



# PACIFIC INSURED LDI<sup>®</sup>

Insured Liability-Driven Investing



**MOVING FORWARD TOGETHER**  
Guaranteed Asset/Liability Match

# WANT MORE STABILITY

## FOR YOUR PENSION PLAN'S FUNDED STATUS?

You're not alone. All across the country, pension-plan sponsors are spending time managing their pension plan's funded status rather than focusing on business. The reason: market and interest-rate volatility are constantly changing that status. The last thing you want is to make a contribution to improve funded status, only to see that contribution eroded by market swings.

What's the solution? Liability-driven investing (LDI) can be an effective strategy for de-risking your funded status and adding stability to financial statements. In fact, in a recent survey, 76% of plan sponsors indicated they are using an LDI strategy.<sup>1</sup> But did you know there are two types of LDI?

### Traditional LDI Is “Best Efforts”

Traditional LDI is an investment strategy that is not guaranteed. An investment manager attempts to maintain a close match between plan assets and liabilities while providing liquidity for ongoing benefit payments. However, a precise match is difficult, if not impossible, to achieve.

### Insured LDI Is Guaranteed<sup>2</sup>

Pacific Insured LDI is an insurance product that guarantees a precise asset/liability match (based on the projected benefit payments provided by the plan sponsor) regardless of how markets and interest rates may change.

- The risks and costs of mismatches are eliminated.
- Liquidity is guaranteed for monthly benefit payments.
- Funded status remains stable.
- Corporate balance sheets are less volatile.



**With traditional LDI strategies,** your pension plan assets and liabilities may not move in tandem, causing instability in your balance sheets.



**With Pacific Insured LDI,** assets and liabilities are guaranteed to *move forward together . . .* stabilizing your plan's funded status.

<sup>1</sup>Vanguard, 2019 Survey of Pension Sponsors, November 2019.

<sup>2</sup>Guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.

# PACIFIC INSURED LDI

## A CLOSER LOOK

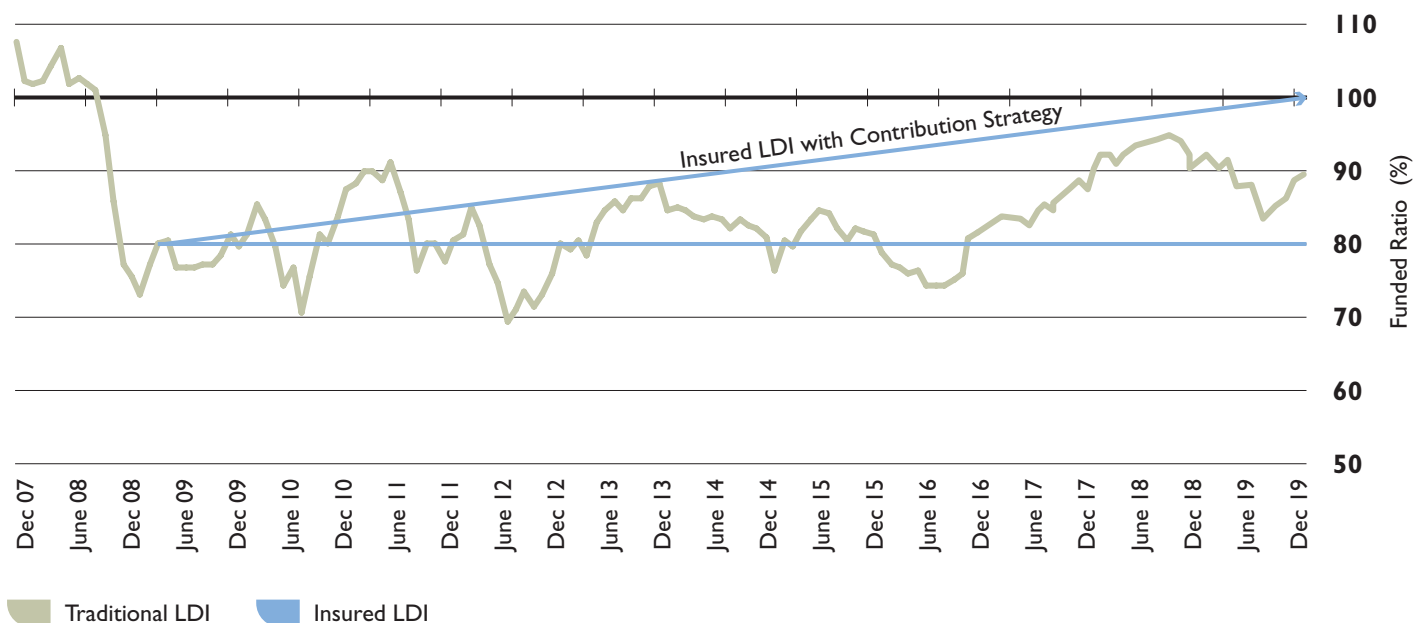
Available for defined benefit pension plans, Pacific Insured LDI is a guaranteed group annuity from Pacific Life Insurance Company (Pacific Life) that eliminates the risks of traditional “best-efforts” LDI.

- With Pacific Insured LDI, you have a guarantee, backed by an insurance contract, that plan assets will match your projected liabilities along all points of the yield curve, regardless of the performance of the contract’s underlying assets.

### How It Works

- The plan sponsor provides Pacific Life with a schedule of cash flows and anticipated benefit payments, which is incorporated in the group annuity contract.
- Pacific Life pays the scheduled cash flows to the pension plan and determines the contract value monthly by discounting the remaining scheduled cash flows using the same or a similar discount curve used by the plan sponsor to value liabilities.
- Fees are paid separately by the plan; they are not deducted from the contract value.
- The contract is funded in either Pacific Life’s general account or a separate account.

#### Pension Funded Ratio



With the funded ratio stabilized, the plan sponsor may also set up a contribution strategy to close the funding shortfall. Pacific Insured LDI also may be used in conjunction with a return-seeking asset strategy.



# THE RISKS OF TRADITIONAL LDI

A traditional LDI manager's goal of achieving an ongoing asset/liability match is extremely difficult to achieve. Liabilities in a pension plan are typically valued from a benchmark liability discount curve consisting of high-quality corporate bonds. The FTSE Pension Discount Curve (FTSE) is one example. Corporate bonds rated AA from the FTSE US Broad Investment-Grade Bond Index (USBIG®) and the yields of the Treasury model curve are used to derive the FTSE.

Constructing a pension-plan asset portfolio whose value moves in precise tandem with the liability discount curve is virtually impossible because:

- **“You can’t buy the curve”:** This is a phrase pension managers sometimes use. It means that the “basket of bonds” used by a discount curve such as the FTSE is heavily concentrated in terms of industries, issuers, and issues. For a pension plan without guaranteed investments, however, it’s prudent to adopt a more diversified investment strategy.
- **Asset/liability mismatches will occur:** Because the liability discount curve is not an investable portfolio, there will be differences between the actual securities in the plan’s portfolio and those used to value the plan’s liabilities. Thus, as interest rates and bond yields change, which impacts plan assets, asset and liability values will become mismatched.
- **Plan assets may be downgraded, but the discount curve stays the same:** As bonds in a liability discount curve are downgraded below the curve’s given threshold, they are removed from the curve. For example, the FTSE never contains bonds valued below AA. This means the liability discount curve—and thus, the pension plan’s liabilities—always remain valued at interest rates based on bonds AA or above. However, when the plan’s actual assets are downgraded below AA, they remain in the investment portfolio at a lower market value (or are sold for a realized loss).



# THE ADVANTAGES OF PACIFIC INSURED LDI

Pacific Insured LDI, through its innovative design, can eliminate many of the risks inherent in traditional best-efforts LDI. This is because Pacific Insured LDI:

**Precisely replicates the ongoing shifts and twists along all points of the liability discount curve.**

**Result:** Fluctuating interest rates do not affect your balance sheet because the interest-rate sensitivity of assets and liabilities is an exact match.

**Precisely replicates the monthly liability discount curve's "basket of bonds."**

**Result:** Your plan's funded status does not change when bonds are downgraded and removed from the liability curve.

**Shifts responsibility for all credit default losses from you to Pacific Life.**

**Result:** Your plan's funded status does not change if underlying bonds default.

**Guarantees monthly cash flows to meet your scheduled benefit payments.**

**Result:** No ongoing trading costs and no need to sell plan assets at a loss in illiquid markets to meet benefit payment obligations. Pacific Insured LDI can be liquidated at contract value with no additional fees or penalties.

# CONSIDER THE INSURED SOLUTION

## FOR STABILIZING PLAN FUNDED STATUS

### Pacific Insured LDI provides:

#### **STABILITY**

Plan assets and liabilities move in sync, resulting in reduced volatility for the balance sheet and income statement.

#### **SIMPLICITY**

Pacific Insured LDI is a turnkey solution for mitigating market risks that avoids the need to explain complex asset and derivatives strategies to your investment committee.

#### **FLEXIBILITY**

Pacific Insured LDI allows the amendment of the benefit payment schedule to adapt to changing plan needs.

#### **LIQUIDITY**

Pacific Insured LDI's monthly scheduled payments provide liquidity for participant benefits plus access to excess distributions beyond scheduled payments for cash and/or to purchase Pacific Life annuities. In addition, the plan sponsor may redeem all or a portion of the contract value, subject to contract terms.

#### **TRANSPARENCY**

Pacific Insured LDI calculates contract value based on an externally published discount curve. Pacific Life charges a predetermined fee, assessed quarterly, on the average contract value to cover expenses for investment management, administrative fees, and guarantees. There are no additional fees or surrender charges under the contract.



## WHY PACIFIC LIFE?

It's essential for you to choose a strong and stable company that can help you achieve your future business needs. Since 1868, individuals and businesses have relied on the strength of Pacific Life to protect their financial security. Pacific Life provides a wide range of life insurance products, annuities, and mutual funds, and offers a variety of investment products and services to individuals, businesses, and pension plans. Pacific Life counts more than half of the 100 largest U.S. companies as its clients.<sup>1</sup>

- Pacific Life Insurance Company is organized under a mutual holding company structure and operates for the benefit of its policyholders and contract owners.
- We have achieved ongoing recognition<sup>2</sup> for high-quality service standards.
- We maintain strong financial strength ratings from major independent rating agencies.

Ratings may change. For more information and current financial strength ratings, please visit our website at: **PacificLife.com**.

<sup>1</sup>Client count as of June 2019 is compiled by Pacific Life using the 2019 FORTUNE 500® list.

<sup>2</sup>Recipient of multiple DALBAR Service Awards since 1997. Refer to [www.DALBAR.com](http://www.DALBAR.com) for more information regarding awards, certification, and rankings.

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Contract Form Series: 80-1188, 80-1188-GA, 80-1242, GR-8134, GR-8135 (state variations may apply)  
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