PACIFIC LIFE

HOW PACIFIC LIFE MANAGES RISK

With the severe market fluctuations our country has recently experienced, there is a general state of uncertainty and unease about the strength of our economy. As a result, many of the financial professionals that we work with want to know that Pacific Life Insurance Company's annuity products will be there for their clients when needed and that promises will be kept.

The following questions and answers were developed to help you better understand how Pacific Life Insurance Company (Pacific Life) is prepared and well-positioned for this current market environment.

What is the organization of the team responsible for managing risk and the educational backgrounds of its members?

Effective risk management requires a robust organization with skilled professionals and strong collaboration across multiple disciplines. Pacific Life has a strong risk culture with a well-established risk-management organization embedded throughout the enterprise. It is governed by executive oversight committees within each business division as well as at the enterprise level. The risk-management organization is composed of highly skilled and seasoned professionals across risk management, investments, finance, and product-design functions. The educational backgrounds of the team members include bachelor's and postgraduate degrees in mathematics, actuarial science, finance, or economics with most holding professional designations in the Society of Actuaries and/or the CFA Institute.

How does Pacific Life fulfill the long-term promises of its annuities?

Our framework is built to prepare for and manage risk in even the most severe scenarios. Below are four ways Pacific Life effectively manages risk for our annuity contract owners.

1. Consumer-Focused Product Design

Our annuities offer protected lifetime income and principal-protection benefits for our clients while remaining risk-effective for the company. For example, we include reasonable age limits and charge appropriate costs. Specifically with variable annuities, we offer certain investment options when selecting an optional living benefit. This offers clients diversification while limiting the overall market volatility Pacific Life must take into account when designing products.

2. Alliances with Other Insurance Companies (Reinsurance)

Pacific Life has shared some of its variable annuity optional living benefit risks with other highly respected and financially strong insurance companies known as "reinsurers." These recognized global reinsurance companies based their decisions after careful scrutiny of our products (design and price), risk-management practices, administrative processes, and experience in the variable annuity business. Reinsurance helps support our overall risk-management framework.

3. Prudent and Disciplined Hedging

Pacific Life employs prudent hedging strategies and practices disciplined hedging execution that can offset and reduce the impact of adverse financial markets. We maintain clearly defined hedging programs for variable annuity optional living benefits and fixed indexed annuity crediting options that allow us to serve clients in many market environments. Financial resources allocated to the hedging program have been extensive, supporting multibillion-dollar levels of risk protection.

4. Promises Backed by the Full Support and Credit of Pacific Life

Protected lifetime income obligations available with Pacific Life's annuities are a "general account" liability. The general account contains the assets of the insurance company and is used to support the insurance company's obligations. Pacific Life has a robust risk-management process that helps protect its claims-paying ability.

Is Pacific Life hedging (i.e., protecting itself) using futures, options, and derivative securities? Is it reinsuring these risks, or is it simply reserving against this risk using traditional actuarial methods?

Yes, Pacific Life's well-established hedging program includes derivative securities and utilizes reinsurance to help mitigate the underlying risks. In addition, Pacific Life records all necessary reserves for risks the company has assumed.

For every billion dollars that is going into variable annuity optional living benefits, how much is being set aside in reserves for these guarantees?

Pacific Life sets its reserve and capital levels for variable annuities and their guarantees based on regulatory requirements as well as economic modeling of the underlying risks. The economic models show that current reserve levels and required capital make reasonable and ample provision for company surplus over the remaining life of the variable annuity business even under highly adverse economic conditions. These models take into account all material guarantees embedded in the contracts, including optional living benefits.

Does Pacific Life expect owners of variable annuity optional living benefits to utilize the guarantee provisions of their optional benefits?

While variable annuities have been in existence since 1952, optional living benefit riders were introduced during the late 1990s. While estimates on rider guarantee utilization have become more predictable for both the industry and Pacific Life, experience is still evolving for these long-duration guaranteed products. Pacific Life assumes that a significant majority of clients will act in reasonable self-interest to take advantage of the benefits offered in their variable annuities. Variable annuities are long-term investments designed for retirement. The most popular optional benefits are those providing guaranteed principal and lifetime income protection. The flexibility in the design of these benefits gives our clients a variety of choices that they can tailor to fit their personal circumstances. For example, a retiree with higher-than-anticipated living expenses after retirement may need to withdraw more income earlier than expected, and our product designs are flexible to accommodate such changing needs. Whether or not the guarantees are utilized also may depend on factors such as market returns, the economic environment, and other factors.

Does Pacific Life have other lines of insurance business that are completely uncorrelated to the variable annuity optional living benefit exposure that could help buffer the risk in the event of a prolonged market downturn?

Pacific Life is diversified among several business divisions that complement one another on many levels—Retirement Solutions Division, Life Insurance Division, Pacific Life Re, Pacific Global Asset Management, and Institutional Division. For example, the Life Insurance Division's mortality risks complement the Retirement Solutions Division's annuity lifetime income exposure. Also, the fixed income exposures in other divisions and in the Retirement Solutions Division's fixed-product portfolio complement potential equity-market exposures underlying variable life insurance and variable annuities. Pacific Global Asset Management offers a family of mutual funds with no insurance-related risks. For more information on Pacific Life's business divisions, visit PacificLife.com.

Does Pacific Life have any capacity constraints on the risks for variable annuity optional living benefits?

Our main strategy is to manage capacity by means of a disciplined product strategy and the hedging program. To the extent that we anticipate variable annuity optional living benefit exposure beyond a reasonable balance of risks across divisions, we adjust product pricing to reflect these risks and/or we increase the level of hedge offsets to variable annuity optional living benefit risk. In doing this, we maintain capacity while limiting the level of risk to Pacific Life.

When and how can the currently imposed charges for variable annuity optional living benefits be increased?

Charges on variable annuity optional living benefits are established when purchased and are subject to subsequent change if:

1. The contract owner exercises certain provisions such as "stepping up" or resetting the guarantee to the current contract value, and/or
2. The rider is variable priced where the charges may change on the contract anniversary. Pacific Life has exercised the right to change rates sparingly and only on limited blocks of business. Any such adjustments are subject to a maximum charge specified in the prospectus and contract.

For more information, call your consultative wholesaler at (800) 722-2333.

PacificLife.com

Pacific Life is a variable annuity provider. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

Investors should carefully consider a variable annuity's risks, charges, limitations, and expenses, as well as the risks, charges, expenses, and investment goals of the underlying investment options. This and other information about Pacific Life are provided in the product and the underlying fund prospectuses. These prospectuses should be read carefully by clients before investing.

Variable annuities are long-term investments designed for retirement. The value of the variable investment options will fluctuate so that shares, when redeemed, may be worth more or less than the original cost. Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal tax may apply. A withdrawal charge also may apply. Withdrawals will reduce the contract value and the value of the death benefits, and also may reduce the value of any optional benefits.

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 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. Insurance product and rider guarantees, including optional benefits and any fixed subaccount crediting rates or annuity payout rates, are backed by the financial strength and claims-paying ability of the issuing insurance company and do not protect the value of the variable investment options. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased, or any affiliates of those entities and none makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

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