the financial obligations accruing under the products it issues.

Contract Form Series: ICC11:10-1213 (state variations may apply)
Rider Series: ICC13:20-1280 (state variations may apply)
SSC0343-1020