

## Pacific Life's 1-Year Indexed Account Offers Growth Potential with Guaranteed Market Protection Pacific Life's IUL 1-Year Credited Rates, 9/15/05 – 7/15/13

Pacific Life's indexed universal life insurance (IUL) products offer you death benefit protection with cash value growth based on the S&P 500<sup>®</sup><sup>†</sup> index (endnotes on back), excluding dividends, without direct market participation<sup>2</sup> and with guaranteed protection against negative returns. Through Pacific Life's 1-Year Indexed Account,

Segment Start Date	Segment Start Date Segment End Date		Segment Interest Rate
9/15/05	9/15/06	7.26%	7.26%
10/15/05	10/15/06	15.38%	12.00%
11/15/05	11/15/06	12.92%	12.00%
12/15/05	12/15/06	12.00%	12.00%
1/15/06	1/15/07	11.61%	11.61%
2/15/06	2/15/07	14.09%	12.00%
3/15/06	3/15/07	6.91%	6.91%
4/15/06	4/15/07	14.25%	12.00%
5/15/06	5/15/07	16.12%	12.00%
6/15/06	6/15/07	23.81%	12.00%
7/15/06	7/15/07	25.35%	12.00%
8/15/06	8/15/07	12.48%	12.00%
9/15/06	9/15/07	12.76%	12.00%
10/15/06	10/15/07	13.12%	12.00%
11/15/06	11/15/07	5.55%	5.55%
12/15/06	12/15/07	2.98%	2.98%
1/15/07	1/15/08	-1.09%	0.00%
2/15/07	2/15/08	-7.31%	0.00%
3/15/07	3/15/08	-7.14%	0.00%
4/15/07	4/15/08	-9.54%	0.00%
5/15/07	5/15/08	-6.29%	0.00%
6/15/07	6/15/08	-10.69%	0.00%

you can currently earn interest crediting up to 12%<sup>3</sup> and not less than 0%.<sup>4</sup>That means steady performance during volatile markets. To demonstrate how indexed crediting works, review the chart below for a history of the credited rates for our 1-Year Indexed Account from 9/15/05 to 7/15/13.<sup>5</sup>

Segment Start Date	Segment End Date	Index Growth Rate <sup>6</sup>	Segment Interest Rate
7/15/07	7/15/08	-20.73%	0.00%
8/15/07	8/15/08	-9.37%	0.00%
9/15/07	9/15/08	-19.64%	0.00%
10/15/07	10/15/08	-35.56%	0.00%
11/15/07	11/15/08	-40.62%	0.00%
12/15/07	12/15/08	-40.83%	0.00%
1/15/08	1/15/09	-40.50%	0.00%
2/15/08	2/15/09	-41.49%	0.00%
3/15/08	3/15/09	-41.47%	0.00%
4/15/08	4/15/09	-36.65%	0.00%
5/15/08	5/15/09	-36.60%	0.00%
6/15/08	6/15/09	-32.09%	0.00%
7/15/08	7/15/09	-26.25%	0.00%
8/15/08	8/15/09	-22.34%	0.00%
9/15/08	9/15/09	-12.02%	0.00%
10/15/08	10/15/09	9.42%	9.42%
11/15/08	11/15/09	27.03%	12.00%
12/15/08	12/15/09	28.27%	12.00%
1/15/09	1/15/10	36.30%	12.00%
2/15/09	2/15/10	38.74%	12.00%
3/15/09	3/15/10	52.61%	12.00%
4/15/09	4/15/10	43.87%	12.00%

Segment Start Date	Segment End Date	Index Growth Rate	Segment Interest Rate	Segment Start Date	Segment End Date	Index Growth Rate	Segment Interest Rate
5/15/09	5/15/10	27.17%	12.00%	1/15/11	1/15/12	0.03%	0.03%
6/15/09	6/15/10	17.96%	12.00%	2/15/11	2/15/12	1.36%	1.36%
7/15/09	7/15/10	20.90%	12.00%	3/15/11	3/15/12	7.55%	7.55%
8/15/09	8/15/10	7.50%	7.50%	4/15/11	4/15/12	4.19%	4.19%
9/15/09	9/15/10	6.84%	6.84%	5/15/11	5/15/12	0.67%	0.67%
10/15/09	10/15/10	7.49%	7.49%	6/15/11	6/15/12	3.20%	3.20%
11/15/09	11/15/10	7.97%	7.97%	7/15/11	7/15/12	3.42%	3.42%
12/15/09	12/15/10	11.44%	11.44%	8/15/11	8/15/12	16.56%	13.00%
01/15/10	01/15/11	12.61%	12.00%	9/15/11	9/15/12	23.31%	13.00%
02/15/10	02/15/11	21.69%	12.00%	10/15/11	10/15/12	17.60%	13.00%
03/15/10	3/15/11	12.68%	12.00%	11/15/11	11/15/12	8.29%	8.29%
04/15/10	4/15/11	8.58%	8.58%	12/15/11	12/15/12	16.65%	13.00%
5/15/10	5/15/11	17.06%	12.00%	1/15/12	1/15/13	13.68%	13.00%
6/15/10	6/15/11	18.19%	12.00%	2/15/12	2/15/13	12.65%	12.65%
7/15/10	7/15/11	19.51%	12.00%	3/15/12	3/15/13	12.12%	12.12%
8/15/10	8/15/11	11.59%	11.59%	4/15/12	4/15/13	13.35%	13.00%
9/15/10	9/15/11	6.03%	6.03%	5/15/12	5/15/13	23.31%	13.00%
10/15/10	10/15/11	4.33%	4.33%	6/15/12	6/15/13	22.39%	13.00%
11/15/10	11/15/11	4.51%	4.51%	7/15/12	7/15/13	24.29%	13.00%
12/15/10	12/15/11	-2.40%	0.00%				

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- 2 The policy does not directly participate in any stock or equity investments.
- 3 Guaranteed Minimum Growth Cap of 3%. In PA, the current Growth Cap is 12% with a 1% Guaranteed Minimum Rate.

4 In PA, the Guaranteed Minimum Annual Rate is 1%. The 1% is earned daily and credited monthly.

5 Historical returns are no guarantee of future performance. Historical Segment Growth Rates are based on Pacific Life Insurance Company's Pacific Indexed Accumulator (PIA, Policy Form #P05PIA) and Pacific Life Insurance Company's Pacific Indexed Accumulator II (PIA II, Policy Form #P05PIA), which are no longer available for sale. New sales are only available with Pacific Life Insurance Company's Pacific Indexed Accumulator 4 (Policy Form #P11PI4, form # based on state in which policy is issued), Pacific Indexed Performer LT (Policy Form #P11PIP, form # based on state in which policy is issued), and Pacific Life Insurance Company's Indexed Pacific Estate Preserver (IPEP, Policy Form #P09IEP).

6 Index Growth Rate is the Clasing Value of the Index as of the day before the beginning of the Segment Term.

## Pacific Life's 1-Year International Indexed Account

Available with Specific Life Insurance Products<sup>1</sup> 1-Year Segment Returns, 02/15/2011 to 03/15/13

Pacific Life's 1-Year International Indexed Account offers one of the broadest ranges of international indexes in any composite, comprised one-third each of the Hang Seng,<sup>2</sup> MSCI Emerging Markets,<sup>3</sup> and EURO STOXX 50<sup>eq</sup> indexes, all excluding dividends. It offers the only exclusively international composite with an emerging markets index.

Pacific Life weights the crediting of each index' evenly, with the full 100% participation rate of each index's one-year performance, excluding dividends, counting up to the current Growth Cap<sup>+</sup> and not below the 0% guaranteed minimum rate. The results are then averaged to produce the indexed account's final interest crediting rate.

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#### The 1-Year International Indexed Account's final interest crediting rate as demonstrated among indexes for a one-year time period.

Segment Start Date	Segment Maturity Date	Hang Seng <sup>2</sup>	MSCl <sup>3</sup>	EuroSTOXX <sup>4</sup>	Index Credit
3/15/11	3/15/12	0.00%	0.00%	0.00%	0.00%
4/15/11	4/15/12	0.00%	0.00%	0.00%	0.00%
5/15/11	5/15/12	0.00%	0.00%	0.00%	0.00%
6/15/11	6/15/12	0.00%	0.00%	0.00%	0.00%
7/15/11	7/15/12	0.00%	0.00%	0.00%	0.00%
8/15/11	8/15/12	0.00%	0.00%	0.00%	0.00%
9/15/11	9/15/12	0.16%	0.00%	4.64%	1.60%
10/15/11	10/15/12	8.32%	6.46%	13.00%	9.26%
11/15/11	11/15/12	13.00%	6.38%	5.50%	8.30%
12/15/11	12/15/12	9.91%	0.38%	8.06%	6.12%
1/15/12	1/15/13	13.00%	13.00%	13.00%	13.00%
2/15/12	2/15/13	13.00%	11.14%	13.00%	12.38%
3/15/12	3/15/13	11.93%	1.80%	5.91%	6.55%

\* The current growth cap was 13% on Segments created before Feb. 20, 2012. It will be 12% on Segments created on and after Feb. 2012.

+ Each index reflects its one-year performance, excluding dividends, applied up to the current growth cap and 0% guaranteed minimum rate. The average of all three indexes is applied at Segment Maturity as the final interest crediting rate reflected in the last column.

### **Compound Interest**

Compound interest plays an integral part in your retirement strategy. You don't need to focus on high annual crediting rates. Instead, use the power of compound interest and focus on consistent, attainable crediting rates over time. Below is an example assuming a \$1,000,000 investment earning a steady 7.50% interest. By the end of year 20, the effective yield is almost 30%.



No particular investment is shown in the example. Results are based on a hypothetical rate of return compounding tax deferred. The effective yield assumes that you reinvest interest payments once you receive them. Put the Power of Zero to Work...

Clients today are concerned about preserving wealth. They are scared to start investing. With an Indexed Universal Life contract they can stop worrying over interest credit losses.





The stock market is much more volatile than most investors realize. Two volatility gremlins--the disproportionate impact of losses and the friction loss from the dispersion of returns--significantly reduce the compounding of returns. Many absolute returnoriented investment strategies recognize this dynamic and seek to enhance investors' compounded returns by providing a more risk-managed and consistent return profile. "Capture" is one way to measure and illustrate the effectiveness and benefit of this approach. Whereas the 'relative return' investor (tracking stock market indexes) will generally experience 100% of the downside and 100% of the upside to achieve market returns, the 'absolute return' investor only needs a fraction of the upside when downside losses are limited. The graph above illustrates just how little of the upside is needed to match stock market returns over time and it demonstrates the way that many absolute return strategies exceed stock market returns without having to "beat-themarket" each year...

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Crestmont Research (www.crestmontresearch.com- Dr. Easterly research comparing Hedge Funds to S&P 500

Article: Rowing the Roller Coaster: Hedge funds captured 30% of down markets (-10% = -3%); 55% of up markets. If you eliminate 40% loss's and capture 69% of the up markets you are getting 100% of the S+P 500

With IUL that has a zero floor you only need 25% of the gains to beat the S+P 500

# **Diversified Allocation**



- Higher crediting rates than universal life insurance
- No direct market risk\*
  - Tax-free income\*\*
- Tax-deferred growth
- Adds another option for some liquidity
- Accumulated Value protected from market declines

\*Subject to credit risk.

\*\*Tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 policy years do not occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC §§ 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

# S&P 500<sup>®</sup> index

### Historical Annual Returns 1983 – 2012

S&P 500<sup>®</sup> index historical performance excludes dividends. Historical period 12/15/1983 - 12/15/2012. Past performance is not indicative, nor a guarantee of future results.



### Impact of 0% Floor and 12% Current Growth Cap Applied to Cumulative S&P 500<sup>®</sup> index Historical Performance

This hypothetical example is meant to demonstrate the Floor and current Cap Rate of an indexed account using historical performance. It uses the cumulative returns of: 1) S&P 500<sup>®</sup> index (excluding dividends) and 2) S&P 500<sup>®</sup> index (excluding dividends) with a 0% Floor and a 12% current Growth Cap over the historical period of 12/15/2000 – 12/15/2012. Each year's <u>annual return</u> is displayed above or below the bar. The bar's height and scale reflects the cumulative return at each interval.



S&P 500<sup>®</sup> index Cumulative Return, 0% Floor, 12% Cap

S&P 500<sup>®</sup> index Cumulative Return

This graph is a hypothetical depiction meant to demonstrate how the S&P 500° index would have been affected by a 0% Floor and a 12% current Growth Cap on a cumulative return basis. Past performance of the S&P 500° is not indicative of future results. The rates here are hypothetical and not representative of any indexed universal life insurance product, as they do not consider the effects of life insurance policy charges. The actual historical growth cap, participation rate and floor of this product, had it been available, over the period analyzed might have been higher or lower than assumed, and likely would have fluctuated with market conditions, subject to product guarantees. The current Growth Cap is affected by the current market environment, such as the life insurance company's declared crediting rate and the cost of the options used to support an indexed account.

# \$10,000 Lump Sum Invested – Hypothetical Comparison

### S&P 500® index vs. S&P 500® index capped at 0% floor and 12% current growth cap

\$10,000 lump sum invested S&P 500<sup>®</sup> (without dividends) historical returns beginning and ending December 15th from 2000 – 2012. Hypothetical example does not reflect the impact of policy charges.



This graph is a hypothetical depiction meant to demonstrate how the S&P 500° index would have been affected by a 0% Floor and a 12% current Growth Cap on a cumulative return basis. Past performance of the S&P 500° is not indicative of future results. The rates here are hypothetical and not representative of any indexed universal life insurance product, as they do not consider the effects of life insurance charges. The actual historical growth cap, participation rate and floor of this product, had it been available, over the period analyzed might have been higher or lower than assumed, and likely would have fluctuated with market conditions,



### 📕 S&P 500° index 🛛 🔣 S&P 500° index with 0% Floor + 12% Growth Cap

2006 2007 2008 2009

2010 2011

2012

2005

2004

2001

2000

2002

2003

This graph is a hypothetical depiction meant to demonstrate how the S&P 500° index would have been affected by a 0% Floor and a 12% current Growth Cap on a cumulative return basis. Past performance of the S&P 500° is not indicative of future results. The rates here are hypothetical and not representative of any indexed universal life insurance product, as they do not consider the effects of life insurance charges. The actual historical growth cap, participation rate and floor of this product, had it been available, over the period analyzed might have been higher or lower than assumed, and likely would have fluctuated with market conditions,

# S&P 500 Index Yearly Returns Note: Positive Return in 28 of last 37 Years

Year	<b>Beginning Price</b>	Ending Price	Gain or Loss	Percent Gain or Loss
1975	68.56	90.19	21.63	31.55%
1976	90.19	107.46	19.15	19.15%
1977	107.46	95.10	-12.36	-11.50%
1978	95.10	96.73	1.63	1.71%
1979	96.73	107.94	11.21	11.59%
1980	107.94	135.76	27.82	25.77%
1981	135.76	122.55	-13.21	-9.73%
1982	122.55	140.64	18.09	14.76%
1983	140.64	164.93	24.29	17.27%
1984	164.93	167.24	2.31	1.40%
1985	167.24	211.28	44.04	26.33%
1986	211.28	242.17	30.89	14.62%
1987	242.17	247.08	4.91	2.03%
1988	247.08	277.72	30.64	12.40%
1989	277.72	353.40	75.68	27.25%
1990	353.40	330.22	-23.18	-6.56%
1991	330.22	417.09	86.87	26.31%
1992	417.09	435.71	18.62	4.46%
1993	435.71	466.45	30.74	7.06%
1994	466.45	459.27	-7.18	-1.54%
1995	459.27	615.93	156.66	34.11%
1996	615.93	740.74	124.81	20.26%
1997	740.74	970.43	229.69	31.01%
1998	970.43	1229.23	258.80	26.67%
1999	1229.23	1469.25	240.02	19.53%
2000	1469.25	1320.28	-148.97	-10.14%
2001	1320.28	1148.08	-172.20	-13.04%
2002	1148.08	879.82	-268.26	-23.37%
2003	879.82	1111.92	232.10	26.38%
2004	1111.92	1211.92	100.00	8.99%
2005	1211.92	1248.29	36.37	3.00%
2006	1248.29	1418.30	170.01	13.62%
2007	1418.30	1468.36	50.06	3.53%
2008	1468.36	903.25	-565.11	-38.49%
2009	903.25	1115.10	211.85	23.45%
2010	1115.10	1257.64	142.54	12.78%
2011	1257.64	1257.60	-0.04	-0.00%
2012	1257.60	1426.19	168.59	13.41%

Investors pulled money from stock mutual funds in 2012 for the <u>sixth</u> <u>consecutive year</u>, despite the stock market's strong performance!

### S&P 500 End of Year Index (no dividends) vs. Pacific Life's Index Returns (December 15th)

Year	Beginning	Ending	Gain or	Percent	PL's 1 Year
	Price	Price	Loss	Gain or	Return
				Loss	
2006	1248.29	1418.30	170.01	13.62%	12.00%
2007	1418.30	1468.36	5006	3.53%	2.98%
2008	1468.36	903.25	-565.11	-38.49%	0.00%
2009	903.25	1115.10	211.85	23.45%	12.00%
2010	1115.10	1257.64	142.54	12.78%	11.44%
2011	1257.64	1257.60	-0.04	-0.00%	0.00%
2012	1257.60	1426.19	168.59	13.41%	13.00%

# 7 Year Average

4.04%

7.35%

## S&P 500 End of Year vs. S&P 500 End of Year Index (no dividends) vs. Pacific Life's Index Returns (December 15th)

Year	S+P 500 Percent Gain or Loss	S&P 500 Index Percent Gain or Loss	Pacific Life's 1 Year Index Account Percent Gain
2006	15.74%	13.62%	12.00%
2007	5.46%	3.53%	2.98%
2008	-37.22%	-38.49%	0.00%
2009	27.11%	23.45%	12.00%
2010	14.87%	12.78%	11.44%
2011	2.07%	-0.00%	0.00%
2012	15.88%	13.41%	13.00%
	6.27%	4.04%	7.35%
	$\bigcup_{i \in I} / 0$	7.0770	7.0070

7 Year Average

#### **6 Choices for Growth Potential**

Whether your clients think growth may occur in the U.S. or abroad, modestly or robustly, Pacific Life's indexed universal life insurance products<sup>2</sup> have accounts for a range of conditions.

Indexed Account	Currently Credits	Credit Applied at End of	Good for	Watch out for
1-Year International**	Average of 3 international indexes' 1-year change after each is applied to 100% participation rate, 13% growth cap, and 0% guaranteed minimum rate (floor). Hang Seng <sup>3</sup> • EURO STOXX 50 <sup>®4</sup> • MSCI Emerging Markets <sup>™5</sup>	12 months	Balancing policy's crediting potential with an international option	Robust periods of U.S. growth, which may not affect international returns
1-Year High Partt	150% of S&P 500® index's <sup>6</sup> gains, applied up to 11% growth cap (cap); 0% guaranteed floor	12 months	Achieving higher crediting rates from modest S&P 500® gains	Robust S&P 500® growth will be limited by current 11% Cap
1-Year##	100% of S&P 500° index's gains up to 13% cap; 0% guaranteed floor 12 months		Simplicity and relatively high cap	Robust S&P 500® growth will be limited by current 13% Cap
2-Year##	100% of S&P 500® index's gains over 2 years up to 32% cap; 0% guaranteed floor	24 months	Capturing more of S&P 500° gains than 1-Years and crediting more frequently than High Par 5-Year	Income needs within 2 years; may not capture frequent gains of extremely volatile markets
High Par 5-Year##	115% of S&P 500® index's gains over 5 years (no cap); 0% guaranteed floor	60 months	Making the most of extended, robust S&P 500® gains	Income needs within 5 years; extremely volatile markets may result in extended periods of 0% crediting

Possible Allocation Strategy						
High Par 5 Year	30%					
2 Year Indexed Account	10%					
1 Year High Par Indexed Account	20%					
1 Year International Account	10%					
1 Year Indexed Account	20%					
Fixed Account	10%					

# **Illustrating Indexed Universal Life Insurance with Confidence**

#### The Power of the Market, the Security of Guarantees — In Your Hands.

When markets fluctuate, clients may flee to safety. However, in doing so, they can miss out on significant market recoveries. Consider that the S&P 500<sup>®</sup> Index regained an impressive 17.03% from December 31, 2008 to September 30, 2009 after being down a significant -35.8% overall in 2008.

#### How can you help clients capture market recoveries while sidestepping market crashes?

Pacific Life Indexed Universal Life (IUL) insurance policies let clients capture the S&P 500's performance (excluding dividends)<sup>1</sup> up to the Indexed Accounts' Growth Caps and limit losses to the Guaranteed Minimum Interest Rates.<sup>2</sup> Doing so provides competitive upside potential with downside guarantees. See the chart below for average hypothetical crediting rates in each Indexed Account available in Pacific Indexed Accoundator III (Policy Form #P08PI3) and Indexed Pacific Estate Preserver (Policy Form #P09IEP).

#### What rates can your clients expect?

Below is a hypothetical example of each Pacific Life Indexed Account's 40-year hypothetical average crediting rate from 1/15/1970 through 12/15/2009. These rates were determined using an average of annual returns from 240 individual annual Segments, each created monthly from 1/15/1970 through 12/15/1989 and held and reinvested in each respective Indexed Account for 20 years with the last Segment maturing on 12/15/2009.<sup>3</sup>



- 1-Year Indexed Account (12% current Growth Cap, 0% Floor, 100% Participation (Par) Rate)
- 5-Year Indexed Account (Point-to-Last Year Average, No current Growth Cap, 1% Annual Floor, 100% Par Rate)
- High Par 5-Year Indexed Account (Point-to-Last Year Average, No current Growth Cap, 0% Floor, 110% current Par Rate)

#### How Confident Are We in Those Rates?

For many clients, averages alone might not provide enough confidence in the illustrated rates. Using the same assumptions outlined above, we can determine the likelihood of various interest crediting rates occurring. We refer to this likelihood as a Confidence Factor. Consider the Confidence Factors in the table below:

90% of the 240 segments		Confidence Factors	1-Yr Account	5-Yr Account	Hi-Par 5 Account
sampled would produce at	$\mapsto$	90%	6.64%	7.03%	7.19%
rates shown or higher		75%	7.13%	7.58%	8.05%
rates shown or higher.		50%	7.56%	9.20%	9.78%
		25%	7.99%	10.52%	11.17%
		10%	8.38%	11.78%	12.70%



**PACIFIC LIFE** 

# Hypothetical Investment Strategy for Indexed UL Products



# The Mechanics of EIUL: The Insurers' Hedge Strategy

%<sup>1</sup> = Bond Investment Return (2-3% of the total portfolio)

%<sup>2</sup> = Hedge Strategy Return





#### Premium